



CITY OF
**PALO
ALTO**

City Council Staff Report

From: City Manager

Report Type: ACTION ITEMS

Lead Department: Administrative Services

Meeting Date: February 24, 2025

Report #:2412-3865

TITLE

Discuss the FY 2025 Mid-Year Budget Review and Approve 1) FY 2025 Budget Amendments in Various Funds and 2) Amendments to the FY 2025 Table of Organization to add 2.00 Full Time Equivalent (FTE) Positions and Eliminate 1.00 FTE Position and 3) Authorize overstrength of 1.00 FTE Fire Captain. CEQA Status – Not a Project.

RECOMMENDATION

Staff recommends that the City Council review, discuss, and approve:

- 1) Amendments to the Fiscal Year 2025 Budget Appropriation for various funds and various capital projects, as identified in Attachment A and Attachment A, Exhibit 1 and 2 (requires a supermajority, 2/3 approval);
- 2) Amendments to the FY 2025 Table of Organization consistent with the budget amendments in Attachment A, adding 1.00 FTE Senior Buyer and 1.00 FTE Program Assistant I and eliminating 1.00 FTE Contract Administrator; and
- 3) Authorization of an overstrength 1.00 FTE Fire Captain position.

EXECUTIVE SUMMARY

This report provides an extensive update on the City's financial status as of December 31, 2024. Included in this report are:

- 1) Recommended budget adjustments to FY 2025 that reflect urgent or high priority fiscal needs, revenue supported program activities, and technical adjustments;
- 2) Recommended changes in staffing levels in FY 2025 adding 2.00 FTE positions, deleting 1.00 FTE position, and authorizing an overstrength 1.00 FTE Fire Captain position;
- 3) Updated information on the City's financial position and FY 2025 outlook, including positioning for the upcoming FY 2026 budget process; and
- 4) FY 2025 2nd quarter financial status updates (Attachment B).

The next significant financial planning and budget discussions will be the review of the FY 2026 proposed operating and capital budgets and municipal fee schedule (May 2025 – June 2025) and recommended utility rate updates (March 2025 – June 2025).

This report also updates the status of Council Referrals that were approved from the FY 2025 budget development process. Any recommended budget adjustments to address the referrals are included in this report as recommended funding actions.

The fiscal strategy continues to balance the guidelines of funding ongoing activities with ongoing revenue sources while supporting Council priority investments and continuing the two-year budget balancing approach adopted in FY 2025. This strategy continues recommended use of the uncertainty reserve and excess savings in the Budget Stabilization Reserve (BSR) to offset projected deficits for the FY 2026 budget process. If this report is approved as recommended, the City will maintain current service levels while addressing urgent needs to enhance staffing a fire engine at Fire Station 4, funding repairs at the golf course, and increasing customer service staffing at the Palo Alto Junior Museum and Zoo (JMZ). The Uncertainty Reserve will increase to a balance of \$12.0 million and the BSR will be at \$54.0 million, \$0.4 million below the Council approved 18.5% level or \$54.4 million. Staff will continue to monitor these estimates and may bring forward a year-end budget adjustment report in June with any additional refinements to budgeted levels based on the most current information available.

The City Council may amend the annual budget through appropriate motion. Attachment A, if approved as recommended, provides the necessary transactional information for the official amendment of the annual budget. The budget appropriation actions require a supermajority approval by the City Council (PAMC 2.28.080(c)(1)), or five (5) votes.

BACKGROUND

Staff provides the Mid-Year Budget Review to report the financial status of major funds and the Capital Improvement Program as of the second quarter (Q2) of the current fiscal year and recommends adjustments to the FY 2025 Budget, including aligning estimates for significant changes that have occurred in FY 2025, such as projections for major tax revenues. This Mid-year Budget Review also provides the status of Council Referrals that did not require additional funding at the time of budget adoption but were recommended for staff to address.

In the first half of FY 2025, staff brought forward the FY 2024 Annual Comprehensive Financial Report (ACFR) (Staff Report 2406-3118)¹ for Council approval and the First Quarter (Q1) FY

¹ City Council, December 16, 2024, Agenda Item #20; Staff Report # 2406-3118, <https://portal.laserfiche.com/Portal/DocView.aspx?id=117750&repo=r-704298fc&searchid=c7622316-8993-4045-a48c-fee95dc39be6>

2025 Financial Report (Staff Report 2405-3096)² as an informational report. FY 2024 General Fund revenues finished the year exceeding budget estimates by approximately 1% or \$2 million. Unfortunately, this revenue trend has not continued in the first and second quarters of FY 2025, with some major tax revenue categories tracking below budgeted levels. This downward revenue trend is not unique to Palo Alto, as the State and many other municipalities including those within Santa Clara County are being affected by lower sales tax revenue and an uncertain economic future. Staff is recommending that the City Council recognize this reduced funding as part of this report which will factor into a slight reduction of the BSR below the 18.5% target level by \$0.4 million. Over the longer term, staff anticipates continued uncertainty with the new Federal administration. Impacts to major taxes and other key sources of revenue will be monitored in light of this change and staff will continue to update the Council regarding changes to the FY 2025 fiscal outlook and beyond.

Where possible, budget change recommendations are brought forward for City Council consideration as part of the approval of the Mid-Year Budget Review to consolidate requests and streamline changes to budget appropriations. These adjustments are necessary as revenues and expenditures vary from the original budget plan for many reasons, such as changes in economic factors, project estimates and scope, and City Council policy and direction. The Mid-Year Budget Review reflects adjustments to align with prior City Council approved direction, technical adjustments, and clean-up actions based on FY 2024 actual experience or current FY 2025 trends and activities.

As discussed in the FY 2026-2035 Long Range Financial Forecast (LRFF)³, and consistent with the projections in the FY 2025 Adopted Budget, deficits are reflected in the near term due to projected economic uncertainty and ongoing resources added to support priority initiatives and service levels. Based on the forecast, ensuring ongoing financial stability will require continued prioritization of spending and utilization of one-time surplus funding and the Uncertainty Reserve to address short term deficits in the next few years.

ANALYSIS

This item serves as a continuation of the many check-in points as the City follows through on established commitments, while balancing and responding to emergent priorities. Findings and recommended adjustments in this report are based on the data available at the time of reporting and reflect preliminary 2nd Quarter financial activity in FY 2025 (Attachment B). Final Q2 data is anticipated to be available at the end of March 2025.

² Finance Committee, December 3, 2024, Informational Item #4; Staff Report # 2405-3096, <https://portal.laserfiche.com/Portal/DocView.aspx?id=111745&repo=r-704298fc&searchid=0d8e6b04-eee6-42ed-9850-110dad4c1e5e>

³ City Council, January 13, 2024, Agenda Item # 12; Staff Report # 2412-3846, <https://portal.laserfiche.com/Portal/DocView.aspx?id=125154&repo=r-704298fc&searchid=8ead6587-1600-48b6-8148-a1dee53dc104>

This staff report discusses the balancing strategy as well as key highlights from the detailed adjustments, and is organized as follows:

- 1) FY 2025 Mid-Year Budget Adjustments
 - a) General Fund
 - i) Mid-Year Budget Review Balancing Strategy Summary
 - ii) Recommended Amendments to the FY 2025 Adopted Budget
 - iii) Position/Table of Organization Changes Summary
 - iv) FY 2025 Council Referrals
 - v) City's Financial Position in FY 2025 and FY 2026
 - b) Capital Funds
 - c) Enterprise Funds
 - d) Internal Service Funds
 - e) Special Revenue Funds
- 2) Preliminary Q2 Financial Status & public safety overtime (Attachment B & C)
- 3) Timeline and Next Steps

The following is an overview of the status for the General Fund, Enterprise Funds, and other funds including recommended budget adjustments as they pertain to the City's FY 2025 Operating and Capital Budgets.

1.a. General Fund

1.a.i Mid-Year Budget Review Balancing Strategy Summary

The following table outlines the major drivers of the General Fund mid-year recommended balancing strategy to mitigate the collective impact of these activities:

- Completion of FY 2024 year-end financial transactions which ended with funds \$8.9 million above the 18.5% Council adopted target level in the BSR as discussed in the FY 2024 ACFR and approved by City Council.
- Alignment with current FY 2025 estimated major tax revenue projections to reflect trends experienced through the first half of FY 2025.
- Support to continue Council priority investments as referred during the FY 2025 Adopted Budget process and near-term emergent operational needs.

This report continues work to balance the near-term needs with the mid- and longer-term forecast needs, using one-time funds as a key tool in bridging uneven economic trends. There are potential risks and benefits associated with continuing this balancing strategy that should be considered when looking beyond FY 2025. The risks would further reduce the City's ability to fund the current level of services over the next several years, while the benefits could offset

costs for a longer period or even increase available funding sources. These are discussed further in the Proposed Balancing Solutions section of this report.

Table 1: General Fund Mid-Year Adjustments and Balancing Solutions

Summary of General Fund Adjustments		Net \$ Impact (Cost)/Benefit
Recommended Funding:		
	Public Safety Services	\$(0.6) M
	Community Services	\$(0.1) M
	<i>Subtotal Recommending Funding:</i>	<i>\$(0.7) M</i>
Technical Adjustments:		
	Utility Electric Equity Transfer	\$0.9 M
	Paramedic Transport Revenue	\$0.6 M
	Purchasing Staffing for Utilities Capital Projects <i>(Reclassify 1.00 FTE Contracts Administrator in ASD to 1.00 FTE Sr. Buyer in Utilities)</i>	\$0.1 M
	Increase Uncertainty Reserve <i>(\$5.9M of the excess FY 2024 BSR)</i>	\$(5.9) M
	Capital Improvement Funding <i>(\$3.0M of the excess FY 2024 BSR)</i>	\$(3.0) M
	Major Tax Revenues & Investment Earnings <i>(Property Tax, Sales Tax, Utility Users Tax, Transient Occupancy Tax, Documentary Transfer Tax)</i>	\$(0.6) M
	Electric Sales to the City	\$(0.4) M
	Public Safety Analog Radio Contract	\$(0.1) M
	<i>Subtotal Technical Adjustments:</i>	<i>\$(8.4) M</i>
	Use of Budget Stabilization Reserve <i>(BSR at 18.4% and \$0.4 M below the 18.5% target level)</i>	\$9.1 M*
Total Net Impact General Fund Mid-Year Adjustments		\$0.0 M

* \$8.9M use of BSR represents distribution of FY 2024 fund balance to maintain 18.5% BSR level.

1.a.ii. Recommended Amendments to the FY 2025 Adopted Budget

This report includes budget adjustments to 1) recommend funding urgent or timely needs, or 2) technical adjustments needed to align budget with current trends; recognize revenue for grants and reimbursements and appropriate associated funding; or support previous direction approved by the City Council.

Major changes are recommended as directed by the City Council and/or recommended by staff are below, and all transactions can be found in greater detail in Attachment A. It should

be noted that recommended budget adjustments have been prorated for the remainder of the fiscal year where appropriate.

Recommended Additional Funding

In limited areas staff recommends appropriation of additional funding to continue operations and support needed investment. Key investments are summarized here by service delivery area and all transactions can be found in greater detail in Attachment A.

- *Public Safety Services: \$0.1 million revenue increase; \$0.7 million expense increase*
Recommended funding requests for public safety services includes fire services solution of \$315,000 to add a fire engine to the current ambulance at Fire Station 4. The near-term proposal is a cross-staffing model, which authorizes an overstrength 1.00 FTE Fire Captain position at Fire Station 4 funded through overtime, for a total of three shift personnel. These three personnel would staff both the fire engine and the ambulance. This is consistent with pre-COVID staffing at Fire Station 4. The Palo Alto Fire Department (PAFD) will determine which apparatus (engine or ambulance) responds to a call based on the nature of the emergency. This action also involves putting into service one of PAFD's two reserve fire engines. This near-term approach provides additional resources to the area and the City as a whole, while long-term staffing proposals and funding decisions continue. Should Council approve this recommendation, it would take approximately 30-60 days to implement. Longer term staffing strategies already began with Finance Committee review in Fall 2024 and will continue into the FY 2026 budget process.

Other funding requests include \$236,400 for firefighter academy related costs, \$63,000 for paramedic supplies, and \$8,100 for Fire Department annual health physical exams. This also includes \$81,400 in revenue reimbursed through the fire response services agreement with Stanford. Other public safety funding requests also include \$44,000 for Police uniforms, equipment, and Crime Laboratory services. These funding proposals will allow both the Fire and Police Departments to maintain operations and augment response capabilities.

- *Community Services: Add 1.00 FTE; \$0.1 million expense increase*
This report recommends an additional 1.00 FTE Program Assistant I for the Palo Alto Junior Museum and Zoo to support customer service, reservations, and admissions. In FY 2025 the cost of the position will be absorbed with vacancy savings; ongoing costs are estimated at \$125,000. This report also recommends one-time funding of \$0.1 million for repairs at the Palo Alto Golf Course. This will allow for the repair of key infrastructure such as the storm and irrigation pump stations. This will support operational resilience, prevent service disruptions, and enhance the user experience.

Technical Adjustments and Previous Council Direction

This report includes actions that are technical in nature and are needed to align budget with current trends; recognize revenue for grants and reimbursements and appropriate associated funding; or support previous direction approved by the Council. Brief descriptions of changes that impact the BSR as directed by the City Council and/or recommended by staff are discussed below, and all transactions, including actions that have net zero impact to the BSR, can be found in greater detail in Attachment A.

- *Utility Equity Transfer FY 2024 True-up (\$0.9 million revenue increase):* This action increases the equity transfer from the Electrical Fund to the General Fund by \$864,000, based on California Public Utilities Commission's authorized return on equity for PG&E of 10.28% (up from 10%), and actuals reported in the FY 2024 ACFR.
- *Paramedic Transport Revenue (\$0.6 million revenue increase):* This action increases paramedic transport revenue by \$600,000 to align estimates with current trends through the first half of FY 2025 for revenues generated at current service level.
- *Purchasing Staffing for Utilities Capital Projects (-1.00 FTE; \$0.1 million expense reduction):* This action reclassifies a vacant Contracts Administrator position into a Senior Buyer role in the Utilities Department to support purchasing for Utilities related capital projects.
- *Uncertainty Reserve (\$5.9 million expense increase):* This action increases the Uncertainty Reserve by \$5.9 million, bringing the Uncertainty Reserve to a total of \$12.0 million for use in the development of the FY 2026 Budget. This action was approved by the City Council on December 16, 2024 in the FY 2024 ACFR for BSR exceeding the 18.5% target level.
- *Capital Improvement Funding (\$3.0 million expense increase):* This action transfers \$3.0 million to the Infrastructure Reserve in the Capital Improvement Fund, as approved by the City Council on December 16, 2024 in the FY 2024 ACFR for BSR exceeding the 18.5% target level.
- *Major Tax Revenue (\$0.4 million revenue decrease; \$0.2 million expense increase):* Staff evaluated departmental and major tax revenue trends experienced through Q2 and recommends actions that result in a net \$0.4 million decrease. Major tax revenue categories that are trending lower than budgeted are Sales Tax, \$3.9 million decrease, and Property Tax, \$0.1 million decrease. These decreases are partially offset by increases to Documentary Transfer Tax (DTT), \$1.4 million increase; Utility Users Tax (UUT), \$1.1 million increase; Transient Occupancy Tax (TOT), \$0.6 million increase; and Investment Earnings, \$0.5 million increase. A portion of TOT revenue has been dedicated to fund capital improvements, per Council direction, the increased TOT revenue estimates warrant an increase in the transfer from the General Fund to the Capital Improvement Fund totaling \$0.2 million.
- *Electric Sales to the City (\$0.4 million expense increase):* This correction revises the budget

distribution for electric energy use across all City departments to align with expected electricity usage in FY 2025 and correct for an error in the FY 2025 Adopted Budget.

- *Public Safety Analog Radio Contract (\$0.1 million expense increase)*: This action adds \$64,500 in funding for Public Safety Analog Radio System contract costs. The contract was initially approved by the City Council on June 17, 2024 (Staff Report 2405-3086)⁴ the same day the FY 2025 Budget was adopted by the City Council. An adjustment to align the budget with the annual contract amount is recommended as part of the FY 2025 Mid-Year Review.

1.a.iii. Position/Table of Organization Changes Summary

Two position actions are recommended in this report amending the Table of Organization as stipulated in the Municipal code:

1. The addition of 1.00 FTE Senior Buyer funded in the Utilities Department, offset by the elimination of 1.00 FTE Contract Administrator in the Administrative Services Department.
2. The addition of 1.00 FTE Program Assistant I in the Community Services Department.
3. Authorization of an overstrength 1.00 FTE Fire Captain position.

These actions will increase full-time staffing levels citywide from the FY 2025 adopted level of 1,092.10 to 1,093.10, and in the Utilities Enterprise Funds from 283.96 to 284.96. Although staffing challenges remain citywide, staff is focusing on recruitments of current vacant positions and all other staffing requests will be addressed through the annual budget process.

1.a.iv. FY 2025 Council Referrals

As part of the FY 2025 Adopted Budget, a list of Council Referrals was included that did not require additional funding at the time of budget adoption but were recommended for staff to address in FY 2025 as follows:

- Ability Path (Funding Request: \$250,000) – Council directed staff to bring this request back at mid-year for Council review. Staff recommends consideration of this request during the FY 2026 budget development, noting that the Policy & Services Committee is currently considering a proposed approach to this review.
- Analyze Fire Emergency Medical Response Fee Adjustments (Ongoing Revenue: TBD) – Progress is underway in 2025.
- Fire Emergency Medical Response; Supplemental Resources (Estimated costs: \$1,000,000 - \$4,000,000 Ongoing) – Staff will resume discussion with the Finance Committee in Spring 2025.
- Review Parks Restroom Prioritization, Specifically Pardee Park (Ongoing capital project costs: TBD) – Progress underway with community engagement.

⁴ City Council, June 17, 2024, Agenda Item # 25; Staff Report # 2405-3086,
<https://portal.laserfiche.com/Portal/DocView.aspx?id=131606&repo=r-704298fc>

- Active Recruitment Digital Marketing Services (Estimated Contract Services costs: TBD) – Staff is developing the Request for Proposal (RFP).
- Establish Organizational Development & Safety Division (Estimated ongoing costs: \$135,000 50% General Fund/50% Internal Service Fund) – Staff recommends consideration of this request during the FY 2026 budget development.
- Explore financial, outreach, and policy processes for adding East Palo Alto to resident rates for the golf course (Ongoing revenue reduction: TBD) – Propose to incorporate into FY 2026 fee update.
- Increasing Revenue-Generating CSD Programming to Meet Demand (Ongoing cost & revenue TBD) – CSD staff continues to review existing revenue generating programs to identify areas that are in high demand that can be expanded, as well as adding additional revenue generating programs to meet community demand. Expanded program areas include classes such as Voice Lessons, cooking, STEM camps, LEGO, pickleball, kids and teen art classes, and in-school programs facilitated by the Children’s Theatre. New revenue generating classes have been added including Pilates and Salsa classes, and woodworking camps for kids. Staff continue to be constrained to fully meet community demand by limited physical space, contract thresholds, and staffing limitations.
- Geng Road Safe Parking (Ongoing cost: \$266,000) – As noted in the August 19, 2024 staff report (Staff Report # 2407-3274)⁵ to Council, staff previously indicated an intention to recommend \$266,000 in annual funding for the expansion of safe parking at Geng Road during the Fiscal Year 2025 Midyear Budget Review. To cover operational costs from February to June 2025, a pro-rated amount of \$111,000 is required, with \$79,000 sourced from the General Fund and \$32,000 from the Permanent Local Housing Allocation (PLHA) grant. Staff is currently finalizing the necessary agreements for this funding and will bring this recommendation forward for Council consideration in a future staff report.

1.a.v. City’s Financial Position in FY 2025 and FY 2026

With any forecast and adjustments based on projections, there are inherent risks and benefits. Staff seeks to position the City in order to provide organizational stability, while acknowledging the service and resource needs, capacity to implement, and project pipeline to continue to invest in infrastructure at a pace the organization can support.

Benefits and risks are associated with the strategy and actions recommended in the Mid-Year Review. On the benefits side, this report will allow the City to maintain current service levels while addressing urgent needs in FY 2025, such as staffing a fire engine at Fire Station 4, funding repairs at the golf course, and increasing customer service staffing at the JMZ, while maintaining a BSR close to the 18.5% target level for any emergency needs that may occur. The

⁵ City Council, August 19, 2024, Agenda Item #: 10; Staff Report #: 2407-3274, <https://portal.laserfiche.com/Portal/DocView.aspx?id=88920&repo=r-704298fc&searchid=6494c525-bcb7-49f3-b528-725377a2d6c6>

City is also positioned well to address the gap of \$12.0 million in FY 2026 identified in the 2026-2035 LRFF with one-time funds in the Uncertainty Reserve. Other benefits that could materialize are revenue and expense estimates may change and lead to additional available funds, and the City's diligence in funding long term liabilities has the potential to fund annual pension and retiree healthcare costs to provide short-term relief.

The risks include but are not limited to funding additional services or needs in FY 2026 that are requested above the base level of services used in the 2026-2035 LRFF. In addition, the unresolved deficit beyond FY 2026 - estimated deficits in FY 2027 and FY 2028 (approximately \$14.4 million in total) need to be resolved. Labor contracts are currently being negotiated and the cost of final contract terms may exceed budget estimates. The new Federal administration and economic downturn may cause increased deficits over the next several years.

Should the Council approve the actions recommended in this report, there will be four (4) reserves in the General Fund with the following status:

1. *Budget Stabilization Reserve (BSR) estimated to be \$54.0 million, which is below the adopted 18.5% level of \$54.4 million by \$0.4 million*

The City's BSR serves as the primary General Fund reserve and Council's policy is to maintain the BSR at a level between 15% and 20% of General Fund operating expenses in any given year. This is both intended for catastrophic events as well as a repository for unspent operating funds at year-end used to fund one-time unexpected needs that arise outside of the regular budget preparation process. Prudent financial management practices dictate that the BSR not be used to fund or solve on-going, recurring financial needs.

2. *Budget Uncertainty Reserve \$12.0 million, from \$6.1 million*

Planned to be used to offset the FY 2026 projected deficit of \$12.0 million. This reserve was established to help the City manage the near-term recovery and uncertainty, ensuring that the City has a stable financial plan to address current service levels while investing in core priority service areas. As a reminder the City also is facing a forecasted deficit in FY 2027 of \$7.8 million as indicated in the 2026-2035 LRFF.

3. *Reserve: Business Tax Revenue \$0.3 million in FY 2025 added to \$1.8 million in FY 2024 for a total of \$2.1 million*

Actions in this report increase the Reserve for Business Tax Revenue in the General Fund in order to account for business tax funding collected but not allocated for specific programs relating to public safety; affordable housing and homeless services; and transportation and grade separation projects. This segregated reserve ensures that business tax revenue is accounted for and funds approved for specific programs. Table 2 below summarizes the FY 2025 Business Tax Revenue & Programmed Expenses.

4. *Reserve: Utility Transfer Litigation (Equity Transfer) \$0, from \$3.1 million*

Fully used to fulfill remaining obligations under the *Green v. City of Palo Alto* (Santa

Clara Superior Court, Case No. 1-16-CV-300760) settlement.

Table 2: FY 2025 Business Tax Revenue and Programmed Expenses

	Transportation & Safe Train Crossings	Housing Affordability & Services for Unhoused	Public Safety	Administration	Total Funding
Revenue	\$1.5M	\$1.5M	\$1.5M	\$0.3M	\$4.8M
Expenses (programmed)	\$1.5M	\$1.5M	\$1.5M	\$0.3M	\$4.8M
Net Available	\$0	\$0	\$0	\$0	\$0

Transportation (\$1.5 million): \$0.75 million for Churchill Ave Rail Grade Separation & Safety Improvement (PL-24001) and \$0.75 million for Meadow Drive & Charleston Road Rail Grade Separation and Safety Improvements (PL-24000)

Housing Affordability & Services for Unhoused (\$1.5 million): \$0.8 million for HomeKey and \$0.7 million for San Antonio Coordinated Area Plan (CAP)

Public Safety (\$1.5 million): \$1.5 million spent on public safety services appropriations as authorized within the Council adopted budget. Expenses include but are not limited to additional dispatch staffing, staffing for traffic team, fully staffing a fire engine at station 2, and support recruitment and retention efforts through competitive labor agreements.

Administration (\$0.3 million): HdL business tax administration and Administrative Services support staff

1.b. Capital Funds – Mid-Year Budget Adjustments

Several projects in the Capital Improvement Fund require technical adjustments in FY 2025 to recognize and appropriate external funding such as Gas Tax funds from the state, grant funds from the Valley Transportation Authority (VTA) and the federal government and aligning impact fee funds with appropriate projects.

In addition to adjustments to specific projects, several technical adjustments are recommended to the overall Capital Improvement Fund. These include an increased transfer from the General Fund due to FY 2024 year-end savings as well as increased TOT funding for capital infrastructure, a reduction in estimated investment earnings, and a refund from the General Benefits Fund. In total, these adjustments increase the Capital Improvement fund balance by \$2.5 million, which will offset New Public Safety Building (PE-15001) project cost increases, as well as increase the fund balance in the Capital Improvement Fund for use in the development of the upcoming 2026-2030 five-year Capital Improvement Plan. For more details, refer to Attachment A, Exhibits 1 and 2.

1.c. Enterprise Funds – Mid-Year Budget Adjustments

Mid-year budget adjustments for the Enterprise Funds focus on aligning budgets with current market conditions and operational priorities. For more details, refer to Attachment A, Exhibit 1.

1. Key recommendations include:

- Increasing the Electric Fund equity transfer to reflect updated PG&E Return on Equity rates.
- Revising budget allocations for electric energy usage across City departments.
- Reclassifying a vacant Contracts Administrator position in Purchasing to a Senior Buyer role funded in the Electric Fund to support grid modernization efforts.
- Recognizing rebate revenue from the State TECH Clean Program to fund residential rebates for advanced heat pump water heaters.
- Final Occupational Safety and Health Administration (OSHA) settlement resulting from a workplace safety appeal process.

1.d. Internal Service Funds – Mid-Year Budget Adjustments

See Attachment A, Exhibit 1 for further information regarding the recommended changes in the Internal Service Funds and their impacts to other funds. Mid-Year actions recommended in these funds are technical and needed to align the budget with anticipated activities through the remainder of FY 2025 including:

General Benefits Fund

- *Transfer from the General Benefits Fund: \$1.7 million expense*
This adjustment increases transfers by \$1.7 million from the General Benefits (GB) Fund to non-General Fund funds. This is a partial refund of allocated charges paid from non-General Fund funds into the GB Fund in prior years that has accumulated in fund balance. It represents a proportional refund to align with the FY 2025 General Fund refund.
- *Implied Subsidy Adjustment: \$0.3 million expense*
This adjustment increases funding for the implied subsidy in the General Benefits Fund by \$254,500. This is a technical correction to the action taken during the FY 2025 budget process and will result in a full offset of the implied subsidy transfer to the Retiree Health Benefit Fund in accordance with City policy. The calculation of implied subsidy requires an agency to recognize that it pays the same medical premiums for active employees as those that are retired. The implied subsidy identifies and accounts for the agency paying the same blended premium for both active employees and retirees, even though the medical cost for active employees is lower than retirees. The most recent study was completed in May 2024 and adopted by the City Council on

June 17, 2024 (Staff Report 2406-3140)⁶.

General Liabilities Fund

- *Litigation Reimbursement Revenue and Settlement Costs: \$2.5 million revenue and expense*

This cost neutral adjustment appropriates \$2.5 million in litigation settlement costs, offset by \$2.5 million in revenue to be reimbursed by the City's liability insurance.

- *Property Loss Insurance Premium: \$0.3 million expense*

In total, these adjustments add \$299,100 in expense for property loss insurance as a result of higher than anticipated premium costs and increasing insurance coverage for new city facilities, the California Avenue Parking Garage and the Public Safety Building.

1.e. Special Revenue Funds – Mid-Year Budget Adjustments

Mid-Year actions recommended in these funds are related to technical adjustments to align updated revenue projections from the State for Gas Tax funding and recommended funding to provide enhanced cleaning services in the California Avenue and University Avenue business districts and increased parking enforcement services in residential parking areas. See Attachment A, Exhibit 1 for further information regarding the recommended changes in the Special Revenue Funds.

Gas Tax Fund

- *Gas Tax Revenue for Street Maintenance: \$0.1 million decrease in revenue and expense*

The City receives revenues from California's Highway Users Tax Account (HUTA) and the Road Maintenance and Rehabilitation Account (RMRA SB1). In January, the Department of Finance's updates for estimated revenues from these accounts indicated that receipts would be lower than what is currently in the City's budget. To align with the new estimates, gas tax revenues will be reduced by \$68,070, and transfers to the Capital Improvement Fund for the Street Maintenance project (PE-86070) will be reduced by the same amount.

University Avenue and California Avenue Parking Funds

- *Enhanced Cleaning Services: \$0.3 million expense*

Consistent with Staff Report 2412-3936⁷, this action appropriates funding of \$280,000 to support enhanced cleanliness efforts in the University Avenue and California Avenue business areas. The additional funding increases the frequency of pressure

⁶ City Council, June 17, 2024, Agenda Item #: 28; Staff Report #: 2406-3140, <https://portal.laserfiche.com/Portal/DocView.aspx?id=73983&repo=r-704298fc&searchid=6f8d0911-1772-4c36-8644-9d493c0108f6>

⁷ City Council, January 13, 2025, Agenda Item #: 7; Staff Report #: 2412-3936, <https://portal.laserfiche.com/Portal/DocView.aspx?id=125149&repo=r-704298fc&searchid=a72a120e-3eb1-4e81-8d4c-049e770ee712>

washing from once a month to twice a month, as well as overtime pay for enhanced in-house cleaning services.

Residential Permit Parking Fund

- *Parking Permit Revenue and Enhanced Parking Enforcement: \$0.2 million revenue and expense*

This action increases parking permit revenue estimates by \$0.2 million to align with increased permit activity. The increased revenue will offset increased funding for parking enforcement services in residential parking permit areas around the City.

2. Preliminary Q2 General Fund Financial Status & Public Safety Overtime (Attachment B & C)

Attachments B and C provide summary information on actual preliminary financial activity through December 2025. These actuals have been factored into the analysis and projections used in the development of this Mid-Year Budget Review. Overall, they remain consistent with trends seen in the first quarter of the fiscal year. Staff will continue to monitor trends and update assumptions as part of the FY 2026 budget process as necessary.

3. Timeline and Next Steps

Staff is actively working on the FY 2026 budget and the Council and Finance Committee will continue to be updated through discussions with adjustments brought forward as necessary. Below is a list of expected reports and Council updates planned for the remainder of FY 2025.

March/April 2025:

- Utility Advisory Commission (UAC) and Finance Committee Meetings – Five Year Utility Financial Plans and FY 2026 Rate Recommendations
- Continuing Labor Negotiations
- Finance Committee Review of the Planning & Development Services Fee Adjustments and Citywide Municipal Fee Study

May 2025:

- Release of the FY 2026 Proposed Operating and Capital Budgets
- Public Budget Hearings on the Proposed Budgets with Finance Committee, including Utility Rates, Municipal Fees, and the 5-Year Capital Improvement Plan

June 2025:

- FY 2025 Third Quarter (Q3) Fiscal Analysis Report (informational)
- FY 2026 Operating and Capital Budget Adoption
- FY 2026 Municipal Fee Schedule Adoption
- FY 2026 Utility Rates Adoption

FISCAL/RESOURCE IMPACT

Approval of the attached transactions is required to amend the FY 2025 budget appropriation. With the approval of these amendments, the BSR will be reduced by \$9.1 million and the projected ending balance of the General Fund BSR is anticipated to be \$54.0 million, which is within the target range of 15% to 20% of the General Fund Budget expenses; however, it is below the City Council target level of 18.5%, or \$54.4 million, by \$0.4 million.

The projected changes to the fund balance for all other funds including Capital Funds, Enterprise Funds, Internal Services Funds, and Special Revenue Funds are outlined in Attachment A and accompanying exhibits and impacts to fund balances in these fund types are summarized in the table below:

Table 3: Fund Balance Impact (Non-General Fund)

Fund Type	Fund	Amount
Capital	Capital Improvement Fund	\$2.5 M
Enterprise	Airport Fund	\$34,000
	Electric Fund	\$(0.5 M)
	Fiber Optics Fund	\$47,000
	Gas Fund	\$0.2 M
	Refuse Fund	\$53,000
	Stormwater Management Fund	\$56,000
	Wastewater Collection Fund	\$0.1 M
	Wastewater Treatment Fund	\$0.5 M
	Water Fund	\$0.2 M
Internal Service	General Benefits Fund	\$(2.0 M)
	General Liabilities Fund	\$(0.3 M)
	Information Technology Fund	\$0.1 M
	Print and Mail Services Fund	\$3,000
	Vehicle Replacement Fund	\$40,000
Special Revenue	California Avenue Parking Fund	\$(18,000)
	General Government Facility Impact Fee Fund	\$(69,000)
	Parkland Dedication Fee Fund	\$(0.1 M)
	Public Art Fund	\$4,000
	Residential Permit Parking Fund	\$7,000
	University Avenue Parking Fund	\$(0.2 M)

STAKEHOLDER ENGAGEMENT

The Office of Management and Budget has coordinated with all departments city-wide and the City Manager's Office, as appropriate, to bring forward the changes discussed and recommended in this report.

ENVIRONMENTAL REVIEW

Council action on this item is not a project as defined by California Environmental Quality Act (CEQA) because the amendments to the FY 2025 Budget Appropriation and FY 2025 Table of Organization are fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. CEQA Guidelines section 15378(b)(4).

ATTACHMENTS

Attachment A, Exhibit 1: FY 2025 Recommended Operating Budget Adjustments

Attachment A, Exhibit 2: FY 2025 Recommended Capital Budget Adjustments

Attachment B: Preliminary FY 2025 2nd Quarter Financial Status

Attachment C: Public Safety Overtime Analysis

APPROVED BY:

Lauren Lai, Administrative Services Director