

**MEMORANDUM**

Finance and Administrative Services Department

DATE: December 16, 2025

TO: Honorable City Council

FROM: Ann Trinh, Senior Financial Analyst
Grace Zheng, Assistant Finance and Administrative
Services Director
Derek Rampone, Finance and Administrative Services Director

VIA: Kimbra McCarthy, City Manager

SUBJECT: **Analysis of Fiscal Year 2024-25 Audited Financial Results for the General Operating Fund and General Fund Available Balance**

PURPOSE

To provide an analysis of the Fiscal Year 2024-25 audited financial results for the General Operating Fund and the General Fund available balance (including one-time revenues and expenditure savings).

BACKGROUND

The General Operating Fund (GOF) accounts for the City's recurring unrestricted revenues and general operating expenditures. It is a subset of, and distinguished from, the General Fund, which accounts for all unrestricted revenues and expenditures, including reserves and nonrecurring (one-time) revenues and expenditures recorded in nonoperating accounts.

This memorandum provides an analysis of only the GOF financial results for Fiscal Year 2024-25, based on final audited figures. Certain amounts may not align precisely with the Annual Comprehensive Financial Report (ACFR) due to reclassifications made for financial statement presentation purposes. Additionally, while the ACFR consolidates all General Fund revenues and expenditures - including reserves – into a single presentation, this analysis focuses exclusively on the GOF, which reflects the City's recurring operational activities.

For purposes of this analysis, the City defines "operating" as the recurring revenues and expenditures that support ongoing City services. One-time General Fund revenues and expenditures have been reclassified to conform to this definition and are presented separately to provide a clearer picture of the City's ongoing fiscal performance.

ANALYSIS

Fiscal Year 2024-25 GOF Audited Financial Results

The Fiscal Year 2023-24 Audited, Fiscal Year 2024-25 Adopted Budget, Adjusted Budget, and Audited results for the GOF are summarized below (dollars in thousands). This summary provides a high-level comparison of year-over-year performance and highlights how actual results align with both the Adopted and Adjusted Budgets:

	2023-24 <u>Audited</u>	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Budget</u> ⁽¹⁾	<u>2024-25 Audited</u>	Variance of Audited to <u>Adjusted</u>
Revenues	\$182,381	\$184,144	\$185,802	\$195,257	\$ 9,455
Expenditures ⁽²⁾	(175,522)	(182,844)	(188,385)	(181,954)	6,431
Year-End Adjustments ⁽³⁾	<u>225</u>	<u>-0-</u>	<u>2,672</u>	<u>(3,210)</u>	<u>(5,882)</u>
Operating Balance	\$ <u>7,084</u>	\$ <u>1,300</u>	\$ <u>89</u>	\$ <u>10,093</u>	<u>\$10,004</u>

(1) The Adjusted Budget includes the Adopted Budget and encumbrance carryovers from prior fiscal years, increases for reimbursed expenditures, grants and donations, and any budget adjustments approved during the fiscal year.

(2) Amounts are net of budget savings of \$8.5 million for Fiscal Year 2024-25 Adopted and Adjusted Budget.

(3) Year-End Adjustments include encumbrances and grant/donation carryovers from the prior fiscal year and changes in assets and liabilities for audited results.

Fiscal Year 2024-25 audited actual revenues totaled \$195.3 million, exceeding the Adjusted Budget by \$9.5 million (5.1%), the Adopted Budget by \$11.1 million (6.0%), and the prior year's Audited total by \$12.9 million (7.1%).

Total audited expenditures were \$182.0 million, which is \$6.4 million (3.4%) below the Adjusted Budget, and \$6.4 million (3.7%) higher than Fiscal Year 2023-24 audited expenditures.

Most of the City's major revenues remained strong compared to prior-year actuals, supported by continued growth in property values and a favorable interest rate environment. The resulting \$10.1 million operating balance reflects the City's sound fiscal position and provides flexibility to support strategic priorities, including addressing CalPERS pension liabilities and maintaining funding for critical City services.

A discussion of variances by revenue and expenditure categories follows.

Revenues

The Fiscal Year 2023-24 Audited and the Fiscal Year 2024-25 Adopted Budget, Adjusted Budget, and final Audited results for GOF revenues are summarized below (dollars in thousands):

	2023-24 <u>Audited</u>	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Budget</u>	2024-25 <u>Audited</u>	Variance of Audited to Adjusted
Operating Revenues:					
Property Taxes	\$ 74,660	\$ 78,063	\$ 79,616	\$ 80,293	\$ 677
Sales Tax	24,489	24,478	21,487	21,177	(310)
Other Local Taxes	21,205	23,676	24,948	27,389	2,441
Use of Money and Property	29,010	30,048	30,048	31,947	1,899
Other Revenues	<u>33,017</u>	<u>27,879</u>	<u>29,703</u>	<u>34,451</u>	<u>4,748</u>
Total Operating Revenues	<u>\$182,381</u>	<u>\$184,144</u>	<u>\$185,802</u>	<u>\$195,257</u>	<u>\$ 9,455</u>

A summary of revenues by category follows:

- Property Tax:**
The July 1, 2024, City GOF property tax roll reflected increases in both secured and unsecured assessed values (AV), including the recapture of Proposition 8 value and reductions to the tax roll from resolved appeals. These changes resulted in a net 7.5% increase compared to the prior year's tax roll. Overall, the City's total AV increased 7.7% to \$47.6 billion, the highest percentage growth among the 15 cities in Santa Clara County. This level of growth is not expected to continue, as owners of several highly assessed properties are seeking reassessments at lower valuations. Property tax revenues totaled \$80.3 million, slightly above the Adjusted Budget and \$5.6 million (7.5%) higher than the Fiscal Year 2023-24 Audited amount.
- Sales Tax:**
Sales tax revenue totaled \$21.2 million, which is \$310,000 (1.4%) below the Adjusted Budget and \$3.3 million (13.5%) lower than the Fiscal Year 2023-24 Audited total. Nearly half of this decline was attributable to the timing and recording of sales tax receipts in the City's accounting records. Additional contributing factors included Synopsys relocating outside the City, multiple retail store closures, and reduced consumer spending – excluding restaurants and hotels, which continued to perform well.

- **Other Local Taxes:**

Other Local Taxes, which include business license tax, transient occupancy tax (TOT), and utility users' tax (UUT), exceeded the Adjusted Budget by \$2.4 million (9.8%) and were \$6.2 million (29.2%) higher than the Fiscal Year 2023-24 Audited total. The year-over-year increase is primarily due to late TOT payments from one hotel related to the prior fiscal year, the one-time recognition of \$1.1 million of UUT previously held in a liability account pending review of a refund request, and higher collections from energy providers.

- **Use of Money and Property:**

Use of Money and Property revenues, which include investment earnings and rents and leases, were \$1.9 million (6.3%) above the Adjusted Budget and \$2.9 million (10.1%) higher than the Fiscal Year 2023-24 Audited total.

- Investment Earnings were \$1.8 million above budget (excluding unrealized gains/losses) and \$2.2 million higher than prior-year Audited results. The City's investment portfolio is laddered, which means the benefit of higher interest rates is realized gradually as lower-yielding securities mature and are reinvested at higher rates.
- Rents and Lease revenues were essentially on target with budget estimates and \$738,000 higher than the Fiscal Year 2023-24 Audited total. This increase primarily reflects standard annual rent adjustments included in lease agreements. Included in this category is approximately \$2.2 million in revenue from the Ameswell development, which is earmarked for the Public Safety Administration Building project.

- **Other Revenues:**

Other revenues were \$1.4 million (4.3%) higher than the Fiscal Year 2023-24 Audited total and \$4.7 million (16.0%) above the Adjusted Budget. The increase is mainly due to higher reimbursements and additional administrative overhead revenues of over \$2.0 million generated from higher capital improvement project expenditures. In addition, many grants, donations, and reimbursements are not budgeted because they are typically one-time or variable in nature.

Expenditures

The Fiscal Year 2023-24 Audited and Fiscal Year 2024-25 Adopted Budget, Adjusted Budget, and Audited results for GOF expenditures are as follows (dollars in thousands):

	2023-24 <u>Audited</u>	2024-25 Adopted <u>Budget</u>	2024-25 Adjusted <u>Budget</u>	2024-25 <u>Audited</u>	Variance of Audited to Adjusted
Operating Expenditures:					
Salaries and Benefits:					
Salaries and All Pays	\$ 80,678	\$ 91,346	\$ 91,800	\$ 88,156	\$3,644
Retirement	27,166	33,499	33,499	30,792	2,707
Health Benefits	10,109	14,323	14,324	11,133	3,191
All Other Benefits	<u>7,585</u>	<u>8,989</u>	<u>8,989</u>	<u>8,823</u>	<u>166</u>
	125,538	148,157	148,612	138,904	9,708
Supplies and Services	23,862	28,047	31,814	26,691	5,123
Capital Outlay/ Equipment					
Replacement	3,152	1,655	1,721	1,621	100
Interfund Expenditures					
and Transfers	13,970	13,485	14,738	14,738	-0-
Debt Service	-0-	-0-	-0-	-0-	-0-
Budget Savings	Included	(8,500)	(8,500)	Included	(8,500)
Transfer to GNOF	-0-	-0-	-0-	-0-	-0-
Transfer to GF Reserve	3,000	-0-	-0-	-0-	-0-
Transfer to Transportation	1,000	-0-	-0-	-0-	-0-
Res					
Transfer to Open Space	3,000	-0-	-0-	-0-	-0-
Acquisition Res					
Transfer to Parental Leave	1,000	-0-	-0-	-0-	-0-
Res					
Transfer to Liability Fund	<u>1,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Operating Expenditures	<u>\$175,522</u>	<u>\$182,844</u>	<u>\$188,385</u>	<u>\$181,954</u>	<u>\$6,431</u>

A summary of expenditures by category follows:

- **Salaries and Benefits:**
During Fiscal Year 2024-25, more positions were filled than vacated, reflecting the City's success in recruiting and retaining staff. The City also maintained its commitment to employee development, with over one-third of appointments made as promotions, which in turn created subsequent vacancies as employees advanced. Additionally, the addition of 11 net new positions resulted in temporary salary savings as newly established roles required time to fill. At year-end, Salaries and Benefits concluded with a \$9.7 million (6.5%) favorable variance compared to the Adjusted Budget, which is consistent with the estimated \$8.5 million in vacancy savings projected by staff during preparation of the Fiscal Year 2024-25 budget.
- **Supplies and Services:**
The GOF has historically realized savings in this category and Fiscal Year 2024-25 was consistent with that trend. Total savings amounted to \$5.1 million (16.1%) compared to the Adjusted Budget. Of this amount, \$2.0 million in encumbrances were identified to be carried forward into Fiscal Year 2025-26. When these encumbrances are considered, the net positive variance is \$3.1 million, or 9.8%, when compared to the Adjusted Budget.
- **Capital Outlay and Equipment Replacement:**
The GOF's \$1.4 million contribution to the Equipment Replacement Reserve occurred as budgeted. Other capital outlay expenditures were \$100,000 (5.8%) below budget, though \$92,000 of that amount was encumbered and is expected to be spent in Fiscal Year 2025-26.

The Adopted and Adjusted Budget savings of \$8.5 million reflect anticipated expenditure savings across multiple accounts. The Fiscal Year 2024-25 Audited amounts presented in the report exclude approximately \$2.1 million in encumbrances that remained outstanding at year-end. In accordance with the City Charter, appropriations for encumbrances remaining at the end of a fiscal year are reappropriated in the subsequent fiscal year.

Expenditures by Department

A summary of the GOF audited expenditures compared to the Adjusted Budget by department is presented below (dollars in thousands):

	2024-25 Adjusted Budget	2024-25 Audited	Encumbrances	Variance of Audited Plus Encumbrances to Adjusted	% Savings from Adjusted Budget
Department:					
City Council	\$ 549	\$ 371	\$ 2	\$ 176	32.1%
City Clerk	1,178	1,075	-0-	103	8.7%
City Attorney	4,101	3,239	103	759	18.5%
City Manager	7,021	6,201	44	776	11.1%
Human Resources	3,958	3,615	68	275	6.9%
Information					
Technology	8,906	7,738	131	1,037	11.6%
Finance and					
Administrative					
Services	8,924	7,768	243	913	10.2%
Community					
Development	1,869	1,501	66	302	16.2%
Public Works	16,939	15,111	469	1,359	8.0%
Community Services	24,964	22,496	482	1,986	8.0%
Library	8,329	7,376	52	901	10.8%
Fire	37,803	35,979	188	1,636	4.3%
Police	55,162	52,378	210	2,574	4.7%
Housing	723	674	46	3	0.4%
Nondepartmental ⁽¹⁾	16,459	16,432	-0-	27	0.2%
Budget Savings	<u>(8,500)</u>	<u>Included</u>	<u>-0-</u>	<u>(8,500)</u>	100.0%
Total Operating					
Expenditures	<u>\$188,385</u>	<u>\$181,954</u>	<u>\$2,104</u>	<u>\$4,327</u>	2.3%

⁽¹⁾ Nondepartmental expenditures include Interfund Transfers for equipment replacement and other Interfund Expenditures and Transfers.

All departments concluded Fiscal Year 2024-25 with expenditures below the Adjusted Budget, demonstrating continued cost control and prudent use of appropriations. The favorable variances across departments reflect ongoing efforts to align operating costs with service delivery needs while maintaining fiscal discipline.

Fiscal Year 2024-25 GOF Balance Available

As previously discussed, the City's GOF ended the 2024-25 fiscal year with a positive operating balance of \$10.1 million. The table below summarizes the General Fund balance, including one-time revenues and expenditure savings, budgeted transfers, and limited-period expenditure allocations (dollars in thousands):

GOF Balance from Fiscal Year 2024-25	\$ 10,093
Remaining Available Balance from Prior Fiscal Years	9,805
Fiscal Year 2024-25 Midyear Allocations Approved by City Council	(148)

Additions:

One-Time Revenues and Expenditure Savings in Fiscal Year 2024-25:

Property Taxes—Excess ERAF	9,477
Unspent Limited-Period Expenditures	3,803
Miscellaneous Revenues	139
Child-Care Center Rent	<u>212</u>
Subtotal	<u>\$33,381</u>

Subtractions:

Allocations in the Fiscal Year 2025-26 Adopted Budget:

Limited-Period Expenditures	(7,768)
Public Safety Building Reserve	(5,000)
General Fund Reserve	(2,300)
Compensated Absences Reserve	(2,220)
General Liability Fund	(2,200)
Strategic Property Acquisition Reserve (SPAR)	(2,000)
CIP Reserve	(1,000)
Parental Leave Reserve	(1,000)
Development Services Fund (DSF)	<u>(1,000)</u>

Subtotal of Allocations (24,488)

Remaining Unallocated Balance Available \$ 8,893

Including the GOF balance, the remaining available balance from prior fiscal years (net of midyear allocations approved by the City Council), and one-time revenues and expenditure savings, the total funds available for allocation through Fiscal Year 2024-25 were \$33.4 million.

Allocations in the Fiscal Year 2025-26 Adopted Budget included:

- \$7.8 million for new limited-period expenditures, and
- Transfers totaling \$16.7 million to reserves, including:
 - \$5.0 million to the Public Safety Building Reserve
 - \$2.3 million to the General Fund Reserve
 - \$2.2 million to the Compensated Absences Reserve
 - \$2.2 million to the General Liability Fund
 - \$2.0 million to the Strategic Property Acquisition Reserve
 - \$1.0 million each to the CIP Reserve, Parental Leave Reserve, and Development Services Fund.

After these allocations, the City ended the fiscal year with a remaining unallocated balance of \$8.9 million as of June 30, 2025.

CONCLUSION

Total Fiscal Year 2024-25 GOF revenues were \$195.3 million, \$9.5 million (5.1%) above the Adjusted Budget. Total GOF expenditures were \$182.0 million, \$6.4 million (3.4%) below the Adjusted Budget. These amounts do not include \$2.1 million in encumbrances outstanding at fiscal year-end.

The GOF ended the fiscal year with a positive operating balance of \$10.1 million, which provides critical funding for Fiscal Year 2025-26 limited-period expenditures and transfers to key reserves that support the City's long-term financial stability. The remaining unallocated balance of \$8.9 million offers very limited flexibility to address one-time needs or strategic investments.

An updated estimate of the City's financial position for Fiscal Year 2025-26, along with preliminary projections for Fiscal Year 2026-27 will be presented to the City Council in February 2026 as part of the Midyear Budget Status Report.