

Capitola City Council

Agenda Report



Meeting: February 26, 2026

From: Administrative Services Department

Subject: FY 2025-26 Mid-Year Budget Report

Recommended Action: Receive the Fiscal Year 2025-26 Mid-Year Budget Report and adopt a resolution amending the Fiscal Year 2025-26 Budget.

Background: The Fiscal Year (FY) 2025-26 Mid-Year Budget Report provides an update on the City's financial status as of December 31, 2025, and recommends budget adjustments for FY 2025-26 that better reflect current projections. The City's major revenue sources are currently tracking consistently with budget projections. General Fund expenditures are currently slightly ahead of projections; however, expenditures are expected to end the year at, or below, budget.

Discussion: General Fund revenues are performing consistently with expectations, primarily due to property tax and sales tax performing slightly above budget projections. Intergovernmental revenues are performing well above expectations, while fines and forfeitures are performing well under projections. All other General Fund revenues are performing as expected, but are showing signs of leveling off following the growth experienced over the last few years.

Total General Fund expenditures are trending near the FY 2025–26 Amended Budget but are currently slightly below budgeted levels. Staff has reviewed the data for the first half of the fiscal year's General Fund activities and is recommending budget amendments to revenues as well as expenditures.

Revenues: The FY 2025-26 adopted budget included approximately \$9.7 million of sales tax revenue, which is approximately \$948,000 (11%) above receipts in the prior fiscal year. The increase was projected because this is the first full year of the City receiving revenue due to Measure Y, which adds approximately \$825,000 of revenue from the prior year (\$1.1 million annually) and a projected increase of 2.3% in sales tax revenue growth. At the mid-point of this fiscal year, sales tax receipts are tracking on budget with sales tax revenue up 11%.

Property tax revenues are slightly above budget estimates, while TOT is slightly below budget estimates. Cannabis tax, while tracking higher than the prior year, is still slightly behind budget, while franchise fees continue to exceed budget projections. Total tax revenues are slightly above budget expectations for this point in the fiscal year.

Licenses and permits are tracking ahead of last year and on budget. Building permit activity has increased and is tracking ahead of budget, while business license activity picked up over the prior year, primarily due to the introduction of online payments. All other license and permit activities are performing within budget projections.

Charges for services are tracking close to budget projections. Parking pay station revenue, budgeted at \$1.2 million, is performing as expected. Reimbursement revenue for Police Department services during special events has exceeded the annual budget, with a few special events still to come during the current fiscal year. This revenue directly offsets PD overtime costs related to special events. Plan check fees are performing similarly to the prior year, while Community Services & Recreation fees are slightly below prior year amounts, however still

tracking on budget.

Fines and forfeitures, which include parking citation revenue, are at 25% of the expected amount at the halfway point in the year. This is due primarily to parking citation revenue, which is at \$153,000 of the \$600,500 budgeted amount. This has been a trend over the past several fiscal years as we have faced staffing and equipment challenges. Staff anticipates normal parking operations for the remainder of this fiscal year and going forward; however, staff is recommending a budget amendment reducing parking citation revenues by \$150,000. Staff is also recommending an offsetting budget amendment in expenditures, outlined below.

Expenditures: City departments have consistently maintained expenditures within the adopted budget. Through December, the City has expended approximately 59% of the budgeted General Fund, including encumbrances, while being 50% through the fiscal year. The primary reason is that the City prepaid the annual \$2.9 million Unfunded Actuarial Pension Liability (UAL) in July 2025 as opposed to making monthly payments, resulting in savings of approximately \$98,500. This results in personnel costs showing higher as a percentage of the budget as we amortize the payment over the course of the year. However, after accounting for the UAL payment, we are about \$200,000 (2%) below budget Citywide in personnel costs as of December 31, 2025.

Personnel costs in the Police Department have been especially challenging as they have managed multiple vacancies and the training of new staff. While overtime has already exceeded the total annual budget at the mid-year point, salary savings from those vacancies have resulted in total Police Department personnel costs slightly below budget. In addition to a recommended budget amendment in Parking Enforcement, to adjust both revenue and expenditures, salary savings from the vacant Police Officer position (\$36,000) and two vacant Multi-Service Officer positions (\$64,000) are being utilized to assist in balancing the parking enforcement budget.

Contract services are at sixty-four percent (64%) of the budget at the mid-year point. This is due in part to several large, non-discretionary annual contracts in which the majority of the annual amount is paid early in the fiscal year, legal fees continue to exceed budget projections primarily due to Public Records Act requests and other legal matters, and higher than anticipated vehicle towing fees related to law enforcement activities. Contract services for consulting services are higher than projected as a result of staffing vacancies in the Community and Economic Development Department and staff is recommending a budget amendment to move funds from wages to contract services.

Budget Amendments: Staff requests a budget amendment in the General Fund to align with updated budget projections based on actual year-to-date activity, which maintains a structurally balanced budget.

Revenue	
<i>Amount</i>	<i>Description</i>
\$20,000	Public Safety – Special Events
(\$150,000)	Fines and Forfeitures – Parking Citations
\$50,000	Plan Check Review
Expenditures	
(\$224,000)	Wages – Permanent – Police Dept. (Existing Vacancies Filled on Schedule)

\$146,000	Overtime – Police Department
(\$37,000)	Wages – Permanent – Parking Enforcement
(\$25,000)	Contract Services – Parking Enforcement
\$10,000	Pay Station Repair & Maintenance
\$50,000	Plan Checks - Outsourced
(\$60,000)	Wages – Permanent – Planning (Existing Vacancies Filled on Schedule)
\$60,000	Consulting Services - Planning
(\$45,000)	Wages – Permanent – Building (Existing Vacancies Filled on Schedule)
\$45,000	Consulting Services – Building
\$73,500	Construction Services – SB1 RMRA Fund
\$166,000	Construction Services – RTC Measure D

\$0	Net General Fund Impact
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Special Revenue Funds: Special revenue funds are performing consistently with budget projections. Both the SB 1 Road Rehabilitation and Repair Act (RMRA) and Santa Cruz Regional Transportation Commission (RTC) Measure D funds exceeded revenue projections consistently for several years, with an additional \$239,500 available for road projects.

Prior Fiscal Year Summary: As previously noted, the City ended FY 2024-25 significantly behind budget estimates, reducing the General Fund beginning fund balance by approximately \$484,000. The July 1, 2025, General Fund balance was approximately \$201,500 compared to the May 2025 estimated amount of \$685,885.

Actual revenues were about \$605,000 below the amended budget, while expenditures came in about \$45,000 below budget. Key revenues and expenditures are listed in the tables below:

Revenue	Budget	Estimate	Actual	Difference
Property Tax	3,277,121	3,277,121	3,250,204	(27,000)
Sales Tax	8,785,651	8,785,651	8,633,916	(152,000)
Cannabis Tax	300,000	300,000	254,790	(45,000)
Franchise Tax	698,500	698,500	742,443	44,000
Transient Occupancy Tax	2,222,000	2,222,000	2,116,422	(106,000)
Parking Pay Stations	1,165,940	1,165,940	1,064,170	(102,000)
Police Dept. Special Events	40,000	40,000	63,546	24,000
Planning Fees	90,000	90,000	71,525	(21,000)
Community Services & Recreation Fees	888,950	888,950	858,352	(31,000)
Parking Citations	499,500	499,500	330,744	(169,000)

All Other Fines / Citations	100,000	100,000	172,500	73,000
Investment Income	125,000	125,000	36,600	(88,000)

Expenditures	Budget	Estimate	Actual	Difference
Personnel	13,065,766	13,065,766	12,697,685	368,000
Contract Services	3,515,981	3,515,981	3,811,746	(296,000)
Other Financing Uses	370,568	287,568	370,568	(83,000)

Due to prior fiscal year performance, the projected FY 2025-26 year-ending fund balance is estimated at \$200,000 and will be evaluated during the next budget cycle.

Fiscal Impact: If approved, the requested budget amendment decreases General Fund revenues \$80,000 and General Fund expenditures \$80,000. In addition, the budget amendment allocates existing fund balance in the SB1 RMRA & Measure D to future road projects.

Attachments:

1. Resolution
2. Budget Amendment

Report Prepared By: Jim Malberg, Administrative Services Director

Reviewed By: Julia Gautho, City Clerk

Approved By: Jamie Goldstein, City Manager