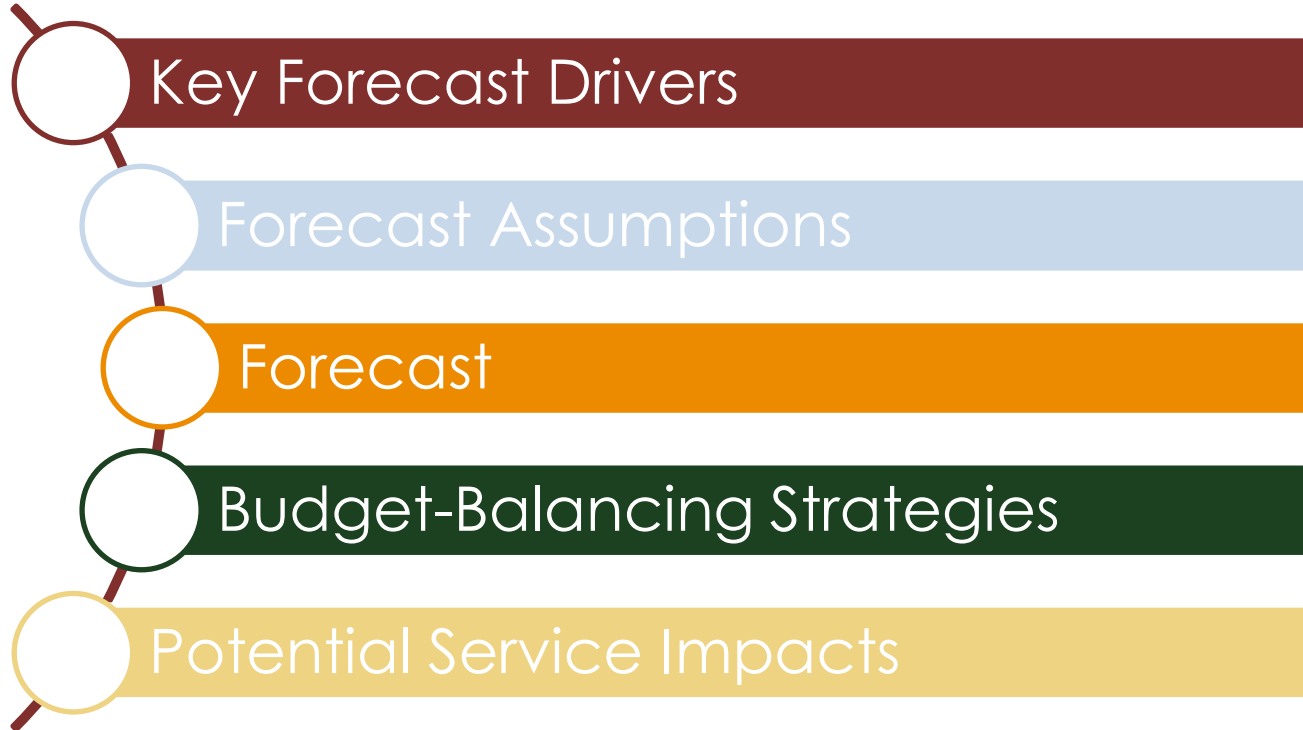


10-Year Budget Forecast FY 2023-24 Informational Update

April 13, 2023



Agenda



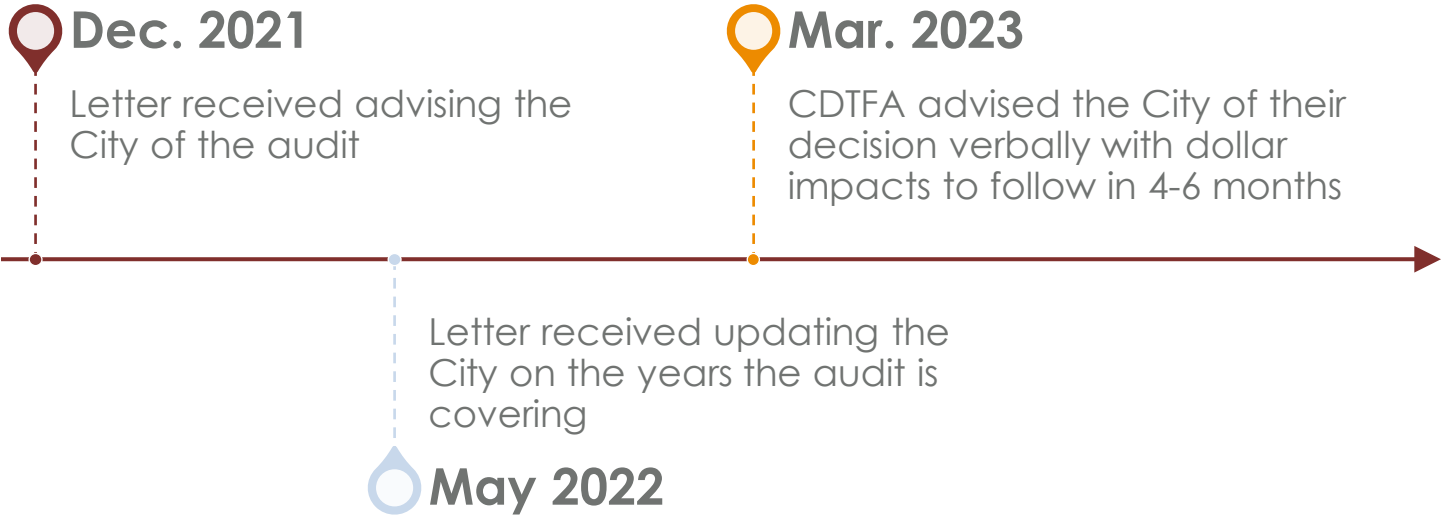
Key Forecast Drivers



Key Forecast Drivers

- California Department of Tax and Fee Administration (CDTFA) Audit
- Staffing
- Labor Negotiations
- Next Recession
- Post-COVID-19 Impacts

California Department of Tax and Fee Administration (CDTFA) Audit



Sales Tax Collection Process



CDTFA Audit

- Based on taxpayer reporting to the CDTFA
- Due to confidentiality regulations, detailed reporting is not provided to the City
- 73% ongoing reduction in overall Sales Tax, which includes a proportional reduction to County pools
- Potential payback of revenues already received

County Pools

- Used to distribute use tax and any sales tax that cannot be easily tied to a permanent place of sale
- The tax is first assigned to the county of use and then distributed to each jurisdiction in that county on a pro-rata share of taxable sales each quarter
- For example, if a city generated 8% of the county's total taxable sales, it would receive 8% of the county pool

Forecast Assumptions

Forecast Assumptions

- No additional development projects included
- Facility debt paid off in FY 2029-30
- Other Post Employment Benefits (OPEB/Retiree Health) costs funded by the Section 115 OPEB Trust starting FY 2022-23
- Recession (no growth) in FY 2024-25 and FY 2028-29 for all revenue categories

Forecast Assumptions

- Sheriff's contract expected to grow at the current rate of CPI + 2%. Contract expires in FY 2023-24
- No cost-of-living adjustments (COLAS), excluding payroll growth forecasted by CalPERS as part of the annual actuarial valuation
- No payback of already received sales tax revenue

Forecast Revenue Assumptions

Account	Assumption	Description
Sales Tax	Conservative (1.6% AAGR)	HdL's forecast in FY 2023-24 with sales tax loss Conservative trend after
Property Tax	Moderate (3.1% AAGR)	HdL's forecast in FY 2023-24 Moderate trend after
Transient Occupancy Tax	Moderate (1.9% AAGR)	Recovery to \$7.5M in FY 2023-24 Moderate trend after

Note: Forecasts assume recession (no growth) in FY 2024-25 and FY 2028-29 for all revenue categories

Forecast Expenditure Assumptions

Account	Assumption	Description
Compensation	CalPERS projections	No cost-of-living adjustments (COLAS), excluding payroll growth forecasted by CalPERS
Benefits	0.6% AAGR	Based on CalPERS projections
Materials	2.5% AAGR	Average of State and County CPI
Contracts	6.2% AAGR	Average of State and County CPI Law enforcement contract = CPI + 2%
Special Projects ¹	3.0% AAGR	\$0.5M base + CPI annually
Contingencies	2.5% AAGR	1.25% of Materials and Contracts
Transfers	Baseline + CPI	\$8.1M base + CPI annually

¹Will impact ability to fund work program and other one-time items

Forecast

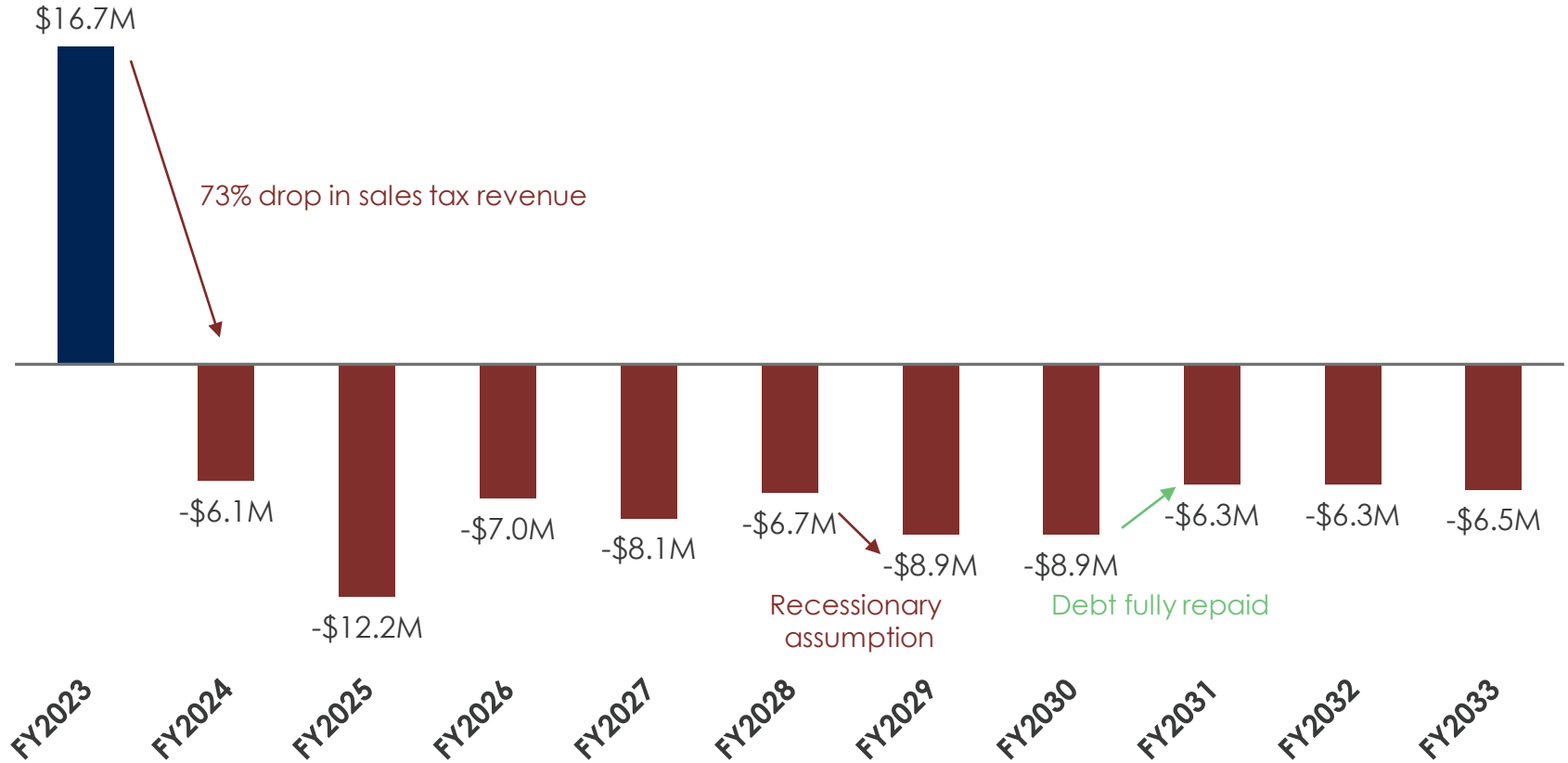


Expenditure Reduction Strategies

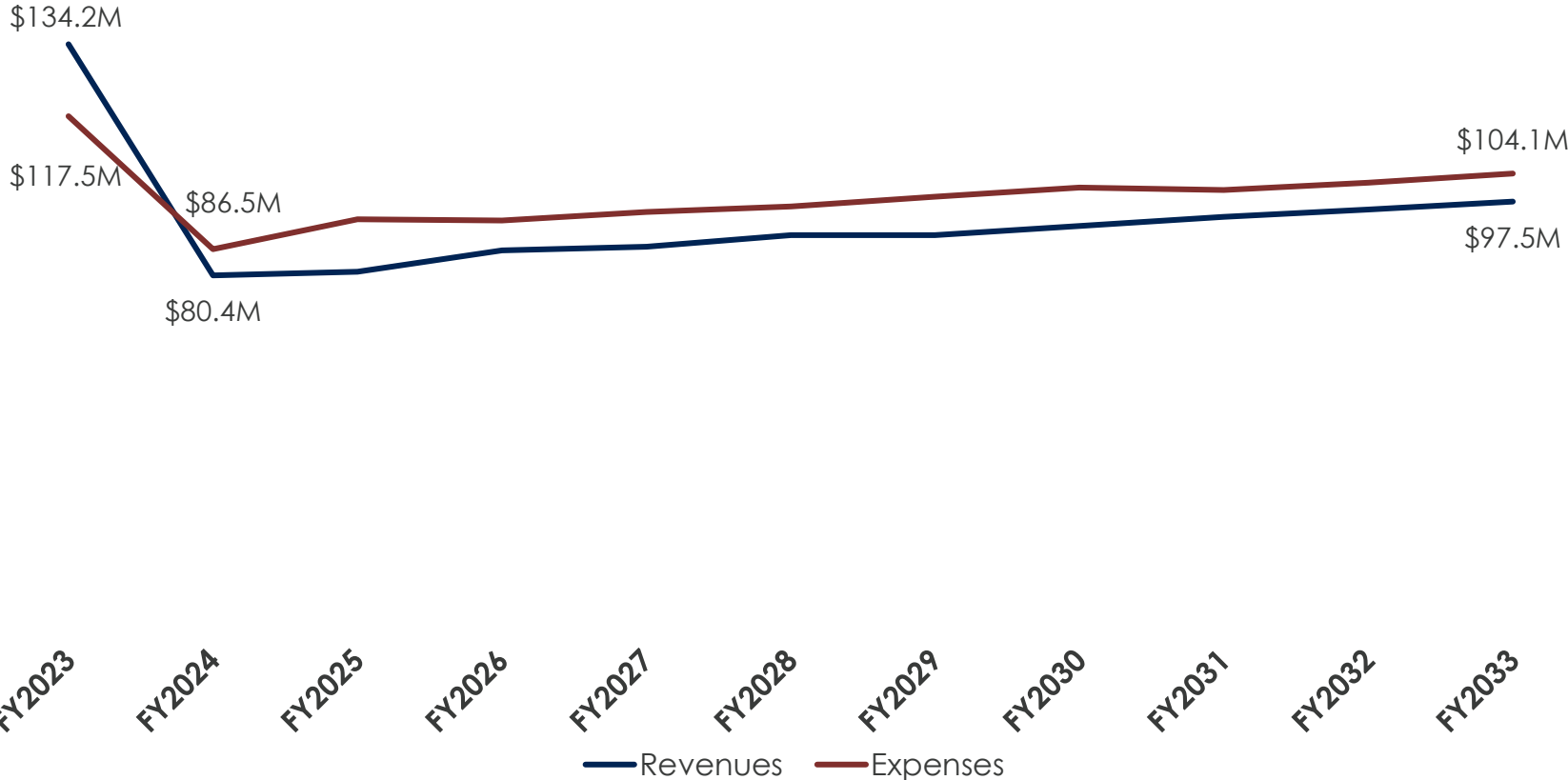
(\$ In Millions)

Category	FY 2023-24 Status Quo	FY 2023-24 Forecast	Change (\$)	Change (%)	Description
Sales Tax	42.1	11.4	(30.6)	-73%	
Other Revenues	69.0	69.0	-	0%	
Total Revenues	111.1	80.4	(30.6)	-28%	
Compensation and Benefits	42.1	35.8	(6.3)	-15%	Position reductions through the elimination of vacant positions (15 FTE in FY 2023-24 increasing to 45 FTE by FY 2032-33)
Materials	8.2	4.9	(3.3)	-40%	40% reduction
Contract Services	27.7	25.7	(2.0)	-7%	20% reduction except for Law Enforcement
Cost Allocation	10.4	10.4	-	-	
Transfers	12.2	8.1	(4.2)	-34%	reduction in transfers to other funds
Other Expenditures	3.6	1.6	(2.0)	-56%	reduction to special projects + contingencies
Total Expenditures	104.2	86.5	(17.8)	-17%	
Net Revenues - Expenditures	6.8	(6.1)	(12.8)		Funded by Unassigned Fund Balance

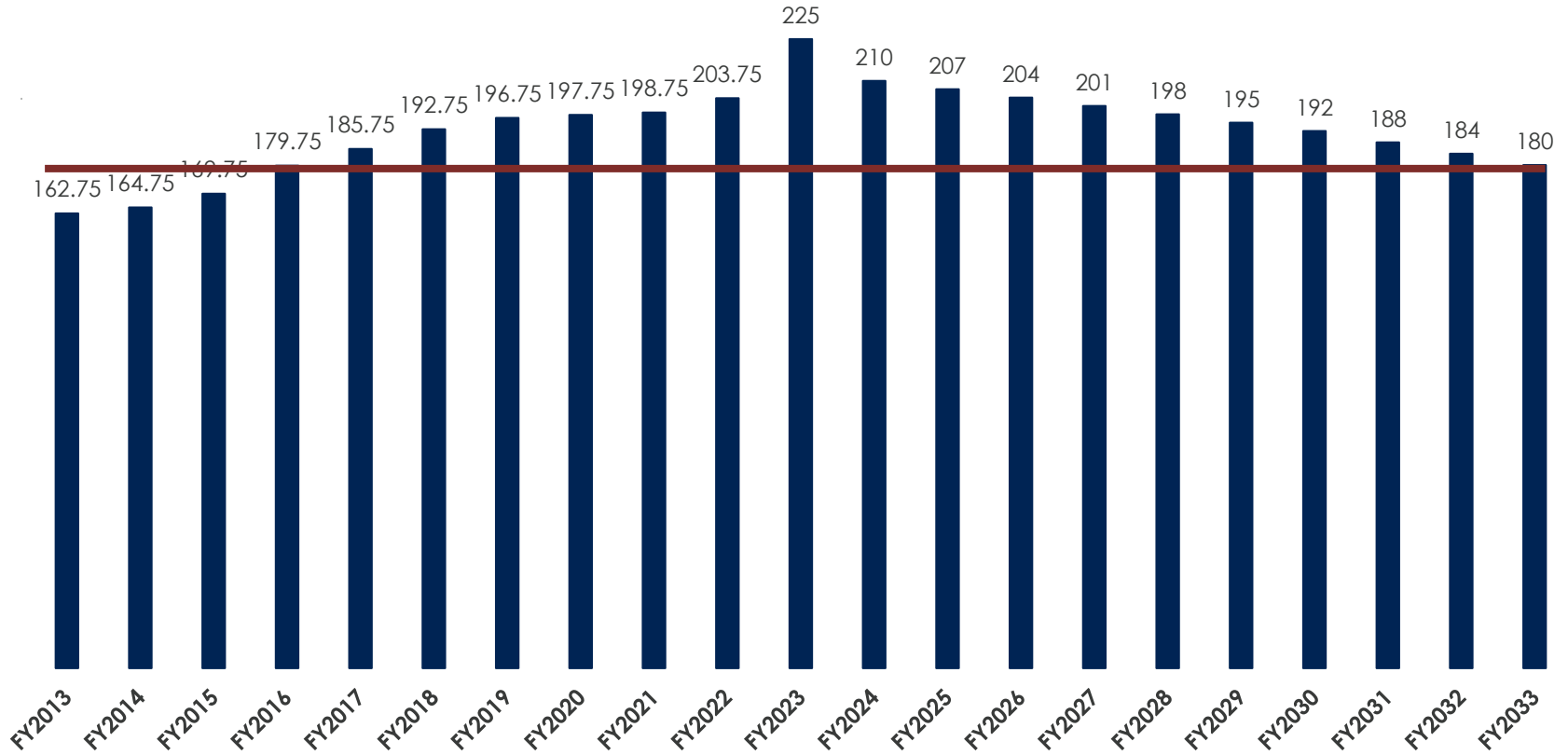
General Fund Annual Operating Surplus/(Deficit)



General Fund Revenues and Expenses



Historical and Forecasted Staffing



Fund Balance Impacts -10 Years

(\$ In millions)

	FY 2022-23	FY 2032-33	Change
General Fund			
Unassigned	53.1	-	(53.1)
Capital Projects Reserve	10.0	-	(10.0)
Section 115 Pension Trust	17.2	5.4	(11.8)
Economic Uncertainty Reserve	24.0	24.0	-
Total	\$104.4	\$29.4	\$(75.0)
Capital Project Funds (420 & 429)			
Unassigned	\$13.4	TBD	TBD

Potential Budget Balancing Strategies



Budget Balancing Strategies

Strategy	Description	Potential Impact
Section 115 Pension Trust	In FY 2017-18, the City established a Section 115 Pension Trust to mitigate pension rate volatility when CalPERS investment returns are below the discount rate or when CalPERS changes assumptions. The City can also use it to offset pension costs in any given year.	The fund has a balance of \$17.2 million. ¹
Section 115 OPEB Trust	In FY 2009-10, the City established a Section 115 OPEB Trust to help fund its retiree health obligations, also known as other post-employment benefits (OPEB). The OPEB plan is fully funded. Starting in FY 2022-23, retiree health costs will be funded by the OPEB Trust rather than the General Fund.	The fund has a balance of \$33.3 million. ¹
Capital Projects Reserve	The City has \$10 million in its Capital Projects Reserve (General Fund).	The fund is currently at \$10 million.
Economic Uncertainty Reserve	The City has \$24 million in its Economic Uncertainty Reserve (General Fund).	The fund is currently at \$24 million.

¹ As of June 30, 2022

Expenditure Reduction Strategies

Strategy	Description	Potential Impact
No new positions	Cost containment strategy	\$0
Vacancy control	Keep non-essential positions unfilled as they become vacant.	Approximately \$186,000 savings per position on average
Employee cost-sharing of increases to CalPERS	Negotiate to share costs of increases to CalPERS employer rates with employees.	Approximately \$250,000 savings approximate based on a 5% rate increase
Defer or eliminate negotiated increases	Deferring or eliminating negotiated increases would be subject to bargaining unit agreement.	Approximately \$0.3 million savings based on a 1% decrease
Furloughs	Employees would take up to a 10% decrease in pay in exchange for 1 unpaid furlough day per pay period.	Approximately \$3 million savings based on a 10% decrease
Reduction in force	Identify positions to be reduced (laid off) based on MOU provisions and service level needs.	Approximately \$186,000 savings per position on average

Expenditure Reduction Strategies

Strategy	Description	Potential Impact
Reduction in capital outlays and special projects	Cost containment strategy	Up to \$4 million
Reduction in contingencies	Cost containment strategy	Up to \$0.4 million
Defer or cancel capital projects	Cost reduction strategy	Varies
Reduction of Community Funding and Historical Society Funding	Cost reduction strategy	Up to \$110,000
Reduction of festival fee waivers	Cost reduction strategy	Varies

Revenue Generation Strategies

Strategy	Description	Potential Impact
Increase fees and cost-recovery	Matrix Consulting Group has been contracted to conduct a fee study, which is scheduled to take place from April to July 2023. The study aims to assess the potential for fee increases and cost recovery.	Varies
Sale of City-owned Properties or Assets	The sale of city-owned assets would generate one-time revenue . Some examples of assets that could be sold are: <ul style="list-style-type: none">• City Hall Annex (10445 Torre Avenue)• Byrne House• Municipal Water System• Blackberry Farm Golf Course	Varies

Revenue Generation Strategies

Strategy	Voter Approval	Additional Revenue	Pros	Cons
¼ Cent Transaction and Use Tax (TUT)	2/3 vote (special); majority vote (general)	<ul style="list-style-type: none"> \$5.2M annually 	<ul style="list-style-type: none"> Fairly proportional to surrounding areas Burden spread across residents, businesses, and visitors 	<ul style="list-style-type: none"> Not applicable to business to business sales when purchaser located outside City
Parcel Tax	2/3 vote (special)	<ul style="list-style-type: none"> \$3.5M flat rate per parcel \$3.6M variable rate per SF 	<ul style="list-style-type: none"> City can define specific purpose(s) for revenue use Flexibility in design 	<ul style="list-style-type: none"> Requires 2/3 vote Flat rate tax considered regressive
Transient Occupancy Tax (2% increase)	2/3 vote (special); majority vote (general)	<ul style="list-style-type: none"> \$1.7M @ \$10M base \$1.25M at \$7.5M base \$833k at \$5M base 	<ul style="list-style-type: none"> Paid by non-residents Historically strong approval rates in the State 	<ul style="list-style-type: none"> A 2% increase to the TOT rate would place it second to Palo Alto in the region and among the highest in the State

Potential Service Impacts and Next Steps



Examples of Potential Service Impacts

- Fewer festivals and events
- Fewer innovation and technology initiatives
- Lower pavement condition index (PCI)
- Reduced maintenance for facilities and grounds

Next Steps

- Proposed Budget available May 1st
- Proposed Budget study session May 17th
- Final Budget Adoption June 2023

Thank you!

Questions?



CUPERTINO