



FIRST QUARTER REPORT

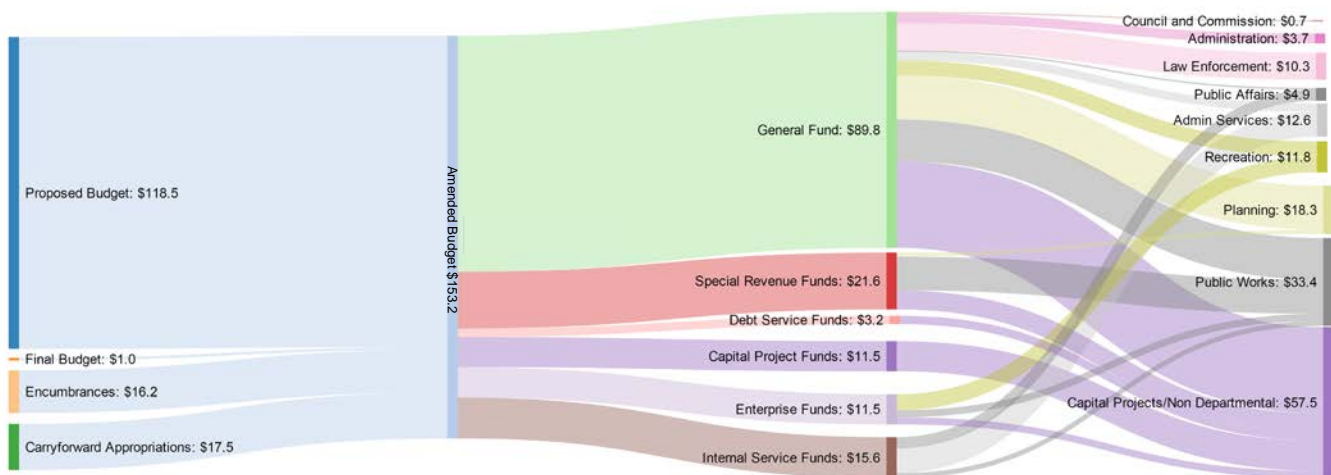
CUPERTINO

The following is the First Quarter Financial Report, submitted by the Office of the City Manager for the period of July 1, 2014 to September 30, 2014 for the 2014-2015 Fiscal Year. It has been prepared to inform the City Council, City leadership and the public of the City's fiscal status.

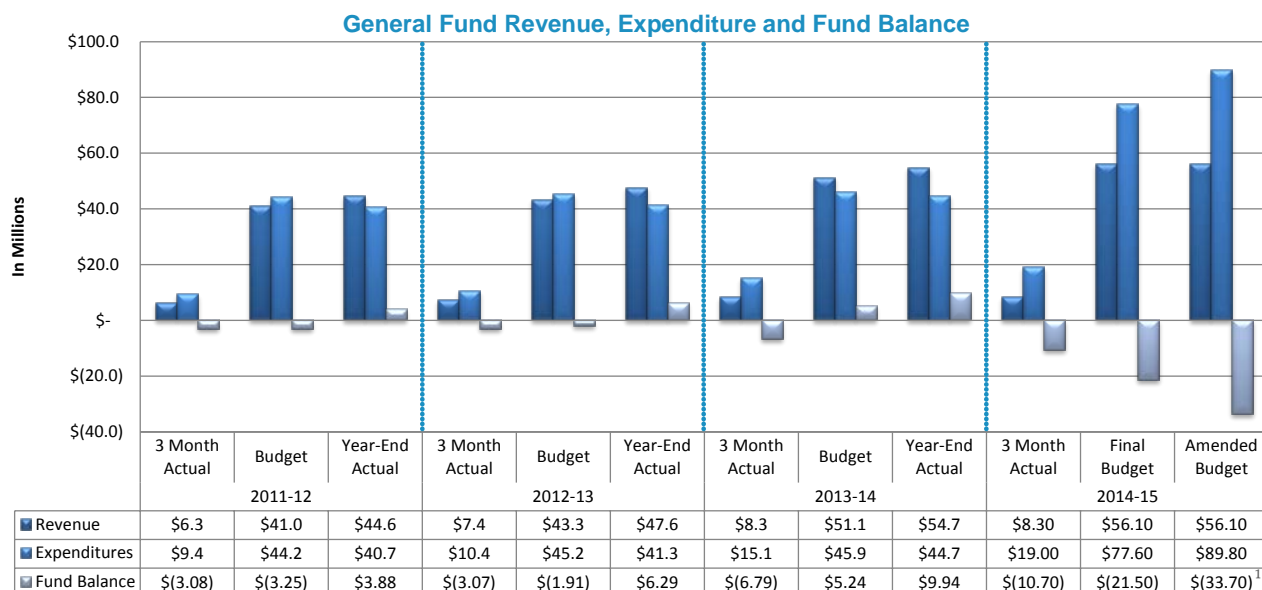
BACKGROUND

On July 1, 2014, the City Council adopted the Fiscal Year 2014-15 Final Budget for the City of Cupertino. This spending plan of \$119,476,412 for all funds reflected a 0.8% or \$969,890 increase from the 2014-15 Proposed Budget of \$118,506,522. This is due to changes recommended by Council at the final budget hearing and adoption, mainly as a result of the \$1 million in additional funding for pavement projects. The Final Budget is adjusted throughout the year. These adjustments include carrying forward appropriations and encumbrances for obligations from the previous fiscal year, adjustments as part of Mid-Year Financial Report, as well as adjustments approved as part of any separate Council agenda item. Combined, these adjustments result in the amended operating budget of \$153,127,573.

Proposed Budget thru the First Quarter | Amended Budget FY 2014-15 | Flow of Funds Chart (in Millions)



GENERAL FUND UPDATE



¹As part of the Final Budget a new reserve policy was adopted that authorized the transfer of any excess fund balance over \$400,000 to the Capital Reserve. This is the primary reason for the large use of fund balance in the final budget. The additional \$12.28 in fund balance as of first quarter is to provide a funding source for prior year encumbrances and carryover appropriations of \$12.28 million.

GENERAL FUND UPDATE (continued)

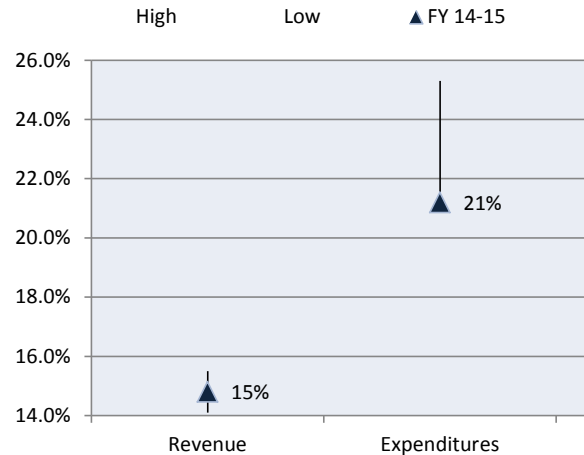
General Fund Classification of Fund Balance

CLASSIFICATION	Projected Year End 2013-14	Year End 2013-14	Variance	Adopted 2014-15	1st Quarter 2014-15
Other Classifications	1.70	1.86	0.16	1.71	1.86
Assigned	22.89	22.87	(0.02)	30.47	30.23
Unassigned	28.52	20.80	(7.71)	0.82	0.91
Total Fund Balance	53.11	45.53	(7.58)	33.00	33.00

General Fund Revenue and Expenditure Trends

As of September 30, 2014, General Fund expenditures are \$19 million; this represents 21.2% of the budgeted appropriations. Expenditures at the first quarter point of the prior three years were between 23% and 25.3% of the final actual expenditures, placing this year below the range. General Fund revenues are at \$8.3 million; this represents 14.8% of the budgeted revenue. Revenues at the first quarter point of the prior three years were between 14.1% and 15.5%, placing this year within this range.

Are General Fund Revenues and Expenditures on Trend?



CURRENT ISSUES AND CHALLENGES AND POTENTIAL MID-YEAR ADJUSTMENTS

Closing Escrow on Pruneridge Ave. - Escrow was originally expected to close in April 2014 and is now anticipated to close in early 2015.

Payoff of Retiree Health Liability- Due to the delay in the close of escrow of Pruneridge, payment will occur once the sale is final.

Implementation of new ERP System - Is on track and within budget. The finance and budget modules will be go live in early January 2015.

Part-time and Overtime Costs - Staffing costs related to Part-Time and Overtime salaries in Recreation and Community Services and Public Works are trending high, these will be reviewed as part of Mid-Year.

Contract and Material Cost Increases - City Attorney, Economic Development, Recreation and Public Works are projecting overages related to Contracts and Materials. These will be reviewed as part of Mid-Year.

Community Funding Form - As requested in the Final Budget Hearing, a standard form for community funding requests is anticipated to be included as part of Mid-Year.

Bike and Pedestrian Committee -Potential projects as part of the Bicycle Transportation Plan will be presented, that may result in additional mid-year adjustments.

SUMMARY

The First Quarter Financial Report shows the City is well-positioned to move forward. City staff will continue to monitor the 2014-15 Fiscal Year Amended Budget and be prepared to make appropriate recommendations and changes at the Mid-Year Budget Report.

As of first quarter, there are limited mid-year adjustments anticipated, these and any additional requests will be reviewed at mid-year. At that time, staff will identify if these requests can be offset with savings or proceed with the request for an adjustment. If more urgent budget adjustments need to be made before the Mid-Year Budget Report, staff will bring appropriate and timely recommendations to the City Council for consideration.