



CITY COUNCIL STAFF REPORT

MEETING DATE: April 29, 2025

ITEM TITLE: Receive a Presentation and Provide Direction on the Recommended Two-Year Operating Budget for the Fiscal Years 2025-27.

RECOMMENDATION:

Staff recommend that the City Council review staff's recommendations for a balanced fiscal year (FY) 2025-27 operating budget and provide policy direction with respect to the preparation of a budget document for consideration at the June 9, 2025 City Council Meeting.

FISCAL IMPLICATIONS:

In developing the base budgets for the FY 2025-27 budget, staff made a number of revenue and expenditure assumptions. All of these assumptions were based on the projections and economic conditions known between January and March 2025, and reflect the adjustments approved by the City Council during the current fiscal year.

Due to economic uncertainties, staff projects use of a small amount of the City's unassigned fund balance in both FY 2025-26 (\$500,000) and FY 2026-27 (\$750,000) to help balance the budget. This will also give staff and the Council time to reflect on more longer-term changes to balance the budget in future years, if needed. Tariffs implemented in April 2025 have created uncertainty among businesses and investors, leading to a multi-trillion stock market sell-off over the past few weeks. These tariffs, which target approximately 60 countries, have led to retaliatory measures, including China's suspension of critical exports to the U.S., potentially impacting consumer prices and economic growth. Prominent financial leaders, including Goldman Sachs CEO David Solomon and Bridgewater's Ray Dalio, have expressed concerns that these trade policies could increase the likelihood of a U.S. recession.

As discussed further in this report, declines in sales tax, transient occupancy taxes and vehicle in lieu shortfalls at the county level have reduced the City's budget revenue estimates by \$3 million. It is possible that continued slowing of bio-technology construction could reduce our development revenues as well. The next few months could be pivotal, and we may need to revisit some of our expenditure assumptions as early as the next fiscal year.

BACKGROUND:

THE OPERATING BUDGET PROCESS

City departments were provided with a base budget for FY 2025-27 that included estimated increases in personnel costs, increases related to existing professional services contracts, and inflationary increases for operational expenditures. The current year revised budget and projections were also provided.

The Assistant City Manager, Administrative Services Director, and the Financial Services Manager met with each department individually to discuss and finalize the recommended budget options to be submitted for the Council's consideration during the budget study session.

ANALYSIS:

RECOMMENDED CHANGES TO THE FISCAL YEAR 2025-27 OPERATING BUDGET

General Fund

There are some new programs and/or funding requests that have been incorporated into the recommended budget.

A summary of these recommendations is listed below by department. Additional detail can be found in the attachments to this staff report.

Department	Request	FY 2025-26	FY 2026-27
City Council	Continue Grant Funding for Community Foundation	\$ 40,000	\$ 40,000
City Council	Three Year Funding Commitment to OneShoreline	40,000	40,000
Sheriff's Office	Six Additional ALPRs - paid by trust no cost to GF	-	-
Public Works	Reclassify PW Inspector to Assistant Engineer	14,800	15,100
Parks and Recreation	Add Recreation Supervisor to oversee add'l programs	170,000	178,600
TOTAL OPERATING INCREASES TO GENERAL FUND		\$ 264,800	\$ 273,700

The staff-recommended operating additions to the base budget total \$264,800 in FY 2025-26 and \$273,700 in FY 2026-27.

PROPOSED FISCAL YEAR 2025-27 BUDGET

The FY 2025-27 budget includes 16 different funds. Rather than discuss the status of each of these funds in this report, the budget summary is grouped into five categories: General Fund; Wastewater (Sewer); Other Revenue Funds; Other Operating; and Capital Project Funds. The following table identifies the total proposed expenditures by category, in which the Citywide appropriations for FY 2025-26 total \$129.3 million and for FY 2026-27 total \$122.3 million.

CITYWIDE BUDGET – ALL FUNDS				
Expenditures	2024-25 Revised	2024-25 Projected	2025-26 Proposed	2026-27 Proposed
General Fund	\$ 62,107,540	\$ 59,932,970	\$ 66,938,825	\$ 69,779,345
Wastewater (Sewer) Fund	25,091,651	24,756,851	29,002,800	26,122,800
Other Revenue Funds	3,570,959	3,570,959	306,900	316,000
Total Operating Funds	\$ 90,770,150	\$ 88,260,780	\$ 96,248,525	\$ 96,218,145
Other Program Funds	5,080,500	4,941,509	3,984,900	4,266,100
Capital Improvement Funds	74,664,757	61,385,297	29,037,353	21,801,794
Total Citywide Budget	\$ 170,515,407	\$ 154,587,586	\$ 129,270,778	\$ 122,286,039

GENERAL FUND BUDGET

The General Fund is the primary operating fund of the City and is used to account for most day-to-day activities. Revenue sources include, but are not limited to, property tax, sales tax, transient occupancy tax, current fees for services, and business registration.

The tables to follow compare the current fiscal year budget and projections to the FY 2025-26 and FY 2026-27 proposed budgets. The assumptions and recommendations are included in each of the sections following the table.

Recommended Budget Revenue

GENERAL FUND REVENUES				
	2024-25 Revised	2024-25 Projected	2025-26 Proposed	2026-27 Proposed
Business Registration	\$ 1,316,600	\$ 1,370,800	\$ 1,368,700	\$ 1,422,800
Charges For Current Services	5,167,550	6,575,600	6,618,400	6,816,800
Fines & Forfeitures	328,700	164,300	168,600	173,600
From Other Agencies	11,600	88,200	12,000	12,400
Licenses & Permits	2,667,500	3,278,700	3,213,500	3,309,900
Other Revenue	834,400	995,250	749,000	772,200
Other Taxes	2,121,400	2,274,000	2,276,400	2,344,700
Property Taxes	19,464,800	19,570,400	20,970,400	22,151,800
Sales Tax	13,330,670	11,662,600	12,519,200	12,925,800
Transient Occupancy Tax	4,468,000	4,000,000	4,350,000	4,619,500
Use Of Money & Property	3,234,700	3,654,600	4,814,200	4,842,200
PAMF Project	890,170	890,170	912,400	935,200
Vehicle In Lieu	3,407,000	4,536,900	3,611,400	3,828,100
Total Revenue	\$ 57,243,090	\$ 59,061,520	\$ 61,584,200	\$ 64,155,000

Fiscal Year 2025-26 Revenue Assumptions

Total General Fund revenue is budgeted at \$61.58 million, an increase of 7.6% from the FY 2024-25 revised budget. The majority of the increases are described below.

- **Business Registration.** The revenue amount is budgeted to increase by 4%, or \$0.05 million, from the FY 2024-25 revised budget, which is in line with the increase specified in the City's Municipal Code.
- **Charges for Current Services.** The increase of \$1.45 million, or 28.1%, is primarily due to the timing of plan check services related to development and the expansion of Parks and Recreation programming and special event revenues. While this is a large increase from the revised budget, the proposed revenues are only 0.7% higher than the projected FY 2024-25 revenues. The FY 2025-26 budget assumes development fee revenue based on an average of actual revenue received over the past four years. These fees are typically pass through revenues and have a corresponding expense for professional consulting and technical experience necessary to facilitate these projects. Due to the uncertainty at the federal level related to drug approvals and funding, it is possible that we could see a slowdown in the biotechnology development that has been planned for the east side of the city.

- **Fines and Forfeitures.** Budgeted at \$0.17 million, or 48.7% less than FY 2024-25 revised budget. While this is a large decrease from the current budget, it is a 2.6% increase over the FY 2024-25 projections. This revenue had been budgeted higher than what has been received for a few years. The proposed budget resets the revenue to average collections received.
- **From Other Agencies.** Budgeted at \$0.01 million, which is approximately the same level as the FY 2024-25 revised budget. This revenue is from grant reimbursements which can fluctuate from year to year depending on availability.
- **Licenses and Permits.** The increase of \$0.55 million, or 20.5%, is primarily based on the projected timing of development project permits for building, electrical, plumbing, and mechanical permits in the past year. While this is a large increase from the current budget, it is a 2% decrease from the FY 2024-25 projections. The timing of when developers pull their permits can vary and as such, this category can fluctuate greatly from year to year. The license and permit revenue for large projects typically lags several months or even years from the timing of plan check, as it takes longer to review these projects. The revenue has been projected based on the average collections over the last four years.
- **Other Revenues.** These mainly include cost reimbursements from agencies such as the City and County Association of Governments for financial services and the school district for school sports field maintenance. It also includes donations, sponsorships, and other miscellaneous receipts. Revenue is budgeted to decrease by \$0.85 million, or 10.2%, primarily due to the elimination of sponsorships for the Farmers Market, since we outsourced that program, and other miscellaneous cost recovery reductions.
- **Other Tax (franchise tax).** The revenue is budgeted to increase by \$0.16 million, or 7.3%, from the FY 2024-25 revised budget. Although this is a large increase over the FY 2024-25 revised budget, it is only an increase of 0.1% over the projected revenues and is in line with projected inflationary increases.
- **Property Tax.** The 7.7% increase in the budget to \$20.97 million is based on the general assessment rolls and information provided by the City's third-party consultants. The primary reason for the increase is due to increases in the property tax assessment rolls to account for changes in property ownership and tenant improvements. The assessment rolls increased \$1.11 billion, or 7.2%, over the prior fiscal year.
- **Sales Tax.** The decrease of \$0.81 million, or 6.1%, is based on information from third-party consultants. Uncertainties with the economy, tariffs and interest rates are expected to reduce discretionary spending among consumers. The building and construction sector is typically San Carlos' largest sales tax producer. Tariffs on lumber, steel, and aluminum combined with impacts to the workforce are expected to reduce the City's revenue. The proposed budget projects revenues back to 2022 and 2023 levels.
- **Transient Occupancy Tax.** The decrease of \$0.12 million, or 2.6%, is based on information from third-party consultants. Although the hotel industry began to rally in FY 2021-22 following the COVID-19 pandemic, the industry has not yet returned to historical occupancy as business travel has not yet fully returned to pre-pandemic rates.
- **Other Uses of Money and Property.** This includes digital billboards, rental properties, and investment income. The increase of \$1.6 million is due to the inclusion of the fourth digital billboard and the timing of cash disbursements and the allocations of the total

investment portfolio amongst all the funds. At the end of each quarter, investment income is allocated based on the percentage of cash in each fund. The amount of allocation can change from year to year based on the total cash balance held in each fund.

- **PAMF Target Revenue.** The increase of \$0.02 million is based on the terms of the Development Agreement.
- **Vehicle in-Lieu.** The revenue increase of \$0.20 million, or 6.0%, is based on the information from the County Controller's Office. In FY 2004-05, Senate Bill 1096 was enacted which redirected Motor Vehicle License Fees ("VLF") collected by the Department of Motor Vehicles from the cities and counties to the state. To make the cities and counties whole, the legislation specified cities would be "backfilled" for this revenue by the County as a "property tax in lieu" payment rather than being paid directly by the state. The County has told us that if the "backfilled" amount exceeds a certain limit, there will not be enough money to fully cover the amount owed. As a result, San Mateo County has experienced a countywide shortfall in prior years. The projected shortfall for San Carlos is approximately \$2 million per year. The FY 2024-25 projection includes a one-time repayment of this revenue in the amount of \$1.37 million from FY 2022-23.

Fiscal Year 2026-27 Revenue Assumptions

Total General Fund revenue is budgeted at \$64.16 million, an increase of 4.2% from the FY 2025-26 proposed budget.

- **Business Registration.** The revenue is budgeted to increase in year two of the budget by 4.0%, or \$0.05 million, from the FY 2025-26 proposed budget. The increase is based on the annual percentage increase specified in the City's Municipal Code.
- **Charges for Current Services.** Revenues are projected to increase by \$0.20 million, or 3.0%, due to the continued demand for recreation services and the timing of large development plan check activities. As noted above, the timing of large-scale development projects can cause this category to fluctuate from year to year. There may be more projects on the horizon that would increase this revenue stream, which will be adjusted during the mid-cycle budget review.
- **Fines and Forfeitures.** The revenue is proposed at \$0.17 million, which is approximately the same level as the proposed FY 2025-26 budget.
- **From Other Agencies.** Revenues are projected to be at the same levels as the proposed FY 2025-26 budget.
- **Licenses & Permits.** Revenue is projected to increase by \$0.1 million, or 3.0%. Similar to the current charges for services, this revenue stream can be largely impacted by the timing of large-scale development projects.
- **Other Revenue.** Revenue is projected to increase by \$0.02 million, or 3.1%, mostly due to estimates in cost recovery assumptions based on the consumer price index.
- **Other Tax (franchise tax).** The revenue is primarily based on trend data from the past fiscal years.

- **Property Tax.** The revenue is projected to increase \$1.18 million, or 5.6%, from the FY 2025-26 projected budget. This continues to assume the growth in the assessment rolls associated with the large-scale development projects on the east side of the city. Staff continues to work closely with consultants to project and monitor this revenue.
- **Sales Tax.** The revenue is projected to increase by \$0.41 million, or 3.3%, as a result of assumed inflationary increases. This revenue is reviewed quarterly with third-party consultants and is adjusted based on current and projected activity.
- **Transient Occupancy Tax.** The revenue is expected to grow by \$0.27 million, or 6.2%, and assumes a rise in occupancy rates associated with business and residential travel.
- **Other Uses of Money and Property.** The revenue increase of \$0.03 million, or 0.6%, assumes the same interest income fund balance allocation as the prior year.
- **The PAMF Target Revenue.** The budget is based on the terms of the Development Agreement.
- **Vehicle in-Lieu.** Revenue is budgeted to increase by \$0.22 million, or 6.0%, based on information received from the County Controller's Office. While noted as an increase from the prior year budget, it is still \$2 million short of what should be received.

Recommended Budget Expenditure Assumptions

GENERAL FUND EXPENDITURES				
	2024-25 Revised	2024-25 Projected	2025-26 Proposed	2026-27 Proposed
Operating Budget Expenditures				
Salaries & Benefits	\$ 21,169,055	\$ 19,759,925	\$ 23,365,625	\$ 24,259,625
Legacy Obligations	3,797,500	3,806,000	4,223,800	4,886,600
Operating Expenditures	36,952,285	36,258,345	39,155,000	40,432,820
Capital Outlay	188,700	108,700	194,400	200,300
Total Operating Expenditures	\$ 62,107,540	\$ 59,932,970	\$ 66,938,825	\$ 69,779,345

Fiscal Year 2025-26 Expenditure Assumptions

The total General Fund expenditure amount is budgeted at \$66.94 million, an increase of 7.8% from the FY 2024-25 revised budget expenditures of \$62.11 million. As discussed above, the increase in expense includes the requested program and position changes.

- **Salaries and Benefits.** Projections have been funded at 100% based on all current Memorandum of Understanding (MOU) provisions with each of the City's labor groups and units.
 - **CalPERS pension retirement rates.** On March 10, 2025, the City Council approved a Resolution authorizing the transfer of \$4 million from the Unfunded Liability Reserve to Pay down the CalPERS Unfunded Accrued Liability. The reserve was established several years ago to help offset the costs of pension and pension liabilities. The reserve was created from prior years' surpluses which are typically generated from salary and benefit savings from vacant positions. The paydown in the amount of \$4 million is anticipated to generate projected operating savings of approximately \$400,000 per year, which has been factored into this proposed budget.

- **CalPERS medical rates.** Assumes the rates will continue to increase by approximately 10% per year.
- **Other Post-Employment Benefits (OPEB).** These have been funded at approximately \$977,000 based on information received from the actuarial study completed in 2024. The budget represents funding for our retiree medical trust at 100% of the annual required contributions.
- **Legacy Obligations.** These obligations represent CalPERS unfunded obligations associated with the former Belmont-San Carlos Fire Joint Powers Authority (“JPA”) and the former police department. The budget associated with the former JPA represents our 52.9% share of the annual unfunded liability, or approximately \$2.3 million. The annual unfunded obligation associated with the former police department is approximately \$1.9 million. As done in prior years, the payment related to the former police department will be credited back to the City by the County Sheriff’s Office under the current law enforcement services contract.
- **Operating Expenditures.** Increased by 6.0%, with overall professional services increasing for known contract arrangements and anticipated needs. In addition to professional services, the operating expenditures include utilities, office and field program supplies, equipment leases, maintenance, and training.
- **Capital Outlay.** Increased by 3.0% for assumed capital outlay needs and an inflationary factor.

Fiscal Year 2026-27 Expenditure Assumptions

The total General Fund expenditure is budgeted at \$69.78 million for ongoing expenditures, an increase of 4.2% from the FY 2025-26 proposed budget.

- **Salaries and Benefits.** Expenditures for the FY 2026-27 are proposed to be 3.8% higher than the proposed FY 2025-26 budget, taking into account the projected increases in CalPERS retirement rates, the medical rates, and the OPEB contributions.
- **Legacy Obligations.** These proposed expenses are budgeted to increase by \$0.66 million, or 15.7%, over the FY 2025-26 proposed budget based on the remaining legacy obligations with CalPERS.
- **Operating Expenditures.** Increase by 3.3%, with overall professional services increasing for known contract arrangements and anticipated needs. In addition to professional services, the operating expenditures include utilities, office and field program supplies, equipment leases, maintenance, and training.
- **Capital Outlay.** Increased by a 3% inflationary factor.

General Fund Recommended Budget Summary

The table to follow summarizes the current fiscal year revised budget and projections and the inclusion of all staff recommended additions for the FY 2025-27 General Fund budget.

GENERAL FUND BUDGET				
	2024-25 Revised	2024-25 Projected	2025-26 Proposed	2026-27 Proposed
Est Beginning Fund Balance				
Unrestricted	\$ 2,729,714	\$ 2,729,714	\$ 2,003,841	\$ 1,355,320
Restricted	56,255,323	56,255,323	51,530,846	38,700,841
Est Beginning Fund Balance	\$ 58,985,037	\$ 58,985,037	\$ 53,534,687	\$ 40,056,161
Revenues	\$ 57,243,090	\$ 59,061,520	\$ 61,584,200	\$ 64,155,000
Salaries & Benefits	24,966,555	23,565,925	27,589,425	29,146,225
Operating Expenses	36,952,285	36,258,345	39,155,000	40,432,820
Capital Outlay	188,700	108,700	194,400	200,300
Net Allocations/Transfers In (Out)	4,271,100	4,271,100	4,975,100	5,115,700
Total Change in Operating Funds	(593,350)	3,399,650	(379,525)	(508,645)
Net Transfers to Capital Fund 25	(4,850,000)	(4,850,000)	(13,099,000)	(7,000,000)
Paydown of Unfunded balance	(4,000,000)	(4,000,000)	-	-
Net Change in Fund Balance	\$ (9,443,350)	\$ (5,450,350)	\$ (13,478,525)	\$ (7,508,645)
Est Ending Fund Balance				
Unrestricted	\$ 4,029,006	\$ 2,003,841	\$ 1,355,320	\$ 1,282,787
Restricted	45,512,681	51,530,846	38,700,841	31,264,730
Est Ending Fund Balance	\$ 49,541,687	\$ 53,534,687	\$ 40,056,161	\$ 32,547,517

The fully funded staff and Council recommended budget results in unrestricted fund balances for FY 2025-26 and 2026-27 at approximately \$1.36 million and \$1.28 million, respectively. These balances are projections, and the savings achieved throughout the years will increase these balances accordingly.

As done in prior years, included in the FY 2025-26 and 2026-27 budgets are recommendations to transfer capital reserves from the General Fund to the Capital Projects Fund (Fund 25). The recommended transfer amount for FY 2025-26 is \$13.1 million and for FY 2026-27 is \$7.0 million. These transfers are necessary to fund improvements of City infrastructure, facilities, and other capital needs.

WASTEWATER (SEWER) FUND BUDGET

The Wastewater, or Sewer, Fund is used to account for sewage treatment, transmission, major replacements, and improvements to the City's sewer system. Revenues received can only be used to fund sewer-related projects. The table below summarizes the current year's revised budget and projections and the FY 2025-27 proposed budgets for the Wastewater Fund (Fund 0006).

WASTEWATER (SEWER) FUND BUDGET				
	2024-25 Revised	2024-25 Projected	2025-26 Proposed	2026-27 Proposed
Est Beginning Fund Balance	\$ 89,619,427	\$ 89,619,427	\$ 85,103,476	\$ 79,568,776
Revenues	\$ 27,746,000	\$ 24,469,000	\$ 28,897,800	\$ 28,743,100
Salaries & Benefits	2,614,200	2,279,400	2,827,200	2,934,500
Operating Expenses	4,793,200	4,793,200	6,206,300	6,071,900
Debt Service	6,401,600	6,401,600	4,692,000	4,690,000
Adjustment to SVCW Investment				
Capital Project Expenditures	11,282,651	11,282,651	15,277,300	12,426,400
Net Allocations/Transfers In (Out)	(4,228,100)	(4,228,100)	(5,429,700)	(5,603,200)
Net Change in Fund Balance	\$ (1,573,751)	\$ (4,515,951)	\$ (5,534,700)	\$ (2,982,900)
Est Ending Fund Balance				
Restricted	\$ 88,045,676	\$ 85,103,476	\$ 79,568,776	\$ 76,585,876
Est Ending Fund Balance	\$ 88,045,676	\$ 85,103,476	\$ 79,568,776	\$ 76,585,876

Below are the highlights of the assumptions used in developing the FY 2025-27 Proposed Wastewater budget.

- **Revenues.** Budgeted at \$28.9 million, this represents an increase of \$1.2 million, or 4.2%, over the revised FY 2024-25 budget and includes the sewer rate increases of 3% as previously approved by the City Council and sewer impact fees anticipated from large-scale development projects. Revenues are used to fund the capital improvements outlined in the City's Sewer Master Plan. Revenues are also used to fund the debt service associated with Silicon Valley Clean Water's (SVCW) improvements to wastewater treatment infrastructure. The proposed amount for FY 2026-27 is projected to decrease by 0.5% compared to the FY 2025-26 proposed budget primarily due to the one-time connection fees in FY 2025-26.
- **Salaries and Benefits.** Budgeted amounts are based on all known MOU provisions and the additional funding for the post-employment benefits, similar to the General Fund.
- **Silicon Valley Clean Water ("SVCW").** Plant operations are budgeted at \$5.3 million, or 35%, higher than the prior year. The budget is based on the Long Range Financial Plan provided by SVCW in January 2025 and the SVCW Adopted Budget that was approved by the SVCW Board in February 2025. FY 2025-26 expenditures include an additional \$0.5 million to increase reserves for capital expenditures. The proposed budget for FY 2026-27 is projected to be \$5.2 million, as it doesn't include as large of a reserve payment.
- **Other Operating Expenditures.** Budgeted at \$0.9 million for FY 2025-26 and FY 2026-27, this is relatively the same level as the FY 2024-25 revised budget. This expenditure category also includes utilities, field program supplies, office supplies, equipment maintenance, and training.
- **Bond Payments.** Budgeted at \$4.7 million, or \$1.7 million lower than the prior year. This category includes the debt service payments and the estimated State Revolving Fund ("SRF") loans. The debt service payments are directly tied to the timing of the bond issuance and the payments on the SRF loans used for capital infrastructure at the sewer treatment facility. FY 2025-26 no longer includes the cash in lieu payment in the amount of \$2.1 million that was required to be paid in FY 2024-25. The proposed amount for FY 2026-27 is flat compared with the proposed FY 2026-27 budget.

- **Capital Projects.** Budgeted at \$15.3 million and \$12.4 million for FY 2025-26 and FY 2026-27, respectively. Additional detail on the capital projects has been included in the staff report for the Capital Improvement Program Budget recommendations.

OTHER REVENUE FUNDS BUDGET

The Other Revenue Funds are used to account for revenue sources for which expenditures are restricted by law or administrative action to specific purposes. The Other Revenue Funds include National Pollutant Discharge Elimination System ("NPDES") (Fund 0015), and the Police Grants (Fund 0017).

The table below summarizes the current year's revised budget and projection and the FY 2025-27 proposed budget for the Other Revenue Funds. The Library Tenant (Fund 0095) will be closed at the end of FY 2024-25 following the early payoff of the General Obligation Bond for the construction of the library and is therefore not included in the table below.

OTHER REVENUE FUNDS BUDGET				
	2024-25 Revised	2024-25 Projected	2025-26 Proposed	2026-27 Proposed
Est Beginning Fund Balance	\$ 1,208,763	\$ 1,208,763	\$ 1,188,763	\$ 950,563
Revenues	\$ 906,800	\$ 935,900	\$ 921,700	\$ 935,600
Operating Expenses	298,100	298,100	306,900	316,000
Net Alloc/Transfers In (Out)	(657,800)	(657,800)	(853,000)	(875,800)
Net Change in Fund Balance	\$ (49,100)	\$ (20,000)	\$ (238,200)	\$ (256,200)
Est Ending Fund Balance	\$ 1,159,663	\$ 1,188,763	\$ 950,563	\$ 694,363

Below are the highlights of the assumptions used in developing the proposed FY 2025-27 Other Revenue budgets.

- **Revenues.** Budgeted to increase by \$0.01 million, or 1.6%, in FY 2025-26 and then increase by \$0.01 million, or 1.5%, in FY 2026-27. The main revenue source for the NPDES fund is the NPDES fees collected through the County of San Mateo. The revenue for the Police Grant fund is the Citizens' Option for Public Safety (COPS) program.
- **Operating Expenditures.** These include: utilities; field program supplies; annual permit renewal from the Bay Area Air Quality Management District; equipment maintenance; and motorcycle law enforcement. The proposed expenditures for both FY 2025-26 and FY 2026-27 remain relatively flat.
- **Net Allocations and Transfers.** FY 2025-26 and FY 2026-27 reflect additional transfers from the Police Grant Fund to the General Fund to help pay for the Downtown Services Unit.

OTHER PROGRAM FUNDS

The Other Program Funds are used to account for special activities and services performed by a designated department for other departments on a cost reimbursement basis. The Other Program Funds include: Workers Compensation (Fund 0032); General Liability (Fund 0033) and Post-Employment Benefits (Fund 0035). The Library Tenant Debt Service Fund (Fund 0093) will be closed at the end of FY 2024-25 following the early payoff of the General Obligation Bond for the construction of the library and is therefore not included in the table below

OTHER PROGRAM FUNDS				
	2024-25 Revised	2024-25 Projected	2025-26 Proposed	2026-27 Proposed
Est Beginning Fund Balance	\$ 1,553,950	\$ 1,553,950	\$ 1,312,542	\$ 1,533,642
Revenues	\$ 1,219,200	\$ 1,275,300	\$ 1,198,300	\$ 1,233,100
Operating Expenses	3,574,600	3,435,609	3,983,900	4,265,100
Capital Outlay Expenditures	1,000	1,000	1,000	1,000
Net Allocations In (Out)	1,919,900	1,919,900	3,007,700	3,114,000
Net Change in Fund Balance	\$ (436,500)	\$ (241,409)	\$ 221,100	\$ 81,000
Est Ending Fund Balance	\$ 1,117,450	\$ 1,312,542	\$ 1,533,642	\$ 1,614,642

Below are the highlights of the assumptions used in developing the FY 2025-26 and 2026-27 Other Program Funds proposed budgets.

- **Revenues.** Budgeted to decrease by \$0.02 million, or 1.7%, in FY 2025-26 to reflect the use of prior year fund balances to help offset the costs of insurance and other post employment benefits. The proposed amount for FY 2026-27 is projected to increase by \$0.03 million, or 2.9%, over FY 2025-26 to account for inflationary adjustments.
- **Insurance Expenses.** Budgeted to increase by \$0.4 million, or 17.3%, in FY 2025-26. The City is a member of the Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA) for general liability and property insurance. The insurance renewal market is extremely challenging and it's become more difficult to find coverage at reasonable rates since providers are leaving the market. Based on the actuarial studies, the City's insurance rates are estimated to increase 10% for general liability and 20% for property. In addition, workers compensation insurance rates are estimated to increase significantly as we look toward a new provider. The City currently is a member of the Cities Group JPA for workers compensation and that JPA is anticipated to dissolve later this year. The budget includes an increase of \$0.3 million to cover the increase in premiums expected from a new provider.
- **Other Post Employment Obligations.** The expenditure budgets for FY 2025-26 and 2026-27 include a contribution of approximately \$1.1 million and \$1.2 million, respectfully, for the post-employment benefits based on information received from the actuarial study completed in 2024. The budget represents funding for our retiree medical trust at 100% of the annual required contribution and approximately 100% of the longevity trust annual required contribution based on the previous study. The City's pay-as-you-go amount totals approximately \$0.9 million annually.

CAPITAL PROJECT FUNDS BUDGETS

The Capital Project Funds include: Equipment Replacement (Fund 0010); Measure A (Fund 0014); Gas Tax (Fund 0016); Measure W (Fund 0018); General Capital (Fund 0025); Child Care Impact Fee (Fund 0026); Park In-Lieu (Fund 0027); Housing In-Lieu (Fund 0029); and Low and Moderate Income Housing (Fund 0031).

The capital project budget funds major one-time and on-going infrastructure improvement needs including: resurfacing and sidewalk projects; traffic safety improvements; park construction and improvements; storm drainage improvements; facility improvements; and enterprise technology projects. Funds are often accumulated in this budget over a period of years and then are spent when a sufficient amount of revenue is available to pay for desired projects.

CAPITAL PROJECT FUNDS				
	2024-25 Revised	2024-25 Projected	2025-26 Proposed	2026-27 Proposed
Est Beginning Fund Balance	\$ 73,544,308	\$ 73,544,308	\$ 30,779,846	\$ 52,776,393
Revenues	\$ 27,957,757	\$ 13,264,257	\$ 39,635,000	\$ 20,324,900
Operating Expenses	862,796	875,336	835,100	860,100
Capital Project Expenditures	73,801,961	60,509,961	28,202,253	20,941,694
Net Allocations In (Out)	4,593,615	5,356,578	11,398,900	5,249,300
Net Change in Fund Balance	\$ (42,113,385)	\$ (42,764,462)	\$ 21,996,547	\$ 3,772,406
Est Ending Fund Balance	\$ 31,430,923	\$ 30,779,846	\$ 52,776,393	\$ 56,548,799

Capital Improvement Program Budget for FY 2025-26 through FY 2029-30

The Council was presented with a Five-Year Capital Improvement Program Budget as part of the Budget Study Session held on April 29, 2025. As there are many approved projects, a detailed listing of the proposed changes in funding for these projects can be found in the Capital Improvement Program section of this budget document.

Capital Improvement Program – Unfunded List: As we have done in previous budgets, the five-year Capital Improvement Program contains a list of unfunded projects. This list shows projects that are desirable but are currently beyond the means of the City to fully fund and construct. These projects total approximately \$368 million. A complete list of Unfunded Capital Projects may be found in the Capital Improvement Program staff report.

GENERAL FUND RESERVES

The Government Finance Officers Association (“GFOA”) has issued its best practice in determining the appropriate level of unrestricted fund balance in the General Fund to be at a minimum of no less than two months of regular general fund operating revenues or expenses, which equates to approximately 17%. The GFOA definition of Unrestricted Fund Balance includes three general categories: Committed Fund Balance; Assigned Fund Balance; and Unassigned Fund Balance.

When looking at the total reserve percentages, all categories need to be considered. In the Annual Comprehensive Financial Report, the categories that make up the unrestricted fund balance as defined by the GFOA are the following: Economic Uncertainty Reserve; Strategic Property Acquisition Reserve; Unfunded Liability Reserve; Facility and Infrastructure Reserve; and the Unassigned Fund balance. For our purposes, we will consider our reserves to be those defined as committed and assigned as noted in the following chart. Even excluding the unassigned fund balance, the City maintains healthy reserves well above the GFOA best practice guidelines.

As a general practice, reserves should not be used to offset annual operating expenses as these are not a continuous source of funding. However, as noted above, it is recommended that the the unassigned fund balance be used for the next two years until there is more certainty with the economy.

RESERVE FUND BALANCES - GENERAL FUND						
	Projected FY 24-25	% of FY 25 Exp	Proposed FY 25-26	% of FY 26 Appro p	Proposed FY 26-27	% of FY 27 Approp
Committed Fund Balances:						
Economic Uncertainty	\$ 10,188,605	17.0%	\$ 11,379,600	17.0%	\$ 11,862,489	17.0%
Strategic Property Acquisition	12,191,795		12,191,795		12,191,795	
Assigned Fund Balances:						
Unfunded Liabilities	3,000,000		2,600,000		2,200,000	
Facility/Infrastructure	23,990,500		10,891,500		3,891,500	
Ending Reserve Balances	\$ 49,370,900	82.4%	\$ 37,062,895	55.4%	\$ 30,145,784	43.2%
Unassigned Fund Balance	2,003,841		1,355,320		1,282,787	
Nonspendable Fund Balances	2,159,946		1,637,946		1,118,946	
Total Ending Fund Balance	\$ 53,534,687		\$ 40,056,161		\$ 32,547,517	

- **Economic Uncertainties Reserve.** The City established an Economic Uncertainties Reserve that is equivalent to at least 12.5% of the City's General Fund expenditures, with a funding goal closer to 20% being highly desirable.
- **Strategic Property Reserve.** In October 2010, the Council approved and authorized the establishment of a Strategic Property Acquisition Reserve. Appropriations from this reserve can only be made by formal action of the City Council. Generally, appropriations and access to these funds will be reserved for funding strategic property acquisitions by the City.
- **Assigned Reserves for Specific Purpose.** As per Governmental Accounting Standards Board ("GASB") Pronouncement 54 for Fund Balances, assigned fund balances include amounts that are constrained by the government's intent that they be used for specific purposes. As per the Council's direction, the City Manager is authorized to assign amounts for a specific purpose. After the audit is complete, staff reviews the prior year savings and recommends transfers into these funds. The current assigned fund balance is for Unfunded Liabilities and Facilities and Infrastructure Improvements.

The Facility and Infrastructure Reserve was created as a way to use savings generated from prior fiscal years to help pay for capital projects. Transfers from this reserve are made annually to the General Capital Improvement Fund to fund projects.

ALTERNATIVES:

The alternatives available to the City Council include:

1. Review staff recommendations for the Fiscal Year 2025-7 Operating Budget and provide policy direction with respect to the preparation of a budget document for consideration at the June 9, 2025 City Council meeting; or
2. Do not review staff recommendations; or
3. Provide staff with alternative direction.

Respectfully submitted by:

Rebecca Mendenhall, Administrative Services Director

Approved for submission by:

A handwritten signature in black ink, appearing to read 'J. Maltbie', is positioned above a horizontal line.

Jeff Maltbie, City Manager

ATTACHMENT(S):

1. FY 2025-27 General Fund Budget Summary
2. FY 2025-27 General Fund Operating Requests:
 - a. Community Foundation Funding Request for Grants
 - b. OneShoreline Funding Request for Three Years
 - c. Sheriff's Office Request for Additional License Plate Readers
 - d. Public Works Request to Reclassify Public Works Inspector Position to Assistant Engineer
 - e. Parks and Recreation Request to add a Recreation Supervisor to oversee additional programs.