



City of Grass Valley City Council Agenda Action Sheet

Title: FY 2025-26 Mid-Year Budget Review

CEQA: Not a project

Recommendation: It is recommended that the City Council, by motion, approve the FY 2025-26 Mid-Year Budget Review and the recommended budget revisions.

Prepared by: Jennifer Styczynski, Finance Director

Council Meeting Date: 02/24/2026

Date Prepared: 02/18/2026

Agenda: Administrative

Discussion: The Mid-Year Budget Review provides an opportunity to evaluate the City's financial condition during the first half of the fiscal year, projects revenues and expenditures through year-end, and recommends budget adjustments based on prior amendments, current financial trends, and updated economic conditions.

This year's review reflects management's assessment of anticipated funding impacts for the remainder of FY 2025-26, with the goal of maintaining existing service levels while addressing ongoing economic and fiscal uncertainties. Key factors influencing the City's current and future financial outlook include continued inflationary pressures, rising labor and benefit costs, interest rate volatility, and mandated regulatory requirements that may increase operational and capital costs. Additional uncertainty also remains related to statewide and regional economic conditions, consumer spending trends affecting sales tax revenues, and the potential for unanticipated emergency response or infrastructure needs.

Given these uncertainties, City staff will continue to closely monitor economic activity and departmental spending trends and will update the City's long-term forecast for the General Fund and Measure E Fund as new information becomes available.

This staff report outlines the recommended mid-year adjustments for the remainder of FY 2025-26 and presents a multi-year forecast for both the City's General Fund and Measure E Fund based on current assumptions. The information will serve as the basis for the PowerPoint presentation at the City Council meeting.

General Fund (Fund 100)

Comparison of current Budget-to-Actual performance:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 19,057,930	\$ 19,095,106	\$ (37,175)
Estimated Amounts 6/30/26	<u>\$ 19,224,137</u>	<u>\$ 19,406,350</u>	\$ (182,213)
Recommended Adjustment	\$ 166,207	\$ 311,244	

It is anticipated that the City will increase the originally adopted General Fund revenue budget by \$166,207 and increase General Fund expenditure appropriations by \$311,244. The detailed information below summarizes the recommended mid-year adjustments.

Revenue Adjustments

The proposed net increase of \$166,207 in General Fund revenues is primarily attributable to the following adjustments:

Revenue Type	Amount	Reason / Rationale
Property Tax in Lieu of VLF	\$16,187	True-up of FY 2025-26 anticipated revenues consistent with growth in assessed valuation
Sales Tax Payment to Nevada County	\$30,000	True-up to current payments made to Nevada County
Transit Occupancy Taxes	\$25,000	Increase due to continued trending increases
Cannabis Excise Tax	\$84,000	Averaging approximately \$27,000 per month; third year receiving income source
MVLF Residual Fees	(\$1,080)	True-up to actual amounts received for the fiscal year
Solid Waste Franchise Fee	\$40,000	Increased average monthly fees collected by Waste Management
Building Fees	\$20,000	Revenue trending higher than originally projected
Parking Revenues	(\$70,000)	Parking enforcement approved in December 2025; full implementation expected in April 2026
Parks - Field Rentals	\$9,600	Increased rental activity
Parks - Building Rentals	\$2,830	Increased rental activity
COPS Grant - SLESF	\$21,537	True-up allocation received from Nevada County
Police POST Reimbursements	\$1,824	True-up based on reimbursements to date

Strike Team Reimbursements	\$76,000	Increased fire strike team equipment usage and administrative reimbursements from statewide fire suppression events
Interest Earnings	(\$90,000)	Adjustment to allocation methodology; total Citywide interest is not expected to decrease
Nevada City Animal Control Reimbursement	(\$907)	Annual recalculation based on actual revenues and expenditures
Historical Commission Donation	\$1,398	Donations received to support new account activity
Unclaimed Property	\$1,345	Unclaimed property received to date
Late Fee	(\$8,000)	Decrease in late fees received through the Business License process
Sale of Fixed Assets	\$6,473	Gain on sale of vehicle

Expenditure Adjustments

The proposed net increase of \$311,244 in General Fund expenditure appropriations is summarized below:

Appropriation	Amount	Reason / Rationale
City Council	\$1,500	Increased costs for public noticing and Planning Commission meeting support
City Manager	\$1,887	Updated personnel cost estimates and higher health insurance premiums, partially offset by reduced office supplies
Finance Department	\$4,443	Updated personnel cost estimates, higher health insurance premiums, and anticipated MOU impacts
Information Services	\$2,402	Updated personnel cost estimates, higher health insurance premiums, and anticipated MOU impacts
Police	\$151,570	Updated personnel costs, higher health insurance premiums, anticipated MOU impacts, and one-time retirement payouts; partial Fuel & Oil reallocated to Fleet Services
Animal Control	(\$10,790)	Decrease due to updated personnel cost estimates
Fire	\$75,030	Updated personnel costs, higher health insurance premiums, anticipated MOU impacts, and one-time retirement payouts; partial Fuel & Oil reallocated to Fleet Services.

Planning	(\$38,830)	Decrease due to updated personnel cost estimates, higher health insurance premiums, and anticipated MOU impacts
Building	(\$3,198)	Decrease due to updated personnel cost estimates and reduced bank service charges
Engineering	\$3,074	Updated personnel cost estimates, higher health insurance premiums, and anticipated MOU impacts
Streets	(\$24,560)	Decrease due to updated personnel cost estimates, partially offset by Fuel & Oil reallocation to Fleet Services
Fleet Services	\$100,145	Updated personnel cost estimates and increased Fuel & Oil appropriations due to internal reallocations
Facilities	\$3,490	Updated personnel cost estimates
Parks Administration	(\$2,428)	Decrease due to updated personnel cost estimates
Swimming Pool	\$12,400	Increased chemical costs offset by reductions in operating materials
Parks Recreation	(\$3,900)	Reduction in operating materials
Non-Departmental - Service & Supplies	\$39,000	Increase in property tax collection fees (\$4,000) and one-time settlement cost for Munds Property (\$35,000; revenue offset received in prior year)

Fund Balance / Reserves

At the end of FY 2025-26, General Fund reserves (designated and undesignated) are projected to total approximately \$8.32 million. It is anticipated that the General Fund will utilize approximately \$182,213 of undesignated reserves in FY 2025-26 to support priority services and projects.

Projected reserve levels as of June 30, 2026, include:

- **\$5,938,488** - Designated Reserves
- **\$2,385,700** - Undesignated Reserves
- **\$8,324,188** - Total General Fund Reserves

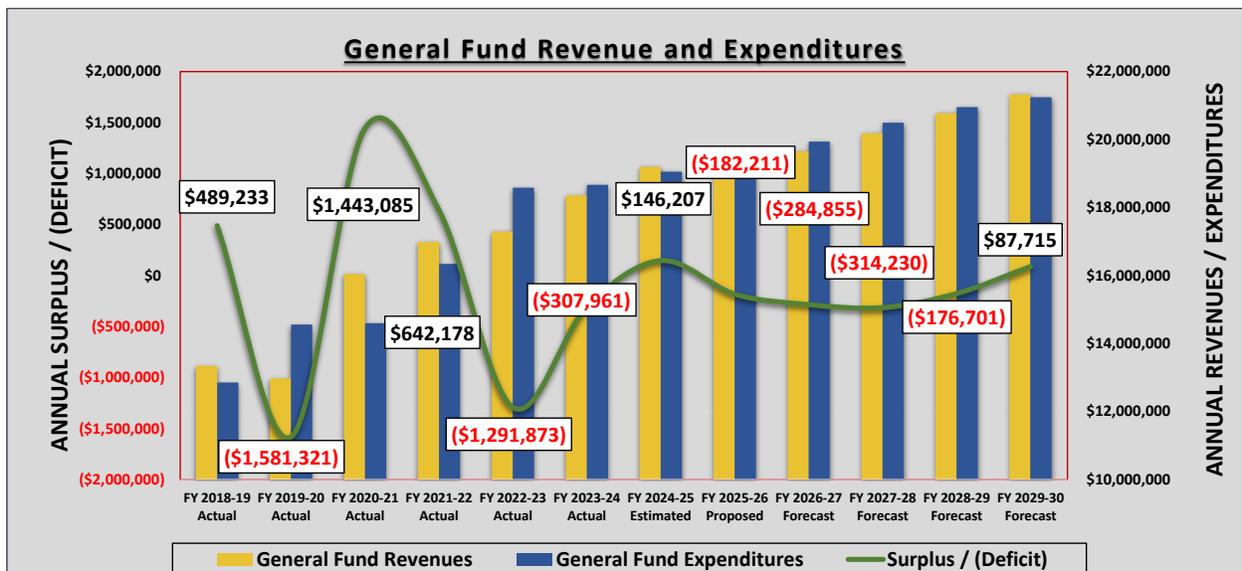
General Fund Forecast

As previously discussed, the City’s maintains a multi-year forecast for the General Fund, which is updated periodically as new financial information becomes available. The forecast is prepared using a base budget approach, which incorporates the following assumptions:

- One-time revenues and expenditures are excluded to better reflect ongoing fiscal activity (noting that certain one-time items may occur over multiple fiscal years).
- All authorized positions are included, with the assumption that each position will be filled for the full duration of future fiscal years.
- Only approved, negotiated salary increases are included in the forecast.
- Annual revenues and expenditures projections reflect assumed growth rates based on current trends and available economic data.

The forecast is influenced by external uncertainties, including potential near-term and long-term impacts to the local, state, and national economies; continued inflationary pressures; volatility in CalPERS policy and investment returns; and other economic factors that may affect City revenues and expenditures. As a result, management will closely monitor financial conditions and provide updates to the City Council as adjustments are made to the forecast.

The City’s current multi-year General Fund forecast is provided below:



As discussed, it is anticipated that approximately \$182,211 of existing General Fund reserves will be used to balance the updated FY 2025-26 budget. This projected use of fund balance reflects a conservative revenue projection approach, offset by anticipated and known cost increases necessary to maintain current service levels across City operations, including police, fire, building, planning, public works, parks, streets, animal control, and other core services.

The General Fund forecast reflects a projected structural deficit ranging from approximately \$176,000 to \$314,000 over the next three fiscal years, beginning in FY 2026-27. This projected imbalance is primarily driven by increasing CalPERS Unfunded Accrued Liability (UAL) amortization payments, which are estimated at \$694,000 in FY 2026-27 and expected to rise to \$939,000 by FY 2028-29.

It should also be noted that this forecast does not include potential impact of future negotiated salary and benefit increases, which would further contribute to the projected deficit; however, the fiscal impact of those negotiations is unknown at this time.

Without corrective action, these ongoing deficits would place continued pressure on the City’s reserve levels. To maintain long-term stability and avoid future reserve drawdowns, the City will need to evaluate and implement strategies to address and mitigate these projected funding gaps.

Enterprise Funds

Comparison of Budget-to-Actual performance for the City’s two Enterprise Funds follows:

Water Fund (Fund 500)

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 2,668,200	\$ 3,746,148	\$ (1,057,948)
Estimated Amounts 6/30/26	<u>\$ 2,600,000</u>	<u>\$ 3,878,994</u>	\$ (1,278,994)
Recommended Adjustment	\$ (88,200)	\$ 132,846	

Water Fund revenues are currently projected to be \$88,200 below the adopted budget. This variance includes \$31,800 in additional Water Connection Fees received to date, partially offset by a \$120,000 decrease in projected interest earnings.

Water Fund expenditures are recommended to be increased by \$132,846, primarily due to higher-than-anticipated costs in operating materials and contractual services related to unplanned repairs. These include pump rebuilds, equipment maintenance, and additional water distribution materials.

Although it is unlikely that all budgeted capital projects will be completed by fiscal year-end, no adjustments to capital appropriations are recommended at this time. Any capital appropriations budgeted in FY 2025-26 that remain unspent at year-end will be reviewed as part of the FY 2026-27 budget process and carried forward, subject to City Council review and approval.

It is anticipated that the Water Fund will end FY 2025-26 with approximately \$1,249,000 in fund balance, of which all but \$40,0000 is reserved for specific purposes. This projected ending fund balance assumes that all capital projects are completed by the end of the fiscal year.

Sewer Fund (Fund 510)

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 5,641,000	\$ 10,468,468	\$ (4,827,468)
Estimated Amounts 6/30/26	<u>\$ 5,962,784</u>	<u>\$ 10,490,117</u>	\$ (4,527,333)
Recommended Adjustment	\$ 321,784	\$ 21,649	

Sewer Fund revenues are currently projected to be \$321,784 above the adopted budget, primarily due to \$222,784 in additional Sewer Connection Fees received to date, along with higher-than-anticipated collections in Sewer Use Fees and increased interest earnings.

Sewer Fund expenditures are recommended to be increased by \$21,649, primarily due to higher Personnel Services costs. These increases reflect updated cost allocations related to health insurance rates and negotiated COLAs that were not included in the adopted budget.

Although it is unlikely that all originally budgeted capital projects will be completed by fiscal year-end, no adjustments to capital appropriations are recommended at this time. Any capital appropriations budgeted in FY 2025-26 that remain unspent at year-end will be reviewed as part of the FY 2026-27 budget process and carried forward, subject to City Council review and approval.

It is anticipated that the Sewer Fund will end FY 2025-26 with approximately \$5.35 million in fund balance, of which \$4.38 million is reserved for specific purposes. This projected ending fund balance assumes that all capital projects are completed by the end of the fiscal year.

Special Revenue Funds

Measure E Fund (Fund 200)

The City accounts for all revenues and expenditures related to the voter-approved one-cent transaction and use tax into Fund 200 (Measure E Fund) to ensure these general-purpose tax revenues are used for their intended purposes: police and fire services, as well as streets and parks projects.

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 7,489,000	\$ 10,226,599	\$ (2,737,599)
Estimated Amounts 6/30/26	<u>\$ 7,516,000</u>	<u>\$ 10,150,389</u>	\$ (2,634,389)
Recommended Adjustment	\$ 27,000	\$ (76,210)	

Measure E Fund revenues are currently projected to be approximately \$27,000 higher than budgeted, primarily due to a slight increase in interest earning allocations and higher-than-anticipated reimbursements for Fire Department responses for service.

On the expenditure side, Measure E Fund expenses are projected to be approximately \$76,210 lower than originally budgeted. A true up of payroll cost allocations for Police and Fire resulted in an overall reduction of approximately \$40,000, largely due to minor vacancy savings partially offset by increased overtime. In addition, maintenance contracts costs are projected to be lower than anticipated, as some original project estimates were higher than actual costs.

All streets and parks capital projects remain fully funded within the Measure E Fund, with many projects currently underway.

It is projected that the Measure E Fund will end FY 2025-26 with an estimated fund balance of \$1.94 million as of June 30, 2026, assuming all capital projects are completed by the end of the fiscal year.

Measure B Fund (Fund 207)

The City accounts for all revenues and expenditures related to the voter-approved three-eighths of one percent (0.375%) transaction and use tax into Fund 207 (Measure B Fund) to ensure these general-purpose tax revenues are used for their intended purposes: reducing the risk of catastrophic wildfire and extreme weather by funding additional firefighters, vegetation management, and emergency evacuation planning.

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 2,631,000	\$ 3,401,254	\$ (770,254)
Estimated Amounts 6/30/26	<u>\$ 2,676,000</u>	<u>\$ 3,468,816</u>	\$ (792,816)
Recommended Adjustment	\$ 45,000	\$ 67,682	

Measure B Fund revenues are currently projected to be approximately \$45,000 higher than budgeted, primarily due to a slight increase in interest earning allocations and higher-than-anticipated reimbursements for Strike Team deployments, which are offset by corresponding payroll costs.

On the expenditure side, Measure B Fund expenditures are projected to be approximately \$67,682 higher than originally budgeted. This increase is primarily due to a true-up of payroll cost allocations and negotiated MOU changes that were not included in the adopted budget.

It is projected that the Measure B Fund will end FY 2025-26 with an estimated fund balance of \$440,000 as of June 30, 2026, assuming all budgeted projects are completed by the end of the fiscal year.

Gas Tax Fund (Fund 201)

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 830,481	\$ 1,491,700	\$ (661,219)
Estimated Amounts 6/30/26	<u>\$ 840,481</u>	<u>\$ 1,481,700</u>	\$ (641,219)
Recommended Adjustment	\$ 10,000	\$ (10,000)	

Gas Tax Fund revenues are projected to exceed the adopted budget by \$10,000, primarily due to slightly higher-than-anticipated interest earnings allocations.

Gas Tax expenditures are projected to be \$10,000 lower than originally budgeted, reflecting a decreased transfer to the Traffic Safety Fund. The Traffic Safety Fund is also anticipated to receive additional interest earnings, which reduces the amount of transfer needed from the Gas Tax Fund. Since the Traffic Safety Fund is expected to be net zero at fiscal year-end, increased revenues result in a lower transfer required.

It is important to note that unspent capital appropriations from FY 2025-26 will be assessed during the FY 2026-27 budget process, and any recommended carryforward will be presented to the City Council for consideration and approval.

As of June 30, 2026, the Gas Tax Fund is projected to have a negative fund balance of approximately \$404,869, primarily due to the completion of the South Auburn Street Renovation project. Next year's projects will be adjusted accordingly to restore the fund to a positive balance. Gas Tax revenues are typically used to support the City's street maintenance and rehabilitation projects and to fund transfers to the Traffic Safety Fund for streetlight utility and maintenance costs.

Traffic Safety Fund (Fund 202)

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 216,700	\$ 216,700	\$ 0
Estimated Amounts 6/30/26	<u>\$ 216,700</u>	<u>\$ 216,700</u>	\$ 0
Recommended Adjustment	\$ 0	\$ 0	

The Traffic Safety Fund primarily supports citywide streetlight electricity and maintenance costs. Overall revenues are projected to remain unchanged from the adopted budget. While traffic citation revenues are anticipated to increase by approximately \$10,000, the transfer from the Gas Tax Fund will be reduced by the same amount, resulting in no net change to total revenues.

No expenditure increases or decreases are anticipated at this time.

At the end of the fiscal year, the Traffic Safety Fund is expected to end with a zero fund balance.

Fire Reserve Fund (Fund 203)

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 105,000	\$ 100,000	\$ 5,000
Estimated Amounts 6/30/26	<u>\$ 391,992</u>	<u>\$ 220,000</u>	\$ 171,992
Recommended Adjustment	\$ 286,992	\$ 120,000	

Revenues for the Fire Reserve Fund are projected to be approximately \$286,992 higher than originally budgeted, primarily due to increased fire strike team equipment usage and administrative reimbursements received for participation in qualifying multi-agency statewide fire suppression events. This increase reflects funds already received, with additional billed reimbursements expected to be collected by fiscal year-end. These additional revenues may be used for eligible fire equipment replacement costs.

In addition, a mid-year expenditure appropriation of \$120,000 is requested to support operation and equipment needs, including the purchase of additional turnout gear sets, a Zoll cardiac monitor, vehicle upgrades for a new staff vehicle being purchased with Measure E funds, and other eligible operational costs. These would typically be supported by the General Fund if the Fire Reserve Fund were not available.

The Fire Reserve Fund is projected to end FY 2025-26 with an estimated fund balance of approximately \$542,351 as of June 30, 2026. Of this amount, \$85,000 is reserved for future apparatus purchases related to the Nevada City Fire Services operation, for

which the City contracts with Nevada City to provide fire services. Remaining available reserves may be considered for appropriation in future fiscal years to support eligible fire equipment replacement and related costs.

Developer Impact Fund (Fund 206)

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 75,000	\$ 565,000	\$ (490,000)
Estimated Amounts 6/30/26	<u>\$ 443,017</u>	<u>\$ 565,000</u>	\$ (121,983)
Recommended Adjustment	\$ 368,017	\$ 0	

Revenues for the Developer Impact Fee Fund are projected to be approximately \$368,017 higher than originally budgeted, based on collecting fees to date.

Expenditures are expected to remain unchanged, as they primarily include transfers to the Capital Project Fund for various street-related projects, such as the Centennial Drive realignment, Bennett & Ophir circulation improvements, and a storm drain plan. Any unspent FY 2025-26 capital appropriations at year-end will be evaluated during the FY 2026-27 budget development process, with any carryforward subject to City Council direction and approval.

The Developer Impact Fee Fund is projected to end FY 2025-26 with an estimated fund balance of approximately \$2.44 million as of June 30, 2026. These funds may be allocated in future fiscal years for eligible development impact or mitigation projects, consistent with the purposes for which the fees were collected.

Capital Project Fund (Fund 300)

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 15,198,695	\$ 15,198,695	\$ 0
Estimated Amounts 6/30/26	<u>\$ 15,198,695</u>	<u>\$ 15,198,695</u>	\$ 0
Recommended Adjustment	\$ 0	\$ 0	

The Capital Projects Fund accounts for non-enterprise capital projects citywide. Capital projects are typically funded through non-discretionary revenue sources (grants, fees, etc.) and transfers from other funds. Overall revenues are projected to remain unchanged from the adopted budget.

Expenditures are expected to remain unchanged, as they primarily include new and continuing projects such as the Wolf Creek Trail Study, Condon Parking Lot Restrooms, Loma Rica Trail Improvements, Magenta Drain Restoration, McCourtney Road Pedestrian Improvements, South Auburn Street Renovation, and the South Auburn & Colfax Roundabout. Any capital appropriations remaining unspent at year-end will be evaluated during the FY 2026-27 budget process and may be carried forward, reallocated, or otherwise adjusted based on City Council priorities and direction.

Special Project Fund (Fund 310)

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
FY 2025-26 Adopted Budget	\$ 320,000	\$ 3,475,000	\$ (3,155,000)
Estimated Amounts 6/30/26	<u>\$ 320,000</u>	<u>\$ 3,516,576</u>	\$ (3,196,576)
Recommended Adjustment	\$ 0	\$ 41,576	

The Special Projects Fund is used to account for projects funded by development-related and other special funding sources. Revenues for the Special Projects Fund are projected to remain unchanged from the adopted budget.

Expenditures are projected to increase by \$41,576 to cover the HOA dues and rent for the Spring Hill Drive building while escrow is pending. The existing \$3.48 million transfer for capital projects is recommended to remain unchanged, including \$475,000 allocated for the Church Street Restroom project and \$3.00 million allocated for various park projects, which is funded by the remaining debt proceeds from the 2021 Lease Agreement for the Parks Project and Refunding.

The Fund Balance in the Special Projects Fund is projected to be approximately \$2.64 million as of June 30, 2026.

Other Funds

The mid-year report also includes fund schedules for other funds, some of which include recommended adjustments. These funds are as follows:

- DUI Grant Fund (Fund 204)
- EPA Site Grant Fund (Fund 205)
- Vehicle Replacement Fund (Fund 225)
- Proposition 64 PH&S Grant Program Fund (Fund 260)
- Elizabeth Daniels Park Fund (Fund 450)
- Animal Shelter Fund (Fund 451)

There are no recommended adjustments included in this mid-year update for the Successor Agency Fund, CDBG/HOME Grants, or Assessment District Funds.

FY 2026-27 Budget Development

As the City begins the FY 2026-27 budget development process, economic uncertainty remains a primary consideration. Although inflation has moderated, the cost of goods and services remains significantly higher than in prior years, and the broader economy continues to show signs of slowing. Higher interest rates, market volatility, and uncertainty in consumer confidence may continue to impact local spending patterns and revenue performance.

Sales tax revenues may continue to reflect more cautious consumer behavior, and development-related revenues may be affected by higher interest rates and construction costs that can slow new building activity. These factors will be monitored closely as staff prepare revenue projections for the upcoming fiscal year.

At the same time, expenditure pressures are expected to continue. CalPERS investment performance remains volatile, and future contribution rates are uncertain. Insurance premiums have continued to rise sharply across local governments, and the competitive labor market continues to impact recruitment and retention. The City also faces ongoing increases in unfunded pension liability amortization costs, which represent the most significant and unpredictable long-term budget challenge.

Staff will continue to monitor fiscal conditions and update revenue and expenditure forecasts throughout the budget process. The preliminary FY 2026-27 budget will be presented to the City Council in May 2026, with final adoption anticipated in June 2026.

Council Goals/Objectives: The review and approval of the mid-year budget adjustments contribute to advancing Economic Development and Vitality, as well as High-Performance Government and Quality Service.

Fiscal Impact: The recommended budget changes keep spending aligned with the revenues the City expects to receive, and available funds carried over from prior years. Any overages are one-time costs and will be covered using unrestricted fund balance that remains available from prior fiscal years.

Funds Available: Yes

Account #: All City Funds

Reviewed by: City Manager

Attachments:

- Budgeted Funds Synopsis
- General Fund Revenue and Expenditure Summary
- General Fund Revenue - Fund 100
- General Fund Expenditures - Fund 100
- Measure E Fund - Fund 200
- Measure B Fund - Fund 207
- Water Enterprise Fund - Fund 500
- Sewer Enterprise Fund - Fund 510
- Gas Tax Fund - Fund 201
- Traffic Safety Fund - Fund 202
- Fire Reserve Fund - Fund 203
- DUI Grant Fund - Fund 204
- EPA Site Grant Fund - Fund 205
- Developer Impact Fee Fund - Fund 206
- Vehicle Replacement Fund - Fund 225
- Proposition 64 PH&S Grant Program Fund - Fund 260
- Capital Projects Fund - Fund 300
- Special Projects Fund - Fund 310
- Elizabeth Daniels Park Fund - Fund 450
- Animal Shelter Fund - Fund 451