



Parks & Recreation System Master Plan



POTENTIAL FUNDING SOURCES

October 2018

Cupertino relies on a variety of funding resources to develop and operate its parks and recreation system. Looking forward, this Master Plan recommends many system-wide enhancements, ranging from park renovations to major new facility development, park acquisition, and added recreation programs and events. The City has a strong history of investing in parks and recreation services. Implementing the Master Plan will require increasing this investment, both by maximizing existing funding sources and identifying new ones.

This document reviews funding sources for capital projects and operations.

Park Acquisition, Development and Renovation Funding

The Master Plan identifies projects that require land acquisition, park and facility development, and renovation and enhancement at most parks in Cupertino. There is considerable flexibility in the sources that can be used for funding the acquisition and development of new park and recreation projects, and some flexibility in funding park renovations.

Existing Funding Sources

Cupertino's budget includes several accounts used for acquisition, development and renovation projects in Cupertino's parks and recreation system. Each source is detailed below with the fund name(s) that appear in the City's budget and Capital Improvement Plan (CIP). The fund description clarifies potential uses for these funds in implementing future projects.

- **General Fund.** The General Fund is the primary fund for governmental services and has the fewest limitations on uses. While the General Fund is the City's main source of operating funding, several accounts within the General Fund are used for capital improvements. The main sources of funding for Cupertino's General Fund are the property and sales taxes collected within City limits, along with franchise fees and charges for services. Some fees are collected in special funds and are not passed through the General Fund. This includes fees collected for recreation programs, which are captured in an enterprise fund.
- **Capital Improvement Fund (General Fund).** Resources for any type of capital project can be transferred to this fund, mainly from the General Fund, at the discretion of City Council in the budgeting process.
- **Capital Reserve (General Fund).** The City's Capital Reserve is intended to be used for capital improvement projects in the City. Funding for this reserve is governed by the City's "Assigned and Unassigned Fund Balance and Use of One Time Funds Policy", found in the Financial Policies and Schedules section of the City's budget documents. Per that policy, any

unassigned fund balance in the General Fund at year end over \$500,000 will be transferred to the Capital Reserve. In the 2017-18 fiscal year, the ending balance of this fund is projected at \$13.5 million, due to a large transfer in the current year. The current Capital Improvement Plan allocates most these resources over the next two years.

- **Stevens Creek Corridor Park Capital Projects.** This fund pays for the design and construction of projects within the Stevens Creek Corridor. This fund was a special purpose set-aside recognizing the significance of this set of parks. No ongoing funding is projected.
- **Park Land Dedication/In-Lieu Fees.** The Cupertino Municipal Code (Chapter 13.08) requires dedication of land or collection of equivalent fees for park or recreational purposes as a condition of approval of new dwelling units. Any land required to be dedicated and/or fees required to be paid are to be used to acquire new parkland or fund capital improvements at existing recreation and park facilities which will serve the new units. If appropriate land is not available or the development is less than 50 units, the fair market value of the required land is collected as a fee. Cupertino collects in-lieu fees based on 3 acres of land per 1,000 residents and deposits them in a special Park Dedication fund. The amount of the fee is based on a current appraisal of land value. Revenues generated through the Park Land Dedication Fee cannot be used for the operation and maintenance of park facilities.
- **Park Maintenance Fee.** Cupertino Municipal Code (Chapter 14.05) establishes a limited impact fee targeted at single lot development (new building on an existing, single parcel of land). These fees support park acquisition development, rehabilitation and maintenance of parks to off-set the impact of declining open space within the city as lots are developed. Fees are assessed in a similar manner to Chapter 13.08, based on the number of dwelling units, residents per unit and a park acreage standard of 3 acres per 1,000 people. This fee is limited to financing the acquisition and maintenance of parks and recreation facilities described or identified in the Environmental Resources Element of the General Plan.

Capital Improvement Plan

Across all departments in the City of Cupertino, the 5-year Capital Improvement Plan (CIP) for FY 2019 (adopted in June of 2018) sets aside over \$21 million to fund new and existing projects. A summary of the total existing and new projects included for funding in the five-year CIP (fiscal years 2019-2023) is presented below.

TABLE 2019-2023 CITY OF CUPERTINO CAPITAL IMPROVEMENT PLAN SUMMARY

	2019	2020	2021	2022	2023
New Projects	\$8,556,500	\$1,960,000	\$1,960,000	\$1,800,000	\$1,800,000
Existing Projects	\$1,885,000	\$280,000	\$280,000	\$280,000	\$280,000
Total	\$10,441,500	\$2,240,000	\$2,240,000	\$2,080,000	\$2,080,000

This table shows the magnitude of new projects funding in the coming fiscal year and the planning for the following four years. Funded projects and longer-term planning are heavily influenced by the current development proposals in the city, which can change within any given year.

The citywide CIP also carries over nearly \$27 million in projects that are completely funded. The new, existing and carried over projects include the following park and recreation system items:

- Lawrence-Mitty Park Master Plan
- Sports Center Upgrades
- Stevens Creek Corridor Park Chain Master Plan - McClellan Rd to Stevens Creek Blvd.
- Memorial Park Master Plan & Parking Study
- Senior Center Repairs

Note: Subsequent action by the City Council on September 18, 2018 de-funded or deferred a number of the projects in the approved 5-year CIP.

Potential New Sources and Mechanisms for Capital Projects

There are several potential funding sources for park and facility capital projects and mechanisms for land acquisition that Cupertino is not currently using (but may have in the past). Combining these sources and mechanism is a typical strategy when developing complex projects.

POTENTIAL FUNDING SOURCES

- **Expanded Park Impact Fees.** A Park Impact Fee is a funding source that supports capacity-enhancement projects to support new residential or commercial growth. These funds are authorized in Government Code §66000- 66025 (the "Mitigation Fee Act"), the bulk of which was adopted as 1987's Assembly Bill (AB) 1600 and thus are commonly referred to as "AB 1600 requirements." Currently, the City relies primarily on Municipal Code Chapter 13.08 Park Land Dedication Fee (described above), Chapter 18.24 Dedications and Reservations, and Chapter 14.05 Park Maintenance Fee to acquire and pay for new parks related to new development. The City can apply impact fees to residential, commercial or industrial development, if each has a measurable connection (or nexus) to increased park use. To establish this connection for non-residential development, pre-nexus and nexus studies with positive results would be required to establish impact fees for parks.
- **General Obligation Bond.** The City has the authority to request voter approval for general obligation bonds to finance the construction of improvements to the park system with a time-limited property tax increase. Requirements for a high threshold of approval (two-thirds of voters) makes general obligation bond tax measures challenging to pass, but the time-limited nature of these measures (the tax expires when the bonds are paid off) improves public perception in many cases. General Obligation bonds can only be used for capital improvements, not maintenance and operations.
- **Grants.** There are a variety of public and private granting agencies that fund park and recreation projects, each with its own priorities that dictate the types of projects that are eligible. These sources range from public agencies supporting environmental and water quality restoration to private foundations looking to improve health outcomes. In most cases, grant funds require a local contribution to the project and include specific project reporting protocols. For the City to proactively identify grant opportunities, dedicated staff time is needed for identifying, tracking, applying for and managing the grant process. While it is possible for a grant to cover programming or operational expenses, it is very uncommon, and grants should mainly be considered a capital funding source. Of statewide significance, the recent Parks, Environment and Water Bond (Proposition 68) passed in June of 2018 includes \$725 million in competitive grants specifically targeted at "park-poor neighborhoods." These funds will be awarded via the statewide competitive grants program.

- **Assessment District.** An assessment district is a mechanism that allows cities to assess housing units or land parcels to maintain and improve street lighting, landscaping and parks that provide a special benefit to designated areas. Assessment districts help each property owner pay a fair share of the costs of such improvements over a period of years at reasonable interest rates. This ensures that the cost will be spread to all properties that receive direct and special benefit from the improvements constructed. Establishment of a new district or revision to an existing district requires a majority vote of the property owners. Landscape and Lighting Assessment Districts (LLADs) are used by California cities to fund park capital improvements and operations. The City of Cupertino does not currently have any special districts that fund parks and recreation improvements or operations. However, the Rancho Rinconada Recreation and Park District is an independent special district in east Cupertino that owns and operates the Rancho Rinconada pool and recreation center which serves residents of the area.
- **Community Facilities District.** The Mello-Roos Community Facilities Act of 1982 allows any county, city, special district, school district or joint powers authority to establish a Mello-Roos Community Facilities District (“CFD”) to finance public improvements and services. The services and improvements that Mello-Roos CFDs can finance include parks, as well as streets, sewer systems and other basic infrastructure, police protection, fire protection, ambulance services, schools, libraries, museums and other cultural facilities. Formation of a CFD requires a two-thirds vote of residents living within the proposed boundaries. If there are fewer than 12 residents, then the vote is instead conducted of current landowners. The assessment cannot be based on property value; instead, it is based on the size of the property or square footage of structures. By law, the CFD is also entitled to recover expenses needed to form the CFD and administer the annual special taxes and bonded debt. The special assessment continues until bonds are paid off and then is typically reduced to a level to maintain the investments. The ongoing component of a CFD makes it useful for major facilities that typically require an ongoing investment in operations. Cupertino does not currently have any CFDs for parks and recreation facilities.
- **Parcel Tax.** A parcel tax is levied on each parcel, and the tax rate may vary based on features of each property other than the property value. Similar to general obligation bonds, parcel taxes require a two-thirds vote of the community. However, parcel taxes offer flexibility in funding both capital and operations, and do not expire unless established with a sunset clause. The mix of funding is typically stated in the ballot measure and is fixed for the life of the tax. In the case of the 2016 Los Angeles County parks funding measure, the tax was based on the improved square footage of each property. A parcel tax can also be based on the number of dwelling units or a flat rate per parcel. If Cupertino were interested in exploring community interest in voter-approved funding mechanisms, the feasibility of a parcel tax should be included in the investigation.
- **Community Benefits Agreement.** Real estate developers can negotiate directly with communities (or a coalition of interests) and sign a contract known as a Community Benefit Agreement (CBA) promising to deliver specific amenities or mitigations to the local community. In exchange, the community group commits to support (or at least not oppose) the project. The benefits could include either park land or built features.
- **Public-Private Partnerships.** Partnerships are formal agreements between multiple entities (often a public agency and either a community-based organization or private enterprise) to provide services, facilities, or both. These partnerships are built to access skills and resources from all partners. While the public-private variation attracts the most attention, many public-public and non-profit partnerships have greatly benefited park and recreation systems.

LAND ACQUISITION MECHANISMS

Cupertino has very little land available for park system expansion. When land can be purchased, the cost is high (valued in 2018 at \$10,000,000 per acre). There are a variety of mechanisms to explore for park land acquisition.

- **Direct Purchase or Fee Simple Acquisition.** Direct purchase is the most customary means of acquiring park land in most communities. In many cases, a public agency purchases real property from a willing seller at fair market value. A fee simple purchase transfers full ownership of the property, including the underlying title, to another party. Most of Cupertino's park land has been acquired through fee simple acquisition.
- **Easement.** An easement is a partial interest in real property. Easements are especially applicable in situations where the landowner is not interested in selling their land but is willing to place an easement on the property to dedicate the land for a specific purpose, in this case typically for park, recreation, conservation or trail purposes. The terms of an easement agreement are negotiated between the private landowner and the public agency to tailor the easement to needs of each party. Easements may be acquired by direct purchase or by donation. In park systems, easements are most typically seen for trail connections or for conservation purposes. Easements may be suitable for planned trail corridors where outright property acquisition is not desirable or feasible.
- **Real Property Donations.** A willing property owner may give real property or grant an easement as a donation to a public agency or a non-profit organization. In some cases, a property owner may agree to sell the property at less than fair market value. The property owner is paid for part of the value of the property and donates the remaining value, receiving tax benefits for the donation. To maximize the benefit (and attractiveness) of this mechanism, Cupertino would need a non-profit entity to accept the donation and provide the tax receipt. This could be a parks-specific or community foundation. The Trust for Public Land, land trusts and other organizations may also be able to play this role.
- **Life Estate.** In some cases, a property owner may donate or sell real property to a public agency but retain a life estate, through which they retain the right to use the property for the duration of their life.
- **Land Swap.** A land swap is a simultaneous, mutual transfer of real property between willing parties.
- **Long Term Lease.** A lease is a legal agreement granting the use of a property in exchange for payment for a specified length of time. For parks and recreation purposes, the payment may be nominal (e.g., \$1 per year) and the term is often long (such as 99 years).
- **Property Dedication.** Dedication of real estate is a required donation of real property to a government for a public purpose, typically resulting from a land use or entitlement process. For example, cities sometimes require a property owner to dedicate right-of-way to widen a street or park land as part of a subdivision process.
- **Conditions of Approval.** Public agencies can require public use in some cases as a condition of approval of a land use action. Sometimes, public use is provided through dedication or easement to a public agency, and sometimes the private property owner retains ownership but must provide public access. San Francisco's Privately Owned Public Open Spaces are an example of this.
- **Land Trust.** A land trust is an agreement through which one party (the trustee) agrees to hold ownership of a piece of property for the benefit of another party (the beneficiary). A land trust can also be a private nonprofit organization that as all or part of its mission actively works to protect land, often for conservation or affordable housing purposes.

- **Community Benefits Agreement.** As noted, real estate developers can negotiate directly with communities (or a coalition of interests) and sign a contract known as a Community Benefit Agreement (CBA) promising to deliver specific amenities or mitigations to the local community, which can include park land.

OPERATING FUNDS

In addition to funds for capital projects, the City of Cupertino will need additional funds to maintain, operate, program and manage parks, facilities, programs and events. The City of Cupertino budgeted over \$22 million in 2018-19 to provide parks and recreation services for the community, not including capital improvements. This includes \$17,442,432 in funds tied to Recreation and Community Services. Along with another \$4,530,150 for grounds maintenance (within the Public Works Department's budget).

Existing Sources of Operating Funding

Cupertino's parks and recreation services are funded primarily through city taxes and user fees for facilities and programs. User fees include everything from facility rentals to program fees. A comprehensive fee schedule is updated and adopted each year by resolution of the City Council.

The City's budget includes funds for park and recreation operations in several accounts:

GENERAL FUND

- **General Fund.** Resources for the Recreation and Community Services Department are primarily from the General Fund. Funding for the maintenance of parks and recreation facilities is also designated from the General Fund to the Public Works Department. The General Fund, the City's primary source of operating funding, is a limited pool of resources that funds all City services, not just parks and recreation.

ENTERPRISE FUNDS

- **Blackberry Farm Golf Course Fund.** This fund pays for operating costs related to the Blackberry Farm Golf Course. Revenues are collected as fees from users of the golf course. While Blackberry Farm generates a substantial number of users and user fees, this fund is only for golf course operations.
- **Sports Center Fund.** This fund pays for operating costs related to the Sports Center. Revenues are collected as fees from users of the Sports Center.
- **Recreation Programs Fund.** This fund pays for operating costs related to the City's community centers and park facilities. Revenues are collected as fees for recreation programs at the City's community centers and park facilities.

Potential Expanded and New Sources for Operations and Services

There are fewer sources of operating funding available for parks and recreation services, and securing ongoing sources committed to parks and recreation will be challenging. Options to expand existing sources of operations funding and identify new sources are noted below.

- **Increased General Fund Support.** The Recreation & Community Services Department could make a case to increase General Fund support for parks maintenance, programming and events. The City could make the case for increasing General Fund support in a variety of ways. First, park and facility maintenance needs will increase as new project are brought

online. Second, community priorities for enhanced recreation opportunities and programming services were noted in outreach activities. Third, there are many citywide benefits associated with parks and programs. For example, the health benefits of parks, trails, recreation programming and natural spaces provide a substantial (although indirect) financial benefit in the off-setting of public and private health care costs. The proper maintenance of park sites has been shown to maintain and increase surrounding property values, one of the tax bases that the General Fund relies on. Further, the attraction value of park and recreation events and programming draw visitors who support the sales tax base. Park lands and recreation services also reduce the cost of other critical City services, such as water retention/treatment and crime prevention.

It is possible, though not necessarily simple, to increase General Fund support for parks and recreation services through lesser known mechanisms, including the following.

- **Utility User Tax (UUT).** California cities can, with voter approval, levy a tax on utilities such as electricity, gas, water, sewer, telephone (including cell phones and long-distance services), sanitation, and cable television. The rate of the tax and the use of revenues is determined by the City. The revenues are most often used for essential services, including police, fire, streets, and parks. Cupertino currently levies 2.4% on telecommunications, electricity and gas. This falls in the low range for California cities with UUTs (average is around 5%). Majority voter approval is needed to increase an established UUT. Expanded UUTs could expand the resources to the General Fund, potentially allowing more non-UUT funds to be allocated to parks and recreation.
- **Hotel Tax (Transient Occupancy Tax).** Taxes on people staying less than 30 days in a city help support public services and facilities that make an area a good destination for business or vacation travel. Many cities use Hotel Taxes to pay for park improvements. In 2011, Cupertino increased the hotel tax from 10% to 12% to ensure funding for general city services, including library services, neighborhood police patrols, rapid 9-1-1 emergency response times, city street maintenance, current levels of police officers and school traffic safety and crossing guards. Parks and recreation services do not receive TOT funds at this time.
- **Increased Enterprise Fund Revenues.** The City of Cupertino uses three enterprise funds to track the revenues and expenditures associated with key areas of service (Blackberry Farm Golf Course, the Sports Center and Recreation Programs). Additional resources could be generated within these funds by increasing fees or adding revenue generating services and concessions.
- **Expanded User Fees.** Currently, over \$6 million is generated from charges for services (user fees) in the Recreation and Community Services budget. Some of these fees are accrued to one of the three enterprise funds, but some are accrued to the Recreation and Community Services General Fund budget. This Master Plan recommends defining a fee philosophy, methodology and cost recovery goals for fees and charges for programs and services, as well as re-evaluating options for park and facility rentals to improve customer service but also generate more revenues. While some programs benefit only individuals and some services are premiums on top of the essential park and recreation experience, price increases across the board can limit access to key community services and reduce use of parks and programming.
- **Assessment District.** As previously described, an assessment district is a mechanism that allows cities to assess housing units or land parcels for amenities that provide a special

- benefit to designated areas. A Landscape and Lighting Assessment District can fund operations as well as capital improvements.
- **Community Facilities District.** CFD's are described in the capital section above. One of the important features of a CFD is the ability to designate a portion of the funding for operations and maintenance of facilities.
 - **Parcel Tax.** The details of parcel taxes are included in the capital section. Like some other special taxes, a portion of the revenue can be designated for operational purposes. It is important to note that parcel taxes do not necessarily include an expiration date but often do to increase the appeal to voters.
 - **Operating Levy.** Cities can levy additional taxes (primarily sales taxes) to fund operations and can choose to target these requests to specific areas or programs. As with other special taxes in California, a super-majority (2/3rds of voters) is required to pass the measure. The high standard of approval has limited this method to only the most popular of purposes.
 - **Public-Private Partnerships.** Some partnerships have strong potential for operating parks and recreation facilities and services. Many cities have partnered with non-profit organizations, such as the YMCA, to operate facilities on city-owned land. Other types of partner entities can take on management of an entire site or program, such as Cupertino's relationship with Audubon at McClellan Ranch Preserve.
 - **Sponsorships.** The City may solicit sponsors who are willing to pay for advertising, signage, facility naming rights, etc., generating funds to support operations. In addition, sponsors are often sought to support a particular event or program, such as a concert or movie series.
 - **Concessions.** Food, beverage and merchandise vendors or concessionaires that operate restaurants, coffee kiosks, rentals of equipment (such as bicycles or games) or provide other revenue-generating facilities or services in parks can also generate excess revenues to support the park system. The City can establish contracts with vendors and concessionaires for these services. In some cases, concessions can generate revenue for the agency.