



## **COUNCIL REPORT**

<b>DATE:</b>	April 8, 2025
<b>CATEGORY:</b>	New Business
<b>DEPT.:</b>	Finance and Administrative Services
<b>TITLE:</b>	<b>Preliminary Review of Fiscal Year 2025-26 Recommended Budget</b>

### **RECOMMENDATION**

It is recommended that the City Council receive the staff presentation and provide input on the Fiscal Year 2025-26 General Operating 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 2025-26 Recommended Budget and 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 10, with adoption scheduled after the public hearing on June 24, 2025.

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 2025-26. It also includes an overview of various City Reserves, which include reserves in the General Fund and the Equipment Replacement Fund. This serves as an opportunity for Councilmembers to review the information and provide initial feedback.

### **BACKGROUND**

The Fiscal Year 2025-26 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 2025-26, revenues are not growing at the same pace the City has experienced in prior years, and there remains significant economic uncertainty. However, the City continues to exercise financial prudence when planning for the future and is prepared to weather any possible future tough economic times. This includes 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**

As with most municipalities, repairs, maintenance, and eventual replacement of facilities and infrastructure 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.

While the preliminary Fiscal Year 2025-26 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 increase the tax for any property transactions over \$6.0 million. The new tax is Fifteen Dollars (\$15) for each One Thousand Dollars (\$1,000) of the total sales price, which is an increase from Three Dollars and Thirty Cents (\$3.30) for each One Thousand Dollars (\$1,000) of the total sales price that has been in effect since 1973. Based on sales data over the prior five years, it is estimated the annual revenue generated from the higher tax could be \$9.5 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.

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. One of the few positive developments that emerged from the COVID-19 pandemic was the recognition that as an organization, we could manage almost any situation through creative reimagining of how we approach our processes and systems and more effectively use and deploy technology. The need to continue embracing technology in our day-to-day work and service delivery is as important now more than ever.

While the last several budgets have addressed some of our service delivery challenges through the addition of limited, yet critical, staffing positions, in the coming years the ability to reinvent and automate many of our processes is what will enable Mountain View to continue to provide the high level of service to the community.

**Economic Update**

An economic update was provided in the Fiscal Year 2024-25 Midyear Budget Status Report presented to the City Council on February 25, 2025. Since that time, a government shutdown has been averted; tariffs on other countries have been implemented, rescinded, and delayed; federal agencies and staff positions have been eliminated; and most equity indices in the United States stock market have experienced declines. Between February 25 and March 14, the various stock market indices have experienced the following declines:

- Dow Jones Industrial Average is down nearly 5%.
- Nasdaq Composite is down nearly 7%.
- Standard and Poor's 500 is down over 5%.

Economists are now warning that federal policy shifts, namely tariffs, federal job cuts, and strict immigration, could further slow future economic growth. As a result, some financial strategists and economic research teams, including Goldman Sachs, are lowering their forecasts for Gross Domestic Product growth and their year-end price target for the S&P 500. While these forecasts are indicating slower growth, they are still projecting positive growth amounts.

A more detailed and comprehensive economic update will be included in the Recommended Budget presented to the City Council on June 10, 2025.

**Fee Study**

In an effort to continually review and improve legacy processes and procedures, staff is in the process of conducting a comprehensive Citywide Fee Study. It has been over ten years since the City's last Citywide Fee Study, and it is anticipated that the new study will likely demonstrate the need to increase current fees to align with the actual cost of providing those services. It's important to note that cost recovery fee programs ensure that services that only benefit an individual or single business entity are recouped from that individual or firm. This guarantees that City revenues are not diverted from projects and programs that benefit the broader community.

In addition, the Citywide Fee Study is a Fiscal Year 2023-25 Council Work Plan priority project, a program in the adopted 2023-2031 Housing Element (Program 4.1, Development Streamlining and Processing Revisions), and a recommendation from the City's Development Review Study (Matrix Study, Recommendation No. 36).

The complete fee study report is scheduled to be presented to the Council Finance Committee (CFC) in April 2025 and is planned to be included in the June 10, 2025, Council meeting as part of the Public Hearing for the Recommended Budget.

## **EXECUTIVE SUMMARY**

### **Budget Transparency**

The City maintains fiscally prudent budgeting practices of balancing ongoing expenditures with ongoing revenues and adopting structurally balanced operating budgets. In recent years, the City has experienced strong revenue growth with a larger-than-normal net operating balance that has allowed the City to maintain adequate reserves and address a portion of its infrastructure needs and pay down long-term liabilities, such as pension and retiree benefit liabilities. These sound fiscal practices and budget discipline have allowed the City to maintain its AAA credit rating for more than 10 years, a status held by only a minority of other California cities.

As the annual budget is typically considered the single most important policy document that a local government adopts, the City began preparing a new annual budget video and Budget-In-Brief document, starting with Fiscal Year 2023-24, to supplement the Adopted Budget document. These new and innovative visuals help provide a high-level overview of the Adopted Budget in a transparent and concise manner for the community, without having to review the entire Adopted Budget document.

In addition, staff is currently preparing a new Popular Annual Financial Report, based on the most recent Annual Comprehensive Financial Report (audited financial statements). This new report will provide another concise and easy-to-read document to the public, contributing to the City's effort of increased transparency.

Building on the City's strong fiscal practices, staff has prepared the Fiscal Year 2025-26 Preliminary Budget Review report as a new and additional step in the annual budget process, providing additional transparency to the community and giving the City Council another opportunity to provide input on how to allocate City resources.

### **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 economic climate of Silicon Valley, the greater Bay Area, and the state. During the Great Recession of 2008, the GOF faced structural deficits before corrective actions were taken for four consecutive fiscal years. In strategically and proactively addressing these ongoing structural deficits, the City was able to better position itself for the economic recovery in the ensuing years leading up to today.

## Fiscal Year 2024-25

Fiscal Year 2024-25 revenues are estimated to exceed budget, and expenditures are estimated below budget. This results in an estimated \$8.7 million operating balance. This is an improvement in revenues from the estimates provided in the Midyear Report on February 25, 2025, when the projected operating balance was estimated to be \$8.2 million. Revenue estimates have increased \$3.2 million, primarily as a result of higher property taxes, Transient Occupancy Taxes (TOT), Utility Users Tax (UUT), investment earnings, and intergovernmental revenues. The expenditure estimate has increased slightly to \$182.2 million from \$179.4 million, an increase of \$2.8 million.

## Fiscal Year 2025-26 and Beyond

Fiscal Year 2025-26 revenues are projected to rise to \$194.6 million, and expenditures are projected to increase to \$194.5 million (including the City Manager preliminary budget recommendations). Revenues are at a level sufficient to fund expenditures, with a projected net operating balance of \$96,000. Recommendations include nondiscretionary budget increases, as well as a few discretionary increases in high-priority areas. Also recommended is \$9.6 million of projected budget savings related to the vacancy factor.

Due to the need to address some critical staffing requirements within the City, staff is recommending the addition of four ongoing positions in the GOF. This includes two new ongoing positions and two positions converted from limited period to regular ongoing status in the City Attorney's Office, City Manager's Office, Community Services Department, and the Human Resources Department.

Recommended Positions in GOF		
<b><u>New Ongoing Regular:</u></b>		<b>FTE</b>
<b>Department</b>	<b>Position</b>	
City Attorney's Office	Deputy City Attorney	1.00
Community Services Department	Parks Maintenance Worker I/II	1.00
<b><u>Limited-Period to Regular:</u></b>		
<b>Department</b>	<b>Position</b>	
City Manager's Office	Website Coordinator	1.00
Human Resources Department	Administrative Assistant	1.00
<b>TOTAL</b>		<b><u>4.00</u></b>

For the remaining forecast years, revenues are projected to continue growing; however, at a slower pace than expenditures. This continues a trend of the local economy showing signs of slowing. While the City's major revenues have generally remained strong and have benefited from inflation as well as the increase in interest rates, there is evidence of slowing or minimal growth in the City's major revenue sources, specifically property tax and sales tax revenues. Local economic indicators continue to project stable revenues, but with slower-paced growth

anticipated in the future, following strong revenue growth the past several fiscal years. Uncertainty associated with inflation, interest rates, national and state economic policies, and geopolitical conflicts all contribute to the projected slower-paced growth. Deficits are projected for Fiscal Years 2026-27 through 2029-30. Although concerning, the deficits themselves are minimal at approximately 1.7% 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 10, 2025.

	<u>2024-25 Adopted</u>	<u>2024-25 Estimated</u>	<u>2025-26 Forecast</u>	<u>2026-27 Forecast</u>	<u>2027-28 Forecast</u>	<u>2028-29 Forecast</u>	<u>2029-30 Forecast</u>
<b>Revenues:</b>							
Property Taxes	\$ 78,063	\$ 80,080	\$ 84,084	\$ 88,286	\$ 94,477	\$101,125	\$108,229
Sales Tax	24,478	21,146	23,119	24,238	25,403	26,166	26,951
Other Local Taxes	23,676	26,479	25,430	26,118	26,831	27,569	28,334
Use of Money &							
Property	30,048	30,996	31,483	34,018	35,098	35,948	36,714
Other Revenues	<u>27,879</u>	<u>32,142</u>	<u>30,434</u>	<u>30,856</u>	<u>31,293</u>	<u>31,749</u>	<u>32,222</u>
<b>Total Operating Revenues</b>	<b>\$184,144</b>	<b>\$190,843</b>	<b>\$194,550</b>	<b>\$203,516</b>	<b>\$213,102</b>	<b>\$222,557</b>	<b>\$232,450</b>
<b>Expenditures:</b>							
Salaries & Benefits	\$148,157	\$138,161	\$156,734	\$166,493	\$173,612	\$182,555	\$188,926
Services & Supplies	28,047	27,828	28,625	30,653	31,948	33,065	34,224
Other Operating	15,140	16,194	11,732	12,307	13,040	13,604	14,250
Debt Service	<u>-0-</u>	<u>-0-</u>	<u>5,011</u>	<u>6,080</u>	<u>6,080</u>	<u>6,080</u>	<u>6,082</u>
<b>Total Operating Expenditures</b>	<b>\$191,344</b>	<b>\$182,183</b>	<b>\$202,102</b>	<b>\$ 215,533</b>	<b>\$224,680</b>	<b>\$235,304</b>	<b>\$243,482</b>
Vacancy Factor	\$ (8,500)	Included	\$ (9,640)	\$ (10,800)	\$ (11,000)	\$ (11,300)	\$ (11,400)
FY2025-26							
Recommendations	<u>-0-</u>	<u>-0-</u>	<u>\$ 1,992</u>	<u>\$ 2,092</u>	<u>\$ 2,172</u>	<u>\$ 2,266</u>	<u>\$ 2,341</u>
<b>Net Expenditures</b>	<b>\$182,844</b>	<b>\$182,183</b>	<b>\$194,454</b>	<b>\$206,825</b>	<b>\$215,852</b>	<b>\$226,270</b>	<b>\$234,423</b>
<b>Operating Balance/(Deficit)</b>	<b>\$ 1,300</b>	<b>\$ 8,660</b>	<b>\$ 96</b>	<b>\$ (3,309)</b>	<b>\$ (2,750)</b>	<b>\$ (3,713)</b>	<b>\$ (1,973)</b>

### 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 2024-25 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, 2024	\$ 9,805
FY 2024-25 Midyear Allocations Approved by City Council	(147)
Estimated FY 2024-25 GOF Operating Balance Available	8,660
Estimated FY 2024-25 GNOF One-Time Revenues	<u>8,130</u>
Total Estimated Balance Available as of June 30, 2025	<u>26,448</u>
Recommended Allocations:	
Non-Discretionary:	
Limited-Period Expenditures	(5,578)
General Fund Reserve <sup>(1)</sup>	(2,000)
Compensated Absences Reserve	(2,300)
Discretionary:	
GF Budget Contingency Reserve—Public Safety Building	(5,000)
General Liability Fund	(2,200)
GF Strategic Property Acquisition Reserve	(2,000)
Capital Improvement Reserve	(1,000)
Development Services Fund	(1,000)
Parental Leave Reserve	<u>(1,000)</u>
Total Recommended Allocations	<u>(22,078)</u>
Estimated Remaining Balance Available	\$ <u>4,370</u>

<sup>(1)</sup> Final amount to be determined with the Adopted Budget.

**Fiscal Year 2025-26 Budget Recommendations**

As described below, there are recommended expenditure increases of \$2.0 million in ongoing costs and \$5.6 million in limited-period funding, covering non-discretionary, discretionary, and limited-period items.

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 are recommended to be included 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 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 \$399,000 are recommended to fund existing and new required operational costs:

- Information Technology Services, Licenses, and Software Renewals: \$128,200.

Provides new and increased funding for the annual services, licenses and software renewals for Avolve ProjectDox, SmartWave, Netfile, and various other software licenses.

- Contract Services for Janitorial Services: \$98,500.

Provides increased funding for janitorial services for City facilities due to cost increase associated with the new janitorial services contract.

- Software Services for Flock Camera: \$90,000.

Provides new funding for the leasing of the City's current Flock camera system.



## Recommended Discretionary Expenditures

Discretionary expenditure increases totaling \$1.6 million are recommended for high-priority ongoing programs; \$1.2 million of the increase is related to salary and benefit costs:

- *Deputy City Attorney Position (1.0 FTE): \$288,100.*

Provides funding for a Deputy City Attorney position. This position will provide support to the City Attorney and Assistant City Attorneys due to increased workload related to legal matters.

- *Website Coordinator Position (1.0 FTE): \$254,900.*

Provides funding for an ongoing Website Coordinator position currently funded through limited period funds. This position will maintain and provide increased support for the City's website and intranet for public and employee use.

- *Parks Maintenance Worker I/II Position (1.0 FTE): \$183,100.*

Provides funding for a Parks Maintenance Worker I/II position. This position will provide increased support and maintenance to Rengstorff Park and its enhanced amenities.

- *Administrative Assistant Position (1.0 FTE): \$173,800.*

Provides funding for an ongoing Administrative Assistant position in the Human Resources Department currently funded through limited period funds. This position will provide clerical and administrative support due to increased workload related to public inquiries, recruitments, benefits, and trainings for City employees.

- *Reclassification of Firefighter/HazMat Positions to Firefighter/Medic/Hazardous Materials Positions: \$166,500.*

Provides funding to reclassify five Firefighter/HazMat positions to five Firefighter/Paramedic/Hazardous Materials positions. These positions will provide increased support to the public for medical/fire related emergencies.

- *State Legislative Advocacy: \$150,000.*

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

- *Overtime Costs: \$100,000.*

Provides funding for overtime costs within the Fire Department to maintain staffing levels while personnel are on Parental Leave.

- *Reclassification of a Document Processing Technician III Position to Principal Financial Analyst Position: \$77,800.*

Provides funding to reclassify one Document Processing Technician III to a Principal Financial Analyst. This position will provide support to the Accounting, Budget, Purchasing, and Revenue divisions within the Finance and Administrative Services Department due to increased workload.

- *Contract Services for Traffic Maintenance and Repair Services: \$64,000.*

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

- *Management Forum: \$60,000.*

Provides increased funding for events to promote and foster leadership, continuous learning, training, and organizational priorities for Management employees within the City.

- *Contract Services for Street Sweeping Services: \$58,000.*

Provides increased funding for Street Sweeping services due to increased labor costs.

### **Recommended Limited-Period Expenditures**

Funding of \$5.6 million for limited-period items are recommended for one-time, high-priority programs; \$1.3 million of the increase is related to salary and benefit costs, all of which is a continuation of current limited-period personnel costs.

- *Temporary Staffing for Information Technology: \$390,000.*

Provides funding for hiring temporary staffing equivalent to two full-time IT Desktop Technicians. These positions will provide increased workload capacity for frontline support for applications used throughout the City.

- *Safe Parking Program: \$368,000.*

Provides funding to continue and expand the Safe Parking Program in support of the Council's Community for All strategic priority. (Total cost is \$700,000, remainder will be funded by the Shoreline Regional Park Community Fund.)

- *Contract Services for Economic Development: \$350,000.*

Provides funding for contract services to develop programs and grants to support the economic development of the City.

- *IT Analyst I/II Position (1.0 FTE): \$255,900.*

Continues to provide funding for an IT Analyst I/II position. This position will support projects related to Geographic Information Systems (GIS).

- *Senior Management Analyst Position (1.0 FTE): \$255,900.*

Continues to provide funding for a Senior Management Analyst position in the Finance and Administrative Services Department. This position will assist with purchasing and contracting due to the increase in complexity and volume at the City.

- *Hourly Wages for Human Resources: \$255,000.*

Continues to provide 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.

- *Firefighter Recruit Academy: \$223,800.*

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

- *Hourly Wages for Public Works: \$220,000.*

Continues to provide funding for wages for hourly support. The hourly employees will provide support to the Transportation and Traffic Divisions in the Public Works Department.

- *Human Resources Technician Position (1.0 FTE): \$205,400.*

Continues funding for a 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.

- *Consultant Services for Planning and Economic Development: \$200,000.*

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

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

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

- *Management Fellow Position (1.0 FTE): \$198,700.*

Continues to provide funding for a 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.

- *Hourly Wages for City Management: \$182,000.*

Provides funding for wages for hourly support. The hourly funds will provide executive level administrative support for the Council Neighborhoods Committee (CNC) and grant process.

- *Citywide Succession Planning: \$162,000.*

Continues to provide 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.

- *Lead Security Services Guard Position (1.0 FTE): \$161,400.*

Continues to provide funding for a 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.

- *Senior Stagehand Position (1.0 FTE): \$151,900.*

Continues to provide funding for a Senior Stagehand position. This position will support the Performing Arts Division and operations of the Mountain View Center for the Performing Arts (MVCPA).

- *Contract Management Software: \$150,000.*

Provides funding for the implementation and maintenance of a new contract management software. This software will maintain all activities and processes related to contracts.

- *Federal Legislative Advocacy Consultant: \$120,000.*

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

- *Cardiovascular and Metabolic Screening Program: \$117,000.*

Provides funding for cardiovascular and metabolic screening services for the City's Police Officers. The services provide a more comprehensive health screening which include cancer detection and heart disease.

- *Contract Services for Facilities: \$102,000.*

Provides funding for a new preventive maintenance program and fund increased cost of services for maintaining, testing, and monitoring various City facilities.

- *Career Success Allowance Program: \$100,000.*

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

- *Contract Services for Forestry Outreach: \$100,000.*

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

- *Employee Relations Legal Services: \$100,000.*

Continues to provide funding for employee relations legal services.

- *Safe Routes to School: \$100,000.*

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

- *Porter Services: \$96,600.*

Continues to provide funding for full-time day porter service at the Senior Center.

- *Library Assistant I/II Position (0.5 FTE): \$85,800.*

Continues to provide funding for a half-time Library I/II position. This position will engage with the public and assist with facilitating programs and other public service needs.

- *Recreational Vehicle Tow Subsidy Program: \$80,000.*

Provides funding for a Recreational Vehicle (RV) Tow Subsidy Program. The program will work with local towing companies to remove abandoned RVs located throughout the City.

- *Security Services: \$80,000.*

Continues to provide funding for contract security services for the Library. The services will supplement security coverage of the Lead Security Services Guard.

- *Hourly Wages for Finance: \$75,000.*

Provides funding for wages for hourly support in the Accounting Division in the Finance and Administrative Services Department.

- *Organization Wellness Programs: \$75,000.*

Provides funding for organizational wellness programs. The programs will support City employees in addressing workplace matters relating to performance management, training, and success.

- *Emergency Alert and Evacuation Software: \$67,000.*

Provides funding for a three-year subscription to emergency alert and evacuation software for first responders and Public Safety. The software will improve Public Safety's response time by providing real-time notifications during emergency situations.

- *Professional Services for Information Technology: \$50,000.*

Provides funding for contract services to assist with projects in the Information Technology Department relating to enterprise and departmental software systems, networking, and hardware services.

### **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 \$5,000 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 2025-26, staff is recommending expenses of \$1.3 million, of which \$682,000 is from the General Operating Fund and \$621,000 from other funds. Of this amount, nine new vehicles totaling \$866,000 are included, which includes one armored Rescue Vehicle for the Police Department. All other vehicles are recommended to be either hybrid or electric (EV) to support the City's public safety, sustainability, and operational efficiency goals.

### **SUMMARY**

**Given stable revenue sources but growing costs and an uncertain economic outlook, the City is exercising financial prudence and only recommending items that are necessary to maintain essential City services in critical areas.**

As a continuing need for resources exist in a variety of areas, these are being addressed by the allocation of limited-period expenditures. The net result of the recommendations is a projected GOF operating balance for Fiscal Year 2025-26 of \$96,000, with deficits in future years ranging from \$2.0 million to \$3.7 million.

### **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.

	6/30/25 Estimated Balance	Amount Recommended for Allocation in FY 2025-26	FY 2025-26 Recommended Beg. Balance after Allocation <sup>(1)</sup>
GF Reserve	\$ 36,876	\$ 2,000 <sup>(2)</sup>	\$ 38,876
GF Budget Contingency—Public Safety Building	23,215	5,000	28,215
GF Budget Contingency—Other	3,509	-0-	3,509
GF Earned Lease Revenue	2,982	-0-	2,982
GF Property Management	1,477	-0-	1,477
Graham Site Maintenance	353	-0-	353
GF Transportation	6,249	-0-	6,249
GF Capital Improvements	14,015	1,000	15,015 <sup>(3)</sup>
GF Open Space Acquisition	956	-0-	956
GF Strategic Property Acquisition	20,432	2,000	22,432
GF Child-Care Commitment	100	-0-	100
Compensated Absences <sup>(4)</sup>	7,388	2,500	9,888
Parental Leave	956	1,000	1,956
Employee Loan	6,255	-0-	6,255
Minor Estate Trust	436	-0-	436
Equipment Replacement	<u>21,601</u>	<u>-0-</u>	<u>21,601</u>
TOTAL	<u>\$146,800</u>	<u>\$13,500</u>	<u>\$160,300</u>

<sup>(1)</sup> The FY 2025-26 beginning balance does not include any anticipated expenditures for Fiscal Year 2025-26.

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

<sup>(3)</sup> Includes \$5.0 million reserve policy balance, \$2.7 million prepaid lease for the Downtown Family Housing Project, and \$2.0 million for potential debt service on the Public Safety Building.

<sup>(4)</sup> \$2.3 million of the \$2.5 million comes from the GOF, with the remaining amount from various funds, such as Shoreline, Enterprise Funds, and others. The recommended balance as of FY 2025-26 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 for specific reserve requirements. Additional supplemental funding for the General Fund Reserve will be required. The funding is currently estimated at \$2.0 million, which will be finalized with the Adopted Budget. Additional funding of \$2.5 million is recommended for the Compensated Absences Reserve from the General Fund to bring it to policy level. These recommendations will allow most reserves to meet policy levels.



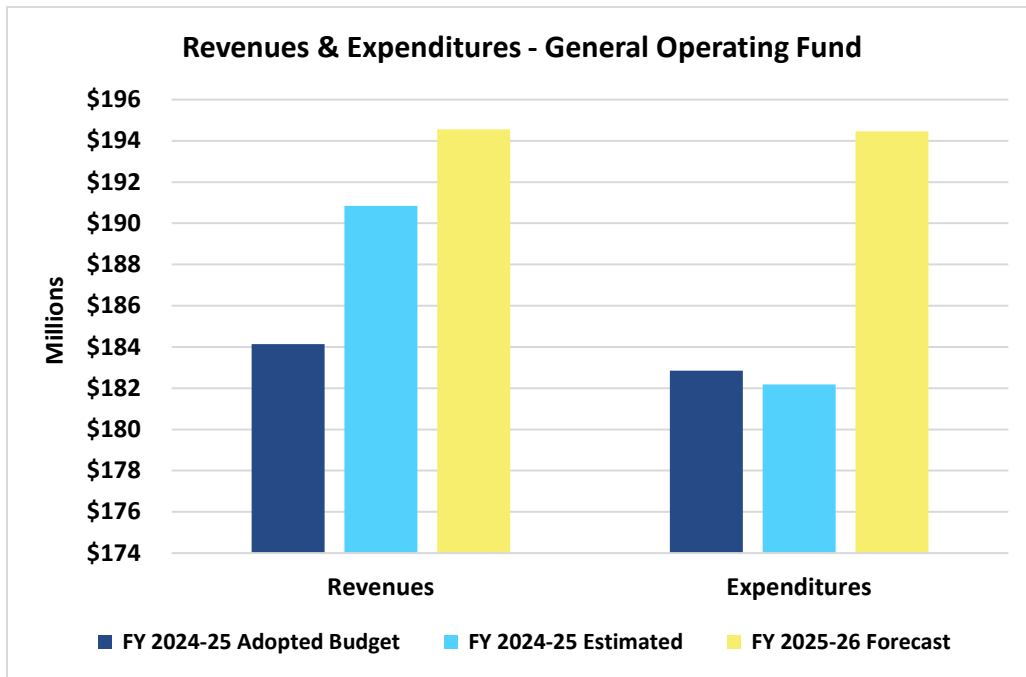
In addition, staff recommends the following transfers from the Fiscal Year 2024-25 General Fund carryover:

- \$5.0 million to the Budget Contingency Reserve—Public Safety Building.
- \$2.0 million to the Strategic Property Acquisition Reserve.
- \$1.0 million to the Capital Improvements Reserve, which is comprised of \$500,000 for accelerated implementation of active transportation projects, and \$500,000 towards improving the City's pavement condition.
- \$1.0 million to replenish the Parental Leave Reserve.

### **CONCLUSION**

Stable revenues with slower or flat growth are projected in the future. Even though the GOF is in a strong financial position, the amount by which revenues exceed expenditures has declined considerably relative to prior years. For Fiscal Year 2025-26, GOF revenues are expected to increase to \$194.6 million, a 5.7% increase compared to the current fiscal year's adopted revenues. Expenditures are projected to rise to \$194.4 million, or 6.3% higher than the Adopted Budget. The GOF is projected to have an operating balance of \$96,000 at the end of Fiscal Year 2025-26. Future years are anticipated to have deficits ranging from \$2.0 million to \$3.7 million.

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 is sought on the material in this report at the April 8, 2025 Council meeting. Based on feedback from the City Council, the Fiscal Year 2025-26 Recommended Budget will be prepared for distribution to the City Council prior to the budget public hearings. The evening of June 10 is scheduled for the first public hearing, and final adoption is scheduled for the City Council Special Meeting of June 24, 2025.

## **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](http://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

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204694

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Attachment: 1: Reserves