



MEETING DATE: JUNE 30, 2025

TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: TOM DUBOIS, CITY MANAGER

RE: 2025-2026 OPERATING BUDGET

RECOMMENDATION:

- 1) Adopt Resolution 24-25-* Adopting the 2025-2026 Operating Budget.
- 2) Adopt Resolution 24-25-* Adopting the Annual Appropriations Limit.

BACKGROUND/DISCUSSION:

This is an update review and discussion following the June 16, 2025, meeting.

Based on feedback from the prior meeting, several updates were made.

General Fund Revenue

Revenue was reviewed and updated with the latest information. We recently got several “catch up” payments from the California Department of Taxation. Sales Tax is coming in at the full amount for the year. During budget discussions we said we were forecasting a 2% increase. That is based on the full amount, not a decrease in sales tax as was initially discussed during our long-range financial forecast discussion.

Other minor revenue updates were also updated such as a recent forecast from Republic on our trash franchise fee. Page 13 gives a good summary of general fund revenue and pages 14 & 15 give the general fund revenue detail.

You will notice that revenue is basically flat (slight increase) with the addition of the new Measure P tax. We are only forecasting Tax revenue to increase by \$400K, which is less than a full year of Measure P. This is because we are recognizing one quarter of Measure P in the FY24-25 Budget of \$118,000. So, the increase is only three more quarters or \$354,000 plus slight increases in other areas.

You will also see a large decrease in Intergovernmental Revenue – that is because we got several grants last year. With that drop in grants, we are only expected Total General Revenue to increase by \$200,000 (even with Measure P)

General Fund Expenses

All expenses were revisited and compared to FY24-25 actuals. Capital projects were the biggest changes. We are cutting back in some areas because we are doing less general fund projects. We will need less Engineering support, and less focus from people in multiple departments. As discussed, allocations are forecast to spend more time on wastewater projects – I/I repairs, ARSA dissolution and repairs, and the new WWTP.

The overall allocations match more closely our actual revenue and expenses, which are about 40% General Fund and 60% Enterprise Funds (see Page 3 and 4). This varies depending on the positions (for example the police department is still 100% General Fund). It is aligned with how people spend their time.

Some capital projects funded by the general fund were deferred and others were assigned to the proper enterprise funds were feasible (See bottom of Page 10 for capital projects across all funds). For example, Street projects were reduced to stay within Street funds next year and not impact the general fund.

Page 48 shows new police cameras coming from the Police Impact fee fund and some building repairs coming from our historic facility and City hall funds. Page 53 shows a new lawn mower, AC for the Grammar School and the Bryson Bathroom coming from Park impact fees.

Some better estimates were made since the last meeting on capital project costs to refine the numbers. For example, on Page 5, Municode software costs a total of \$7,000 a year. Other charges that were labelled “Website” in the previous meeting are actually for internet access in the buildings, shown on page 12, the Internal Services Expenses page.

As you can see on Page 13, general fund expenses for most departments are flat or decreased based on more accurate budgeting, properly allocating effort to enterprise funds or changes in staffing. PD’s increases are entirely county costs, which are outside our control.

This budget includes funds for proposed compensation changes.

General Fund Net Position

Page 13, General Fund Master, is probably one of the most illuminating summaries. It shows how we expect overall revenues to shake out – even with the Measure P tax. If you look at the row “Excess / (Deficit) of Revenues over expenditures,” you can see that the city has run a deficit (using reserves) for the previous three years. This proposed draft budget is a huge swing in 12 months, from -\$201, 849 to +\$291,586 or a shift of \$493, 435. This is accomplished by holding most expenses steady or decreased as shown in the expense section.

If you exclude Measure P revenue (which is being reserved) we are using \$193,000 from

reserves in this budget. This is less than the previous two years. Page 13 shows the General Fund reserve totals. We are working to get rid of negative reserves that the city has carried for years, which gave an artificial appearance of larger reserves in other accounts. We are showing 100% of the forecast Measure P revenue in reserves. Council should remember that the actual amount next year will be based on what we actual receive, not necessarily our forecasted amount.

During our discussion, some formatting changes were requested. Since next year's budget will be done using our new accounting platform, we will make those changes at that time.

Summary

This budget strikes the right balance between maintaining healthy reserves, getting core and critical projects done, and being conservative to not take on too much until we have experience with Measure P payments from the state.

We are going to focus on tracking revenue throughout the year more closely and will bring budget amendments back to Council if we see either revenue much greater than expected or much less.

We are going to focus more on in-house projects in this budget and operational improvements than large capital projects. We believe this will continue to prioritize the overall wellbeing of the city and its residents, with work visible to the public.