

Budget Message

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Budget Message

May 1, 2024

To the residents of Cupertino, Honorable Mayor, and City Council,

I am appreciative of the opportunity to present the proposed Fiscal Year 2024-25 Budget. Our journey to this point has been a winding path of reductions, adjustments, and revenue enhancements. The challenges we have faced over the past year have been significant, but our efforts have been laudable and our approach diligent.

Today, we present a budget that brings us mostly into balance, largely through significant reductions in expenses for the second year in a row. Last year's General Fund budget saw \$15 million in reductions across all expense categories, but still left a projected \$15 million ongoing structural deficit, and a need to address a \$10.1 million deficit in the coming year alone.

As anticipated for several years, the City has expected a significant reduction in sales tax revenue due to an administrative decision by the California Department of Tax and Fee Administration (CDTFA). This decision identified a repayment for past sales tax received as well as an ongoing reduction of approximately \$30 million. A determination letter from the CDTFA arrived in October 2023, providing the City with a potential repayment amount through April 2023. With this information, staff was able to estimate potential payments through June 2023, and the City Council subsequently approved staff's recommendation to create a sales tax repayment committed reserve of \$56.5 million to account for this obligation. These dollars have been set aside should the City be required to repay sales tax already received.

The combined ongoing reduction as well as this significant one-time payment are unfathomable impacts for most cities. The advanced financial planning, resilient organization, and responsive action to meet reduction needs are a testament to the commendable work the City Council and staff have accomplished.

In November, the City received some positive news, as the unaudited year-end figures for Fiscal Year 2023-24 showed approximately \$20 million more in unassigned fund balance (savings) than originally estimated. This is attributable to the diligent work of staff and City Council to reduce expenditures in the last quarter of the fiscal year when made aware of the severe impacts the CDTFA decision might have on the city. This included extending recruitment timelines and being diligent with spending for essentials to serve the community. Fund balance was helped by increased revenues in property, utility users, and transient occupancy taxes. Although these positive variances from budgeted tax revenues will help bridge the gap in years where there are shortfalls, they do not cure the ongoing structural deficit.

Navigating this path required intense communication and outreach. City staff intensified communication efforts with the City Council and the community, resulting in several Council meetings to discuss various components included in the budget that were captured in our budget adoption road map.

Partnerships have been the focus as we chart a path through this unprecedented situation. We have engaged with the community at every step of the way through several robust community outreach efforts, including two community budget meetings, three community focus group sessions, and various other in person opportunities for the community to discuss the budget with staff.

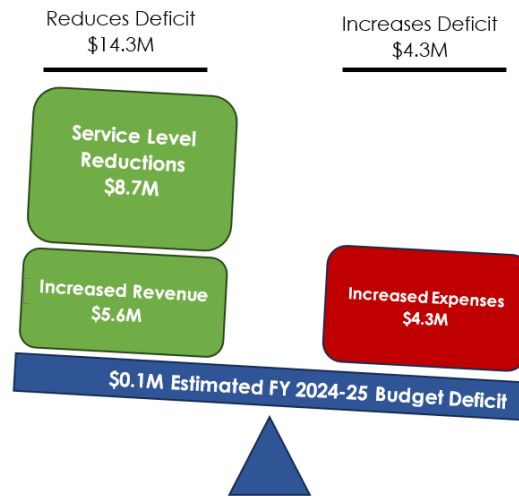
The result of this collaboration between staff, Council, and the community is the Fiscal Year 2024-25 Proposed Budget of \$146.5 million in expenses, funded with \$139.1 million in revenue across all funds and the use of \$7.4 million in fund balance. The use of fund balance is mostly due to the use of the Capital Reserve to fund this year's proposed Capital Improvement Projects. This budget incorporates all direction received by City Council

to date. The General Fund, the City’s largest tax-supported fund, is proposed at \$89.9 million funded with \$89.8 million in revenue, resulting in an estimated use of fund balance of \$0.1 million. The budget is just short of balancing and staff recommends using unassigned fund balance to fill the small gap in funding this year.

This minimal use of fund balance demonstrates the significant success of the Service-Level Reduction process, where savings through reduced expenditures have almost completely closed the deficit, with additional help from increased revenue.

The graphic below illustrates major components in the General Fund that have led to the current year’s budget:

CLOSING THE \$10.1 MILLION BUDGET DEFICIT IN FY 2024-25



There have been many stops along the budget path this year, with more still in front of us. These include the FY 2024-25 Fee Schedule and FY 2023-24 Third Quarter Report that may include adjustments that will impact the final budget along with items that will be presented at the Proposed Budget Hearing like Community Funding and Festival and Fee Waivers. Any additional direction received by City Council will be incorporated into the final budget for proposed adoption by City Council on June 18, 2024.

Our road map illustrated the path to completing the budget, prioritized increased outreach, included direction from City Council and opportunities for resident input, and incorporated carefully thought-out stops along the way that bring us to the document you see before you today.

City staff and I remain committed to our efforts at fostering communication and feedback with all stakeholders, including the City Council, residents, and our own staff. We expect continued change and adaptation in the future, and with the help of our many wonderful partners, we will journey along new paths as we work together to reinvent the City and meet these changing realities.

Respectfully submitted,

Pamela Wu

City Manager

Strategic Goals

On March 1, 2023, the City Council held a Goal Setting Workshop to discuss City goals and priorities for the next two years. The City Council re-affirmed their commitment to the following five goals, which were formally adopted in February 2020:

Public Engagement and Transparency

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

Sustainability and Fiscal Strategy

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

Housing

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

Transportation

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

- Improving Traffic Flow and Alleviating Congestion

Quality of Life

Furthering the health and well-being of all Cupertino community members.

- Air Quality
- Public Safety
- Recreation
- Access to Goods and Services

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

The strategic planning process and City Council goal-setting are paramount as they drive the City's Two-Year Work Program. The City has created an online dashboard to show the status and performance of the City Work Program in real-time (gis.cupertino.org/webmap/CityWorkProgram/). Special Projects with budgetary impacts associated with the City Work Program are listed in the respective program budgets.

FY 2024-25 City Work Program

On April 3, 2024, the City Council approved the FY 2024-2025 City Work Program, which comprised a total of 20 projects requiring an estimated \$500,000 in additional funding, in addition to the \$1,336,000 of previously allocated funds, totaling \$1,836,00. The estimated \$500k Funding for the new projects, will be considered in May 2024.

Adopted FY 24-25 City Work Program				
#	Project	Description	Budget	Goal
Ongoing Projects				
1	Tree List (CDD)	Review and revise development tree list (per Ch. 14.18: Protected Trees) with an emphasis on appropriate trees and native species.	\$50k allocated	Sustainability and Fiscal Strategy
2	Tree List (PW)	Project Phases: 1)Review, revise, and communicate street tree list with an emphasis on appropriate trees and native species. 2)Develop an Urban Forest program scope and cost for future consideration.	\$60k allocated	Sustainability and Fiscal Strategy
3	Public Safety (License Plate Readers)	Deploy city-owned license plate readers and implement policies to allow neighborhood-owned ones.	\$60k allocated	Quality of Life
4	Public Safety (Block Leader)	Strengthen Block Leader/Neighborhood Watch programs to ensure the leaders are active and expand the coverage of active neighborhoods.	\$10k allocated	Quality of Life
5	Preserve existing and develop new BMR/ELI Housing	Explore opportunities to preserve existing expiring BMR housing. Develop ELI (Extremely Low Income) and BMR housing units for Developmentally Disabled individuals (IDD) on City-owned property as well as the County-owned sites.	\$250k allocated	Housing
6	Whole City Policy Review	Repeat the 2013 process of compiling and reviewing all City Policies including 1) Administrative and 2) Council policies and provide recommendations/updates, e.g. Green Purchasing, Property Acquisition	\$10k allocated	Public Engagement and Transparency
7	Fiscal Procedures and Policies Handbook	Develop the handbook to ensure standardization of accounting, budget, investment, procurement policies, procedures, rules and regulations.	\$45k allocated	Sustainability and Fiscal Strategy
8	Support for the unhoused	Collaborate and fund jointly with West Valley efforts to address regional needs and find workable support for the Unhoused.	\$50k allocated	Housing
9	Municipal Water System	To analyze and recommend options for the continued operation of the system currently and at the end of lease with San Jose Water Company in September 2024.	\$181k allocated	Sustainability and Fiscal Strategy
10	5G Ordinance	Update 5G Ordinance	\$0 allocated	Quality of Life
11	Residential and Mixed Use Residential Design Standards	Create objective design standards for residential projects, including ensuring adequate buffers from neighborhood low-density residential development	\$240k allocated	Quality of Life
12	Art in Public and Private Areas <i>(Proposed by Arts & Culture Commission)</i>	Revisit Municipal Code standards for art in public and private development, including the standards in the Municipal Code and developing an Art-in-lieu fee policy.	\$0 Estimated	Quality of Life
13	Speed Limit Lowering (AB 43) <i>(Proposed by Bike Ped)</i>	Lower speed limits where feasible pursuant to state adopted Assembly Bill 43	\$0 Estimated	Tranportation
14	Homestead Bike Lane Study & Safe Routes to School <i>(Proposed by Bike Ped Commission)</i>	Support collaboration efforts on multi-jurisdictional projects along Homestead Road that include upgrading pedestrian and bicycle infrastructure. (The current project phase is focused on preliminary design and is funded to 35%. Future phases, when funded, will focus on 100% plan design construction)	\$0 Estimated	Tranportation

Adopted FY 24-25 City Work Program				
#	Project	Description	Budget	Goal
Ongoing Projects				
15	Poet Laureate Playbook Update <i>(Proposed by Library Commission)</i>	Update the Cupertino Poet Laureate Playbook to streamline processes, outline clear expectations, and expand applicant qualifications. The playbook has not been updated since 2016.	\$0 Estimated	Quality of Life
16	Electrification Study <i>(Proposed by Sustainability Commission)</i>	Conduct public outreach, policy research, and coordinate with regional efforts to develop policy options for electrification of Cupertino's buildings in light of recent legal rulings inhibiting certain electrification efforts.	\$50k allocated	Sustainability and Fiscal Strategy
20	Active Transportation Plan	This item is a consolidation of existing and new transportation efforts aiming to further goals outlined in the City's Vision Zero Initiative, including: 1) Review and update the bike plan 2) Review and update the pedestrian plan 3) Review current Complete Streets Policy and propose adjustments to create a better interface between all modes of transportation	\$330k	Transportation
New Projects				
17	Recycled Water Feasibility Study	Develop Recycled Water Feasibility Study. Include Blackberry Farm focus and extension of recycled water from SCVWD.	\$200k Estimated	Sustainability and Fiscal Strategy
18	Sign Ordinance	Update Sign Ordinance	\$200k Estimated	Quality of Life
19	The Rise: Construction stakeholder engagement	Improve engagement with stakeholders to ensure progress with construction and reduce barriers.	\$100k Estimated	Quality of Life
New Projects Total			\$500,000	

Notable Accomplishments

Administration Department

Wildfire Protection and Local Hazard Mitigation Planning – Coordinated with Santa Clara County Fire and Santa Clara County Sheriff's office to develop evacuation planning maps for residents. This initiative addresses the requirements of AB 747 and AB 1409. The Office is currently updating both the Local Hazard Mitigation Plan and the Community Wildfire Protection Plan, with a focus on incorporating projects identified in other City plans. Integrating these plans provides the opportunity to meet additional legislative requirements related to [hazards and land use planning](#).

Council/Commission Governance Reform Package – As part of the new FY 2023-25 City Work Program, the City Manager's Office and the City Attorney's Office worked to revise the Ethics Policy and address the Civil Grand Jury Report. Staff updated the Commissioner's Handbook to align it with the new Council Procedures Manual and realign terms of office and qualifications.

Public Safety Initiatives – As part of the new FY 2023-25 City Work Program, the City Manager's Office is working on enhancing Block Leader/ Neighborhood Watch programs to ensure greater participation as well as explore best practices to deter crime in commercial areas.

Emergency Operation Training – Initiated a new training program for City Emergency Operations Center Staff and set completion dates for Disaster Service Worker training for all City staff. In April 2024, OEM worked with the Department of Parks and Recreation to train 25 City staff who have a role in staffing emergency shelters in a disaster. Finally, the Office developed a program to initiate and track emergency public messaging using volunteer units to share information with the community.

Cupertino Business Outreach Program – A program designed to facilitate a dialogue between the private and public sectors, the Cupertino Business Outreach Program (CBOP) provides an opportunity to understand the unique needs of our local businesses and connect them with resources. CBOP incorporates an in-person (or virtual) visit to companies located within Cupertino for a conversation with the leadership team and an optional tour of the operations. With insights gained during these visits, the City hopes to double down on supporting programs that work or create new ones to fill gaps in addressing common business needs.

Cupertino Development Forum – In partnership with SJ Spotlight, the City Manager's Office designed and co-hosted the first-ever forum focused on development activity and opportunities for investment in Cupertino. The panelist was comprised of City staff and industry practitioners representing real estate development and retail brokerage. Through a collaborative discussion, the audience was able to gain a deeper understanding of what is happening in Cupertino as it relates to commercial and residential development, retail leasing, and the overall Cupertino economy.

Cupertino Development Cabinet – Established the Cupertino Development Cabinet as an inter-departmental coordination group, providing a vital forum for discussing major policies, strategic initiatives, and significant projects in areas such as development, redevelopment, and business attraction/expansion. Comprising representatives from key departments such as the City Manager's Office, Community Development, Economic Development, Planning, Building, and Public Works, this collaborative effort aims to boost the City's revenue by fostering cohesive planning and execution of impactful initiatives.

SVEDA Broker Breakfast – The Silicon Valley Economic Development Alliance (SVEDA) hosted a Silicon Valley commercial broker breakfast featuring the cities of Cupertino, Mountain View, and Sunnyvale. Economic Development speakers discussed the latest commercial real estate opportunities in their respective cities. Attendees included brokers and property owners.

Retail Theft Prevention Outreach & Engagement – Partnered with the Santa Clara County Sheriff’s Office to strengthen retail theft prevention measures, enhance business intelligence, and safeguard business continuity for Cupertino businesses.

Storytellers – In 2024 the Storytellers group was established to establish an interdepartmental group to enhance the City’s communications and outreach. The group meets monthly and discusses upcoming events, projects and major initiatives. The communications team solicits information from key department leaders and provides feedback on outreach messaging and approach.

Community Outreach and Events– Planned, executed, or supported promotion and outreach efforts for community events, including: Fourth of July Celebration, 77th India Independence Day Flag Raising Ceremony, Cupertino Cybersecurity Science Fair, Silicon Valley Fall Fest, Citywide Annual Garage Sale, 10th Anniversary Fall Bike Fest, Public Safety Commission, Toyokawa-Cupertino Sister Cities 45th Anniversary Commemorative Virtual Ceremony, Veterans Day Ceremony, Community Tree Lighting Ceremony, Cupertino Development Forum, Oath of Office Ceremony, Cupertino Spelling Bee Competition, monthly Chai and Chat with Cupertino Mayor meetings, 2024 State of the City, Lehigh Town Hall with Supervisor Simitian, Big Bunny 5K and Kids Fun Run, Earth and Arbor Day Festival, Cherry Blossom Festival, Pride Flag Raising Ceremony [before end of FY ‘24], and several ribbon cuttings and grand openings for new businesses in Cupertino.

State of the City– In partnership with the Cupertino Rotary and Cupertino Chamber of Commerce, the State of the City was held at Quinlan Community Center with dozens of citizens city leaders and dignitaries in attendance. The theme of the evening “Stronger Together” was thoughtfully delivered in an address by Mayor Mohan. Staff prepared remarks along with a presentation covering the city’s current economic and infrastructure developments, housing development plans, and budget challenges.

Media Outreach– Staff have maintained a focused approach in media outreach, aligning the City’s message, audience and goals with targeted news outlets. This approach has allowed for more impactful communication and maximized engagement and outreach. Some examples of recent positive media coverage include:

- San Jose Spotlight: Cupertino plans safety upgrades for road and pedestrian bridge
- San Jose Spotlight: Cupertino greenlights housing development at former Vallco mall
- In Partnership with San Jose Spotlight, the City also hosted a policy discussion at Cupertino Community Hall centered on development in Cupertino.

Publications and Videos – Published three quarterly editions of The Scene (3 by end of the Fiscal Year (FY), and 17 editions of the Cupertino Connect newsletter (24 by end of the FY). The Video Division has shot and edited multiple video projects including: SV Hopper, Earth and Arbor Day Festival, Workplace Waste Sorting Program, How to Sort Waste at Home and have several ongoing projects.

Administrative Services Department

Government Finance Officers Association (GFOA) – GFOA awarded the City of Cupertino the GFOA Distinguished Budget Presentation Award for FY 2023-24.

California Municipal Finance Officers Association (CSMFO) –CSMFO awarded the City of Cupertino the CSMFO Operating Budget Excellence Award for FY 2023-24.

GFOA Annual Comprehensive Financial Report –GFOA awarded the City of Cupertino the Certificate of Achievement for Excellence in Financial Reporting for FY 2021-22.

Budget Outreach Initiative –City staff launched an extensive budget outreach initiative, to engage with the community on City’s budget. Engagement efforts included interactive in-person and hybrid sessions at various locations and times, as well as booths at community events, focus groups, and community budget meetings.

The variety of outreach styles and times provided options for residents. These events were centered around the discussions outlined in the City's budget adoption roadmap, which is a key tool to inform residents and City Council of where we are in the budget process and the many touch points we have had this year. The budget and communication team worked diligently to organize and promote these gatherings through city and partner channels to ensure community awareness. The schedule of events was also featured in the Mercury News. Despite best efforts, this series of outreach efforts designed to involve residents saw lower than hoped for attendance, however, staff remains committed to fostering community connections and showcasing the budget tools available to better understand and research city finances.

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

BEST Training Program – Offered 122 training courses in 2022-23 and 48 courses in 2023-24 via a semester-based program with a variety of training programs to assist employees with their professional growth, health, and wellness as well as retirement and financial planning. Coordinated the City's participation in the Santa Clara and San Mateo County NextGen program and the Santa Clara County Leadership Academy to promote professional growth and succession planning within our agency.

Diversity, Equity, and Inclusion (DEI) – Offered staff DEI training through webinars, onsite and virtual presentations, and activities as part of the City's BEST program to increase cultural awareness, knowledge, and communication as well as promote a more inclusive and diverse work environment.

Recruitment and Retention – In FY 2022-23, there were 20 Full Time (FT) separations, a 9% turnover rate. As of Mid-Year, FY 2023-24, there have been 6 FT separations, an 3% turnover rate. Hosted a recruitment booth at the City's Earth Day Event to promote City job opportunities within the community.

Benefits Administration – Continued to process a considerable number of employee onboarding and offboarding functions. In FY 2022-23, there were 24 FT new hires and 20 separations. As of Mid-Year, FY 2023-24, there have been 19 FT new hires and 6 separations. Sourced and executed a contract with a new Employee Assistance Program (EAP) provider with an improved benefit design and a lower premium at 67% less than the previous provider.

Employee Engagement Initiatives – The Director of Administrative Services initiated additional efforts to improve citywide employee engagement and morale. Quarterly mid-level manager meetings are being held with a focus on three areas: improving employee engagement and morale, improving communication, and how we can better support them in their role as supervisors and managers in the organization. The initial meeting was well received, and feedback was provided on what is working in the organization, what needs improvement and what ideas they have for solutions. HR will be working with Department Heads and their management teams to develop action plans and continue to meet with mid-level managers on a quarterly basis. Additionally, ASD staff successfully managed the Annual Service Awards/End of Year Employee luncheon as well as administered the City Manager's new employee meet and greet sessions.

Labor and Employee Relations – Successfully completed labor negotiations pursuant to salary and benefit reopener language with Labor Unions and updated the City's Unrepresented and Elected Employee Compensation Programs and salary plans. Continued to work collaboratively with the City's labor unions through monthly labor management meetings.

Risk Management and Worker's Compensation – Continued to administer the City's general liability and property insurance programs with the City Attorney's Office. Administer the City's Worker's Compensation program and coordinate with the City's third-party administrator. Managed and administered the City's unemployment

insurance program as well as the City's DOT commercial driver program. Coordinated City's OSHA safety and training programs and Risk Management Committee.

Administrative Policy and Procedures – Developed revised Purchasing Policy and new Public Works Policy that guide staff in vendor selection and contract award for the purchase of goods, services or Public Work projects. Additional revised policies include the P-Card Policy which clarifies requirements and guidelines for using a City-issued purchasing (credit) card and the Travel and Reimbursement policy to provide guidance on approved travel and reimbursable expenses. The Cupertino Municipal Code was modernized to reflect industry best practices for purchasing and various procedural updates for Finance actions were provided.

Purchasing-related support – The new Purchasing Division hosted monthly meetings with department liaisons and contract administrators to communicate changes to purchasing, contracting and finance related actions. Purchasing staff provided review and support for citywide purchases, collaborated with the City Attorney's Office to develop updated guidance for contract development, and provided training on the use of cooperative agreements and Purchase Order submittal that align with administrative policy.

Community Development Department

Update the Housing Element of the General Plan and Concurrent Rezoning – The City received notice on April 10, 2024 from the State that the draft Housing Element has been deemed substantially in compliance. This achievement marks a significant milestone in the City's ongoing commitment to providing affordable housing opportunities, fostering inclusive communities, and addressing the diverse housing needs of its residents. The City is now moving swiftly toward the adoption of the housing element and related zoning ordinance amendments by the Planning Commission and the City Council, paving the way for future housing. The City expects to complete all the necessary steps to adopt the housing element and rezone the priority housing sites identified in it by July 2024. The State of California requires cities to review their Housing Element every eight years to ensure that each city can effectively achieve its Regional Housing Needs Allocation (RHNA). To meet this requirement, the City of Cupertino must plan for the development of at least 4,588 new housing units. The three-year planning process included analysis by the City's Community Development Department, City Manager's Office, and City Attorney's Office, as well as extensive engagement with residents through townhalls, public meetings, and other outreach efforts. Concurrent rezoning of the Priority Housing sites to ensure that sites are appropriately rezoned to allow for planned growth/capacity and other associated zoning text amendments required by state law.

Permit Activities – First quarter of 2024 has seen 522 permits approved for a variety of project types and at a completion rate of 95%. 368 of the approved permits were for a variety of residential uses. Additionally, 894 planning and building inquiries were registered at the Permit Center, a higher rate than the same period in 2023.

Process Improvement – 1) Created checklists and website for compliance with AB2234 (new state re: streamlined building permit review for post-entitlement permits) 2) Updated ADU ordinance to allow more number of ADUs per lot than allowed under state law under streamlined review. 3) Eliminated Two story Planning permit process for certain two-story additions and homes, to streamline process and allow property owners the ability to apply for building permits directly 4) Implemented the use of SolarApp+ to create the required instant online permitting for residential roof mounted solar systems. 5) Created and implemented a re-inspection fee policy to generate revenue and projects moving forward.

Housing Outreach and Coordination – 1) Allocated Community Development Block Grant (CDBG) funding to replace the existing, outdated fire alarm system at the City's Senior Center with a complete, sitewide, fully addressable fire alarm system 2) Partnered with West Valley Community Services to provide them with grant

funding for unhoused support. 3) Continued to participate in multi-jurisdictional meetings to address regional needs and pool resources, such as the CDBG Coordinators meeting, and the West Valley Collaboration – Homeless and Housing Programs meeting

Innovation & Technology Department

ProjectDox move to SaaS – The City currently utilizes ProjectDox for Plan Check reviews and approval of all permit applications since 2017. The system works to ensure that proposed construction plans meet life safety, accessibility, sustainability, and structural safety requirements of the code. Currently, the ProjectDox servers are an on-premises environment, and the maintenance and upgrades of the servers is the responsibility of the City IT Staff. Moving to the SaaS (Software as Service) model will shift the responsibility of the day-to-day maintenance, upgrades, and back-ups will shift to the vendor.

Consolidation of Code Enforcement Services – Consolidated Code Enforcement operations under Accela Land Management System (LMS) and Cupertino 311 service request. The project consisted of automating Code Enforcement business processes under LMS. Working with one system creates a more efficient, trusted outcome. Additionally, custom reports become an easier task due to one application – one database. Finally, code enforcement complaints and service requests are routed from Cupertino 311 system to Code Enforcement officers.

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

ClimateNav – Cupertino procured a user friendly and highly visual Climate Action Plan 2.0 (CAP 2.0) dashboard to explain ongoing progress toward CAP goals to both City Council and the community. This visualization tool will be updatable by staff and may avoid the cost of hiring a consultant to perform separate greenhouse gas emissions inventories. It will also assist with compiling and exporting needed data for annual greenhouse gas emissions reporting. This software is expected to save significant staff time, which is especially crucial given the reduced Sustainability staffing and ongoing financial crisis.

FMLive Cloud based solution – Cupertino has successfully transitioned from the existing FuelMaster SQL deployment to the updated FMLive cloud-based fuel management system. This transition offers several benefits, including cloud hosting with Amazon, real-time data availability, a user-friendly interface, seamless upgrades for existing FMUs, compatibility with fleet management systems, and transparent changes for fuel island users.

Business Process Automation – Continued to pursue business process automation, having achieved the successful automation of 40 forms, workflows, approval processes, and routine tasks. Our aim is to enhance process and technology integration, facilitating the adoption of streamlined, digital workflows that optimize efficiency while minimizing risk exposure. Our dependable platform offers users a secure and easily configurable solution that can be scaled to meet evolving needs.

Disaster Preparedness – Through a collaborative effort with OES, we have successfully developed a suite of tools designed to aid in the aftermath of a disaster. The Quick Capture tool, specifically tailored for Cupertino staff and OES Volunteers, facilitates prompt and efficient reporting of issues to the EOC in the immediate aftermath of a disaster via a windshield survey. Additionally, we have designed a Building Damage Assessment Survey on the standard state form to gauge the extent of building damage. EOC Dashboards have been implemented to enable real-time monitoring of data being collected from the field, and a Reviewer Map has been configured for the GIS staff to review and edit reports as necessary as they come in. Furthermore, we have produced detailed evacuation maps for each evacuation zone to aid in emergency evacuations.

Code Hub – Cupertino transitioned to the Gridics platform, which replaced American Legal as the official codifier for the Cupertino Municipal Code. Gridics integrates 3D zoning technology and mapping, simplifying zoning comprehension for residents and enabling visual assessment of proposed changes. After a successful trial, Cupertino’s municipal code links will exclusively direct users to Gridics/CodeHUB, promising enhanced services and operational efficiencies.

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

Proactive Managed Risk and Security Monitoring – Procured Cybersecurity Professional Services to respond to active threats through proactive monitoring and management tools that scan, manage and resolve security vulnerabilities.

City Hall Enterprise Server & Storage Tech refresh – Replaced the server environment that houses the City’s Financial ERP, Land Management business applications, and other critical applications and services. This refresh was done at the City Hall and Phoenix data centers and provides more robust backup and recovery features in the case of a cyber incident.

Cybersecurity Public Education – In September 2023, TICC, in collaboration with Department staff, hosted a successful two-part Cybersecurity Public Education community event. The first part consisted of Cybersecurity experts leading a Panel discussion. The second part consisted of five high school students from Cupertino showcasing their innovative ideas on educating the public about cybersecurity scam awareness. Cybersecurity Public Education was a work program proposal submitted by TICC, with Council adopting proposal as part of FY2022-23 City Work Program. Anyone can fall victim to cybercrimes, and the City hopes the panel presentation and cyber fair informed and educated community members, so they can avoid becoming a victim.

.gov E-mail Project – Acquired and implemented the cupertino.gov address to our E-mail system, improving security and branding, and satisfying major requirements of California State Assembly Bill 1637.

Cybersecurity Assessment – I&T engaged the services with FRSecure, a security assessment firm. A comprehensive cybersecurity review was done, including a vulnerability scan, network penetration test, and a security controls assessment that involved interviews with staff in multiple departments. A roadmap was produced to assist with improving City cybersecurity operations.

Windows 11 Upgrade Project – With support for Windows 10 ending on October 14, 2025, the City’s fleet of Windows 10 laptops will need to be replaced or upgraded before then. This is to ensure the City’s laptops continue to receive critical security updates from Microsoft.

Cupertino Room Lectern Upgrade Project –Upgraded the Cupertino Room lectern with an audiovisual-ready system so that it better integrates with the recent technology improvements in that space. The upgraded podium includes custom connections for laptops and other mobile display devices, support for a wireless gooseneck microphone, and a sloped panel for built-in monitor display.

Cupertino Social Room Upgrade Project –Upgraded the Social Room audiovisual system with an expanded wireless microphone and speaker system and expanded Bluetooth audio capabilities.

Sports Center Audio Upgrade Project –Upgraded the sound system in the Sports Center multipurpose room to support programs and classes such as Zumba, Pilates, cardio workout, etc. where mixed amplification of music and instructor microphone audio is an important feature. Upgraded components include a new amplifier, a combination of ceiling and subwoofer speakers, a new audio mixer, and a new Bluetooth receiver.

Zoom Room Conference Room Upgrades – Upgraded videoconferencing technology citywide with next generation Poly Studio X30, X52, and X70 systems. These upgraded systems include conference rooms A and B at City Hall, the Quinlan Conference Room, Service Center Break Room, Service Center Conference Room, Senior Center Conference Room, and Blackberry Farm Retreat Center. Expected completion is May 2024.

Parks & Recreation Department

Community Funding – The City provides funding to local non-profit organizations in the areas of social services, fine arts and other programs for the general public. The Community Funding Grant application process opened on January 1, 2024 and closed on February 1, 2024. Received 11 applications for the FY 2024-2025 Community Funding Grant Program application cycle, which were brought to the Parks and Recreation Commission for review on March 7, 2024. The Commission evaluated applications in April and provided a recommendation regarding funding to City Council for final approval.

NRPA Awarded Grant – The Parks and Recreation Department was selected as a recipient of the National Recreation and Park Association’s (NRPA) Supporting Healthy Aging Through Parks and Recreation 3.0 (SHAPR 3.0) grant. This grant supports park and recreation professionals to increase access, availability, participation, and sustainable support for programs that improve physical activity, engagement, and the quality of life for older adults. The project goal is to increase access to arthritis-appropriate, evidence-based (AAEBI) interventions in park and recreation. The City received two instructor trainings for the program along with all program start up materials. City staff from the Senior Center implemented a Walk with Ease (WWE) program targeted to seniors with arthritis or other chronic diseases and all others interested in a walking program. The program teaches participants how to incorporate physical activity safely and comfortably into their everyday lifestyle.

Teen Resource Fair – City staff hosted the Teen Resource Fair on March 16 at Main Street Cupertino. The event was run in partnership with Fremont Union High School District’s Intradistrict Council (IDC) which includes representatives from all five schools and Main Street Cupertino. The event included a teen volunteer and part-time job fair which highlighted jobs with the City of Cupertino as well as health and wellness booths coordinated by the IDC. About 350 teens were in attendance.

Teen Volunteer Opportunities – To increase volunteering opportunities for teens, as well reduce general costs, City staff have relied more on high school volunteers through partnerships with youth organizations to support City events including the Big Bunny 5K, Cupertino Campout, Monster Mash, and Tree Lighting. The summer-only Leader in Training Program (LIT) continues to support summer camps and the Youth Activity Board plans, organizes and implements youth and teen events such as Spelling Bee, HACK, and Cupertino Café. Teen Commissioners have also been invited to participate in teen and community events through assigned roles such as the master of ceremonies or moderators for events. Staff continues to look for creative ways to harness the power of teen volunteers to support events and programs.

Sweetheart Social – The Department held the first annual Sweetheart Social, a fee-based community event for families. This event was created with the idea of combining two programs into one, saving on staff time while offering a new and fun event to the community. This community event was scheduled on back-to-back evenings after the Preschool Program’s social, saving time in decorating and consolidating supply purchases for both programs. The Sweetheart Social offered a night of Valentines Day themed crafts, activities, and games for families.

Hidden Treasures 2023 – The Cupertino Senior Center hosted another successful Hidden Treasures event. More than \$12,000 worth of donated items were sold. Proceeds from this event go to support the Stay Active Fund, which helps pay for Senior Center memberships and programs for seniors in need of financial assistance. In

addition to the monetary benefit of Hidden Treasures, the months of sorting, pricing, and preparation for the day of the sale provided members an opportunity to give back. More than 45 volunteers donated over 1,150 hours for the event.

Senior Services and Youth Engagement – City staff have developed intergenerational programs and events to facilitate connecting seniors with youth and their families. Techie Teens is a summer volunteer program that provides teens an opportunity to help seniors with their technical questions. Teens are 14 to 18 years old and commit to volunteering a few hours each week of the program. One event was an Intergenerational Celebration Event in October, where the Cupertino Senior Center partnered with Cupertino Change Agents, a youth-based, Cupertino non-profit. Adults 50+ enjoyed musical performances by members of the organization and participated in a variety of activities including cookie decorating and craft projects. Another program was the Thanksgiving Youth Art Celebration. During the month of November, “What Thanksgiving Looks like for You,” a seasonal art exhibit comprised of paintings from teen artists of the Youth of Suha Suha Art Studio, was displayed at the Cupertino Senior Center lobby for all visitors to view. The City hosts various opportunities throughout the year for intergenerational engagement.

Glow Night Golf – Blackberry Farm Golf Course introduced two Glow Night Golf events to the community this year. The events, held on November 9 and December 8, had a total of 56 participants, all willing to brave the cold for this unique experience. Using glow in the dark balls, golfers played a shot gun style game, on the LED lit up course.

3rd Grade Creek Tours – During FY23-24 McClellan Ranch Preserve hosted 27 CUSD 3rd grade classrooms for the beloved creek tour program. More than 625 students and their teachers participated in the exploration of our local watershed and unique riparian and oak woodlands habitat, highlighting pollution prevention. Staff revamped the program to ensure that the creek tours are aligned with the California Third Grade Curriculum Standards. This year staff also incorporated the Stevens Creek Third Grade Creek Survey as an ongoing student-based research study. It compiles the data from each field trip along with that of all trips from this school year, so that so students can produce meaningful data that monitors the health of the creek and protected watershed environment.

Wilson Park Community Gardens – Garden plots at the Wilson Park Community Gardens were rented out. With a total of 15 plots available, most have been filled, and there is currently a growing waitlist of prospective gardeners.

Lap Swim at Blackberry Farm Pool – With new lane lines installed and replastering of the pools, Blackberry Farm will begin offering lap swim to visitors. A total of 6 lanes will be available from 9 a.m. to 10 a.m. on Saturdays and Sundays for dedicated lap swim in 30-minute blocks.

Public Works Department

- *12th consecutive Tree City USA Recognition* application submitted – The Tree City USA program provides communities with a four-step framework to maintain and grow their tree cover. It also gives them an avenue to celebrate their work, showing residents, visitors, and the entire country that they’re committed to the mission of environmental change. Arbor Day Foundation recognition is expected in the coming weeks.
- Received and reviewed applications for approximately 100 development projects and 500 encroachment permits.
- Reviewed and facilitated the planning approvals of a 7-unit condominium subdivision at 10046 Bianchi Way and the revised entitlements for The Rise (formerly Vallco Town Center).
- Completed the City’s annual recertification for FEMA’s Community Rating System (CRS) in order to maintain the City’s Class 7 rating

- Completed the Memorial Park Ponds removal project and provided more usable open space area for Cupertino residents and visitors.
- Completed the Service Center Security Gate Project.
- Acquired two transportable solar EV vehicle charging units through a grant funded by Silicon Valley Clean Energy.
- Initiated the Storm Drain Outfall Inspection Project.
- Acquired two EV trucks added to our fleet
- Facilities completed 2,255 work orders
- Fleet completed 626 work orders
- Completed and opened the Regnart Creek Trail and Fencing project.
- Completed installation of the Creekside Tot Lot playground.
- Completed installation of the full-sized basketball court at Wilson Park.
- Completed construction of the community gardens at Wilson Park.
- Renamed the I-280 trail to “Tamien Innu” through a successful community engagement process.
- Continued to ensure full SB 1383 compliance with nearly 600 businesses.
- Provided SB 1383 outreach to over 200 businesses which included regulatory compliance conversations with Owners/Managers/Staff and other relative stakeholders.
- Arranged installation of 20 full trash capture devices to keep trash out of our creeks.
- Conducted 756 reviews of building and demolition permits for debris management and stormwater compliance.
- Conducted 136 preventative stormwater inspections
- Responded to 120 reports of discharges and threats of discharge to the storm drain system.
- Assisted 4 low-income residents apply for or renew their cost-sharing reduced stormwater fee.
- Worked with GIS to digitize two inspection forms.
- Coordinated 10th Anniversary Fall Bike Fest, the largest and most attended Bike Fest to date with over 500 attendees.
- Successful expansion of SV Hopper community shuttle into the City of Santa Clara and achievement of 100,000 ride milestone.
- Adoption of Cupertino Vision Zero Policy and Action Plan
- Installed new Barbeque and serving table at Portal Park rental picnic area.
- Installed benches at the DOLA’s at Linda vista and Jollyman Parks.
- Effective maintenance response and clean-up during the intensive 2024 winter storm season.
- Replaced 51 fluted street light poles to provide enhanced lighting, power, and safety to residents as well as sustainable infrastructure for the City.
- Completed 364 bi-annual inspections/cleanings of storm drain inlets that have trash capture devices
- Successfully applied for numerous grants, including \$425,600 for Bollinger Road Safety Improvements analysis, outreach and design, approximately \$3,200,000 for various road safety improvements, as well as an additional \$850,000 for McClellan Road Bridge.

New Initiatives

Administration Department

Professional Women's Luncheon – This inaugural luncheon is poised to bolster the Office of Economic Development's mission in fostering business retention, expansion, and attraction by fostering meaningful engagement and networking opportunities among women business owners and leaders within Cupertino. Distinguished speakers will have the platform to share their inspiring narratives, highlighting their leadership journeys and the impactful ways they've contributed their voices to the business landscape of Cupertino. This event promises to be a celebration of empowerment, collaboration, and the invaluable contributions of women in business.

Cupertino Business Connect – Unveiled a cutting-edge platform revolutionizing the local business landscape in Cupertino. This dynamic virtual community, offered at no cost, is a powerhouse of resources and support tailored to fuel the growth and success of businesses in Cupertino. Within this vibrant hub, business owners gain access to a plethora of local resources, can register for enriching workshops and trainings, tap into an extensive knowledge base, and forge meaningful connections with seasoned business advisors and industry experts spanning various domains. This initiative aims to empower and equip Cupertino businesses with the tools and knowledge needed to thrive in today's competitive market.

Administrative Services Department

Purchasing related training – Staff will develop and present training outlining the tenants of public purchasing, use of various solicitation methods and documents and review the overall procure-to-pay process. Additional training will include a review of contract development process and best practices, and the fundamentals of contract management/administration, as budget allows.

Culture Statement Project – Develop a department cultural statement that identifies our values within the department while participating with other departments to craft a cultural statement for the City. This statement will be developed with input from staff throughout the department and organization to highlight characteristics we currently, and aspire to, reflect.

Financial ERP (Enterprise Resource Planning) System Review – The current ERP, New World System, will be reviewed in consultation with Tyler Munis (owner) to determine areas of improvement and workflow or business process efficiency. These improvements may be identified through new features that are now available in the existing system, activation and use of previously underutilized system features or creation of customized solutions and reports. Key staff in the Administrative Services and Information and Technology department will be leading the review, performing testing, conducting user outreach and implementing identified improvements.

Community Development Department

Process Improvement – 1) Ongoing effort to create and update handouts to facilitate a more transparent and efficient review process, such as Accessory Dwelling Unit (ADU), planning inspections, etc. 2) Project review software updates for improved integration and access. 3) Review and establish new and updated policies and procedures for the permitting, plan review, and inspection functions. 4) Follow through with researching and implementing new parking citation devices for code enforcement to update the old units that are no longer supported. 5) Continue to work with IT on relocating our electronic plan review system (ProjectDox) from on premises to SAAS. 6) Continue to work with IT on updating the online permitting portal associated with Accela. 7) Code Enforcement will continue to work with IT on implementing the Code Enforcement module in

Accela to get all Divisions on the same system. 8) Continue the research and work with IT to get the parking citation equipment updated to ensure a more efficient process for staff. 9) Continue to work on the automation of data migration from Accela/ProjectDox into Laserfiche to eliminate the staff time needed to manually perform this function.

Outreach –Continue participation in public events to boost outreach efforts for every division within the Community Development Department. Efforts to ensure fostering interaction and disseminating information regarding the department's services and requirements.

Ordinance updates –Updates are being prepared to amend Chapter 19.48, Fences, Chapter 19.60, General Commercial, Chapter 19.124, Parking and Chapter 14.18, Protected Trees, to add clarifications, anticipated to be completed by late Fall 2024.

Revise & Update Heart of the City Special Area– Prioritize following completion of Housing Element: 1) Address effect of AB 2011 and build on Housing Element goals to facilitate housing production in transit-oriented locations, 2) Tailor permissible uses to revitalize local public-facing commercial uses (retail/restaurant/entertainment/professional office, etc.).

Housing Element Implementation –Collaborate regionally and with stakeholders, such as affordable housing developers etc., to implement Housing Element policies and action items per the schedule identified in the Housing Element.

Parking standards – Evaluate the existing parking requirements in the Cupertino Muni Code and find opportunities to update and modernize to be consistent with industry and regional standards.

Outdoor Seating – Evaluate and update the existing outdoor seating requirements and the conditional use permit process to be consistent with industry and regional standards and as efforts to support evolving community needs.

Objective Design Standards – In response to newly adopted State housing legislation, the Council identified the adoption of design standards as a Work Program item. The goal was to create objective design standards for residential and mixed-use residential projects. The effort would also including ensuring adequate buffers between future higher-density residential and mixed-use development from established residential neighborhoods.

Support for the Unhoused – Collaborate and fund jointly with West Valley efforts to address regional needs and find workable support for the Unhoused. Continue to attend meetings with the Cupertino Unhoused task force to help establish a standardized process to provide assistance. Work on Housing Element implementation items to support the production of affordable housing, including housing for the unhoused.

Innovation & Technology Department

Virtual Reality (VR) Decarb – Using the Silicon Valley Clean Energy (SVCE) awarded grant funds, Cupertino will develop a VR experience providing an engaging way to learn about decarbonization. The virtual environment will be a way to create familiarity with a zero-emissions home and ideally inspire residents to adopt these zero-emission options in their own homes. The VR DECARB system will be available at Cupertino festivals, Block Parties, and available as requested by the community.

AR McClellan Ranch – Visitors to McClellan Ranch download the application from the iTunes Store or Google Play Store. Upon opening the application, they are encouraged to visit six locations at McClellan Ranch to activate additional content using the “magical looking glass” on their mobile devices. Upon opening the app, the visitor is instructed to select a language: English, Hindi or Mandarin to begin the experience. Throughout the augmented reality experience, Cooper will act as a tour guide to instruct visitors on interactivity and content at each location. All experiences contain text and audio description in the language selected.

Business Process Automation – Innovation and Technology are revolutionizing traditional business operations to maximize efficiency in Cupertino. Our objective is to improve the fusion of processes and technology, enabling the embrace of intelligent, digital workflows that boost efficiency and reduce risks. Our reliable platform provides a secure and adaptable solution that can grow alongside changing requirements. With over 50 forms completed and ongoing, we're committed to continual progress.

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

City Website Redesign – In collaboration with various departments and divisions to redesign the City of Cupertino website (cupertino.gov). This project will involve building new wireframes, content audit, usability analysis, and tracking current traffic patterns.

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

Parks & Recreation Department

Defining and Developing Partnerships – Reviewing and updating procedures in place for establishing partnerships with other organizations.

Sponsorship Opportunities – Develop and increase opportunities for other organizations to sponsor City programs and events.

Fall 2024 Preschool Classes – In response to public schools now offering free Pre-K classes for four-year-olds, staff revamped the Preschool Program to expand the three-year-old program offerings, including a combination class for four-year-olds still interested in remaining in the City’s play-based program. The revised program is scheduled to start in the Fall later this year.

Group Tours at McClellan Ranch Preserve – Beginning Fall 2024, McClellan Ranch Preserve will offer a fee-based tour program that allows groups the opportunity to schedule time with staff to explore the Nature Trail and/or spend time with the Environmental Education Center’s Animal Ambassadors. Tours will be scheduled based on staff availability and limited to two-hour blocks.

Sports Center Party Rentals - The Cupertino Sports Center will begin offering sports themed parties. Rental packages include the use of an indoor party room for meals and celebrations.

Public Works Department

- The following Infrastructure CIP projects were completed this year: Stevens Creek Boulevard/Calabazas Creek Storm Drain Repair, Pumpkin and Fiesta Storm Drain Project (Phase 1), and Regnart Road Improvements (Phase 1).
- The following Parks CIP projects were completed this year: Blackberry Farm Golf Renovation/Alternative Use Study, Community Gardens - Wilson Park, Full-sized Outdoor Basketball Court - Wilson Park, and Memorial Park - Specific Plan.
- The following Facilities CIP projects were completed this year: Electric Vehicle (EV) Parking Expansion - BEAM units purchase and installation.
- The following Bike/Ped/Transportation CIP projects were completed this year: McClellan Road Separated Bike Corridor, Phase 3, De Anza Boulevard Buffered Bike Lanes.
- Successful application for CPG funding from Ro Khanna's office (\$850K) for McClellan Road Bridge project. Evan Low's office procured a grant last year (\$5M) for the project as well.
- The Lawrence-Mitty Park and Trail CIP project completed the conceptual design phase, including the CEQA reporting, and is advancing into the Schematic Design phase, leading to construction documentation and eventually construction.
- The Memorial Park Ponds Repurposing CIP project was awarded "2023 Project of the Year" in the "Environment/Parks; Less than \$2 Million" category, from the APWA Silicon Valley chapter.
- Initiate design for the Fire Alarm System Replacement Project for the Senior Center
- Negotiated a 2-year extension to the current landfill agreement (to November 2023) and have begun work toward negotiation of a new one. The current agreement, established in 1989, expires in November 2023.
- Successfully awarded a \$8.465 million grant to initiate a significant four-year expansion of the Via-Cupertino on-demand shuttle into City of Santa Clara, including electrification of fleet. Program rollout efforts underway, expanded service begins July 1.
- Lawson Middle School Bikeway Study in progress, to evaluate alternatives to enhance safety for students riding bicycles to and from Lawson Middle School. Three community meetings and draft study completed to date, City Council meeting anticipated summer 2023.
- Implementation and ongoing evaluation of pedestrian scramble traffic signal phasing at Bubb Rd/McClellan Rd intersection.
- Implementation of traffic adaptive traffic signal operations along North De Anza Blvd. Acquisition of hardware for citywide traffic signal and communication upgrade. Installation and improvements in progress.

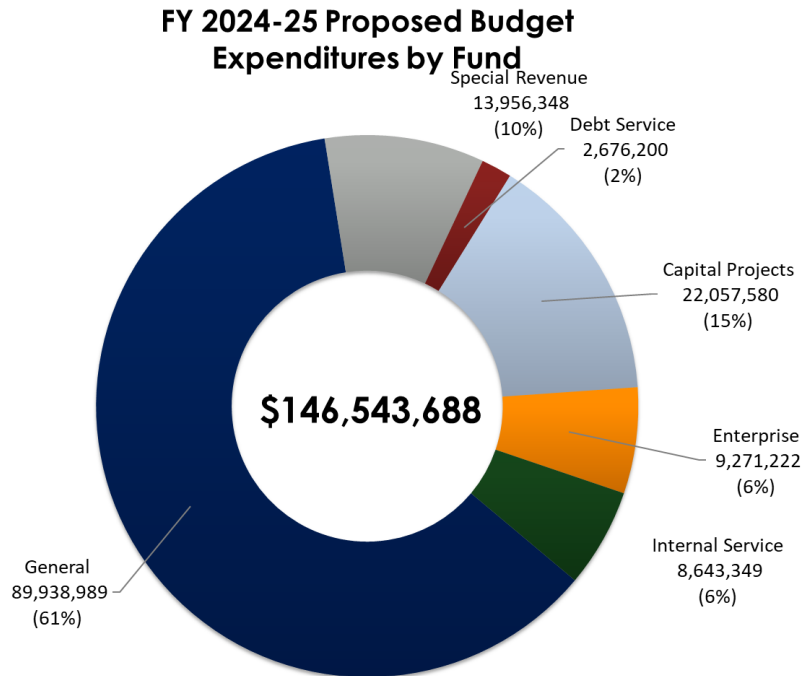
Budget Overview

The Proposed Budget for the upcoming fiscal year highlights an increase in both expenditures and revenues compared to the previous year's Adopted Budget. Total expenditures are expected to be \$136.9 million, a \$15.1 million or 12.4%, increase from the previous year. Similarly, total revenues are anticipated to be \$129.7 million, a \$19.5 million or 17.7%, increase from last year's Adopted Budget.

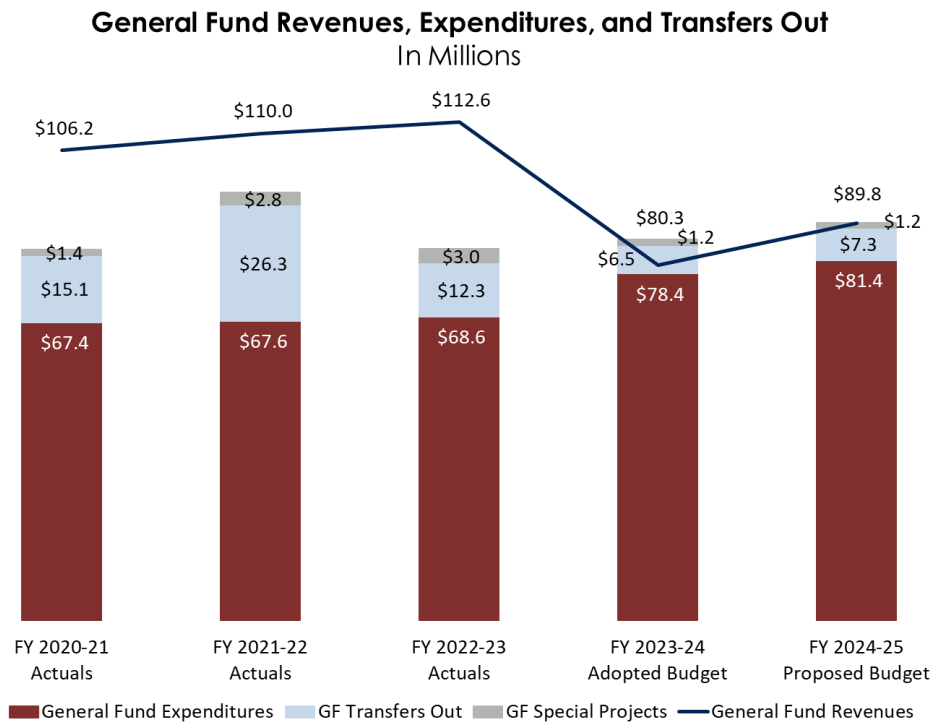
FY 2024-25 General Fund expenditures, which supports the majority of City operations, are expected to be \$89.9 million, an increase of \$3.9 million or 4.5%, from the previous year's Proposed Budget. General Fund revenues are anticipated to be \$89.8 million, which is a \$9.5 million or 11.9%, increase from the previous year's Adopted Budget, resulting in an estimated use of fund balance of \$0.1 million. The budget is just short of balancing and staff recommends using unassigned fund balance to fill the small gap in funding this year. The General Fund's ending fund balance is projected to decrease to \$149.9 million.

Fund Type	Proposed Revenues	Proposed Expenditures	Change in Fund Balance/Net Position
General	89,825,668	89,938,989	(113,321)
Special Revenue	18,616,881	13,956,348	4,660,533
Debt Service	2,676,200	2,676,200	-
Capital Projects	13,635,000	22,057,580	(8,422,580)
Enterprise	6,608,500	9,271,222	(2,662,722)
Internal Service	7,784,696	8,643,349	(858,653)
TOTAL \$	139,146,945 \$	146,543,688 \$	(7,396,743)

As shown in the chart below, the largest fund is the General fund at 61%.



The graph below summarizes the changes in the City’s General Fund over the last five years:

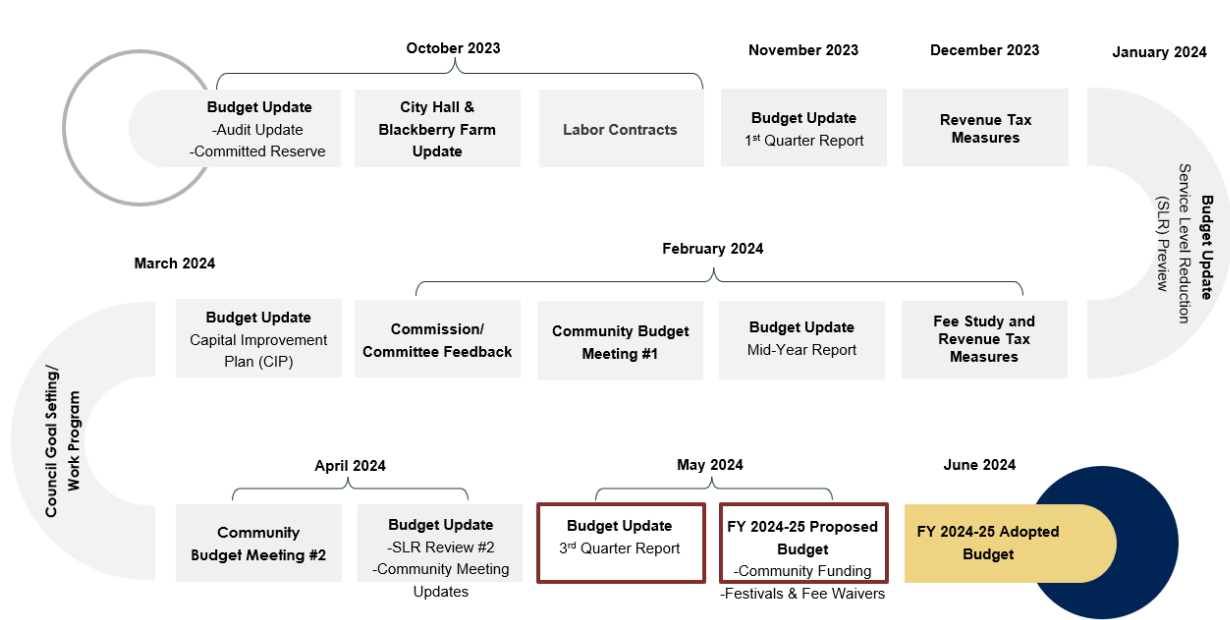


The FY 2024-25 Proposed Budget proposes funding for a total of 207 positions, representing a reduction of five positions from the FY 2023-24 Amended Budget. This reduction is due to revenue shortfalls resulting from the California Department of Taxes and Fee Administration (CDTFA) audit. It is important to note that the positions being eliminated are vacant positions that have not been filled for various reasons such as resignation, retirement, or the positions being left unfilled.

Position	Department	Description	FTE
FY 2023-24 Amended Budget			212.00
FY 2024-25 Proposed Budget			
Special Project Executive Limited-Term	Administration	Eliminating Position	-1.00
Public Works Project Manager	Public Works	Eliminating Position	-1.00
Public Works Project Manager	Public Works	Eliminating Position	-1.00
Maintenance Worker I/II	Public Works	Eliminating Position	-1.00
Innovation & Technology Manager	Innovation & Technology	Eliminating Position	-1.00
FY 2024-25 Proposed Budget			207.00

Budget Roadmap

This year, included many stops along our budget roadmap to budget adoption as illustrated in the graphic below:



Last Updated 5.01.2024

Each stop provided staff with feedback that has been incorporated into this budget.

- October - Created Sales Tax Repayment Reserve and approved 3.5% cost of living increase for most employees.
- November - Reduced 4th of July funding as part of the first quarter financial report.
- December - Presented revenue tax measures. Staff was asked to return with business community feedback.
- January - Presented Service-Level Reductions (SLRs). Council gave direction to proceed with most items. Council added back crossing guard services and directed staff to add back all Community Benefit items but secure outside funding for those items.
- February - Council provided direction on fee study, recommended not moving forward with revenue tax measure survey, and increased Utility User Tax revenue estimates as part of the mid-year financial report.
- March - Council gave direction to proceed with the present Capital Improvement Plan of \$17.9 million offset by \$9.5 million in outside funding as presented and increased the City Council Work Program budget by \$500,000.
- April - Council gave direction to include updated SLRs as presented.

Items remaining in our roadmap include the FY 2024-25 Fee Schedule and FY 2023-24 Third Quarter Report that may include adjustments that will impact the final budget along with items that will be presented at the Proposed Budget Hearing like Community Funding and Festival and Fee Waivers. Any additional direction received by City Council will be incorporated into the final budget for proposed adoption by City Council on June 18, 2024.

Changes to the Budget and Policies

Revised Fees

Matrix Consulting Group recently conducted a comprehensive fee study, that was presented to City Council in February 2024. The Fiscal Year 2024-25 fee schedule is expected to be considered for City Council adoption in early June 2024, with the new adopted fees going into effect 60 days after adoption in mid to late July 2024.

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 performs agreed-upon procedures to review City compliance with the policy. The Audit Committee reviewed and accepted the current Investment Policy on April 22, 2024. The City Council will consider the City's Investment Policy in May 2024.

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 an 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 on June of 1990 offered cities more flexibility in choosing inflation and population factor to calculate the limit.

The City's FY 2023-24 appropriations limit is \$127.9 million, an increase of \$5.1 million, or 4.2%, from the FY 2022-23 limit. If a city exceeds the legal limit, excess tax revenue must be returned to the State or citizens through refunds, rebates, or other means that may be determined at that time. For FY 2023-24, the City's estimated appropriations of proceeds from taxes, less statutory exclusions, do not appear to exceed the limit and are not expected to present a constraint on current or future deliberations.

The California Department of Finance will publish the price and population data to calculate the City's FY 2024-25 appropriations limit in May 2024. As a result, the FY 2024-25 appropriations limit will not be known until May 2024 and will be included in the Adopted Budget.

Budget by Fund

General Fund

The General Fund is the primary source of funding for critical services in the community, including law enforcement, public works, community development, park maintenance, code enforcement, and administrative support services. These services are financed mainly by local taxes such as sales tax, property tax, and transient occupancy tax, as well as other discretionary sources. The General Fund is responsible for financing services that do not have dedicated funding sources, ensuring that essential public services are available to the community.

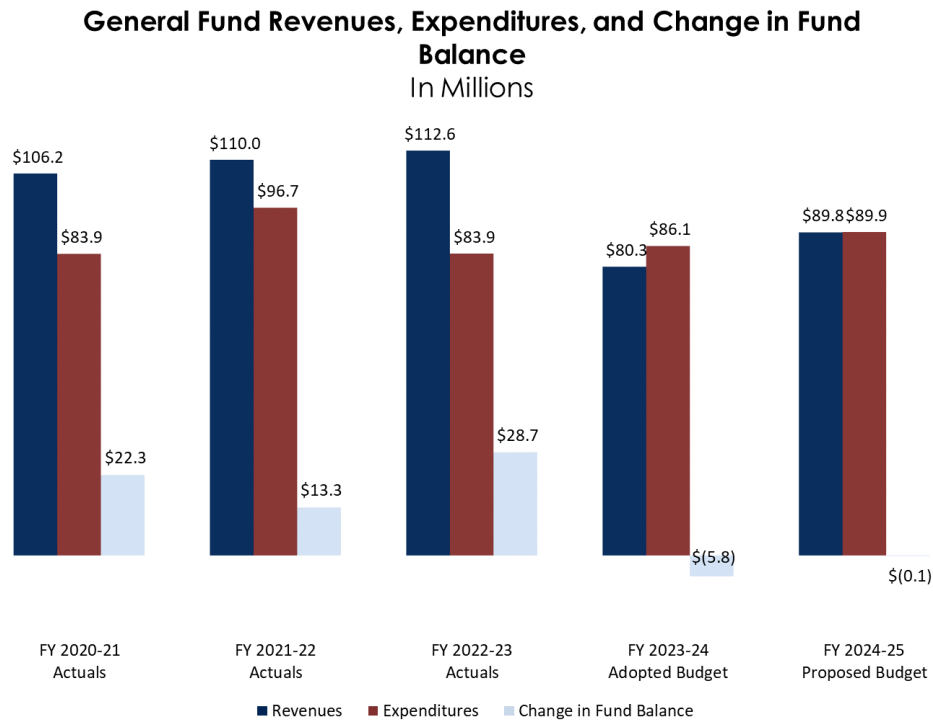
General Fund revenues for the upcoming fiscal year are projected to be \$89.8 million, representing an increase of \$9.5 million or 11.9% from the FY 2023-24 Adopted Budget. This is due to an increase in Charges for Services related to Cost Allocation expenses, an increase in Other Service Fees related to the City's community shuttle program revenue, and an increase in the City's investment earnings.

General Fund expenditures for the next fiscal year are \$89.9 million, indicating a \$3.9 million, or 4.5% increase from the FY 2023-24 Adopted Budget. This is due to an increase in Contract Services primarily attributed to an increase in a general service agreement in the City's community shuttle program.

Although General Fund expenditures are increasing in FY 2024-25, the City will continue to demonstrate proactive fiscal stewardship in response to the California Department of Tax and Fee Administration (CDTFA) audit and its substantial reduction in sales tax revenue. Through Service-Level Reductions (SLR), the City aims to lower expenses or modify how services are provided, while Fiscal Accountability measures focus on aligning budgets with actual costs and streamlining expenses. These strategies blend cost reduction with service adjustment, reflecting an effort to manage financial constraints, optimize resource allocation, and consider potential impacts on community services. All recommended SLRs were reviewed and approved by City Council in April 2024. The SLRs can be found in the Service-level Reduction table and are categorized into the following four groupings:

- Operations and Maintenance
- Infrastructure
- Fiscal Accountability
- Community Benefit

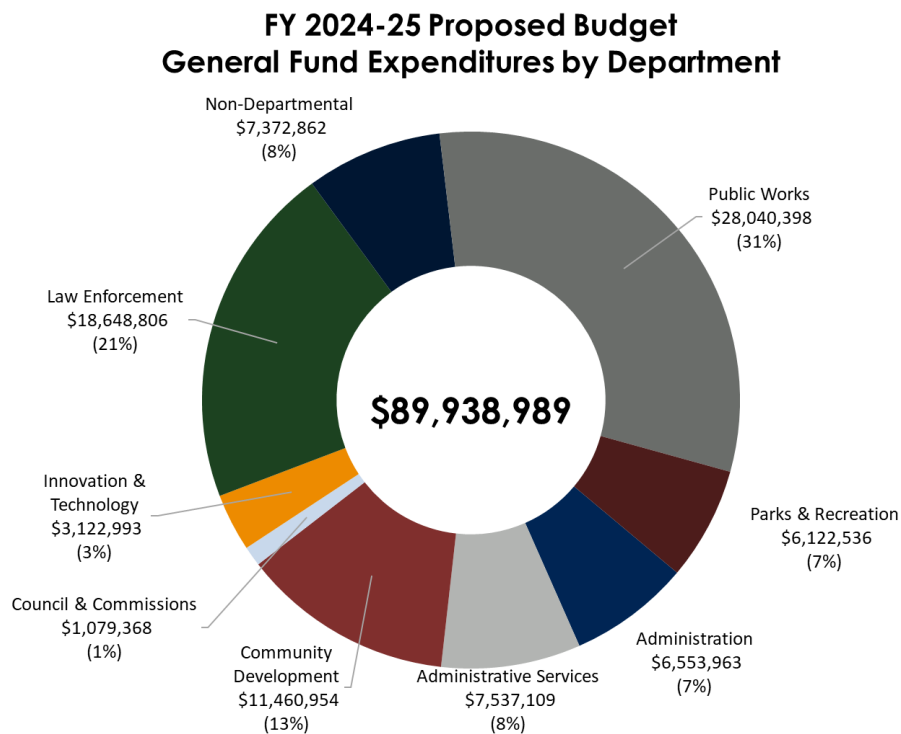
The following chart shows four years of total revenue, expenditures, and changes to fund balance for the General Fund:



In FY 2024-25, the General Fund's unassigned fund balance is projected to be \$22.8 million, a decrease of \$3.8 million, or 14.2%, from the FY 2023-24 Amended Budget (Year End Projected). Unassigned fund balance account for the remaining fund balance after all other categories have been calculated. The decrease in unassigned is to funds that are anticipated to be moved to all other classification category. Total fund balance is estimated to be \$149.9 million, a decrease of \$.11 million, or 0.1%, from the FY 2023-24 Amended Budget. The slight decrease in total fund balance is due to the deficit with revenues slightly lower than expenditures. With the budget just short of balancing, staff recommends using unassigned fund balance to fill the small gap in funding this year.

GENERAL FUND FUND BALANCE						
Classification	2021-22 Actual	2022-23 Actual	2023-24 Adopted Budget	2023-24 Year End Projected	2024-25 Proposed Budget	Percent Change
Unassigned	51,804,288	73,864,369	48,332,873	26,593,360	22,830,029	-14.2%
All Other Classifications	58,365,253	64,963,363	56,319,373	123,463,363	127,113,373	3.0%
TOTAL FUND BALANCE	110,169,541	138,827,732	104,652,246	150,056,723	149,943,402	-0.1%

As shown in the graph below, the majority of General Fund resources are used to support Public Works (31%), Law Enforcement (21%), Community Development (13%), Non-Departmental (8%), Administrative Services (8%), Administration (7%), and Parks and Recreation (7%). Non-Departmental expenditures are transfers to other funds.



Special Revenue Funds

Special Revenue Funds are established to account for the proceeds of specific revenue sources that are legally restricted for expenditures for particular purposes. For example, gas tax revenues or development impact fees. The largest Special Revenue Fund is allocated to streets, roads, and transportation, while other funds are designated for storm drain management, affordable housing programs, and park development.

For the upcoming fiscal year, the Proposed Budget for Special Revenue Funds is \$14.0 million, which represents an increase of \$3.6 million or 34% compared to the FY 2023-24 Adopted Budget. Capital Outlays are higher due to more Capital Improvement Program (CIP) projects and increased Cost Allocation expenses. Matrix Consulting Group updated the Cost Allocation Plan (CAP) based on a CAP study performed in 2023. As part of service level reductions, departments decreased their contract services and special projects.

The Special Revenue Funds receive funding from two sources: \$16.4 million in restricted department revenue and \$2.2 million in transfers, resulting in a total funding of \$18.6 million. The Special Revenue Funds are expected to end the year with a fund balance of \$30.7 million, reflecting an increase of \$4.7 million from last

year's Amended Budget. This increase in fund balance is mainly due to increased Measure B and interest revenues.

Debt Service Funds

The Public Facilities Corporation Debt Service Fund provides for the payment of principal, interest, and associated administrative costs incurred with issuing debt instruments. On September 29, 2020, the City's 2020A Certificates of Participation (2020 COPs) were successfully sold to refund the City's 2012 Certificates of Participation for debt service savings. The refunding generated net present value savings of approximately \$3.14 million, 11.61% of refunded par, and a True Interest Cost of 0.72%. Savings to the City's General Fund amounts to approximately \$494,000 per year for the next ten years or almost \$5 million in total savings. The debt is expected to be fully paid by FY 2029-30.

The Proposed Budget for Debt Service Funds is \$2.7 million, relatively unchanged from the FY 2023-24 Adopted Budget. The Debt Service Funds are funded by \$2.7 million in transfers from the General Fund.

Capital Projects Funds

Capital Projects Funds are used for the acquisition or construction of major capital facilities and infrastructure. Capital Projects Funds include the Capital Improvement Projects Fund, Stevens Creek Corridor Park Fund, and Capital Reserve Fund. These funds are used to finance the implementation of projects identified in the City's five-year Capital Improvement Program (CIP).

The Proposed Budget for Capital Projects Funds is \$22.1 million, an increase of \$17.8 million from last year's Adopted Budget. This increase is due to transfers from the Capital Reserve Fund to the Capital Improvement Projects Fund and an increase in CIP projects for the year.

The Capital Projects Funds are primarily funded through a combination of transfers from the General Fund, grants, donations, development impact fees, and other dedicated revenue sources. As projects are completed, any remaining funds are typically rolled over into the Capital Reserve Fund to be used for future projects.

Enterprise Funds

Enterprise Funds are designed to support services that are funded directly by fees charged for goods or services. The City's Enterprise Funds include Resource Recovery for the solid waste collection franchise, Blackberry Farm for the City-owned golf course, Sports Center for the Cupertino Sports Center, and Recreation Programs for cultural, youth, teen, sports, and physical recreation programs.

The Proposed Budget for Enterprise Funds is \$9.3 million, which represents a decrease of \$0.4 million or 4.1%, from the FY 2023-24 Adopted Budget. The Enterprise Funds are funded by \$6.1 million in program revenue, \$0.5 million in transfers in, and \$2.7 million in reserves. The Enterprise Funds are projected to end the year with \$3.8 million in reserves, a decrease of \$2.7 million from last year's Amended Budget. This decrease is due to the use of reserves, which were accumulated in previous years. During the pandemic, the Parks and Recreation funds accumulated reserves as revenues were higher than expenditures.

Internal Service Funds

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

The Proposed Budget for Internal Service Funds is \$8.6 million, which is a slight decrease of \$0.08 million or 0.9%, compared to last year's Adopted Budget. The Internal Service Funds are funded by \$5.4 million in program revenue, \$2.4 million in transfers from the General Fund, and \$0.8 million in reserves. The Internal

Service Funds are projected to end the fiscal year with \$2.6 million in reserves, increasing by \$0.9 million from last year's Amended Budget.

Service-Level Reductions

The table below illustrates service-level reductions made to the FY 2024-25 Budget. This budget was developed by taking the previous year's base budget and incorporating additional ongoing costs, while also adjusting material and contract expenses based on the Consumer Price Index (CPI), where applicable. The table below is reflective of feedback received from City Council in January and April of 2024. Community benefit service level reductions were originally proposed at \$463,690. Based on Council direction, only \$123,343 remain for reduction in the 4th of July event, as staff was directed to secure alternate funding for the other items. Staff is working with non-profit and for-profit organizations, but nothing has been finalized to date.

Department	Grouping	Service-Level Reduction	Fiscal Impact	Service-Level Impact Narrative
Parks and Recreation	Community Benefit	Reduce 4th of July Funding	\$ (123,344)	Elimination of 4th of July evening fireworks.
TOTAL COMMUNITY BENEFIT			\$ (123,344)	
Administration	Fiscal Accountability	Contract Services and Materials	\$ (226,561)	Potential need for additional appropriations if unanticipated legal costs arise
Administration	Fiscal Accountability	Material operations that are no longer needed	\$ (8,892)	Reduction aligns budget with actuals Reduction will result in minimal impact as existing staff is already implementing these duties.
Administration	Fiscal Accountability	Econ Dev Strategy Outreach	\$ (20,000)	
Administrative Services	Fiscal Accountability	Reduce Unemployment Insurance	\$ (64,148)	New costs are reflective of post-COVID estimates Reduced outside expert technical support. This reduction would reduce efficiencies from some technology uses where the city has historically been comparatively advanced.
Innovation and Technology	Fiscal Accountability	Reduced Budget for I&T	\$ (2,850)	Reduced applications utilized by City staff; Cancelled ERP Implementation; Reduced outside expert technical support. This reduction would reduce efficiencies from some technology uses where the city has historically been comparatively advanced.
Innovation and Technology	Fiscal Accountability	Reduced Budget for I&T	\$ (743,175)	Prolonged tech refresh cycles; Significantly reduced replacement parts and supplies, Reduced outside expert technical support.
Innovation and Technology	Fiscal Accountability	Reduced Budget for I&T	\$ (33,522)	
Law Enforcement	Fiscal Accountability	Align law enforcement budget with actuals	\$ (1,000,000)	Reduction aligns budget with actuals.
Parks and Recreation	Fiscal Accountability	Consolidate Swim Lessons Program	\$ (72,971)	Consolidate Swim Lessons into BBF Operations, reducing overall part-time costs and program supplies.
Parks and Recreation	Fiscal Accountability	Consolidate Swim Lessons Program	\$ (14,147)	Consolidate Swim Lessons into BBF Operations, reducing overall part-time costs and program supplies.
Public Works	Fiscal Accountability	Utility True-up	\$ (564,278)	Reduction aligns with budget actuals
TOTAL FISCAL ACCOUNTABILITY			\$ (2,750,544)	
Non-Departmental	Infrastructure	Transfers Out	\$ (2,000,000)	City will initiate and complete CIP projects with the current Capital Reserve fund. Th A reduction in capital renewal will lead to a longterm aging of infrastructure impacting the attractiveness of this infrastructure to the public.
Public Works	Infrastructure	Contract Services	\$ (810,764)	Tree maintenance moved in-house/Reduction in tree maintenance
Public Works	Infrastructure	Defer vehicle and equipment replacements, increasing the replacement cycle from approximately 7 years to 10 years on average.	\$ (137,000)	May increase cost and staff time to repair assets that were deferred for replacement.
TOTAL INFRASTRUCTURE			\$ (2,947,764)	

Department	Grouping	Service-Level Reduction	Fiscal Impact	Service-Level Impact Narrative
Administration	Operations and Maintenance	- Management Analyst reclassification to Administrative Assistant - Removal of vacant shared Senior Office Assistant between CMO and City Clerk - Removal of PT Intern	\$ (61,755)	Staffing for the department has been reorganized for efficiency and to streamline workload.
Administration	Operations and Maintenance	Reduced a limited term Project Executive position	\$ (404,221)	Use of cost recoverable contract services will be used instead Reduction will result in minimal impact on staff time to administer enforcement of min wage annual
Administration	Operations and Maintenance	Minimum Wage Enforcement and Mailers	\$ (23,202)	increases. Removing printed mailers will require businesses to print it out and post in their place of business.
Administration	Operations and Maintenance	Regulate Diversified Retail	\$ (5,000)	Reduction will result in minimal impact as existing staff is already implementing these duties.
Administration	Operations and Maintenance	This reduction will remove funding for a PT Intern and Overtime Compensation. This reduction also includes the reclassification of a Public Information Officer to a Communications Coordinator.	\$ (78,249)	Staffing for the department has been reorganized for efficiency and to streamline workload.
Administration	Operations and Maintenance	Reduce cost of the quarterly Scene Newsletter by moving to a digital-only publication.	\$ (53,600)	Residents will no longer receive the Scene in the mail and will have to find the Scene on a City webpage instead.
Administrative Services	Operations and Maintenance	Reduce Budget for Internal Audit	\$ (40,000)	Reduction in the number of internal audit projects. Audits would occur on a less frequent basis. Customers would pay a credit card transaction fee for any payments made using a credit card.
Administrative Services	Operations and Maintenance	Shift credit card fees to customers	\$ (39,000)	Currently, the City does not charge credit card fees to customers. Many jurisdictions charge customers a credit card transaction fee for any payments made using a credit card.
City Council and Commission	Operations and Maintenance	Reduce Commission Expenses	\$ (468)	Reduction aligns with budget actuals.
City Council and Commission	Operations and Maintenance	Reduce Commission Expenses	\$ (1,855)	Reduced budget for Teen Commission.
Community Development	Operations and Maintenance	Shift Credit Card Fees to Customer	\$ (57,500)	Decrease bank charge contract services. Customers would pay a credit card transaction fee for any payments made using a credit card. Currently, the City does not charge credit card fees to customers. Many jurisdictions charge customers a credit card transaction fee for any payments made using a credit card.
Community Development	Operations and Maintenance	Reduce Conferences and Training	\$ (10,691)	Reduced conference attendance, trainings, and meeting expenses. Thus, resulting in reduced service level and response time. Reduction could potentially lead to higher staff turnover rates. The department is continuing to offer training by exploring and taking advantage of local and virtual opportunities.
Parks and Recreation	Operations and Maintenance	Reduce Senior Center Part-Time Staffing and Supplies	\$ (16,124)	Estimated longer wait times for the front desk, reduce rental support and amenities offered for Senior programs and events.
Parks and Recreation	Operations and Maintenance	Shift Credit Card Fees to Customers	\$ (159,620)	Customers would pay credit card transaction fees.
Parks and Recreation	Operations and Maintenance	Reduce Parks and Recreation Expenses	\$ (10,332)	Removed budget for overtime.
Parks and Recreation	Operations and Maintenance	Reduce Funding for Library Extra Hours	\$ (160,000)	No immediate impact on current operational hours. Santa Clara County Library District has historically received funds from the state to cover these costs.

Department	Grouping	Service-Level Reduction	Fiscal Impact	Service-Level Impact Narrative
Parks and Recreation	Operations and Maintenance	Reduce Park Ranger Services	\$ (31,155)	Reduced ranger presence at the Stevens Creek Corridor, Environmental Education Center, and some nature-based programs and events.
Parks and Recreation	Operations and Maintenance	Reduce Parks and Recreation Expenses	\$ (5,473)	Elimination of Helping Hands program, removed budget for overtime, and realign with budget actuals.
Parks and Recreation	Operations and Maintenance	Shift credit card fees to customers.	\$ (17,049)	Customers would pay credit card transaction fees.
Parks and Recreation	Operations and Maintenance	Reduce Senior Center Part-Time Staffing and Supplies	\$ (5,311)	Estimated longer wait times for the front desk, reduced rental support and amenities offered for Senior programs and events.
Parks and Recreation	Operations and Maintenance	Reduce Parks and Recreation Expenses	\$ (12,391)	Consolidated Preschool Program with a focus on the 3-year-old program and removed budgets for overtime.
Public Works	Operations and Maintenance	Materials	\$ (145,794)	Reduction in printing, ergonomics, memberships, office supplies, conference and meetings, etc.
Public Works	Operations and Maintenance	Contract Services	\$ (659,534)	Reduction in contract services for fence repairs, graffiti mitigation, bee removal, gas emission inventory, paid advertising, etc.
Public Works	Operations and Maintenance	Salary and Benefits	\$ (386,406)	Reduction in part-time staff
Public Works	Operations and Maintenance	Special Project	\$ (55,000)	Reduction of replaced fluted street light poles
Public Works	Operations and Maintenance	Staffing	\$ (463,716)	Eliminate two vacant Public Works Project Managers
TOTAL OPERATIONS AND MAINTENANCE			\$ (2,903,446)	

Special Projects

The FY 2024-25 Proposed Budget allocates funds for Special Projects, which are typically one-time operational projects. This includes City Council Work (CWP) Program items that are included in the Special Project expense category. We have split special projects below to be reflective of the CWP and all other special projects. The Special Projects are detailed in the respective program's Special Project section and summarized in the table below. Some Special Projects' budgets from previous fiscal years may also be carried forward into FY 2024-25.

City Council Work Program

Program	Project	Expenditure	Funding Source	Strategic Goal
CITY WORK PROGRAM				
ADMINISTRATION				
120 City Manager	CWP - Rise Const Stakeholder Engmt	100,000	General Fund	Quality of Life
TOTAL ADMINISTRATION		100,000		
COMMUNITY DEVELOPMENT				
702 Mid Long Term Planning	CWP Sign Ordinance Update	200,000	General Fund	Quality of Life
TOTAL COMMUNITY DEVELOPMENT		200,000		
PUBLIC WORKS				
800 Public Works Admin	CWP Recycled Water Feasibility	200,000	General Fund	Sustainability and Fiscal Stra
122 Sustainability Division	CWP Electrification Study	50,000	General Fund	Sustainability and Fiscal Stra
844 Traffic Engineering	CWP Active Transportation Plan	330,000	General Fund	Transportation
TOTAL PUBLIC WORKS		580,000		
TOTAL CITY WORK PROGRAM		\$ 880,000		

All Other Special Projects

OTHER SPECIAL PROJECTS				
Program	Project	Expenditure	Funding Source	
PUBLIC WORKS				
122 Sustainability Division	Special Maintenance	10,000	General Fund	
807 Service Center Administration	Office Reconfiguration	50,000	General Fund	
812 School Site Maintenance	Special Maintenance	10,500	General Fund	
814 Sport Fields Jollyman CRK	Special Maintenance	10,500	General Fund	
848 Street Lighting	Special Projects - PW	175,000	General Fund	
825 Street Tree Maintenance	Trees and Badges	15,000	General Fund	
827 Bldg Maint City Hall	Special Maintenance	2,000	General Fund	
829 Bldg Maint Service Center	Special Maintenance	2,000	General Fund	
830 Bldg Maint Quinlan Center	Special Maintenance	2,000	General Fund	
831 Bldg Maint Senior Center	Special Maintenance	2,000	General Fund	
832 Bldg Maint McClellan Ranch	Special Maintenance	2,000	General Fund	
833 Bldg Maint Monta Vista Ct	Special Maintenance	2,000	General Fund	
838 Comm Hall Bldg Maint	Special Maintenance	2,000	General Fund	
802 Environmental Programs-Non Point Source	Low Income Cost Share	2,000	Env Mgmt Cln Crk Strm Drain	
802 Environmental Programs-Non Point Source	CUSD Joint Use Cost Share	8,707	Env Mgmt Cln Crk Strm Drain	
820 Sidewalk Curb and Gutter	Annual Sidewalk Curb & Gutter	632,313	Transportation Fund	
821 Street Pavement Maintenance	Annual Asphalt Project	1,943,667	Transportation Fund	
801 Environmental Programs-Resources Recovery	Special Maintenance	20,000	Resource Recovery	
801 Environmental Programs-Resources Recovery	HHW and PaintCare	115,733	Resource Recovery	
801 Environmental Programs-Resources Recovery	Single Use Plastics Ordinance	75,000	Resource Recovery	
836 Bldg Maint Sports Center	Special Maintenance	2,000	Sports Center	
836 Bldg Maint Sports Center	Facility Improvements	150,000	Sports Center	
985 Citywide - Non Departmental-Fixed Assets Acq	Fixed Asset Acquisition	440,000	Vehicle/Equip Replacement	
TOTAL PUBLIC WORKS		3,674,420		
TOTAL OTHER SPECIAL PROJECTS		\$ 3,674,420		
TOTAL SPECIAL PROJECTS		\$ 4,554,420		

Current Economic Update

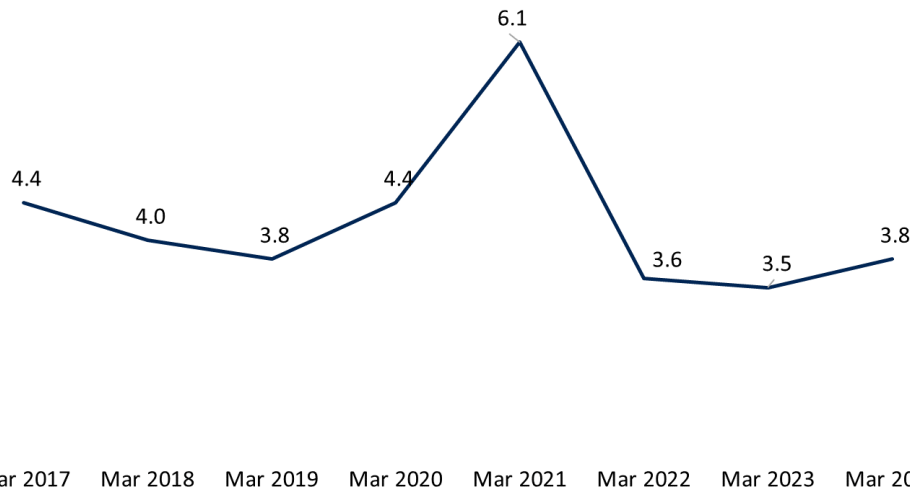
National and State Economic Conditions

In the first quarter of 2024, real gross domestic product (GDP) in the U.S. increased by 1.6%, following a 3.4% increase in the previous quarter. This growth was driven by increased consumer spending, residential and nonresidential fixed investment, and state and local government spending, partially offset by decreased private inventory investment. Compared to the previous quarter, the slower GDP growth was mainly due to reduced consumer spending, exports, and government spending, along with tighter financial conditions and restrictive monetary policy. Despite this, recent data indicates positive, albeit below-trend, growth for the year. Job growth is slowing, but the labor market remains robust, and consumer resilience persists.

Recent economic data has shown above trend growth fueled by a rise in consumer spending and a continuing healthy US job market. Inflationary trends are subsiding, but core levels remain above the Fed's target. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, it is believed that the economy will gradually soften and the Fed will loosen monetary policy in 2024.

In March, the US Treasury yield curve stabilized as the Federal Open Market Committee left the Federal Funds rate unchanged. The 2-year Treasury yield was unchanged at 4.62%, the 5-year Treasury fell 4 basis points to 4.21%, and the 10-year Treasury yield dropped 5 basis points to 4.20%. The inversion between the 2-year Treasury yield and 10-year Treasury yield widened to -42 basis points at March month-end versus -37 basis points at February month end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -56 basis points. The inversion between 3-month and 10-year Treasuries widened to -117 basis points in March from -113 basis points in February.

US Unemployment Rate
(In percentages)



As of March 2024, the U.S. unemployment rate is 3.8%, showing a slight increase from 3.5% in March 2023. The participation rate rose up to 62.7% but remained below the February 2020 level of 63.3%. The U-6, a broader measure of unemployment that includes those marginally attached to the labor force and employed part-time for economic reasons, was unchanged at 7.3%. Average hourly earnings rose 4.1% year-over-year in March, down from 4.3% last month. Employment remains strong by historical standards.

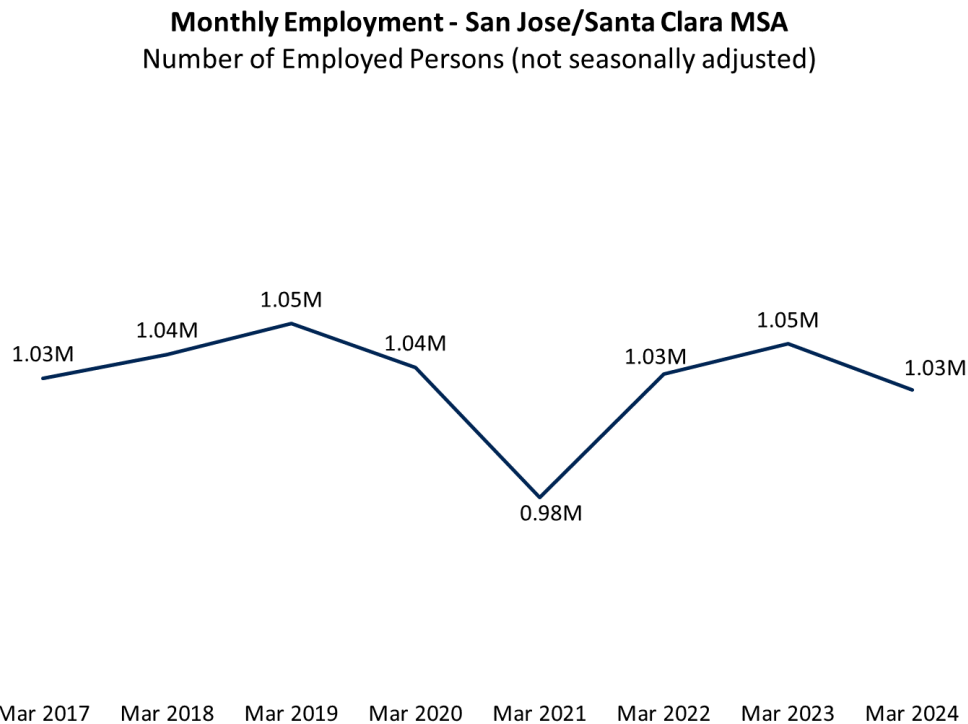
Despite worries about inflation, bank troubles, and a looming recession, American consumer confidence in March showed a slight uptick despite two prior months of decline. The Consumer Confidence Index dipped slightly to 104.7 in March from a revised 104.8 in February. Expectations for inflation over the next year remain high at 6.3%. However, confidence in current conditions decreased, mainly due to concerns about the job market, future business prospects, and the divisive political climate. Despite consumers' resilience, factors like dwindling savings, increasing credit card debt, and the resumption of student loan payments could pose challenges to future economic growth.

According to the California Employment Development Department (EDD), the state's unemployment rate is steady in March 2024 is preliminary at 5.3% compared to the revised to 4.8% in March 2023. The EDD also reported that employers added 28,300 nonfarm payroll jobs to the economy in March 2024. Total employment reached 18,313,500, up by 1.9% (345,700 jobs) compared to the same period last year.

The California Association of Realtors (CAR) reported a 7.7% increase in statewide median home prices and California's median home price was 6.0% higher than February 2024. Additionally, the statewide single-family home sales for March 2024 are down 4.4% from March 2023. Similarly, Santa Clara County's growth rate is at 12.4% in prices of single-family homes and a 0.5% increase in sales compared to the same period last year.

Cupertino Economic Conditions

The unemployment rate in the San Jose-Sunnyvale-Santa Clara MSA was 4.2% in March 2024, up from the year-ago estimate of 3.2%. This was below the unemployment rate for California and the nation during the same period. The number of employed persons was 1.03 million in March 2024, down from 1.05 million in March 2023.



Housing prices remain relatively strong compared to the same period in 2022. Based on data from Redfin, the median sales price for all home types was \$3,300,000 for March 2024 compared to \$2,758,000 in March 2023 . The City experienced a net taxable value increase of 4.6% for the FY 2023-24 tax roll.

Key Budget Assumptions

Revenue Assumptions

The City's General Fund revenues heavily depend on property tax, sales tax, and transient occupancy tax (TOT). However, the ongoing CDTFA audit is expected to alter the way sales tax is allocated to the City, leading to a significant reduction in sales tax revenue. As a result, the City anticipates General Fund revenues to decrease by \$30 million, or 28%, from original projections.

Personnel Assumptions

FY 2023-24 salaries and benefits reflect the cost-of-living adjustments approved by the City Council in August 2022. The City is currently negotiating with its bargaining groups because the agreements, which expire on June 30, 2025, include a salary and benefits reopener. In the forecast, full-time salaries are expected to increase by the CalPERS payroll growth rate. On the other hand, part-time salaries are forecasted to grow at a rate of 1.5%, which is a slower rate than full-time salaries.

Employees who have yet to reach the top step in their classification's salary range are eligible to receive a step increase on their anniversary date. Typically, classifications have five steps, with each increase equivalent to a 5% increase in salary. Currently, approximately 38% of employees are below Step 5.

Non-Personnel Assumptions

Non-Personnel budgets were developed based on previous year's actual expenditures and adjusted for the current year's needs. One-time projects were excluded to reflect ongoing expenditure needs. In response to the anticipated revenue shortfall resulting from the CDTFA audit, departments were asked to find ways to reduce the base budget. To balance the budget, various categories including materials, contract services, capital outlays, special projects, transfers to other funds, and contingencies were reduced in the Adopted Budget.

Ongoing Challenges

Retirement Benefits

Rising retirement costs are driving the increase in employee benefits. Cupertino offers retirement benefits to its employees through the California Public Employee's Retirement System (CalPERS), which experienced a significant decline in its assets due to poor investment returns during the Great Recession. Moreover, changes in actuarial assumptions and enhanced benefits due to higher life expectancies have further increased the plan's liabilities. Consequently, the City's pension costs have escalated considerably and currently constitute one of the City's largest financial obligations.

The table below illustrates the City's CalPERS costs over the next few years.

	Projected CalPERS Contributions					
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2028-29
Projected Payroll	\$ 24,352,479	\$ 25,034,349	\$ 25,735,310	\$ 26,455,899	\$ 27,196,665	\$ 27,958,170
Normal Cost (%)	10.5%	10.3%	10.1%	10.0%	9.8%	9.7%
Normal Cost	\$ 2,547,269	\$ 2,578,538	\$ 2,599,266	\$ 2,645,590	\$ 2,665,273	\$ 2,711,942
UAL Payment (%)	22.3%	21.7%	22.6%	20.6%	22.1%	22.0%
UAL Payment	\$ 5,441,780	\$ 5,441,000	\$ 5,807,000	\$ 5,443,000	\$ 6,013,000	\$ 6,138,000
Total Contribution (%)	32.8%	32.0%	32.7%	30.6%	31.9%	31.7%
Total Contribution	\$ 7,989,049	\$ 8,019,538	\$ 8,406,266	\$ 8,088,590	\$ 8,678,273	\$ 8,849,942

In December 2016, the CalPERS Board of Administration implemented a three-year phase-in beginning in FY 2018-19 to lower the discount rate from 7.5% to 7.0%, resulting in significant increases in retirement costs. In FY 2021-22, the discount rate was further reduced to 6.8% due to the FY 2020-21 investment gain of 21.3%, which

triggered the Funding Risk Mitigation Policy.

To mitigate the impact of pension rate volatility on the City's budget, the City established a Section 115 Trust in May 2018. The Section 115 Pension Trust had a balance of \$19.1 million as of June 30, 2023, which can be utilized to fund pension costs.

Revenue Volatility

The City of Cupertino heavily relies on business-to-business (B2B) sales taxes for its sales tax revenue, making it highly sensitive to economic fluctuations. The City experienced the impact of this volatility during the dot-com crash from 2000 to 2004. The heavy reliance on the high-tech industry makes the City vulnerable, and the loss of one of the top three sales tax producers in FY 2013-14 made the City more dependent on a single tax producer, further increasing its vulnerability to business volatility.

The COVID-19 outbreak in 2020 significantly impacted the City's revenues from sales and transient occupancy taxes. Although certain sectors, such as restaurants and hotels, brick-and-mortar retail and restaurants, were severely affected, the City experienced an increase in business-to-business sales tax revenues and County pool allocation share. The increase in sales tax revenue was attributed to the rise in online sales due to statewide shelter-in-place mandates and the higher demand for computer and electronics equipment due to the shift to remote work. While the City's sales tax revenues reached historic highs in FY 2020-21 and FY 2021-22, the City considers it a one-time event, and the recovery of the restaurant and hotel, general consumer goods, and automotive industry groups did not offset the declines in business-to-business sales tax and County pool allocation as online sales decreased from their recent historic highs. Transient occupancy tax revenue decreased due to reduced business travel during the pandemic but has begun to recover in FY 2022-23.

In December 2021, the CDTFA informed the City that an audit would be conducted on one of its taxpayers. The CDTFA verbally notified the City in March 2023 of its preliminary determination that tax dollars had been misallocated to the City, discussing the potential impacts on the City. Following discussions with the affected taxpayer and the CDTFA, an updated forecast was presented to the Council in April 2023. The impact was estimated to be a 73% decline in sales tax revenue, equating to an ongoing \$30 million decrease. This shifted the City's financial outlook from a surplus to a structural deficit, where ongoing expenses exceed revenue. In October 2023, the CDTFA issued a formal letter to the City providing the final audit results and the actual amount of money lost.