



# STAFF REPORT – CITY COUNCIL MEETING

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**TO:** Honorable Mayor and City Council Members

**FROM:** Tabatha Miller, Assistant City Manager/Finance Director

**PREPARER:** Tabatha Miller, Assistant City Manager/Finance Director

**DATE:** March 18, 2026

**TITLE:** **Consider Adopting Resolution No. 256-47, A Resolution of the City Council of the City of Arcata Accepting the Mid-Year Budget Review and Approving Budget Revisions for Fiscal Year 2025-26.**

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## **RECOMMENDATION:**

It is recommended that the Council adopt Resolution No. 256-47, accepting the proposed Mid-Year Budget Revisions for Fiscal Year (FY) 2025-26.

## **INTRODUCTION:**

It is standard policy and practice of the City Council to perform a mid-year budget review in March of each year.

## **BACKGROUND:**

The annual mid-year review serves three purposes. It provides an opportunity to monitor the City's current budget and financial position as of February 28, 2026, to review projections for the year-end budget and financial position, and to preview the City's financial status going into the next fiscal year – 2026-27 budget.

The recommendations for adjusting the current expenditure and revenue budgets are set forth in detail in Resolution No. 256-47 (Exhibit, which is the culmination of a line-by-line review of revenue and expenditure accounts). New projects, opportunities, changes in revenue and unanticipated expenditures are incorporated into the recommendations and carrying forward remaining budget for unfinished projects and capital expenditures from FY 2024-25.

FY 2025-26 Mid-year budget proposal includes:

- \$2,551,027 in outstanding FY 2024-25 purchase orders, capital projects budgets and other outstanding projects;
- \$403,804 increase in expenditures offset by revenues and/or reimbursements;
- \$300,000 in City Council approved use of Fund Balance for the initial planning phase of the Reconnecting Arcata project;
- \$91,846 in carry forward of FY 2024-25 budgeted funds for projects not completed at year end;

- (\$23,437,507) net reduction in budgeted revenues, including (\$24.5 million) in grants and outside funding for projects that will not begin in FY 2025-26 or funding that was not secured, such as the \$3 million for the Reconnecting Arcata project;
- (\$27,604,693) net reduction in expenditures, including (\$27.6 million) in capital projects that will not begin in FY 2025-26, including \$3 million for the Reconnecting Arcata project;
- \$977,929 in supplemental Mid-Year budget requests:
  - \$200,000 (1X) for emergency repair of 2025 landslide at 11<sup>th</sup> and B Street;
  - \$137,500 (ongoing) for continuation and addition of 2 new stations for Bikeshare program. Grant and Cal Poly contribution offset some costs;
  - \$44,000 (1X) to replace flooring in two units at Foodworks, in order to meet County Environmental Health standards for food preparation;
  - \$20,750 (1X) for Environmental Health Fire response and post-response environmental sampling;
  - \$20,000 (1X) for green waste disposal cost, during the transition to the new franchise agreement with universal curbside organics collections;
  - \$5,000 (1X) for Traffic Sign replacements to ensure visibility and safety for streets and bike lanes;
  - \$2,000 (1X) for Utility Box Mural Art support;
  - \$300,000 (1X) for development of a facilities master plan;
  - \$20,000 (1X) for cyber security enhancements;
  - \$92,200 (1X) for Emergency Operations Response equipment and supplies; and
  - \$12,200 (ongoing) for Information Technology (IT) service and security;

## **DISCUSSION:**

The FY 2025-26 budget, like the last several FY budgets, reflects a significant investment in capital including ongoing work on the Wastewater Treatment Facility, construction of the Annie & Mary Trail, Steel Waterline Replacement, and Sunset and LK Wood project. While grant funds were the primary source of funding for these projects, one-time fund balances were needed to supplement the projects and provide matching funds, where needed.

### Expenditures/Expenses

The chart below compares the current proposed mid-year budget to the prior year. Personnel Services or staffing costs increased marginally by \$42,722 or just .2%, which is less than the cost of living increases (3%), merit increases and increased cost of employee benefits. This is due in part to salary savings, particularly in the police department, as senior long-term staff with higher benefits and salaries are being replaced with newer staff with reduced pension costs, less premium pays, such as POST certifications and longevity, and at lower step levels. It also reflects a few vacancies, including in the police department as staff retire and are promoted, the GIS Coordinator and Analyst positions, which were just filled, and a Community Development Specialist position held vacant since the end of the last fiscal year.

Materials & Services, and Capital Outlay have again increased, which is consistent with inflation, tariffs and labor which continue to increase the cost of purchased goods and services.

The decrease in Capital Outlay, is more of a timing issue than a reduction in costs. Project schedules for budget purposes are typically aggressive, so that they are flexible to take advantage of timing, availability and potential grant funding. By mid-year, a more realistic outlook is available for the remaining months in the year. Thus, the reduction isn't necessarily a signal that a project will not occur but more likely it will occur in the next fiscal year or two. One exception in FY 2025-26 is the removal of the \$3M budgeted for planning and design for the Reconnecting Arcata project for the time being, because of the uncertainty of funding it has been much reduced in scope.

**All City Funds Expenditures and Expenses**

<b>Expenditures/Expenses</b>	<b>Proposed Mid-Year 2025-26 Budget</b>	<b>% of Budget</b>	<b>Mid-Year 2024-25 Budget</b>	<b>% of Budget</b>
Personnel Services	\$ 20,990,311	23.1%	\$ 20,947,589	24.7%
Materials & Services	15,664,844	17.2%	13,606,056	16.1%
Interfund/Intergovt payments	11,006,577	12.1%	9,392,689	11.1%
Debt Service	839,007	0.9%	837,207	1.0%
Capital Outlay	42,529,902	46.7%	39,964,262	47.2%
<b>Total</b>	<b>\$ 91,030,641</b>	<b>100.0%</b>	<b>\$ 84,747,803</b>	<b>100.0%</b>

<b>Expenditures/Expenses</b>	<b>Current FY 2026 Budget</b>	<b>Proposed FY MY 2026 Budget</b>	<b>% Change</b>	<b>Estimated Actual FY 2026</b>
Personnel Services	21,101,533	20,990,311	-0.5%	\$ 18,060,001
Materials & Services	11,872,362	11,907,003	0.3%	\$ 8,088,616
Interfund/Intergovt payments	10,906,576	11,006,577	0.9%	\$ 10,927,203
Debt Service	839,007	839,007	0.0%	\$ 837,270
Capital Outlay	70,179,092	42,529,902	-65.0%	\$ 40,822,548
Other Expenditures	3,757,841	3,757,841	0.0%	\$ 842,085
<b>Total</b>	<b>\$ 118,656,412</b>	<b>\$ 91,030,641</b>	<b>-30.3%</b>	<b>\$ 79,577,723</b>

The chart below provides a summary of the City's Expenditures/Expenses by Funds:

<b>Expenditures/Expenses</b>	<b>Proposed Mid-Year 2025-26 Budget</b>	<b>% of Budget</b>	<b>Mid-Year 2024-25 Budget</b>	<b>% of Budget</b>
General Fund	\$ 22,872,198	25.1%	\$ 24,139,722	29.0%
Special Revenue Funds	21,433,978	23.5%	15,248,018	18.3%
Water Fund	19,446,830	21.4%	8,564,716	10.3%
WasteWater Fund	21,515,058	23.6%	28,038,249	33.7%
Solid Waste Fund	807,081	0.9%	690,614	0.8%
Stormwater Fund	1,079,058	1.2%	1,001,960	1.2%
Internal Service Funds	3,250,588	3.6%	4,867,600	5.9%
Redevelopment Agency	625,850	0.7%	630,226	0.8%
<b>Total</b>	<b>\$ 91,030,641</b>	<b>100.0%</b>	<b>\$ 83,181,105</b>	<b>100.0%</b>

Revenues

The City’s single largest source of revenue for FY 2025-26 continues to be Intergovernmental Revenues, which is primarily grants and reimbursements from federal and state agencies. Even with a 41%, or \$21.4 million, reduction in grant reimbursement funds at Mid-Year (primarily due to the delay of the Sunset and Highway 101 construction project, to next fiscal year) Intergovernmental Revenue is still the largest category of revenue for the City in FY 2025-26.

Charges for Services is the second largest category of revenue, with Water and Wastewater customer charges making up the bulk of the 22.4% of revenue in the Proposed Mid-Year Budget for FY 2025-26.

**All City Funds Revenues**

<b>Revenues and Transfers</b>	<b>Current FY 2026 Budget</b>	<b>Proposed FY MY 2026 Budget</b>	<b>% Change</b>
Taxes	15,541,130	15,766,130	1.4%
Licenses & Permits	848,115	605,615	-28.6%
Fines & Forfeitures	180,000	180,000	0.0%
Use of Money & Property	3,030,880	3,026,380	-0.1%
Intergovernmental Revenue	52,504,718	31,061,963	-40.8%
Charges for Services	16,512,804	16,443,045	-0.4%
Interfund Charges	5,242,325	5,242,325	0.0%
Other Revenue	3,187,932	1,134,939	-64.4%
<b>Total Revenue</b>	<b>97,047,903</b>	<b>73,460,397</b>	<b>-24.3%</b>

<b>Revenues and Transfers</b>	<b>Proposed Mid-Year 2025-26 Budget</b>	<b>% of Budget</b>	<b>Mid-Year 2024-25 Budget</b>	<b>% of Budget</b>
Taxes	\$ 15,766,130	21.5%	\$ 13,625,080	16.9%
Licenses & Permits	605,615	0.8%	890,612	1.1%
Fines & Forfeitures	180,000	0.2%	175,000	0.2%
Use of Money & Property	3,026,380	4.1%	2,977,594	3.7%
Intergovernmental Revenue	31,061,963	42.3%	41,042,415	50.9%
Charges for Services	16,443,045	22.4%	15,711,480	19.5%
Interfund Charges	5,242,325	7.1%	5,141,593	6.4%
Other Revenue	1,134,939	1.5%	1,092,256	1.4%
<b>Total Revenue</b>	<b>\$ 73,460,397</b>	<b>100%</b>	<b>\$ 80,656,030</b>	<b>100%</b>

Tax revenues make up the third largest source of revenue at 21.5% of the total. Tax revenues are important to the City because they provide funding for most of the City’s general services including public safety, streets, parks programs, administration, energy management, general insurance, and general government facilities maintenance and repair.

As shown in the chart below, General Fund Tax Revenue was revised upward by \$366,700. Sales Tax and the City’s Transactions and Use Tax revenue were projected conservatively in the FY 2025-26 original budget and have been adjusted to reflect the results of the first six months of collections.

Tax Revenue	FY 2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Actual	FY 2025-26 Original Budget	FY 2025-26 Mid-Year Budget	FY 2025-26 Budget Difference
Sales Tax	3,003,185	3,074,676	3,087,149	2,980,000	3,005,000	25,000
Transactions & Use Tax M-G	2,697,304	2,827,587	2,979,490	2,725,000	2,850,000	125,000
Transactions & Use Tax M-H	-	-	695,497	2,700,000	2,800,000	100,000
Utility Users Tax	1,211,074	1,207,451	1,335,151	1,350,000	1,350,000	-
Transient Occupancy Tax	1,685,857	1,541,075	1,649,900	1,555,000	1,555,000	-
Secured Property Tax	2,003,782	1,985,111	2,281,126	1,925,000	1,925,000	-
Unsecured Property Tax	94,662	84,635	87,754	95,000	95,000	-
Supplemental Roll Tax	50,673	40,083	36,798	40,000	40,000	-
Motor Vehicle In Lieu Tax*	2,054,077	2,189,882	2,285,383	2,275,000	2,391,700	116,700
<b>Total</b>	<b>12,800,614</b>	<b>12,950,501</b>	<b>14,438,248</b>	<b>15,645,000</b>	<b>16,011,700</b>	<b>366,700</b>

\*Technically Motor Vehicle In Lieu Tax is an Intergovernmental Revenue and not a tax.

### **ENVIRONMENTAL REVIEW (CEQA):**

The proposed action to adopt or amend the City's annual budget is not a project under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378 because it involves fiscal and administrative activities that do not result in a direct or reasonably foreseeable physical change in the environment. Therefore, the action is not subject to environmental review under CEQA.

### **BUDGET/FISCAL IMPACT:**

The budgetary and fiscal impacts of the proposed mid-year budget adjustments and estimates have been described above and are outlined in detail in the attached Exhibit to Resolution 256-47.

### **RECOMMENDED COUNCIL ACTION:**

1. Receive a staff report and review questions with staff.
2. Open public comment.
3. Close public comment.
4. Motion to Adopt Resolution No. 256-47 Approving Budget Revisions for FY 2025-26.

### **ATTACHMENTS:**

- A. Mid-Year Budget Resolution No. 256-47
- B. Exhibit to Resolution No. 256-47
- C. FY 2025-26 Supplemental Budget Requests Summary