



Administrative Report

J.2., File # 26-0195

Meeting Date: 2/12/2026

To: BUDGET AND FINANCE COMMISSION
From: STEPHANIE MEYER, FINANCE DIRECTOR

TITLE
FISCAL YEAR 2024-25 YEAR-END REPORT

EXECUTIVE SUMMARY

The Finance Department presents initial General Fund balance status to City Council annually following the end of the prior fiscal year. With fiscal year-end review, staff recommends reappropriation of prior year funds for Department requests, donation and grant funds, and capital projects carryover. Staff also recommends use of any remaining unallocated General Fund balance. In FY 2024-25, the City's General Fund received more revenue and spent less than budgeted. FY 2024-25 also included the use of one-time funds approved during budget adoption for unfunded accrued liability and support to the City's self-insurance fund.

This report is to present unaudited year-end results to the Budget and Finance Commission for review and input prior to presenting to the City Council. Staff will recommend that Council appropriate FY 2025-25 year-end fund balance assignments, including recommendations for use of available fund balance. Staff will recommend using available funds, approximately \$5.2 million, for identified funding gaps including to replenish the CalPERS Reserve and support Harbor Uplands fund capital needs. Staff will also recommend limited General Fund carryover requests related to one-time Council priorities and or prior year Decision Package funds unspent in one fiscal year. Staff will recommend no additional allocation of funds, acknowledging economic uncertainty, some downward trends in key revenue sources, and continued unfunded liability payments.

Carryover recommendations are part of the annual process to prepare the City's Annual Comprehensive Financial Report (ACFR) which is in progress. Staff anticipates that this preparation and the in-depth review of the City's accounting practices that accompanied the FY 2023-24 audit will contribute to a shorter audit process for the FY 2024-25 audit cycle.

BACKGROUND

The tables in this section show General Fund restrictions, commitments, and recommended carryover items, leading to an estimated available year-end fund balance.

General Fund Balance

The estimated General Fund balance as of June 30, 2025 before any designations or transfers is approximately \$16,000,000. Note that, consistent with standard practice, this number is rounded down to allow for final changes that might be necessary with year-end/ final audit close.

The table below shows adjustments to the General Fund balance for non-spendable and committed funds: both designations reflect external laws and policies committing funds so that they are unavailable to spend.

Item	Amount
General Fund Balance before mandatory designations/transfers	16,000,000
Prepaid Costs (payments for goods to be received or services to be rendered in the near future, such as postage and lease payments)	(292,578)
Notes and Loans (City loans to employees for computer purchases)	(12,600)
General Fund Contingency Reserve (one-month reserve)	(8,599,208)
General Fund Balance after mandatory designations/transfers	7,095,614

Note that the CalPERS reserve is in a different fund (the CalPERS Reserve Fund), and therefore does not need to be excluded from the General Fund balance.

Recommendations

Staff recommends items each year to carry over to the following fiscal year. These include standard commitments and assignments for encumbrances, petty cash, compensated absences. These recommendations, though not in the same category as mandatory designations and transfers, are necessary to fulfill City commitments related to contracts, personnel agreements, and to recognize existing outstanding cash. Following these adjustments, the available balance is approximately \$5.2 million.

Item	Amount
General Fund Balance after mandatory designations/transfers	7,095,614
Encumbrances (open General Fund purchase orders for contracted goods or services not yet received - See Attachment 5 for detailed listing)	(1,016,725)
Petty Cash (small cash funds held by departments for cash register change drawer or reimbursement of expenses in the amount of \$50 or less)	(8,450)
Compensated Absences (provision for vacation cash outs upon retirement/ termination funded at 30% of employee balances as of June 30, 2024)	(838,736)
General Fund Balance after initial recommended designations/ transfers	5,231,702

The General Fund unallocated balance is largely due to adjustments to FY 2023-24 year-end fund balance with completed audit, use of one-time funds as approved in FY 2024-25, and better than anticipated FY 2024-25 revenue compared with early projections. The General Fund ended the fiscal year with approximately 3% more operating revenue than projected, and approximately 2% savings from budget. Including transfers, net revenue and expense compared favorably to budget, while total

fund balance decreased consistent with use of one-time funds for FY 2024-25 unfunded accrued liability (\$3.2 million), transfer to the City's self-insurance fund (\$3.1 million) and one-time Department expenses. More detail about the General Fund financial performance, including revenue and spending detail and spending by Department, is available in the General Fund Financial Report attachment.

With year-end review, staff also recommends discretionary Department requested carryover for funds unspent in the prior fiscal year. These generally reflect one-time priority projects linked to prior year Decision Packages or other Council designated priorities which staff did not complete in one fiscal year. Recommendations also include unspent donations funds, grants, and capital funds for multi-year projects. Note that grants and capital projects are not a part of General Fund carryover, as the City budgets for these in the Intergovernmental Grants Fund and Capital Projects Fund (for general purpose capital projects) respectively. Finally, if there is remaining unallocated General Fund balance, staff recommends use for these funds.

For FY 2024-25, staff will recommend that Council consider approving limited Department carryover (included in detail as Exhibit A); allocate some remaining balance to address known funding gaps - to replenish the CalPERS reserve fund and to support the Harbor Uplands fund - and to leave some balance unallocated in view of known pressures in the current and next fiscal year. While the FY 2024-25 year-end results are largely positive, staff is aware of multiple pressures on the General Fund moving forward. These include potential downward adjustments to sales tax, transient occupancy tax, and franchise fee projections; use of CalPERS reserve funds to balance the FY 2025-26 budget; and a \$4.3 million unfunded accrued liability (UAL) payment in FY 2026-27. Staff may identify other adjustments with midyear review and final FY 2024-25 audit.

Other Funds

This report focuses on the General Fund. In the past several years, staff has also reported on the Harbor Tidelands and Uplands enterprise funds, as necessary capital spending in these funds following several years of inactivity has put pressure on fund balances. The Harbor Tidelands Fund ended the year in balance, driven by better than budgeted revenue, particularly in the Charges for Services category, and lower than anticipated capital spending. The Harbor Uplands Fund was over budget for the FY 2024-25 year, driven by lower than anticipated net revenue from the City's harbor leases and required capital spending, with almost all capital spending related to the International Boardwalk Pavers project. Council approved General Fund support for both funds with FY 2023-24 year-end, and staff had indicated the need for potential additional support moving forward. Staff recommends setting aside approximately \$2 million to fund the shortfall, with the actual transfer to be based on the final audited balance.

FY 2024-25 Audit

Staff encountered challenges in its FY 2023-24 audit leading to delayed completion. These included significant loss of historical knowledge, as nearly every staff member closely involved in audit work changed in the course of a year, and a transition to a new audit firm for the first time in seven years. Staff and the auditors were pleased with the final audit result of an unmodified opinion, the best opinion possible. In addition, the auditor recommended, and staff welcomes and incorporated, process changes to better align with accounting best practices and the auditor's recommendations, which were in some cases different from and more stringent than those expressed by the City's prior auditors. This additional work delayed the FY 2023-24 audit, which in turn has delayed FY 2024-24 closing. This report represents a key step in the audit process. Staff believes that the additional time

committed to the FY 2023-24 audit and FY 2024-25 close will contribute to a faster conclusion to the audit in progress. Staff will continue to work with auditors to return to regular audit schedule, prioritizing implementation of recommended changes related to prior year audit findings in the process.

Additional detail for carryover recommendations related to Department requests, donations, grants, and capital are included as attachments to this report. Note that, with minor adjustments to account for project spending following budget adoption, capital project carryover reflects what staff presented to Council in the FY 2025-26 CIP budget.

Staff requests Commission review and feedback on this report to present to City Council along with staff recommendations. The City Council will review this report on Tuesday, February 17.

COORDINATION

The Finance Department coordinated with operating Departments and the City Manager's Office to prepare the report, including collaboration on year-end analysis included in the General Fund Report and carryover requests and recommendations.

FISCAL IMPACT

Available FY 2024-25 General Fund balance following exclusion of non-spendable, committed, and initial recommended balances is approximately \$5.2 million.

ATTACHMENTS

- General Fund Financial Report
- Attachment 1-Department Requests
- Attachment 2-Donations Carryover
- Attachment 3-Grants Carryover
- Attachment 4-Capital Carryover
- Attachment 5-Encumbrance Report