



City Council Agenda Report

Meeting Date: March 25, 2025

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Approved By: Gabe Engeland

Subject: Fiscal Year 2024/25 Mid-Year Budget Update

COUNCIL PRIORITY AREA

- Business Communities
- Circulation Safety and Efficiency
- Environmental Sustainability
- Housing
- Neighborhood Safety Infrastructure
- General Government

RECOMMENDATION

1. Adopt a Resolution approving FY 2024/25 Mid-Year Financial Update and Budget adjustments
2. Adopt a Resolution approving the transfer of funds to CalPERS to pay down the City's Unfunded Accrued Liability
3. Adopt a Resolution approving the updated FY 2024/25 Pay Schedule

FISCAL IMPACT

The proposed budget adjustments will impact both revenues and expenditures as well as the assignment of Unassigned General Fund dollars. These adjustments are further detailed in the narrative of this report.

ENVIRONMENTAL REVIEW

Not Applicable.

PREVIOUS COUNCIL CONSIDERATION

June 11, 2024 – Adoption of FY 2024/25 Operating Budget and Five-Year Capital Improvement and Major Maintenance Program

BACKGROUND

On June 11, 2024, the City Council adopted the FY 24/25 Operating Budget and Five-Year Capital Improvement and Major Maintenance Program. The budget sets forth expected revenues and allocates funds to be expended in implementing programs and services within the community. As part of the budget process, the City reviews the budget after the mid-way point of the year and makes adjustments as needed. In addition, the City Council can make transfers as necessary.

On February 10, 2025, the Financial Commission reviewed the proposed Mid-Year Budget adjustments and recommended approval of the proposed adjustments. Following the Commission meeting, there were a few additional modifications to the recommendations as described below.

DISCUSSION

As presented in the FY 2023/24 Annual Comprehensive Financial Report (ACFR), the City had a healthy financial year last year with General Fund revenues exceeding expenditures by approximately \$11.5 million. This raised the City's Unassigned General Fund balance to approximately \$27.8 million. Staff recommends assigning some of these funds as follows:

PERS Reserve	\$6,000,000
Facility Maintenance Fund	\$10,000,000
Fleet Vehicle Fund	\$1,000,000
Liability Fund	\$500,000
Technology Fund	\$500,000

With these transfers, the General Fund Unassigned Fund Balance will be approximately \$9.3 million. This is a change from what was presented at the Financial Commission meeting as staff previously recommended assigning fewer dollars. Given the high Unassigned Fund balance, staff recommends the above assignments of funds.

For FY 2024/25, the City continues to be in a healthy financial position. General Fund revenues are trending higher than expected and General Fund expenditures are trending lower than budgeted. This is a reflection of sound fiscal management and budgeting on the part of the City Council and staff.

The following are proposed mid-year budget adjustments:

Workers' Compensation Insurance Fund (\$1,000,000 from General Fund)

The City's Workers' Compensation Insurance Fund, which covers claims and premium costs for work-related injuries, requires additional funding due cover current year expenditure and financial buffer for potential future claims.

Equipment Replacement Fund (\$98,000 from General Fund)

This adjustment re-appropriates funding that expired at the end of FY 2024 for a previously approved equipment purchase.

Development Services Department (\$500,000 Increase from Revenue & Expenditure)

The Development Services Department anticipates increased expenditures due to higher demand for plan check services. The additional costs will be fully offset by a corresponding \$500,000 increase in revenue from plan check service fees.

LEAP Grant Reimbursement (\$150,000 Increase in Revenue)

As part of the 2023 Housing Element Update, the City anticipated receiving funds from the LEAP Grant for California Department of Housing and Community Development (HCD). These funds were not received until November 2024 and will reimburse the Capital Improvement Fund.

Legal Reimbursement (\$493,000 Increase in Revenue) The City received reimbursement for legal fees expended in a prior fiscal year in the amount of \$493,000. These funds will be a one-time General Fund revenue.

Legislative Department (\$50,000 from General Fund)

The Legislative Department requests an additional \$50,000 in expenditure appropriation to fund a research project exploring the feasibility of implementing a Real Property Transfer Tax. This study will assess potential revenue impacts, legal considerations, and best practices from comparable jurisdictions.

Council Chambers AV Maintenance (\$50,000 from PEG Fund)

The City is proposing the use of PEG funds to correct some issues with the AV equipment in the Council Chambers. These fixes will make the existing equipment easier to use and correct several issues that have been encountered in recent months.

Los Altos Youth Center Improvements (\$810,000 from CIP Fund)

The City is nearing completion of the conversion of the Los Altos Youth Center into City Hall office space. This project is advancing faster than previously scheduled. As such, dollars that were budgeted for a future year are needed to fund the project in the current fiscal year. In addition, the project cost has been increased by \$25,000 due to tariffs recently enacted by the federal government. This adjustment was recommended after the February 10, 2025 Financial Commission meeting.

Downtown Lighting Improvements (\$100,000 from Downtown Parking Fund)

The Downtown Lighting Improvement project seeks to replace existing downtown lights with solar-powered lights. The project was originally approved at \$250,000 with \$150,000 being funded by an outside grant and the remaining being funded from the Downtown Parking Fund. The \$100,000 from the Downtown Parking Fund was inadvertently not rolled forward from the prior year. This adjustment was recommended after the February 10, 2025 Financial Commission meeting.

Use of PERS Reserve

At the February 10, 2025 Financial Commission meeting, the Commission further recommended that the City use the funds in the PERS Reserve to pay down a portion of the City's unfunded liability and to work over the next five years to achieve an 80% funded level as an aspirational goal, meaning that as funds are available, they can be used to further reduce the City's liabilities. Currently the City is funded at approximately 70%. It is recommended that the balance of the PERS Reserve be expended in this way.

Updated Salary Schedule

It is recommended that the City Council approve an updated Salary Schedule as presented. The changes reflect previous Council actions as well as reclassifications of positions and adjustments to pay ranges.

ATTACHMENTS

1. Fiscal Year 2024/25 General Fund Budget vs. Actual as of January 31, 2025
2. Resolution approving FY 2024/25 Mid-Year Budget Adjustments
3. Resolution approving use of PERS Reserve
4. Resolution approving updated Salary Schedule