



Preliminary FY 2025 2nd Quarter Financial Status

General Fund

Overall, the General Fund is tracking closely to the adopted revenue estimates and within the adopted expenditure levels. Actual total revenue and expenditures increased by 5.1% and 15.6% compared to the same period in FY 2024. However, certain major revenue categories, such as sales tax, have declined with partial offsets by other major categories with higher trends. Although the data remains preliminary and will not be finalized until March 2025, staff believes the recommended adjustments are measured and aligned with the current financial outlook.

Revenues

The FY 2025 Adjusted revenue budget, prior to changes recommended in the Mid-Year Review, totals \$259.7 million (excluding Operating Transfers-in), of which \$98.2 million or 37.8% of the budget, has been collected as of the end of the 2nd quarter. Overall, tax revenue and return on investments revenue estimates in the FY 2025 Adjusted budget are \$4.7 million higher than the FY 2024 Actual revenue collected, from approximately \$166.6 million to \$171.3 million. Business Tax is included in totals and used for specific programs related to public safety, affordable housing and homeless services, and transportation and grade separation projects, per Council direction. A Reserve for Business Tax Revenue is used to ensure that business tax revenue is accounted separately from the Budget Stabilization Reserve (BSR) to be used in accordance with approved programs in the previously mentioned areas.

Adjustments to align revenue estimates based on current experience through the first half of FY 2025 are recommended in this Mid-Year Budget Review, including adjustments for Documentary Transfer Tax (\$1.4 million increase), Utility Users Tax (UUT) (\$1.1 million increase), Transient Occupancy Tax (TOT) (\$0.6 million increase), Investment Earnings (\$0.5 million increase), and business tax (\$0.5 million increase) offset by Sales Tax (\$3.9 million decrease) and Property Tax (\$0.1 million decrease) for a net increase of \$0.1 million.

Table 1 below outlines General Fund revenue performance, as of the end of the 2nd quarter, compared to the adjusted budget. The adjusted budget does not assume staff's recommended adjustments presented in this Mid-Year report as these changes have not been approved by the City Council.

Table 1
General Fund Revenue
FY 2025 2nd Quarter YTD
(000's)

Revenues	2nd Quarter Actuals				Adjusted Budget			
	FY 2025	FY 2024	Inc / (Dec)	% change	FY 2025	%	FY 2024	%
Property Tax	\$21,716	\$20,428	\$1,288	6.3%	\$68,623	31.6%	\$63,785	32.0%
Sales Tax	11,180	12,715	(1,535)	-12.1%	39,577	28.2%	36,272	35.1%
Charges for Services	15,017	14,313	704	4.9%	38,637	38.9%	35,131	40.7%
Transient Occupancy Tax	11,318	10,479	839	8.0%	27,857	40.6%	26,834	39.1%
Utility User Tax	9,379	8,550	829	9.7%	19,943	47.0%	18,457	46.3%
Permits and Licenses	4,544	5,208	(664)	-12.7%	10,877	41.8%	10,256	50.8%
Documentary Transfer Tax	4,045	2,791	1,254	44.9%	7,260	55.7%	5,920	47.1%
Business Tax	1,340	-	1,340	-	4,763	28.1%	1,660	0.0%
All Other Revenue Sources	19,630	18,937	693	3.7%	42,159	46.6%	44,856	42.2%
Total Revenue	\$98,169	\$93,421	4,748	5.1%	\$259,696	37.8%	\$243,171	38.4%

Property Tax

The FY 2025 Budget is \$68.6 million, a \$2.3 million or 3.5% increase from the FY 2024 actual receipts of \$66.3 million. Transfer of ownership has been a significant driver of growth. This revenue source has a one-year lag when compared to fluctuations in the economy, and during an economic downturn lower mortgage interest rates are expected. For example, the median sales price for a detached single-family residential home in the 4th quarter of calendar year 2024 or as of December 31, 2024, increased by 3.6% compared to the previous quarter and by 21.5% over the prior year's same quarter; however, due to the lag in collections, staff recommends a modest \$0.1 million decrease in this Mid-Year Review to reflect lower secured property taxes from sales activity than initially expected.

As of the end of FY 2024, the reserve for Excess Education Revenue Augmentation Fund (ERAF), representing the at-risk amount related to the State Controller's Office auditing finding on Marin County, totaled \$5.6 million. As of December 2023, the State Controller's Office has issued a negative audit finding against Marin County. The state's assertion is that former Redevelopment Agency funds, which are now part of the regular property taxes, should be excluded from the excess ERAF calculation. Marin County is challenging this finding and in late- December 2023, the County of Santa Clara filed a lawsuit against the State Controller's Office on this matter. The estimate is, if this audit finding is sustained, 20% to 22% of excess ERAF is at risk for fiscal years 2021, 2022, 2023, 2024, and 2025. If the finding holds, the County of Santa Clara, along with other Excess ERAF counties, will also face the impact of the audit findings. The practice of excluding the at-risk ERAF funding from the City's budget and keeping it in a reserve is consistent with the City's prior methodology for addressing this challenge.

Sales Tax

The FY 2025 Adopted Budget is \$39.6 million, an increase of 5.6% compared to the actual Sales Tax receipts of \$37.5 million in FY 2024. Sales Tax for the first four months of FY 2025 is 12.1% lower than the same period of the prior year. This is primarily due to lower auto sales and leasing. FY 2025 auto related activities may normalize to FY 2023 levels, though federal actions may further affect sales. In FY 2024, elevated car sales, driven by pent-up demand and attractive pricing for electric cars, resulted in higher sales tax collections. In the Mid-Year report, staff recommends a decrease in Sales Tax revenue by \$3.9 million to account for these trends mainly due to weaker auto sales and leasing activities.

Transient Occupancy Tax (TOT)

The FY 2025 Budget is \$27.9 million, similar to the FY 2024 actual receipts of \$27.8 million and higher than the pre-pandemic actuals of \$25.7 million in FY 2019. TOT economic performance for the first five months of FY 2025 is 2.8% higher than the same period in the prior fiscal year. Table 1 shows an 8.0% increase in TOT, which represents 4 ½ months of collection. On a monthly basis, TOT performance has been volatile. For the first five months actual receipts, the average occupancy rate is 79.1% (compared to 78.8% the prior fiscal year) and the average room rate is \$244 (down from \$251 the prior fiscal year). Staff continues to monitor trends and estimates that TOT levels will modestly increase and recommends a \$0.6 million increase to TOT revenue, with a corresponding \$0.2 million increase in the transfer to the Capital Fund for capital improvements.

Utility User Tax (UUT)

The FY 2025 Budget is \$19.9 million, slightly higher than the \$19.0 million FY 2024 actual receipts. Actual receipts in the 2nd quarter are 11.4% higher than the same period of the prior year. Staff recommends increasing the budget by \$1.1 million in this report as a result of higher utility revenues.

Documentary Transfer Tax

The FY 2025 Budget is \$7.3 million, an increase of \$0.2 million or 3.5% over FY 2024 actual receipts. Cash receipts through the 2nd Quarter total \$4.0 million, or 55.7% of the FY 2025 adjusted budget and \$1.3 million, or 44.9% higher compared to the 2nd Quarter of FY 2024, due to higher total property sales activity. This revenue source is highly unpredictable, as it depends on the value of properties being sold. Staff continues to monitor these receipts closely due to significant fluctuations that can occur depending on the real estate sales activity. Staff recommends increasing the budget by \$1.4 million in this report due to current increased trends in FY 2025. As of December 2024, this revenue has increased by 43.7% and the number of sales activities have increased by 21.6%.

Return on Investments

The FY 2025 Budget is \$3.3 million, a 10.8% decrease (\$0.4 million) from FY 2024 actual receipts. Cash receipts for FY 2025 total \$0.9 million, or 26% of the FY 2025 budget, but this only represents the 1st quarter earnings. Based on continued higher interest rate environment, staff recommends

increasing the budget by \$0.5 million in this report.

Business Tax

The FY 2025 Adopted Budget includes \$4.8 million for Business Tax revenue and as of the 2nd quarter, revenue collected totals \$1.3 million or 27.1% of the FY2025 budget due to the timing of collections being in arrears compared to the end of the 2nd quarter. Staff will continue to monitor collections and begun compliance and enforcement activities. A budget increase of \$0.5 million in business tax revenue is recommended in this report to align with delinquent account collections anticipated to be brought in by the business tax administration contractor in FY 2025.

In November 2022, voters approved Measure K (Business Tax) to provide additional funding for critical public safety needs; transportation safety improvements and grade separations; and affordable housing and unhoused services. The first BT payment was due on January 1, 2024, for the calendar year of 2023. As a result, the FY 2024 receipt of \$5.3 million represents a year and half of collection. However, the initial collection was based on a BT rate of 3.75 cents per square foot which will increase to 7.5 per square foot starting on January 1, 2025. The tax applies to non-exempt businesses above 10,000 square feet with an annual single business cap of \$500,000. Both the rate and the cap will be increased annually by 2.5% beginning in FY 2027. A limited number of businesses have the option to offset this tax by their sales/use tax collection. After the initial first payment, filings will be submitted on a quarterly basis.

Charges for Services & Permits and Licenses

The FY 2025 Budget assumes an estimate of \$38.6 million in Charges for Services, a \$2.0 million, or 5.5% increase, compared to the FY 2024 actual receipt. The FY 2025 Budget assumes an estimate of \$10.9 million in permit and license revenue, which aligns with the \$10.9 million FY 2024 actual receipts. Together, these revenue categories make up nearly half of all non-tax revenues. In total, \$47.5 million was received during FY 2024, above the revised budget estimates by \$1.6 million. These revenue categories consist of charges to Stanford for fire services and paramedic services, fees related to the City's golf course, arts and science classes, plan check fees, Building Permits, Fire Permits, and miscellaneous health and safety-related licenses. Several minor adjustments to revenue in Charges for Service and Permits and Licenses are recommended in this report and discussed below. Overall revenues in these categories are in line with activity levels anticipated thus far with Permits and Licenses tracking lower than budget through second quarter due to vacancies limiting fire and life safety inspections. In addition, the timing of collection of revenue in these categories did not align with the end of the second quarter, for example the revenue from Stanford for fire and paramedic services only reflects the first quarter payment as the second payment was recorded after the end of second quarter.

- **Fire Department Revenue:** Overall revenue for the Fire Department is recommended to increase by \$0.3 million in these categories as part of the Mid-Year Review. Revenue from Stanford University will increase by \$0.1 million to offset costs related to the fire academy and other programs per the fire response services agreement between the City and Stanford University. Paramedic Transport Revenue is recommended to increase

by \$0.6 million to align estimates with current trends through the first half of FY 2025. These increases are partially offset by a recommended decrease of \$0.4 million due to hiring delays which impacted the ability to provide Fire and Life Safety inspections in the first half of FY 2025.

Expenditures

Overall General Fund expenditures are currently expected to remain within the FY 2025 Adjusted budget levels of \$286.1 million (excluding transfers to infrastructure or other funds). General Fund expenditures (excluding operating transfers) for second quarter are 15.6% higher than the prior fiscal year and are tracking at 44.8% of the Adjusted Budget (excluding encumbrances). This trend exceeds prior fiscal year expenditure levels which were at 39.0% at the end of the 2nd quarter in FY 2024. This is still under the 50% par level that is expected halfway through the fiscal year, and staff will continue to monitor expense trends and inform Council regarding anticipated savings or overages compared to budgeted levels.

Table 2

**General Fund Expenditures
FY 2025 2nd Quarter YTD
(000's)**

Expenditures	2nd Quarter Actuals				Adjusted Budget			
	FY 2025	FY 2024	Inc/(Dec)	% change	FY 2025	%	FY 2024	%
Police	\$ 30,414	\$ 26,032	\$ 4,382	16.8%	\$ 56,388	53.9%	\$ 52,241	49.8%
Fire	28,688	23,925	4,763	19.9%	55,441	51.7%	47,464	50.4%
Community Services	20,325	17,976	2,349	13.1%	42,553	47.8%	40,356	44.5%
Public Works	11,541	9,761	1,780	18.2%	27,805	41.5%	25,763	37.9%
Planning and Development Services	11,081	10,938	143	1.3%	29,336	37.8%	33,049	33.1%
Library	6,496	5,289	1,207	22.8%	12,840	50.6%	12,599	42.0%
Administrative Services	5,650	4,971	679	13.7%	12,154	46.5%	11,250	44.2%
All Other Departments	13,973	12,022	1,951	16.2%	49,605	28.2%	61,530	19.5%
Total Expenditures	\$128,168	\$ 110,914	\$ 17,254	15.6%	\$286,122	44.8%	\$284,252	39.0%

Salaries and Benefits

As a service driven organization, the largest expenditures are salaries and benefits. Preliminary salary and benefits expenditures through December 2024 are approximately \$99.0 million, or 53.4% of the \$179.8 million FY 2025 Budget, compared to \$81.7 million or 49.0% in the same period in the prior fiscal year. The City continues to maintain vacancies of approximately 125 positions; though this changes frequently, this reflects approximately a 11.5% vacancy rate. See Table 3 below for more detailed information regarding citywide vacancies by department and bargaining unit as of the beginning of February.

Vacancy levels impact service capacity; however, departments use vacancy savings to mitigate these impacts through other staffing strategies such as filling staffing gaps by contracting for professional services, hiring ahead to allow overlap and smooth transitions, piloting new technologies to increase

efficiency in the absence of staff, and supporting a summer internship program.

Table 3
Citywide Vacancies by Department and Bargaining Unit

Vacancy Summary by Department and Bargaining Group								
Department	Total Sum of Vaca	Vacancy Rate	Bargaining Group Vacancy Rate					
			IAFF %	FCA %	MGMT %	PAPM %	PAPOA %	SEIU % UTLM %
Administrative Services Department	8.75	14.46%			18.38%			9.43%
City Attorney's Office	0	0.00%						
City Clerk's Office	0	0.00%						
City Manager's Office	2	6.50%			4.82%			11.11%
Community Services Department	4.75	5.60%						7.32%
Fire Department	10	8.85%	9.47%		12.50%			
Human Resources Department	1	5.56%			6.25%			
Information Technology Department	4	11.43%			14.29%			
Library Services Department	6	12.00%			14.29%			11.11%
Planning and Development Department	12	19.05%			21.05%			18.18%
Police Department	7	4.86%				28.57%		8.16%
Public Works Department	23	11.11%			9.26%			11.76%
Utilities Department	48	17.84%			25.00%			16.67% 21.82%
Grand Total	126.5	11.50%						

SAP Report from 02/04/25

City Manager's Office
Includes Office of Transportation

Police
Includes Office of Emergency Services

Public Safety Overtime

Table 4
Police and Fire
Salaries and Overtime Expense
FY 2025 2nd Quarter YTD
(000's)

	2nd Quarter YTD Actuals			Adjusted Budget			
	FY 2025	FY 2024	% change	FY 2025	%	FY 2024	%
Inc (Dec)							
Police - Salaries	\$ 10,562	\$ 9,110	15.9%	\$ 22,548	47%	\$ 21,577	42.2%
Police - Overtime	2,162	1,687	28.2%	5,903	37%	1,029	163.9%
Total Police	12,724	10,797	17.8%	28,451	45%	22,606	47.8%
Fire - Salaries	9,808	8,413	16.6%	21,628	45%	18,417	45.7%
Fire - Overtime	3,010	2,050	46.8%	2,721	111%	2,146	95.5%
Total Fire	12,818	10,463	22.5%	24,349	53%	20,563	50.9%
Total Public Safety							
Salaries & Overtime	\$ 25,542	\$ 21,260	20.1%	\$ 52,800	48%	\$ 43,169	49.2%

Police Department overtime is 28.2% higher than the prior fiscal year, accounting for 37.0 % of the adjusted budget. As of the second quarter of FY 2025, the department began with 7 full-time vacancies and ended the quarter with 4 (3 Dispatchers and 1 Police Lieutenant). Of the 78 filled PAPOA positions, 13(17%) were in long-term police training, 10 (13%) were on long-term leave, and 55(70%) were available for duty.

Currently, 8 officers are assigned to investigations, 3 to traffic enforcement, 2 to personnel and training, and 2 to special operations, leaving 40 officers available for patrol. These officers handle approximately 110 calls per day, conduct enforcement stops, and engage in community outreach initiatives. The department operates 5 patrol teams, each consisting of 4 to 5 members. Overtime is primarily attributed to covering patrol officer vacancies due to absences and staffing gaps, as well as responding to fluctuations in demand, such as major accidents. The department will continue to monitor overtime expenses and assess their impact on budget, including additional overtime incurred as part of recent retail theft grant activities. Vacancy savings in the Police Department are offset by overtime costs required to maintain service levels. Additional information regarding public safety overtime tracking is included in Attachment C.

Fire Department overtime is primarily driven by the need to backfill vacancies on shift. Under the current deployment model, 24 positions are required daily for Fire Engines and Ambulances to remain fully operational. Vacancies, whether due to unfilled positions, injury leave, probationary training, or scheduled time off, must be backfilled with overtime. In FY 2025 Q2, 7 positions were vacant, and 6 employees were on injury leave, contributing to elevated overtime levels as these positions were covered daily. As part of this report, the department is recommending a total increase of \$2.5 million for overtime related activities. This includes a net-zero action to shift salary savings of \$1.5 million to overtime in order to better align the budget between anticipated salary and overtime spending through the end of FY 2025; Reimbursement of \$0.7 million for staffing Fire Station 8 and providing resources for strike teams around California; and \$0.3 million 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, funded through overtime, at Fire Station 4, for a total of three shift personnel starting March/April. More information about these actions can be found in Attachment A of this report.

The Department conducted an entry-level hiring process in the summer and has sent 10 new hires to the Fire Academy, which commenced in October 2024. The academy requires a minimum of 20 weeks for completion, during which overtime remains necessary to cover daily positions, as the new hires are not yet trained or authorized for assignment to an Engine or Ambulance. Additional information regarding public safety overtime tracking is included in Attachment C.