



Administrative Report

N.2., File # 26-0255

Meeting Date: 3/17/2026

To: MAYOR AND CITY COUNCIL
From: STEPHANIE MEYER, FINANCE DIRECTOR

TITLE

DISCUSSION AND POSSIBLE ACTION REGARDING THE FISCAL YEAR 2025-26 MIDYEAR BUDGET REVIEW

RECEIVE AND FILE A PRESENTATION ON THE STATUS OF THE CITY'S CAPITAL IMPROVEMENT PROJECTS

PROVIDE DIRECTION ON IDENTIFIED FY 2026-27 COST SAVINGS STRATEGIES

ADOPT BY 4/5THS VOTE AND BY TITLE ONLY RESOLUTION NO. 2603-014, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDONDO BEACH, CALIFORNIA, MODIFYING THE BUDGET FOR FISCAL YEAR 2025-26

EXECUTIVE SUMMARY

In June 2025, the City Council adopted the FY 2025-26 Operating Budget, which funds core municipal services for the residents, businesses, and visitors of the City of Redondo Beach.

This report reviews the City's budget and financial condition following the first six months of FY 2025-26, provides an overview of revenue and spending and capital projects progress, presents proposed revenue adjustments, and includes limited Decision Packages that reflect modest changes and corrections to the Adopted Budget. The report also presents updated internal service fund adjustments and necessary modifications to non-General Funds that require Council approval. Additionally, the report provides information on potential cost saving options and other considerations in preparation for the FY 2026-27 Budget.

Including revenue adjustments, internal service fund changes, recommended Decision Packages, and estimated salary savings, staff anticipates ending FY 2025-26 with a positive General Fund balance of approximately \$1.27 million. Staff recommends taking no action with the estimated remaining fund balance at this time, as it will be needed to support the 2026-27 Budget. It is recommended the Council discuss the information presented in the report and approve a budget modification resolution adjusting the FY 2025-26 Budget accordingly.

BACKGROUND

This midyear budget report with attachments presents information on revenue and expenditures to date, proposes revenue and expenditure adjustments based on review of activity and the completed

internal services plan update, proposes decision packages, and estimates the General Fund year-end fund balance.

Revenue and Spending through Midyear

Through December 31, 2026, the City has collected approximately 39% of total revenue, (excluding transfers). This is in line with prior years at the same point in time. The percentage of total revenue collected through six months reflects the timing of payments for the City’s largest tax sources, Property Tax and Sales Tax, which the City receives on irregular payment cycles, with the last payments received following the end of the fiscal year. Transient Occupancy Tax also reflects five, rather than six months of payment, as receipts are due at the end of the month following the period taxed. For comparison, the City received 38% of tax revenue through the same time period in FY 2024-25, and 36% through the same period in FY 2023-24. In each of those years, General Fund revenue exceeded final budget.

Revenue Category	Adopted Budget	Received	% Received
Taxes	85,237,861.00	29,091,235.90	34%
Licenses and Permits	2,952,848.21	1,849,511.69	63%
Intergovernmental	219,366.87	151,924.56	69%
Charges for Service	26,501,554.20	13,251,217.60	50%
Use of Money/ Property	3,295,401.00	2,838,835.79	86%
Fines and Forfeiture	1,693,994.00	858,391.13	51%
Other Revenue	2,774,825.00	347,199.82	13%
	122,675,850.28	48,388,316.49	39%

The City has spent 46% of its General Fund budget (excluding transfers) through December 31, 2025. Personnel spending occurs on a regular rate, except that the first half of the year includes one-time lump sum payments for vacation cash-outs; the second half of the year will also incorporate any MOU-related increases effective for that year, so spending is expected to be below 50% midway through the fiscal year. Spending for Materials and Supplies, Equipment Maintenance and Operations, Contracts and Services, and Capital Outlay largely reflect project timing, so the rate of expenditure is not the same throughout the year. Based on current spending, including projecting the remainder of the year with the most recent payroll data, staff anticipates ending the year with salary and other savings. In FY 2024-25 at midyear, General Fund spending as at 48% of budget, and was at 41% of budget in FY 2023-24.

Spending Category	Adopted Budget	Spent	% Spent
Personnel	49,819,058	21,915,100	44%
Fringe	22,000,847	10,356,483	47%
Materials and Supplies	2,804,256	1,178,973	42%
Equipment M&O	831,744	505,577	61%
Contracts and Services	8,640,676	3,771,650	44%
Internal Services	30,805,104	15,402,553	50%
Capital Outlay	40,000	37,817	95%
	\$ 114,941,684	\$ 53,168,152	46%

Capital Projects Update

With the midyear report, staff also presents Council with an update on the progress of capital projects. The table below shows projects by phase as of March 2026.

Phase	# of Projects
Pre-Design/ Design	25
Procurement	11
Construction	8
Completed	21
	65

Detail for each category is included as an attachment to this report. In addition, staff will provide an update on the progress of Capital Improvements Projects (CIP) including the phases of active projects, expenditures to date, and a five year historical look of the CIP program, as part of the March 17, 2026 meeting presentations.

Estimated Ending Fund Balance

Staff estimates the FY 2025-26 ending fund balance using estimated prior fiscal year-end balance, excluding assignments other funds unavailable for spending. This is the same calculation presented to City Council on February 17, 2026 regarding year-end carryover. Including approved items, staff anticipates a starting FY 2025-26 fund balance of \$3.15 million.

At budget adoption, staff estimated a year-end balance of approximately \$75,000. From July through December, Council has approved a net increase of approximately \$73,000 to General Fund appropriations for the Cannabis Survey (approximately \$35,000) and for a prior year unspent Cal Water donation, offset by prior year revenue (approximately \$38,000). Including use of balance and net year-to-date amendments, the estimated ending balance before changes remains approximately \$3.15 million.

Fund Balance Calculation - to reach estimated FY 2024-25 Ending Fund Balance (adds Council-approved budget changes from Budget Adoption through Midyear Report)		
Balance	3,151,678	Beginning Fund Balance
Set Aside for FY 25-26 Budget	1,258,968	
Adopted Budget	129,095,178	Adopted Revenues & Transfers In
	(130,279,026)	Adopted Expenditures & Transfers Out
Modifications	(73,150)	Other Modifications Approved by 4/5 Council Vote
	3,153,648	Estimated FY 2025-26 ending fund balance

The estimate above assumes full spending for the fiscal year, and is the starting point for evaluation of further adjustments.

Recommended Adjustments

With the carryover report, staff previewed anticipated midyear revenue reductions and internal service cost increases. This report’s recommended adjustments include those items and an expenditure increase for payments to the lender-held Authority Funded Reserve (AFR) related to the City’s site-specific tax agreement for the three Marine Avenue hotel properties. This is consistent with auditor requirements to record gross revenue and expenditure and reflects updated projections for these payments. Finally, although there is no associated budget adjustment, staff conservatively

estimates year-end personnel savings.

Revenue

Revenue performance is mixed for the General Fund, with increases in property tax, documentary transfer tax, and charges for service revenue along with one-time unanticipated payments offset by anticipated decreases to sales tax, transient occupancy tax, and franchise fee revenue. Revenue adjustments also include internal revenue for overhead, which is offset by expense. Staff recommends revenue adjustments resulting in a \$2.3 million increase to General Fund revenues, detailed below.

Taxes: -\$0.6 million

- Property Tax: \$0.7 million

Revenue is based on the City's assessed valuation, and changes annually in line with this calculation. The increase is based on a 3.6% valuation increase, slightly ahead of original projections.

- Documentary Transfer Tax: \$0.4 million

Increase based on revenue receipts through December 2025, which mirror the higher rate of revenue received in the 2024-25 fiscal year, with an estimated increase of \$0.4 million.

- Sales and Use Tax: (\$0.4 million)

Estimated \$0.4 million decrease is based on revised current year projections from the City's sales tax consultant, reflecting downward adjustments across categories, with weaker than expected revenue in hotels and restaurants, two of the City's major categories. Trends are consistent with the state and region, generally, which in the revised projection show as flat statewide, with small increases seen in the next fiscal year.

- Transient Occupancy Tax (TOT): (\$0.6 million)

The \$0.6 million decrease reflects weaker than anticipated receipts to date. Across hotels, monthly TOT is generally down from the prior year, on average approximately five percent. The City's downward trend is consistent with what is being experienced in the South Bay, State and travel and tourism industry nationwide. The projected revenue includes TOT from the Hilton Garden Inn, Homewood Suites, and Residence Inn, the hotel properties with which the City has a site-specific tax agreement, consistent with auditor requirements to record gross revenue and expenditure. Revised projections for those hotels result in contributions to the AFR for this TOT, which is reflected in expenditure adjustments below.

- Franchise Fees: (\$0.6 million)

The projected \$0.6 million decrease reflects weakness in prior year receipts, with revenue to date showing similar trends. Franchise fee revenue can fluctuate year-over-year, with receipts depending on prices and volume of electricity, gas, and water transmitted within the City. Staff will continue to monitor this source to inform FY 2026-27 budget projections.

- Business License Tax: (\$50,000)

Reduction reflects known decreases based on downward adjustments to individual business calculations.

Charges for Services and Use of Money and Property: \$1.0 million

- Increases reflect better than anticipated receipts in Community Development Fees and Permits (excluding Building Plan Check Fees); Fire ALS pass-through fees, and Police Parking Meter Fees, offset by a slight decrease to Community Services facility rentals.

One-time Payments: \$0.6 million

- The City has received unanticipated one-time reimbursements, including a \$0.4 million payment for an easement termination agreement and a retroactive payment of \$0.2 million related to the updated Google/ Tata agreement.

Overhead: \$1.4 million

- Staff has completed an internal services review, updating all internal costs for FY 2024-25 actual spending. The anticipated additional General Fund revenue from revised overhead charges is \$1.4 million, representing an approximately 9% increase over the prior year, driven largely by personnel and fringe increases. This increase has a net zero General Fund effect, as it is offset by increased expense.

Finally, staff projects reduced revenue related to the recreation programs and after school classes, related to both hiring challenges and some reduction in demand. These revenue decreases are offset by cost decreases; therefore, we believe revenue adjustments for those areas are unnecessary at this time.

Non-General Funds

In other funds, staff recommends the following adjustments:

- **Harbor Uplands:** Staff recommends an approximately \$0.4 million increase to parking revenue based on year-over-year increases in parking activity during the first half of the fiscal year. During this period, Harbor Uplands parking revenue increased approximately 15%.
- **Internal Services:** revenue increases match contribution increases to each fund as shown below in total increases. Detail is included in the revenue adjustments attachment to this report.

Expenditure

General Fund spending is on track with budget and as anticipated through six months of the fiscal year. Staff recommends adjustments for TOT contributions to the lender-held authority funded reserve related to the Marine Avenue hotel agreement and to internal services.

- **Authority Funded Reserve Contributions: \$2.3 million.** Consistent with auditor recommendations to record gross revenue and expense, staff recommends an expenditure adjustment to account for these payments. At the time of budget adoption, based on hotel owner estimates supported by external data, staff had anticipated retaining TOT revenue for these hotel properties starting in September 2025, with minimal additional draws throughout the year. However, both lower than anticipated revenue and higher than projected expense for a brand-required property refresh mean that staff anticipates contributing the remainder of the year's TOT generated from these properties to the AFR. Staff estimates the total amount at approximately \$2.3 million, including \$1.3 million paid through February 2026. At the current rate, staff anticipates reaching the \$3 million AFR threshold - the point at which the City retains TOT - in July

or August of 2026.

Internal Service Funds

The City's internal service funds provide critical reserve funding to ensure the organization is prepared to meet future foundational support needs. The annual analysis updates fund contributions to reflect the most recent spending. The calculations to reach these updated allocations smooth the impacts of larger spikes in spending, such as large workers' compensation or liability claims.

Including all funds, the most recent update shows an approximately \$5.7 million or 14% increase over the prior year, driven largely by anticipated cost increases in the Self-Insurance Fund and in the overhead plan. The impact to the General Fund is \$2.9 million.

- Self-Insurance

Staff anticipated an increase to this fund contribution, which reflects liability insurance premium costs and the fund's operating expenses, and a five-year average of liability and workers' compensation claims (the calculation uses an average to avoid large year-over-year fluctuations). The significant 35% increase is primarily related to FY 2023-24 workers' compensation and liability claims updated with final audit adjustments not included in the prior year calculation. Fiscal Year 2024-25 shows a more positive trend, with workers' compensation long-term claims decreases largely offsetting long-term liability increases. Looking forward, staff proposes adjustments to premiums, detailed in the section below, which could balance these impacts in future years. Future year ongoing improvements to claims in both areas could also moderate these liabilities for the future.

- Building Occupancy

The 8% increase primarily reflects energy cost increases, and represents a leveling off following a larger increase in the prior year.

- Information Technology

The 2% decrease reflects lower replacement needs offsetting some operating increases.

- Emergency Communications

The 13% increase primarily reflects the impact of increases to staffing costs.

- Vehicle Maintenance and Repair

The \$0.6 million, or 11%, increase reflects the planned replenishment of the fund to meet current vehicle replacement expectations and recent accelerated vehicle purchases in the Fire Department.

- Overhead

The 12% increase is consistent with new personnel costs and some additional expenses. The General Fund portion of this cost is offset with revenue, for a net zero impact. Other funds see an approximately \$0.3 million increase.

- Major Facility Repair

The approximate doubling to \$0.2 million reflects increased energy costs.

- City Facility Sewer Fee: This plan decreased by approximately 25%, reflecting lower use.

Details for all revenue and expenditure adjustments are included in report attachments.

Salary Savings

At this point in the year, staff reviews spending to date and projects potential expenditure savings, with a focus on personnel costs. Based on the most current payroll data, and accounting for year-end adjustments, staff anticipates ending the year with approximately \$2.4 million in salary savings. This reflects adjustments staff made during FY 2025-26 budgeting to more accurately budget for overtime and fringe benefits, along with naturally occurring staff turnover.

Decision Packages

Staff proposes limited Decision Packages related to policy, operational, or financial matters. The recommended decision packages are listed below:

GENERAL FUND

Decision Package #1: Paramedic Assessment Fee

The City entered an Agreement with Wittman Enterprises, LLC for implementation of the Paramedic Assessment Fee on July 1, 2025, and began collection on August 1, 2025. The budgeted revenue for FY 2025-26 was proposed during the annual budget cycle with the understanding that the City would record net revenue, with the vendor deducting payment before remitting revenue to the City. The final Agreement instead requires direct payment to the vendor, a process that is also consistent with auditor requirements to record gross revenue and expense. To support vendor payments, the City must therefore increase the Fire Department's expenditure budget. The increase will be offset by a matching increase to revenue, which has shown consistent growth through the first half of the fiscal year. This is an ongoing Decision Package and staff will build in approved contract cost increases in future year budgets, which will also be offset by revenue. Staff recommends a revenue increase of \$68,000 and an ongoing appropriation of \$68,000 to the Fire Department's Contracts & Services Budget for a net zero impact to the General Fund.

Decision Package #2: Contract Building Plan Check Review

The Community Development Department's (CDD) Building Division requires additional funding to maintain its program of outsourcing building plan checks to third-party service providers. The FY 2025-26 Budget included funding for third party consultants to meet the Department's target of a two to three week turnaround time for building plan check reviews and approvals. The City entered into agreements with multiple consulting firms, which are paid at a rate of 60% of the plan-check application fee collected by the City. The third-party plan check program has been highly successful in improving customer service and reducing average review times to meet the Department's performance metrics for project review times and customer service.

On January 6, 2026, the City Council appropriated \$650,000 to continue funding the outsourcing of building plan checks, which was offset by additional application fee revenue that exceeded projections. Following the January appropriation, there have been multiple large projects added to the processing queue; including a 49-unit mixed-use project at 401 PCH, a 167 residential unit project at 2819 182nd Street, and the recent submittal for a new data center located at 3690 Redondo Avenue, valued at \$32 million dollars and generating a plan check fee of \$514,000. To support the timely review of these applications, the CDD is requesting additional funding in the

amount of \$950,000 to continue with the outsourcing of building plan checks through the remainder of the fiscal year. The funding will be offset by application fee revenue, which is at a current surplus of \$730,000, including the January appropriation. The revenue surplus will be increased with the submittal of the above noted projects, and, in addition to the current surplus, will be substantially more than the \$950,000 of funding that is being requested. Staff will segregate these appropriations so that they are not part of core budget, and will not be used apart from specific agreements associated with revenue generation. Staff recommends a \$950,000 revenue and expenditure increase within the Community Development Department, for a net zero impact to the General Fund.

OTHER FUNDS

Decision Package #3: CDBG 2025-26 Annual Action Plan (CDBG Fund)

Annually, the City receives Community Development Block Grant (CDBG) funds from the Department of Housing and Urban Development (HUD) to be used to address local housing and community development needs. On July 15, 2025, the City Council approved HUD's allocation of \$295,609 to be used for the following programs/services:

- Public Facilities and Improvements - \$152,147
- Administration/Fair Housing - \$59,121
- Public Service Agencies (Subrecipients) - \$44,341
- Home Improvement Program (Mobility Access/Emergency Repair) - \$40,000

Staff recommends an increase of \$295,609 in revenue and expenditure to the Community Development Block Grant (CDBG) Fund.

Decision Package #4: Measure A Grant Adjustments: Veteran's Park Historic Library (Intergovernmental Grants Fund)

City Council approved \$850,000 in Measure A funding for the Veteran's Park Historic Library with the Adopted Budget, based on an estimate of project funding. Following budget adoption, the granting agency, Los Angeles County's Regional Parks and Open Space District (RPOSD), approved \$1,023,889 for the project. To appropriate the full approved amount, staff recommends a \$173,889 increase to revenue and expenditure in the Intergovernmental Grants Fund.

Decision Package #5: Proposition 68 Grant Adjustment: Alta Vista Park Court Resurfacing (Intergovernmental Grants Fund)

California voters approved Proposition 68 in 2018, resulting in a \$4 billion bond program that provides funding for parks, outdoor space, and water quality projects. Through this program, the City of Redondo Beach received \$271,577, of which \$110,735 was used in 2022 for replacement of playground surfacing at Perry Park. Staff recommend using the remaining balance of \$108,842 to support the resurfacing of the tennis courts and installation of the pickleball courts at Alta Vista Park, which is an eligible project to utilize these funds. The grant requires the City to provide a 20% match, which is \$21,768, resulting in \$90,107 of project savings. Staff recommend the City Council approve the remaining balance of \$108,842 in Prop. 68 funds to be appropriated to the Intergovernmental Grants Fund for the resurfacing of the tennis courts and installation of pickleball courts at Alta Vista Park.

Decision Package #6: LGBTQ Statue (John Parsons Funding, Capital Projects Fund)

The City Council approved a \$45,000 agreement with Lebasse Projects (LBP) on May 13, 2025 to develop the Artesia Blvd. Strategic Art Plan (Plan). The Plan, developed through community

outreach, outlines an initial implementation phase that includes at least three public art installations funded by a previously allocated \$405,000 budget and a second phase, estimated at \$550,000, that remains unfunded. The Cultural Arts Commission reviewed and supported the Plan on November 19, 2025, and recommended an additional allocation to support an LGBTQ-themed sculpture in front of the North Branch Library as part of the Phase I implementation. On December 16, 2025, the City Council approved the Plan with minor modifications to the initial phase, and an additional allocation of \$35,000 to support the inclusion of an LGBTQ-themed sculpture that would support LBP's additional consulting services, including community outreach; fabrication and installation of the sculpture; and contingency funding. Adoption of the proposed budget modification would formally appropriate \$35,000 from the John Parsons Public Art Fund (JPPAF), collected in the City's Deposit Fund, to the Capital Improvement Project #10128 - ARTesia Project in the Capital Projects Fund to support the LGBTQ-themed sculpture for inclusion in Phase I implementation. Staff recommends the Council approve the appropriation of \$35,000 to the Capital Projects Fund, with associated transfers to move funds from the Deposit Fund.

Decision Package #7: Information Technology Department Reorganization (IT Fund)

Over the last three years, the Information Technology team has bridged a myriad of infrastructure and technology gaps. As the team shifts focus toward multiple enterprise modernization initiatives including Citywide digital workflow and records management, artificial intelligence strategy, and planning for major construction projects, the need for dedicated operational leadership and project coordination within the Information Technology Department has increased. A vacancy within the Department has created a timely opportunity to make a classification change to address this need. Staff proposes the reclassification of one vacant Information Systems Specialist position to an Information Technology Operations/Infrastructure Supervisor classification. The new role would provide focus on project and operations leadership and be responsible for coordinating IT initiatives, managing project timelines and deliverables, supporting vendor oversight, and providing day-to-day operational supervision and escalation across key IT programs. Staff recommends an approximately \$27,000 personnel expenditure increase, offset by a parallel reduction to contracts and professional services for a net zero impact to the Information Technology Fund.

Decision Package #8 Public Works Staffing Reorganization (multiple funds)

To improve staff retention, respond to evolving service demands, and maximize the use of increasingly available technological solutions, Department leadership recommends adjusting staffing classifications within the Operations Division. The proposed Public Works reorganization aligns staff roles with current operational needs, strengthens supervisory span of control, and ensures resources are deployed more effectively. These adjustments will improve operational efficiency, support workforce stability, and position the Department to meet service expectations in a cost-effective and sustainable manner.

The proposed reorganization is cost neutral and would adjust the current budgeted configuration of a Senior Management Analyst, and two Senior Administrative Specialists to an updated structure featuring an Administrative Manager, an Office Coordinator and an Administrative Specialist. Also proposed is the modification of one budgeted Public Works Manager position (vacant) to a Public Works Supervisor and the renaming of one Public Works Manager to Public Works Superintendent. The changes impact multiple funds, resulting in a small estimated net reduction to the General Fund and all impacted funds. Staff recommends adjustments to the personnel budgets in the General Fund, Harbor Tidelands, Harbor Uplands, Solid Waste, Sewer, Fleet, and Building Occupancy funds, resulting in a net decrease across funds, with decreases in the General Fund, Harbor Tidelands, and

Harbor Uplands funds offset by small increases to the Solid Waste, Sewer, Fleet, and Building Occupancy Funds.

Decision Package #9: Refuse Rate Midyear Adjustment (Solid Waste Fund)

Decision Package #21 in the approved FY 2025-26 Budget increased the annual expenditures in line with the Council approved Refuse Rate Adjustment. This is a pass-through fee from residents to Athens Services via Los Angeles County. Each year, an adjustment is made through the budget process to account for the new approved solid waste rates. However, the new count of households is not known before the Budget is adopted. The revised unit count is 16,210, an increase of 12 units. Recommended is an increase from the Solid Waste Fund of \$7,414.72 to cover the cost of additional units and the approved increased cost of two Household Hazardous Waste events. Also recommended is a restoration of Core Budget in the amount of \$68,434.20 from the Solid Waste Fund. The total ongoing expenditure increase of \$75,848.92 is offset by ongoing revenues. Staff recommends a \$75,848.92 increase to revenue and expenditure in the Solid Waste Fund.

Decision Package #10: Advance Replacement Backhoe (Vehicle Replacement Fund)

The Public Works Streets Division requests the advance purchase of a Street Division Tractor/Backhoe (Unit 362-12). The existing Unit is a 2012 model year vehicle with a designated 17-year lifespan in the Vehicle Replacement Schedule that is due for replacement in FY 2028-29. The vehicle is in heavy daily use by the Streets Division and is the only unit of its type in the fleet. The Unit has experienced a significant failure. Given the estimates for repair, the age of the unit, and the critical nature of this unit for daily operations, staff recommends advance replacement of the unit for a cost of \$180,000. Of this amount, a portion is already collected in the fund, and the fund balance is sufficient to support this purchase during the fiscal year. Staff recommends a \$180,000 increase to the Vehicle Replacement Fund.

Decision Package #11: Fuel Island Rehabilitation and Improvement: (Vehicle Replacement Fund)

The Public Works Department proposes working with an outside engineering firm to determine a long-term solution to rehabilitate the fuel island, develop plans and specifications, submit all required permitting applications, and implement the recommended and permitted improvements. The Department operates and maintains the City's gasoline, diesel, and compressed natural gas fueling station. Over the past several years, the City's gasoline tanks and fuel dispensers have experienced an increasing number of operational failures, causing prolonged downtime and disruptions for Departments reliant on City-provided fuel. These issues have resulted in increased emergency maintenance costs and fueling costs at non-public agency fueling stations. In the FY 2025-26 Budget, the City Council approved a one-time Vehicle Replacement Fund appropriation of \$100,000 to the Public Works Fleet Operating Budget. Through project design, it has become clear that the scope of work is more significant than originally thought. Recommended is the creation of a CIP project for this work, the transfer of existing funding to the CIP project, and an additional one-time appropriation. Staff recommends a \$100,000 appropriation from the Vehicle Replacement Fund. As noted above, the fund has sufficient available balance to support this cost.

Estimated Ending Fund Balance with Adjustments & Decision Packages

Including all changes described above, the estimated ending General Fund balance for FY 2025-26 is approximately \$1.27 million.

Fund Balance Estimate including Recommended Changes		
Balance	3,153,648	Estimated FY 2025-26 ending fund balance
Revenue Adjustments	2,360,901	Revenue adjustments, Overhead
	1,018,000	Decision Packages
Expenditure Adjustments	(4,336,615)	Internal Services
	(2,300,000)	AFR Contributions
	2,400,000	Estimated Personnel Savings
	(1,017,404)	Decision Packages
	1,278,530	Estimated FY 2025-26 ending fund balance

As mentioned above, the remaining balance excludes the contingency reserve, which is backed out before calculating available fund balance. It also does not include CalPERS Reserve funds, which are held in a separate account and currently total roughly \$4.5 million.

Possible Cost Reductions/ Considerations Heading into the FY 2026-27 Budget

Looking ahead to the FY 2026-27 Budget, staff is aware of ongoing challenges, including potential ongoing weakness in TOT revenue, required unfunded accrued liability payment, and ongoing internal service fund costs. Staff has identified areas of potential savings for Council consideration, included below. These do not represent an exhaustive list of potential cost savings measures, but are ones which require early direction to implement for the budget. Staff seeks Council input on these ideas to assist with preparation of the FY 2026-27 Budget and to support financial sustainability moving forward.

Crossing Guards

As staff reports annually with Budget, the City spends significant funds each year to support crossing guards at multiple locations Citywide. For example, as staff presented in Budget Response Report #43 as part of the FY 2025-26 Budget, the City currently supports 27 crossing guard locations at an annual cost of approximately \$580,000 (including approximately \$370,000 approved as one-time funding). As the City examines expenses, staff requests the Council provide direction on possible changes to the level of service provided, including the option of reducing the number of crossing guard locations. More detail, including analysis of each crossing guard location, is included as an attachment to this report.

Insurance Coverage

Staff has identified potential costs savings associated with adjustments to property liability coverage that would have minimal negative impact on the City’s risk calculations. Following surveys of neighboring cities and discussions with the City’s insurance providers, staff recommends the following for consideration:

- Reducing or eliminating earthquake coverage for certain properties (earthquake coverage comprises \$1 million of the City’s annual \$1.7 million liability premium payment)
- Adjusting the City’s self-insured retention (SIR) amount

Staff recommends the Council discuss the City’s coverage levels and provide direction on FY 2026-27 premium payments, particularly the earthquake coverage amounts as any changes in this category related to next year’s premium cost would be due to the City’s insurance provider by the end of the month.

Staff also recommends that Council provide general direction on consideration of changes to the SIR amount. This decision does not have the same urgent deadline, and staff will return to Council with additional information as relevant.

Additional detail, including a list of properties with their associated values and premiums, and staff recommendations for adjustment, is included as an attachment to the report.

Pension Costs / UAL Status

The City's Unfunded Accrued Liability (UAL) Payment for FY 2026-27 is \$4.2 million and is projected to be roughly \$3 million annually through 2029-30 if CalPERS meets its 6.8% investment target. The City's total unfunded liability at the end of FY 2023-24 (the year included in the City's most recent valuation) was comparatively low to other municipalities at \$51.0 million, with a combined funded level of approximately 93%. When incorporating the known FY 2024-25 CalPERS returns of 11.6%, CalPERS' projection tool estimates that the City's next valuation (which will be delivered to the City in July and set the FY 2027-28 contribution amounts), will show significant improvement in both the City's total unfunded accrued liability amount and percentage level of funding. The miscellaneous plan is projected to exceed 100% funded, the combined UAL total is expected to decrease to below \$20 million, and the total funding level increased to 97.8%. It is important to note that these numbers represent a forecast only, and do not incorporate other factors that may impact the plan, including changes to plan experience.

If the calculations hold, this is an extremely positive development for the City's future budget projections, as the City's UAL payment is likely to be reduced in FY 2027-28 and continue to decline in the following fiscal years.

Additional information regarding the City's UAL is included as an attachment to this report.

Fiscal Year 2026-27 Budget Preparation

Staff has initiated budget preparation for initial presentation to the City Council in May 2026.

COORDINATION

All Departments participated in the midyear budget review. The Budget and Finance Commission reviewed the midyear budget report on March 12, 2026 and supported staff's recommendation, noting the importance of maintaining fiscal stability and the need to plan for multiple scenarios, including further negative changes to revenue. The Budget Modification Resolution has been approved as to form by the City Attorney's Office.

FISCAL IMPACT

The report describes the City's financial and budgetary situation at the midyear point of FY 2025-26. Including recommended revenue and appropriations changes, Decision Packages, and estimated personnel savings, staff estimates a revised year-end General Fund balance of \$1.27 million.

APPROVED BY:

Mike Witzansky, City Manager

ATTACHMENTS

Resolution No. CC-2603-014 Midyear 25-26

Exhibit A - Revenue Adjustments

Exhibit B - Appropriations Adjustments

- Attachment 1 - Council-approved Budget Modifications
- Attachment 2 - Internal Services Fund Summary
- Attachment 3 - Decision Packages
- Attachment 4 - FY 2025-26 CIP Midyear Update
- Attachment 5 - Crossing Guard Issue Analysis
- Attachment 6 - Insurance Options
- Attachment 7 - Pension Update