



COUNCIL REPORT

DATE: April 14, 2026

CATEGORY: New Business

DEPT.: Finance and Administrative Services

TITLE: **Preliminary Review of Fiscal Year 2026-27 Recommended Budget**

RECOMMENDATION

It is recommended that the City Council receive the staff presentation and provide input on the Fiscal Year 2026-27 General Operating Budget and Conveyance Tax Fund Budget, including the City Manager's preliminary budget recommendations.

INTRODUCTION

This agenda item provides the City Council with an early, preliminary review of the Fiscal Year 2026-27 Recommended Budget and an opportunity to provide feedback to staff on the allocation of resources. The Recommended Budget will be discussed by the City Council at a public hearing on June 9, with adoption scheduled after the public hearing on June 23, 2026.

This report provides a preview of the General Operating Fund (GOF), along with an early look at the budget recommendations related to the GOF for Fiscal Year 2026-27. It also includes an overview of the Conveyance Tax Revenue (also called Property Transfer Tax) and various City Reserves, including those in the General Fund and the Equipment Replacement Fund. This serves as an opportunity for Councilmembers to review the information in advance and provide initial feedback.

BACKGROUND

The Fiscal Year 2026-27 GOF budget is projected to be structurally balanced, continuing to allocate resources to core Citywide functions, long-term service delivery, Council Strategic Priority areas, continuous organizational improvement efforts, and innovative programs important to the Mountain View community.

Although the budget is stable and balanced for Fiscal Year 2026-27, revenues are not growing at the same pace the City has experienced in prior years, and there remains significant economic uncertainty. As with most municipalities, repairs, maintenance, and eventual replacement of facilities and infrastructure will continue to be an ongoing need now and into the future. In

addition, new initiatives to address the evolving nature of modern cities will require additional financial resources.

However, the City continues to exercise financial prudence when planning for the future and is prepared to weather any possible tough economic times. This includes recommending a structurally balanced budget for the GOF—the single largest fund of the city and provider of core services to the community.

Building the Mountain View of Tomorrow Together

While the preliminary Fiscal Year 2026-27 GOF budget and GOF Forecast provide sufficient financial resources to maintain current service levels, there is still a need to enhance and diversify the City's revenue streams in order to maintain ongoing fiscal stability and accomplish the bold initiatives the City is advancing.

A key step in this process was the passage of the Measure G revenue measure in November 2024, which was overwhelmingly approved by 72.32% of the voters. Measure G amended the City's Real Property Conveyance Tax Ordinance to create a new tier for any property transactions over \$6.0 million. The new tier is Fifteen Dollars (\$15) for each One Thousand Dollars (\$1,000) of the total sales price. Based on year-to-date sales data Measure G revenues are currently \$5.2 million.

Recognizing the many needs of the City, the Council adopted programmatic goals and a revenue allocation plan for Measure G proceeds. The allocation includes 35%-40% toward public safety facilities, followed by parks, open space and biodiversity initiatives (30%-35%), affordable housing (20%-25%), and other government services (5%-15%). This includes road maintenance, bicycle and pedestrian safety improvements, and homelessness efforts, among other things. Measure allocation recommendations are provided later in the report.

While the passage of Measure G was an important step in ensuring the quality of life our residents deserve, there are still many larger-scale, longer-term projects that would be transformative for our community going forward. As such the City Council made seeking additional funding sources for longer-term improvements a strategic priority again this year. The City has made significant strides in the development of affordable housing, earning the City the coveted designation by the State as a "Prohousing Community." Even with this achievement, the City has an additional nine housing projects in the pipeline that are stalled due to insufficient funding.

Another area of particular importance to our community and City Council is the continued enhancement of our roadways. This includes improved road maintenance, traffic mitigation measures, and additional pedestrian and bicycle safety measures. At the Mid-Year Budget Update in February 2026, the City Council approved the Transportation Division reorganization, which combined the Transportation Planning and Traffic Engineering Sections, headed by the Chief Transportation Officer. This newly created Division will guide the City in the implementation

of major policy documents such as the Active Transportation Plan, Vision Zero, and Transportation Demand Management, ensuring our roads are safer for all and more efficient.

Similar to recognizing the needs for our built environment, the City recognizes the importance of planning for the organization of tomorrow to best serve the community. As outlined in the City Manager's Transmittal Letter for the Fiscal Year 2025-26 Adopted Budget, the need to continue embracing technology in our day-to-day work and service delivery is as important now more than ever. In the coming years, the ability to continuously improve through reinvention and automation of many of our processes will enable the Mountain View organization to thrive in the future. To that end, the City, like municipalities across the country, has been working to understand the appropriate integration of AI-related products into City service areas.

Economic Update

An economic update was provided in the Fiscal Year 2025-26 Midyear Budget Status Report presented to the City Council on February 24, 2026. Since that time, several developments have introduced increased uncertainty into the economic outlook.

Geopolitical tensions have escalated following the commencement of Operation Epic Fury, involving coordinated air strikes by the United States and partner forces in Iran. At the same time, the ongoing partial federal government shutdown continues to disrupt certain sectors, including air travel, contributing to broader economic friction.

Financial markets have responded with increased volatility and declines across major indices. Between February 24 and March 26, 2026:

- The Dow Jones Industrial Average declined by more than 6%;
- The Nasdaq Composite declined by nearly 6%; and
- The S&P 500 declined by nearly 6%.

Recent analysis from Standard & Poor's Global Ratings indicates that the strong momentum in U.S. economic growth observed earlier in 2026 has moderated amid these developments. The escalation of conflict in the Middle East is expected to function as a negative global supply shock, primarily transmitted through energy markets. While the United States' position as a net exporter of petroleum products may partially mitigate impacts to real GDP, it does not offset associated inflationary pressures.

The primary uncertainty remains the duration and potential escalation of the conflict, which limits visibility into both the timing and magnitude of economic impacts. As a result, the near-term outlook reflects heightened risk and reduced predictability compared to earlier projections.

A more detailed and comprehensive economic update will be included in the Recommended Budget presented to the City Council on June 9, 2026.

EXECUTIVE SUMMARY

Budget Transparency

The City maintains fiscally prudent budgeting practices by aligning ongoing expenditures with ongoing revenues and adopting structurally balanced operating budgets. In recent years, strong revenue growth and higher-than-normal operating balances have enabled the City to maintain adequate reserves, invest in critical infrastructure, and reduce long-term liabilities, including pension and retiree benefit liabilities. These sound fiscal practices and continued budget discipline have supported the City's maintenance of a AAA credit rating for more than a decade - a distinction achieved by only a limited number of California cities.

Recognizing that the annual budget is one of the most important policy documents adopted by the City Council, the City has taken steps in recent years to enhance transparency and accessibility for the community. Beginning with Fiscal Year 2023-24, the City introduced an annual budget video and Budget-In-Brief document to supplement the Adopted Budget document. These new and innovative visuals help provide a clear, concise, and user-friendly overview of the Adopted Budget without requiring review of the full Adopted Budget document.

In 2025, the City also completed its first Popular Annual Financial Report (PAFR), which summarizes the audited financial statements presented in the Annual Comprehensive Financial Report in a more accessible format. The PAFR represents another important step in expanding public understanding of the City's financial position and performance.

Building on these efforts, the Fiscal Year 2026-27 Preliminary Budget Review report represents the second year of this enhanced budget process. This report provides an additional opportunity for transparency by presenting preliminary budget recommendations earlier in the annual budget process and allowing the City Council and community to review and provide input on proposed resource allocations.

General Operating Fund (GOF)

The GOF is the single largest City fund and provides funding for core community services, such as public safety (Police and Fire), Parks, Recreation, Library, some Planning, Public Works, Sustainability, and all City Administration support functions, including City Attorney, City Clerk, City Manager, Human Resources, Finance and Administrative Services, and Information Technology.

The GOF's financial health is shaped in large part by both positive and negative economic forces mostly beyond the City's control. Many GOF revenues are driven by the broader economic climate of Silicon Valley, the greater Bay Area, and the state. During the Great Recession of 2008, the GOF faced structural deficits for four consecutive years before corrective actions were taken.

Through strategic and proactive measures to address these imbalances, the City successfully positioned itself to benefit from the extended period of economic recovery that followed.

As the City moves beyond this period of sustained growth, it is now facing a more uncertain economic environment marked by moderating revenue growth, inflationary pressures, and increased volatility in key revenue streams. These emerging challenges underscore the importance of continued fiscal discipline, prudent long-term planning, and ongoing monitoring of economic trends to maintain the City's strong financial position.

Fiscal Year 2025-26

Fiscal Year 2025-26 revenues are estimated to exceed budget, and expenditures are estimated below budget. This results in an estimated \$1.5 million operating balance, including midyear budget adjustments. This is a slight decrease from the Midyear Report presented on February 24, 2026, which projected an operating balance of \$1.7 million. Revenue estimates have increased by \$1.0 million, primarily as a result of higher Transient Occupancy Taxes (TOT), Utility Users Tax (UUT), and miscellaneous reimbursements. These increases are partially offset by lower investment earnings and the reversal of the administrative overhead transfer from the Development Services Fund due to low fund balance. The operating expenditures estimate has decreased slightly to \$193.9 million, down \$624,000.

Fiscal Year 2026-27 and Beyond

Fiscal Year 2026-27 revenues are projected to rise to \$207.6 million, and expenditures are projected to increase to \$207.4 million (including the City Manager's preliminary budget recommendations). Revenues are sufficient to fund expenditures, with a projected operating balance of \$172,000. Recommendations include non-discretionary budget increases and discretionary increases in high-priority areas. Expenditures also include \$10.3 million of projected budget savings related to estimated position vacancies.

Due to critical staffing needs within the City, staff is recommending the addition of six ongoing positions in the GOF, two of which are partially funded by other funds. This includes five new ongoing positions and the conversion of one existing limited-period position to a regular ongoing position.

Recommended Positions in GOF		
<u>New Ongoing Regular:</u>		FTE
Department	Position	
City Attorney's Office	Assistant City Attorney	1.00
City Manager's Office	Deputy City Manager	1.00
Community Development Department	Principal Planner (Long-Range)	0.50*
Finance and Administrative Services Department	Warehouse Worker	0.25
Fire Department	Firefighter/Paramedic (Relief Position)	1.00
Public Works Department	Associate Planner (Transportation)	0.60*
<u>Limited-Period to Regular:</u>		
Department	Position	
Information Technology Department	IT Analyst I/II	1.00
TOTAL		<u>5.35</u>

**These positions are 1.00 FTE positions but are only partially funded by the GOF, as indicated. Other funds contribute towards the rest of their cost.*

For the remaining forecast years, revenues are projected to continue growing; however, at a slower pace than expenditures in some forecast years. This continues a trend of the local economy showing signs of slowing. While the City's major revenues have generally remained strong, there is evidence of slowing growth in the City's major revenue sources. Local economic indicators continue to project stable revenues, but slower growth is anticipated in the future compared to the strong revenue growth of the past several fiscal years. Uncertainty about inflation, interest rates, national and state economic policies, and geopolitical conflicts all contribute to the projected slower growth.

Deficits are projected for Fiscal Years 2027-28 through 2029-30, with a modest surplus in Fiscal Year 2030-31. Although concerning, the deficits themselves are minimal at approximately 1.5% or less of total projected revenues. Staff will continue to update and monitor the forecast, but current estimated deficits are reasonable within the context of a \$195.0 million total budget. Any updates to future fiscal year projections will be included in the Recommended Budget presented on June 9, 2026.

	2025-26 <u>Adopted</u>	2025-26 <u>Estimated</u>	2026-27 <u>Forecast</u>	2027-28 <u>Forecast</u>	2028-29 <u>Forecast</u>	2029-30 <u>Forecast</u>	2030-31 <u>Forecast</u>
Revenues:							
Property Taxes	\$ 84,168	\$ 81,835	\$ 84,229	\$ 89,707	\$ 95,539	\$101,723	\$108,315
Sales Tax	22,843	22,966	23,521	24,110	24,791	25,493	26,216
Other Local Taxes	25,614	27,108	26,666	27,260	27,746	28,242	28,750
Use of Money & Property	32,436	31,803	33,046	34,126	34,973	35,742	36,672
Other Revenues	<u>30,603</u>	<u>37,723</u>	<u>40,138</u>	<u>40,921</u>	<u>41,733</u>	<u>42,573</u>	<u>43,442</u>
Total Operating Revenues	\$195,664	\$201,435	\$207,600	\$216,124	\$224,782	\$233,773	\$243,395
Expenditures:							
Salaries & Benefits	\$157,538	\$149,518	\$163,551	\$172,256	\$180,795	\$186,836	\$192,833
Services & Supplies	29,430	26,727	30,220	31,660	33,186	34,529	35,933
Other Operating	<u>17,253</u>	<u>17,674</u>	<u>20,229</u>	<u>19,952</u>	<u>22,064</u>	<u>22,371</u>	<u>22,674</u>
Total Operating Expenditures	\$204,221	\$193,919	\$214,000	\$ 223,868	\$236,045	\$243,736	\$251,440
Vacancy Factor	\$ (9,300)	Included	\$ (10,300)	\$ (11,300)	\$ (11,900)	\$ (12,300)	\$ (12,700)
FY2026-27 Recommendations	<u>-0-</u>	<u>-0-</u>	<u>\$ 3,728</u>	<u>\$ 3,885</u>	<u>\$ 4,042</u>	<u>\$ 4,171</u>	<u>\$ 4,301</u>
Net Expenditures	<u>\$194,921</u>	<u>\$193,919</u>	<u>\$207,428</u>	<u>\$216,453</u>	<u>\$228,187</u>	<u>\$235,607</u>	<u>\$243,041</u>
Transfer to CIP Reserve	-0-	(2,000)	-0-	-0-	-0-	-0-	-0-
Transfer to SPAR	-0-	(1,000)	-0-	-0-	-0-	-0-	-0-
Transfer to Parental Leave	-0-	(1,000)	-0-	-0-	-0-	-0-	-0-
Transfer to Public Safety Building Reserve	<u>-0-</u>	<u>(2,000)¹</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Operating Balance/(Deficit)	<u>\$ 743</u>	<u>\$ 1,516</u>	<u>\$ 172</u>	<u>\$ (329)</u>	<u>\$ (3,405)</u>	<u>\$ (1,834)</u>	<u>\$ 354</u>

¹Pending City Council approval at the April 14th, 2026 Meeting.

Updated Overhead Charges to Other Funds

As part of the Fiscal Year 2026-27 Preliminary Budget Review, staff is implementing updated overhead charges to other City funds to more accurately reflect the cost of administrative and support services provided by the GOF. These updates build upon the \$4.1 million midyear adjustment charged to the Shoreline Regional Park Community Fund approved in Fiscal Year 2025-26, which began the process of right-sizing overhead charges based on the findings of the recently completed Cost Allocation Plan study. The study found that certain funds had been undercharged relative to the services received, and the proposed updates continue to align charges with actual service levels. These adjustments ensure a more equitable and transparent allocation of costs across funds, appropriately reimburse the GOF, strengthen cost recovery, and support the long-term financial sustainability of the City’s core operating fund.

Reserves

Most reserves are at their target or policy balance. However, several reserves, including the General Fund Reserve and Compensated Absences, will need to be supplemented to keep pace with the balances designated in the reserve policy. Reserve allocations are discussed further in this report and a detailed description of the City's Reserves is included as **Attachment 1**.

DISCUSSION**Fiscal Year 2025-26 Projected Available General Fund Balance**

Although it is expected that the City will end the current fiscal year with an operating balance greater than budgeted, **it is important to note the carryover balance is the primary funding source for key organizational needs, such as limited-period expenditures, maintaining (or enhancing) reserve levels, funding one-time capital projects, and contributions towards unfunded liabilities.**

The estimated available carryover balance is recommended to be used as follows (dollars in thousands):

Remaining General Non-Operating Fund (GNOF) Unallocated Balance on June 30, 2025	\$ 8,893
FY 2025-26 Midyear Allocations Approved by City Council	(1,031)
Estimated FY 2025-26 GOF Operating Balance Available	1,516
Estimated FY 2025-26 GNOF One-Time Revenues and Expenditure Savings	<u>10,423</u>
 Total Estimated Balance Available as of June 30, 2026	 <u>19,801</u>
Recommended Allocations:	
Non-Discretionary:	
Limited-Period Expenditures	(7,931)
General Fund Reserve ⁽¹⁾	(2,300)
Compensated Absences Reserve	(1,916)
Discretionary:	
General Liability Fund	(1,000)
Workers' Compensation Self-Insurance Fund	<u>(1,000)</u>
 Total Recommended Allocations	 <u>(14,147)</u>
 Estimated Remaining Balance Available	 \$ <u>5,654</u>

⁽¹⁾ Final amount to be determined with the Adopted Budget.

Fiscal Year 2026-27 Budget Recommendations

As described below, there are recommended expenditure increases of \$3.7 million in ongoing costs in the GOF and \$7.9 million in limited-period funding in the GNOF.

Departments have reviewed their programs, work levels, and proposed goals for the upcoming fiscal year and developed their budget requests accordingly. These items were reviewed by the City Manager and Budget Team, and are recommended for inclusion in the Recommended Budget for City Council consideration. Please note that the budget is still under development, and additional items, such as budget needs for utility and fleet services increases, may be included in the Recommended Budget but are not listed below.

A list of all recommended items over \$50,000 includes the following:

Recommended Non-Discretionary Expenditures

Non-discretionary increases totaling \$672,300 are recommended to fund existing and new required operational costs:

- Information Technology Services, Licenses, and Software Renewals: \$102,700

Provides new and increased funding for the annual services, licenses and software renewals for Adobe, Microsoft, Granicus Legistar, and other software licenses.
- Contract Services for Janitorial Services: \$94,000

Provides increased funding for janitorial services for City facilities.
- Fire Safety Equipment Costs: \$89,100

Provides increased funding for costs associated with testing, cleaning, and replacing personal protective equipment (PPE).
- Recreation Registration Software Costs: \$77,000

Provides increased funding for transaction costs of the Recreation Division's registration software system.
- Crossing Guard Services: \$59,000

Provides increased funding for the City's crossing guard services.

- Contract Services for Pest Control: \$53,000

Provides increased funding for prevailing wage rates for the City's pest control services.

Recommended Discretionary Expenditures

Discretionary expenditure increases totaling \$3.0 million are recommended for high-priority ongoing programs; \$1.7 million of the increase is related to salary and benefit costs:

- Firefighter/Paramedic Position (1.0 FTE): \$391,000

Provides funding for a Firefighter/Paramedic position. This will be a relief position to provide coverage and maintain minimum staffing levels.

- Assistant City Attorney Position (1.0 FTE): \$368,700

Provides funding for an Assistant City Attorney position. This position will provide support to the City organization due to increased workload related to legal matters.

- Deputy City Manager Position (1.0 FTE): \$361,000

Provides funding for a Deputy City Manager position. This position will provide support for high-level Council priority projects in the City Manager's Office.

- Contract Services for Traffic Maintenance and Repair Services: \$300,000

Provides increased funding for the maintenance and repair of traffic signals in the City due to increased labor and material costs.

- IT Analyst I/II Position (1.0 FTE): \$266,100

Provides funding to convert an existing limited-period IT Analyst I/II position to regular ongoing. This position will support projects related to Geographic Information Systems (GIS).

- Junior/Assistant/Associate Transportation Planner Position (0.6 FTE): \$151,700

Provides partial funding for a Junior/Assistant/Associate Transportation Planner position. This position will support the development and delivery of transportation-related projects. The remaining 0.4 FTE is funded by CIPs and the Shoreline Regional Park Community Fund.

- Contract Services for Business and Arts Promotions: \$150,000

Provides increased funding for the Economic Development Division to support businesses, arts and culture programs, and facilitation of activities in the City.

- Hourly Wages for Community Services: \$150,000

Provides increased funding for hourly Stagehands at the Mountain View Center for Performing Arts (MVCPA) to support year-round operations.

- Principal Planner Position (0.50 FTE): \$147,200

Provides partial funding for a Principal Planner position. This position will oversee and support the City's planning functions, including policy development, development review, and implementation of adopted plans and regulations. The remaining 0.5 FTE is funded by the Development Services Fund and the Shoreline Regional Park Community Fund.

- Contract Services for Forestry Outreach: \$125,000

Provides funding for contract services with nonprofit, Canopy, to provide outreach and programs to support the City's urban forest preservation and enhancement.

- Federal Legislative Advocacy Consultant: \$120,000

Provides funding to engage the services of a legislative advocacy consultant to support the City's legislative priorities at the federal level.

- Childcare Subsidies: \$100,000

Provides funding for childcare subsidies for low-income families utilizing the childcare center.

- Reclassification of a Senior Human Resources Analyst Position to Human Resources Manager Position: \$67,000

Provides funding to reclassify one Senior Human Resources Analyst to a Human Resources Manager. This position will provide supervisory oversight for employee relations and learning and development functions.

- Contract Services for Homeless Services: \$52,000

Provides funding to support contract services for community-based homelessness programs.

Recommended Limited-Period Expenditures

Funding of \$7.9 million for limited-period items are recommended for one-time, high-priority programs. \$1.4 million of the increase is related to salary and benefit costs, all of which is a continuation of current limited-period personnel costs. Limited-period funding also includes \$1.5 million for one-time employee compensation as outlined in the current employee labor agreements.

- Sustainability Outreach and Staffing: \$416,500

Provides funding to the Sustainability Capital Improvement Project (CIP) for staffing and outreach services.

- Temporary Staffing for Information Technology: \$406,400

Continues to provide funding for temporary staffing equivalent to two full-time IT Desktop Technicians. These positions will support increased workload capacity and provide frontline application support across the City.

- Contract Services for City Clerk: \$388,200

Provides funding for contract services associated with the General Municipal Election.

- Contract Services for Economic Development: \$365,000

Continues providing funding for contract services to develop programs and grants to support economic development in the City.

- Firefighter Recruit Academy: \$342,400

Provides funding for Firefighter recruits to attend the Firefighter Academy. The funding includes personnel costs, supplies and equipment, and overtime for in-house instructors.

- Senior Management Analyst Position (1.0 FTE): \$266,100

Continues to provide funding for a limited-period Senior Management Analyst position in the Finance and Administrative Services Department. This position will assist with purchasing and contracts due to increased complexity and volume of work in the City.

- Contract Services for Development Review Improvements: \$250,000

Provides funding for contract services to evaluate and implement improvements to the City's planning, permitting, and land use processes.

- Legal Services for Labor Relations: \$250,000

Provides funding for legal services to support labor relations activities, including negotiations and agreement development.

- Sustainability Analyst I/II Position (1.0 FTE): \$245,900

Continues funding for a limited-period Analyst I/II position in the Sustainability Division. This position will support Citywide sustainability initiatives and programs.

- Human Resources Technician Position (1.0 FTE): \$213,600

Continues funding for a limited-period Human Resources Technician position. This position will perform varied paraprofessional and technical duties related to recruitment, position classification and compensation, benefit administration, and other program areas.

- Management Fellow Position (1.0 FTE): \$207,000

Continues funding for a limited-period Management Fellow position in the City Manager's Office. This position will provide increased workload capacity and analysis for high-priority Council and department projects.

- Contract Services for Facilities: \$200,000

Provides funding for a staff augmentation contract to support ongoing maintenance of city facilities.

- Contract Services for Sidewalk Ramping, Grinding, and Inspecting: \$200,000

Provides continued funding for contract services to perform sidewalk ramping and grinding operations, including bimonthly sidewalk inspections to target areas needing repair.

- Mountain View Center for the Performing Arts 35th Anniversary: \$186,200

Provides funding to support programming and event setup to celebrate the 35th anniversary of the Mountain View Center for the Performing Arts (MVCPA).

- Hourly Wages for Public Works: \$180,000

Provides continued funding for wages for hourly support. The hourly employees will provide support to the Traffic Division in the Public Works Department.

- Lead Security Services Guard Position (1.0 FTE): \$170,000

Provides continued funding for a limited-period Lead Security Services Guard position. This position will work with Library staff, administration, contracted security guards, and customers to ensure maximum safety and security for Library customers and employees.

- Public Safety Equipment Costs: \$158,800

Provides funding for specialized protective equipment for public safety team members.

- Senior Stagehand Position (1.0 FTE): \$158,700

Provides continued funding for a limited-period Senior Stagehand position. This position will support the Performing Arts Division and operations of the Mountain View Center for the Performing Arts (MVCPA).

- Citywide Succession Planning: \$150,000

Provides continued funding for Citywide Succession Planning efforts. The funds will be used for recruitment resources, coaching, and development to prepare the organization for upcoming retirements and transitions in essential leadership positions.

- Employee Relations Legal Services: \$140,000

Provides continued funding for employee relations legal services.

- Consultant Services for Planning and Economic Development: \$125,000

Provides continued funding for consultant services to support the implementation of the 2023-2031 Housing Element, Economic Vitality Strategy, and Council Work Plan.

- Contract Services for Network Services: \$120,000

Provides funding for the City's fiber network contract for City facilities.

- Career Success Allowance Program: \$100,000

Provides continued funding for the Career Success Allowance Program. The program provides monetary support for students that are pursuing their high school diploma.

- Hourly Wages for Human Resources: \$100,000

Provides continued funding for wages of hourly support staff in the Human Resources Department, including funding for hourly employees, retired annuitants, and interns to assist with the implementation of projects and programs.

- Porter Services: \$100,000

Provides continued funding for full-time day porter service at the Senior Center.

- Safe Routes to School: \$100,000

Provides continued funding for consultant services to support Safe Routes to School Program (SRTS).

- Library Assistant I/II Position (0.5 FTE): \$89,500

Provides continued funding for a limited-period half-time Library Assistant I/II position. This position engages with the public and assists with facilitating programs and other public service needs.

- Contract Services for Downtown Strategies: \$53,000

Provides funding for contract services to support Downtown assessment and revitalization.

Capital Outlay Recommendations

In addition to the preliminary recommendations discussed above, staff is also recommending certain capital outlay requests to be included in the Recommended Budget. Any individual item over \$10,000 with a useful life of more than one year is considered a capital outlay.

The Capital Outlay request process is designed to evaluate, prioritize, and budget for equipment purchases and building modifications. Requests are evaluated by the Capital Outlay Committee based on whether the item is essential or desirable to the City's operations, such as improving public health, welfare, and safety, fulfilling regulatory requirements, enhancing services to the community, and increasing productivity.

For Fiscal Year 2026-27, staff is recommending a total capital outlay budget of \$733,000, all of which is from the General Operating Fund. Of this amount, \$373,000 is allocated for four new vehicles for the Police Department to support public safety efforts. In addition, staff has recommended \$205,000 to upfit the Fire Reserve Truck to extend its useful life and maintain essential services.

SUMMARY

Given relatively stable core revenue sources, increasing cost pressures, and a more uncertain economic outlook, the City is exercising financial prudence by recommending only those items necessary to maintain essential City services and address the high workload in critical areas.

The budget recommendations in this report address the continuing need for resources in high-priority areas. The net result of the recommendations is a projected GOF operating balance for Fiscal Year 2026-27 of \$172,000, with future years ranging from a deficit of \$3.4 million in Fiscal Year 2028-29 to a small surplus of \$354,000 in Fiscal Year 2030-31.

CONVEYANCE TAX FUND

The Conveyance Tax Fund is a subfund of the General Fund, separate from the GOF, established to provide transparent tracking and accounting of Real Property Transfer (Conveyance) tax revenues and their associated uses. The City conveyance tax currently consists of two tiers:

- Tier 1 charges \$1.65 for every \$500 (or portion thereof) of property value.
- Tier 2 charges \$15 for every \$1,000 of the total sale price for properties over \$6.0 million, approved by voters through Measure G and effective December 20, 2024.

The establishment of this subfund enhances transparency by segregating conveyance tax revenues within the General Fund and allowing for clearer reporting of revenues and expenditures directed by the City Council for this revenue source.

Prior to implementation of Measure G, conveyance tax revenues were recorded in a Special Revenue Fund, along with Construction Tax revenues. With the implementation of Measure G, conveyance tax revenues are now classified as General Fund revenues and are recorded within this dedicated subfund.

Both Tier 1 and Tier 2 (Measure G) are recorded in this subfund. Tier 1 is designated for capital improvement projects, while Tier 2 funds are allocated in accordance with the resolution adopted by the City Council, as follows:

Revenue less than \$12.0 million:

- 40.0% to Public Safety Facilities;
- 30.0% to Parks, Open Space, and Biodiversity;
- 20.0% to Affordable Housing; and
- 10.0% to other General Government Services.

Revenue over \$12.0 million:

- 50.0% to Parks, Open Space, and Biodiversity;
- 30.0% to Affordable Housing; and
- 20.0% to other General Government Services.

For Fiscal Year 2025-26, Tier 1 Conveyance Tax is estimated at \$5.0 million and Tier 2 (Measure G) revenues are estimated to be \$5.1 million, resulting in the following projected allocations of Measure G revenues (dollars in thousands):

Transfer to Public Safety Reserve	\$2,029
Transfer to Open Space Acquisition Reserve	1,522
Transfer to Housing Fund	1,015
General Government Services	<u>507</u>
Total Tier 2 (Measure G) Allocation	<u>\$5,073</u>

The General Government Services allocation is estimated at \$507,000 (10%) and is intended for a broad range of City services. Staff is recommending the following items be funded in Fiscal Year 2026-27 from the Fiscal Year 2025-26 General Government Services allocation:

- Contract Services for Citywide Design Standards: \$175,000

Provides limited-period funding for consultant services to study and deliver design standards for Citywide development projects.
- Transfer to CIP 27-22, Street Maintenance Project: \$125,000

Provides additional funding to CIP 27-22, Street Maintenance Project, for annual roadway pavement maintenance, including application of various pavement treatments (fog seal, slurry seal and overlay), adjustment of utilities and monuments, and installation of pavement markers and traffic lines.
- Transfer to CIP 20-99, Sustainability Projects: \$100,000

Provides additional funding to CIP 20-99, Sustainability Projects, which supports Citywide sustainability efforts.
- Transfer to Economic Vitality Reserve: \$100,000

Provides funding to the new Economic Vitality Reserve to fund economic vitality initiatives, including downtown activation, small business support, storefront vacancy programs, and other priorities outlined in the Economic Vitality Strategy.

Staff will return to Council in June with an updated projection for Tier 2 Measure G allocations and final recommendations, based on Council feedback from the April 14th meeting.

CITYWIDE RESERVES

The City has established reserves for various purposes in the General Fund, Shoreline Regional Park Community Fund, Utility funds, Internal Services funds, and other Special Revenue funds. Reserves are essential elements in maintaining financial stability, meeting long-term objectives, and providing the ability to respond to unanticipated situations. They are also a source of interest income that is used for operating needs or offsets for other funding requirements. A major factor considered by Standard & Poor's in reconfirming the City's AAA underlying credit rating is the structure and funding status of the City's reserves. Most reserves are established pursuant to City Council Policy A-11, Section 4, Reserve Policies, while other reserve policies have been approved, as needed, by the City Council.

The table below details the estimated balance, recommended allocations, and recommended balance for each reserve (dollars in thousands):

Detailed descriptions of each reserve and further information can be found in Attachment 1.

	6/30/26 Estimated Balance	Amount Recommended for Allocation in FY 2026-27	7/1/26 Beg. Balance after Allocation ⁽¹⁾
GF Reserve	\$ 39,189	\$ 2,300 ⁽²⁾	\$ 41,489
GF Budget Contingency	3,109	-0-	3,109
GF Earned Lease Revenue	8,707	-0-	8,707
GF Property Management	1,390	-0-	1,390
Graham Site Maintenance	254	-0-	254
GF Transportation	8,810	-0-	8,810
GF Capital Improvements	13,237	-0-	13,237 ⁽³⁾
GF Open Space Acquisition	2,512	-0-	2,512
GF Strategic Property Acquisition	22,858	-0-	22,858
GF Child-Care Commitment	-0-	-0-	-0-
Compensated Absences ⁽⁴⁾	8,176	2,166	10,342
Parental Leave	1,714	-0-	1,714
Employee Loan	4,709	-0-	4,709
Public Safety Building Reserve	28,625	-0-	28,625
Minor Estate Trust	445	-0-	445
Equipment Replacement	<u>19,690</u>	<u>-0-</u>	<u>19,690</u>
 TOTAL	 <u>\$163,425</u>	 <u>\$4,466</u>	 <u>\$167,891</u>

⁽¹⁾ The FY 2026-27 beginning balance does not include any anticipated expenditures for Fiscal Year 2026-27.

⁽²⁾ Policy balance is calculated as 20.0% of the General Operating Fund budget to be determined with the Adopted Budget.

⁽³⁾ Includes \$5.0 million reserve policy balance and \$2.7 million prepaid lease for the Downtown Family Housing Project.

⁽⁴⁾ \$1.9 million of the \$2.2 million comes from the GNOF, with the remaining amount from various funds, such as Shoreline, Enterprise Funds, and others. The recommended balance as of FY 2026-27 does not include the potential payout from the Compensated Absences Reserve.

Reserve Recommendations

Staff has performed a preliminary review of reserve levels and included funding recommendations to align with established reserve policies. Based on this review, additional supplemental funding to the General Fund Reserve is needed to meet the 20% reserve requirement of operating expenditures. This funding is currently estimated at \$2.3 million and will be finalized as part of the Adopted Budget. In addition, staff recommends transferring \$1.9 million from the General Fund to the Compensated Absences Reserve to fully fund the reserve in accordance with established policy.

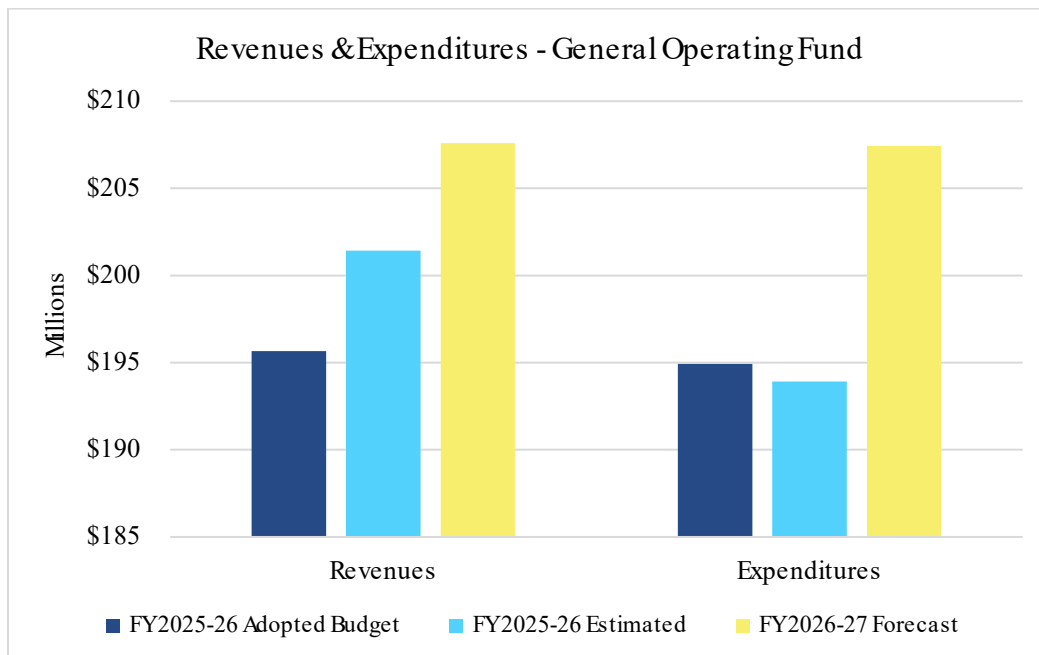
In addition, staff is recommending the following transfers from the Fiscal Year 2025-26 General Fund carryover:

- \$1.0 million to the Liability Insurance Fund.
- \$1.0 million to the Workers’ Compensation Self-Insurance Fund.

CONCLUSION

Stable revenues with slower growth are projected in the future. While the GOF is in a strong financial position, the amount by which revenues exceed expenditures has declined relative to prior years. For Fiscal Year 2026-27, GOF revenues are expected to increase to \$207.6 million, a 6.1% increase compared to the current fiscal year’s adopted revenues. Expenditures are projected to rise to \$207.4 million, 6.4% higher than the current fiscal year Adopted Budget. The GOF is projected to have an operating balance of \$172,000 at the end of Fiscal Year 2026-27. Future-year deficits are projected for Fiscal Years 2027-28 to 2029-30, with a small surplus in Fiscal Year 2030-31.

While there are other areas where additional resources could be allocated, no further increases are recommended at this time in order to maintain a structurally balanced budget, exercise financial prudence, and to be able to weather the expected increase in ongoing expenditures. The projected increase in expenditures, coupled with the large economic uncertainty, calls for minimal staffing additions and forgoing the addition of new programs or enhancement of existing programs.



NEXT STEPS

Council input and direction are sought on the budget recommendations included in this report at the April 14, 2026, Council meeting. Based on feedback from the City Council, the Fiscal Year 2026-27 Recommended Budget will be prepared for distribution to the City Council prior to the budget public hearings. The evening of June 9 is scheduled for the first public hearing, and final adoption is scheduled for the City Council Special Meeting of June 23, 2026.

LEVINE ACT

California Government Code Section 84308 (also known as the Levine Act) prohibits city officials from participating in any proceeding involving a “license, permit, or other entitlement for use” if the official has received a campaign contribution exceeding \$500 from a party, participant, or agent of a party or participant within the last 12 months. The Levine Act is intended to prevent financial influence on decisions that affect specific, identifiable persons or participants. For more information see the Fair Political Practices Commission website: www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html

Please see below for information about whether the recommended action for this agenda item is subject to or exempt from the Levine Act.

EXEMPT FROM THE LEVINE ACT

General policy and legislative actions

Prepared by:

Derek Rampone
Finance and Administrative Services Director

Grace Zheng
Assistant Finance and Administrative
Services Director

Elliot Young
Principal Financial Analyst

Ann Trinh
Senior Financial Analyst

Approved by:

Arn Andrews
Assistant City Manager

Kimbra McCarthy
City Manager

Attachment: 1: Fiscal Year 2026-27 Preliminary Budget Preview - Reserves