

STAFF REPORT

Presentation/Discussion Agenda Item

DATE: February 2, 2026

TO: Honorable Mayor and Council Members

FROM: Aaron Felmlee, Finance Director

THRU: Amy Nilsen, City Manager

SUBJECT: FY 2025-26 Mid-Year Budget Review

STAFF RECOMMENDATION:

1. Receive the FY 2025-26 Mid-Year Budget Report; and
2. Review any questions with staff.

EXECUTIVE SUMMARY:

The Finance Department has conducted a mid-year budget review for fiscal year (FY) 2025-26. The intent of this report and discussion is to review activities for the first half of this fiscal year, in this case July 2025 through December 2025, and provide a revised projection of revenues and expenditures to fiscal year end. The formal submittal of a review during the fiscal year provides an opportunity to identify and present any fiscal problem areas to the City Council, and to recommend corrective action if required.

Mid-year is also a good time to review *actual* revenues and expenditures for the prior fiscal year. The General Fund at present will end FY 24-25 with a net deficit of \$180,743. The deficit was due to two rollover expenses that were budgeted in FY 23-24 but not spent until FY 24-25. The first was \$37,558 for two new building division vehicles and the second was \$91,243 for the Monday Club chimney repair project. Additionally, \$112,808 for the City Hall Remodel project was approved by a supplemental budget request at the 8-5-24 Council Meeting to come from general fund reserves.

As part of our mid-year budget analysis, staff reviewed every line item of each activity for fiscal year 2025-26. Staff provided estimates within the attached document for where we expect expenditures to finish at June 30, 2026. Staff is estimating having an increase in department operating expenditures of \$1.3 million in the General Fund for FY 2025-26. The increase is attributed to the supplemental budget requests that the City Council approved in the amount of \$1.5 million for an additional discretionary payment to CalPERS. This payment will result in an estimated \$1,247,313 in interest payment savings to the City.

On the revenue side of the mid-year analysis sales tax is estimated to be \$10,000 below what was budgeted and come in over 6% below what the City received in fiscal year 2021-22. Investment

revenue is exceeding expectations and historical trends, and we anticipate receiving an additional \$50,000 in investment revenue. Staff were successful in obtaining increased reimbursement from the State for eligible SB90 costs, which are anticipated to come in \$29,000 over what was budgeted. Staff will continue to monitor the City's fiscal health and use these findings to assist in preparing the FY 26-27 budget.

As part of this discussion staff are not recommending making any budget adjustments to the current adopted budget. Any proposed supplemental budget adjustments by staff will come before Council as a separate item for Council consideration and approval.

RECOMMENDED COUNCIL ACTION:

Receive the FY 2025-26 Mid-Year Budget Review; and review questions with staff.

ATTACHMENTS:

- A. FY 2025-26 Mid-Year Budget Review