



CITY COUNCIL AGENDA REPORT

Meeting Date: 3/6/2025

From: Carolina Yuen, Finance Director

Subject: FY25 Budget Review Report

Community Goal/Result

Fiscal Stability

Purpose

Review progress of funding for current approved programs and services in the current fiscal year.

Recommendation

City Council receive report of the FY 2024/25 Budget progress review

Background

On June 6, 2024, City Council adopted the FY 2024/25 budget. The budget projected General Fund Revenues at \$28,639,787, including Transfers In. General Fund Expenditures were budgeted to exceed revenues and were set at \$31,339,180 including Transfers Out. Combined, the City budgeted for a use of funds in the amount of \$2,699,392.

Our preliminary actual General Fund non-committed Beginning Balance as of July 1, 2024, was \$6,800,572. The FY24 audit is still in progress and this figure can change.

Discussion

Revenues: Attached is a summary showing the FY2022/2023 and FY 2023/24 adopted and amended budgets compared to actuals as well as the 2024/25 adopted budget compared to the Budget review re-projection. Staff is anticipating approximately \$658,000 in additional revenues for the 2025 fiscal year, for a total of \$29,298,000. The largest increases were due to the increase in Property Taxes, followed by Franchise Fees, then by TOT, and reduced slightly by Sales Taxes and Fees and Charges. However, staff is not requesting budget adjustments to revenue at this time.

Property Tax – Staff budgeted for a 15% increase in Property Tax over the FY24 budget to \$6.4 million. Property taxes remain strong and steady, including additional in RDA property taxes expected of \$371,000. Also, in the current year we received \$350,000 more in ERAF than expected and a catch-up VLF collection payment of \$192,000 was announced by the end of the year. Overall, we're expecting to end the year at \$7.2 million, an increase of \$784,000.

Sales Tax – Staff budgeted Sales Taxes of \$7.8 million, a 2% decrease from FY24 Budget to account for one-time taxes collected in the previous year. The Bradley-Burns Sales Tax appears on target just shy of \$6 million based on two quarters of collections. The City has now collected almost two full years of the Transaction and Use Sales Tax that went into effect in 2023, and although the results are below the original expectation of \$2 million, it is still projected to contribute strong revenues of \$1.5 million. Overall, we’re projecting Sales Taxes of \$7.5 million, short of budget by 4%.

Transient Occupancy Tax (TOT) – Staff budgeted the amount of TOT to remain flat for FY25 over prior year at \$1.9 million which appears to be the new baseline. In FY25, we also collected two catch-up payments from the previous year, and we are therefore expected to be above budget by \$26,000. So far this year, Short-Term Rental properties have contributed \$8,000 to TOT, not including the remainder of the year.

Business License Tax – This budget category was increased 3% over the FY24 budget to \$5.4 million. The daily business license tax on hotels and short-term rentals is expected to contribute \$236,000, short of the \$300,000 target. Based on current collections of business license renewals for FY25, staff projects a total of \$481,000, net of transfer to the Capital Project Fund. The recycling business license tax was budgeted prior to the CPI calculation, therefore the actual tax is \$150,000 more than budget. Overall, Business License Tax is projected at \$5.5 million, an increase over budget of \$50,000, or 1%.

Fees and Service Charges – The budget for Building and Planning fees are historically kept rather flat for budgeting purposes. These fees in FY25 are slightly lagging compared to previous year. Although fees for Recreation are trending above target, permitting fees are difficult to project. Therefore, based on activity to date, fees and services have decreased by \$200,000 for a total projected total of \$1.9 million.

Expenses: In June 2024 when the budget was adopted, Staff was challenged to identify savings that could either be pushed to expend in calendar year 2025 or pushed to fiscal year 2026. At the time, Staff identified a total of \$466,000 in potential savings. Although not all of the identified items were able to be held off until FY2026, Staff was still able to manage savings in other areas.

Headcount Savings – The Technology Plan allowed for an Information Technology & Systems Administrator to be hired in FY25. However, the position is not expected to be filled until at least FY26. The City Manager’s division had openings for the Assistant City

Manager and an Administrative Management Analyst for most of the year. These open positions contributed to additional savings.

American Rescue Plan Act (ARPA) – The federal government enacted a federal stimulus bill known as ARPA to aid state and local jurisdiction for economic recovery from the COVID-19 pandemic. The City received a program-to-date total of \$1,117,402. After \$200,000 was used to assist small businesses impacted by COVID closures, the remaining funds were added to the FY25 Budget as an incoming transfer to replace lost revenues. In a Council Meeting held on December 5, 2024, Council designated \$195,000 to be committed in FY25 towards ARPA eligible projects. Therefore, an addition of \$195,000 is being made to the budgeted expenses.

The combination of the identified savings at the time of the budget approval and headcount savings, and the addition of the ARPA projects, the City is expecting a net savings of \$661,000, lowering projected expenditures to \$30,678,147, net of transfers. However, Staff is not recommending adjusting the budget at this time to allow for unexpected costs that may arise.

Following is a summary of the allocation across departments as identified savings in June 2024 when the budget was passed, and savings that each department is expecting.

Category	Targeted Savings Identified in Jun'24	Projected Savings & Changes
Total Department Savings	\$ 466,224	\$ 466,224
Headcount Savings		\$ 389,909
ARPA Additional Commitments		(\$ 195,000)
Total Savings	\$ 466,224	\$ 661,033

Although Staff is not recommending an adjustment to budgeted expenses, Staff is projecting use of Fund Balance by the end of the year to be reduced from \$2.7 million to \$1.4 million.

Fund Balance and summary

Ending Fund Balance for FY2024/25 is anticipated to be higher than originally budgeted and projected to now be approximately \$15,067,000. Based on fund commitments and the Reserve Policy adopted by Council to set money aside for recessions, unanticipated events and annual fluctuations in the budget, the City will have \$568,000 in available reserves.

Fiscal Impact

The City expects its budgeted use of fund balance for FY25 will be reduced to \$1,380,248. Any savings net of pension transfer allowed by budget policy will be rolled over to be considered for the FY26 budget and be used to pay for the level of services requested by the Council.

Measure of Success

The City is able to meet the goals and policies adopted by the City Council.

Attachments

Budget Overview of General Fund 2024/25

Carolina Yuen

Carolina Yuen, Finance Director

Jeremy Dennis

Jeremy Dennis, City Manager



General Fund

	FY22/23	FY23/24	FY24/25
June Adopted Budgeted Revenue	21,816,001	26,695,707	28,639,787
June Adopted Budgeted Expenses, net of transfers	25,013,662	28,599,443	31,339,180
Budgeted Surplus (Use of Fund Balance)	<u>(3,197,661)</u>	<u>(1,903,736)</u>	<u>(2,699,392)</u>
Mid-Year Amended Budgeted Revenues	26,244,277	28,891,077	
Mid-Year Amended Budgeted Expenses, net of transfers	25,573,882	28,599,443	
Amended Surplus (Use of Fund Balance)	<u>670,395</u>	<u>291,634</u>	
Actual / Anticipated Revenues	28,562,247	28,891,077	29,297,899
Actual / Anticipated Expenses, net of transfers	28,127,479	28,078,493	30,678,147
Actual / Reprojected Surplus (Use of Fund Balance)	<u>434,768</u>	<u>812,584</u>	<u>(1,380,248)</u>
Beginning Fund Balance	15,200,290	15,635,058	16,447,642
Ending Fund Balance	15,635,058	16,447,642	15,067,393
Reserve Policy:			
Recession Reserve	2,500,000	2,500,000	2,500,000
Unanticipated Events	3,500,000	3,500,000	3,500,000
Annual Fluctuation (5% Revenues/5% Expenses)	2,834,486	2,848,478	2,998,948
Total Required Reserve	<u>8,834,486</u>	<u>8,848,478</u>	<u>8,998,948</u>
Fund Balance Above Required Balance	6,800,572	7,599,163	6,068,445
Additional Restrictions on Fund Balance	5,810,028	6,500,000	5,500,000
Available Fund Balance	<u>990,544</u>	<u>1,099,163</u>	<u>568,445</u>