

Capitola City Council

Agenda Report



Meeting: September 10, 2026

From: Administrative Services Department

Subject: Fiscal Year 2025-26 Revenue and Expenditure Update

Recommended Action: Receive the Fiscal Year 2025-26 revenue and expenditure update and provide direction regarding the use of the \$1 million insurance settlement received for repairs associated with the 2023 Wharf storm damage.

Background: Staff has completed their review of major General Fund revenues and expenditures for Fiscal Year 2025-26. Overall, the City's financial performance was favorable, with revenues exceeding the adopted budget and expenditures finishing modestly above budget.

The year-end results warrant discussion and a recommendation regarding the \$1 million insurance settlement received in connection with repairs to Capitola's Wharf in 2023, caused by winter storm damage. The settlement provides an opportunity to replenish City reserves, which currently remain approximately \$900,000 below established target balance levels.

General Fund Revenue: Total General Fund revenues for Fiscal Year 2025-26 were \$21,601,965, compared to the adopted budget of \$21,011,349, resulting in a favorable variance of approximately \$590,616 or 2.8%.

The favorable revenue performance was driven primarily by stronger-than-budgeted sales tax, property tax, transient occupancy tax (TOT), building permit revenue, and parking citation revenue.

Sales Tax Revenue: Actual sales tax revenue was \$9,975,936, which was \$260,058 above budget. Bradley Burns sales tax accounted for the majority of the favorable variance, exceeding budget by \$220,786. Measure O exceeded budget by \$12,999, while Measure Y exceeded budget by \$26,273.

Property Tax Revenue: Property tax revenue totaled \$3,708,437, exceeding the adopted budget by \$117,437.

Transient Occupancy Tax (TOT) Revenue: TOT revenue totaled \$2,320,910, which was \$98,910 above the adopted budget of \$2,222,000. Approximately \$45,000 of the favorable variance resulted from late payments of prior-year TOT obligations.

Building Permit Revenue: Building permit revenue totaled \$534,852, compared to the adopted budget of \$410,000, resulting in a favorable variance of \$124,852, or approximately 30.5%. The stronger-than-budgeted permitting activity is a positive indicator of continued development and construction activity within the City.

Parking Citation Revenue: Parking citation revenue totaled \$506,748.51, compared to the amended budget of \$450,000, resulting in a favorable variance of \$56,748.51, or approximately 12.6%. The higher-than-budgeted revenue reflects stronger parking citation activity during the fiscal year.

Other revenue categories finished modestly below budget, including Cannabis Retail Tax, which was \$3,463 below budget; Franchise Tax, which was \$3,922 below budget; and Parking Meter revenue, which was \$7,059 below budget.

Overall, the favorable performance of the City's major revenue sources more than offset the modest unfavorable variances in other revenue categories and resulted in General Fund revenues exceeding the adopted budget by approximately \$591,000.

Insurance Settlement: The City received a \$1 million insurance settlement in connection with repairs to Capitola's Wharf in 2023, caused by winter storm damage. Because this is a one-time payment, staff does not recommend using the proceeds to fund ongoing operating expenditures.

Instead, the settlement provides an opportunity to restore reserves that were utilized or otherwise impacted by the 2023 Winter storms and associated repair costs.

Expenditures: Overall, expenditure performance was generally favorable at the department level, although several departments experienced unfavorable variances. Total General Fund expenditures exceeded the adopted budget by approximately \$104,784.

The primary reason for the overall expenditure overage was higher-than-budgeted legal expenditures in the City Attorney's Office. City Attorney expenditures totaled \$629,625, compared to a budget of \$325,000, resulting in an unfavorable variance of approximately \$304,625. This variance was driven in part by redistricting, Housing Element-mandated Mall rezoning, higher levels of public records act costs, and litigation associated with the flume. Prior to the annual audit, staff will evaluate these costs and allocate appropriate expenditures to special revenue funds, reducing the overall General Fund impact.

This overage was substantially offset by approximately \$200,000 in combined departmental operating savings.

Despite the overall expenditure overage, the City maintained a positive operating result for the fiscal year. When the favorable revenue performance is combined with the expenditure results, General Fund revenues exceeded expenditures by approximately \$486,000. This positive operating result improves the projected June 30, 2027, General Fund balance from approximately \$95,000 to \$581,000, slightly exceeding the City's \$500,000 target balance.

Reserves: The City's reserve position remains an important consideration in evaluating the year-end financial results. Current reserve balances are approximately \$900,000 below established target balance levels. Given the City's existing reserve position, staff recommends the \$1 million insurance settlement associated with the 2023 Wharf damage repairs be directed toward replenishing reserves.

Applying the settlement to reserves would eliminate the current reserve shortfall and provide greater financial stability heading into Fiscal Year 2026-27. It would also preserve the City's ongoing operating revenues for recurring expenditures rather than using a one-time insurance payment to support ongoing operations.

Staff further recommends the approximately \$100,000 in reserves above the established target balance be retained in the Emergency Reserve. At the August 27th City Council meeting, Council authorized the use of up to \$150,000 of funds from the City's Emergency Reserve for work on the Stockton Bridge.

In addition to the potential use of funds for the Stockton Bridge, additional costs for the recently completed districting effort are estimated at approximately \$40,000, emergency street repairs on Laurence Ave are estimated at \$50,000, and forecasted super El Nino storms this winter are other items staff is currently monitoring.

The Finance Advisory Committee (FAC) met on Tuesday, September 1st, and concurred with staff's recommendation. Additionally, the FAC requested to review the current Financial Management Policy that includes the reserve policies.

During the FY 2026-27 mid-year budget review, the City Council will have the opportunity to conduct a more comprehensive review of the City's financial position and budget performance after several months of FY 2026-27 operations. This review will also provide an opportunity to evaluate any financial impacts associated with the upcoming winter storm season.

Conclusion: Fiscal Year 2025-26 financial performance was generally favorable. General Fund revenues exceeded the adopted budget by approximately \$486,000, driven primarily by stronger-than-budgeted sales tax, property tax, TOT, building permit, and parking citation revenues.

Expenditure performance was generally favorable at the department level, with significant savings in the City Manager, Police, Public Works, and Community and Economic Development Departments helping to offset higher expenditures in the City Attorney's Office.

The resulting positive operating balance is expected to increase the projected June 30, 2027, General Fund balance from approximately \$95,000 to \$581,000, slightly above the City's \$500,000 target balance.

The separate \$1 million insurance settlement provides an opportunity to address the City's broader reserve shortfall. Staff recommends directing the settlement to reserves rather than using the one-time proceeds for ongoing operating expenditures.

Fiscal Impact: FY 2025-26 General Fund revenues exceeded the adopted budget by approximately \$591,000, before consideration of the separate \$1 million insurance settlement associated with the 2023 Wharf damage/repairs.

The estimated ending FY 2026-27 General Fund balance was initially projected at approximately \$95,000, significantly below the City's \$500,000 target balance. Based on the FY 2025-26 results, including approximately \$486,000 in revenues exceeding expenditures, the updated estimated June 30, 2027, General Fund balance is approximately \$581,000.

Separately, the City's reserves remain approximately \$900,000 below established target balance levels. Directing the \$1 million insurance settlement to reserves would restore the City's reserve position and result in approximately \$100,000 in reserves being above the established target balance.

Staff recommends retaining the additional \$100,000 above the target balance following Council's direction utilizing emergency reserve funds for the Stockton Bridge. The FY 2026-27 mid-year budget review will allow the Council to conduct a comprehensive evaluation of the FY 2026-27 budget and financial position, including any impacts that may result from the upcoming winter storm season.

Final fund balance and year-end financial results will be determined following completion of the City's year-end financial audit. Auditors will be site for year-end fieldwork the week of September 8 and anticipate completing the financial statements by late October/early November. Any required year-end budget adjustments will be brought forward separately, as appropriate.

Alignment with 2025-2029 Strategic Plan Priority: Accountable Government

Report Prepared By: Jim Malberg, Administrative Services Director

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