



City of South San Francisco Legislation Text

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Report presenting Fiscal Year (FY) 2025-26 mid-year update and proposed budget amendments for FY 2025-26 Operating and Capital Improvement Program (CIP) Budgets (*Drew Corbett, Interim Finance Director*)

RECOMMENDATION

Staff recommends that the City Council receive this report on the FY 2025-26 mid-year update and approve Budget Amendment Number 26.048 to provide additional appropriations for the FY 2025-26 City Operating and Capital Improvement Program (CIP).

BACKGROUND/DISCUSSION

The City Council adopted the FY 2025-26 General, Enterprise, and Internal Service Fund budgets on June 25, 2025. These budgets outline the annual expenditure and resource allocation plan that guides the implementation of City Council budget policies and priorities. The budget provides funding direction for the broad range of services that meet community needs and align with Council priorities. This financial review summarizes the General Fund's financial position through the first half of the fiscal year, presents mid-year budget requests, and provides a year-end projection and updated five-year forecast.

For context, the City's General Fund (excluding Measure W) concluded FY 2024-25 in significantly better financial position than anticipated, with revenues exceeding expectations and savings in operating expenditures. Overall, the General Fund closed FY 2024-25 with an effective net surplus of \$9.0 million. This amount takes into account the operating and CIP funds that were unspent in FY 2024-25 but carried forward to be spent in FY 2025-26 and nets out unrealized gains on investments. The FY 2024-25 Annual Comprehensive Finance Report will be on the City Council agenda January 28, 2026, as a consent item.

CURRENT FISCAL YEAR (FY 2025-26) UPDATE

The General Fund accounts for the operations of the City and for basic municipal services. The adjusted budget incorporates current estimates for revenue and expenditure appropriations for all funds as of December 31, 2025. The following sections show the revenue and expenditure results as of December 31, 2025.

A. GENERAL FUND REVENUE AMENDMENT REQUESTS

The following revenue categories and department requests reflect adjustments to the FY 2025-26 revenue budget. In total, these adjustments increase budgeted General Fund revenue by \$12.1 million, increasing budgeted revenue from \$142.6 million to \$154.7 million.

1. **Property Tax: \$7.2 million** At the time of budget adoption, and based on the State of California's proposed budget, the City assumed no backfill for the \$5.4 million of the FY 2023-24 property tax in-lieu of vehicle license fees (VLF) shortfall. In August, the State paid 2/3 of those owed revenues, \$3.2 million. Additionally, following consultation with our property tax consultant and based on information from the County, staff anticipate an increase in other property tax revenue of approximately \$4 million, predominantly from increased projections for Excess Educational Revenue Augmentation Fund (ERAF) and residual proceeds from the former Redevelopment Agency (RDA).
2. **Other Taxes – Commercial Parking: \$1.2 million.** The increase in Commercial Parking Tax is attributable the ongoing compliance of a major taxpayer, whose payments were not included in original revenue estimates.
3. **Fire Department – Prevention: \$0.75 million.** An increase is needed to bring the budget in line with current year activity.
4. **Parks and Recreation: (\$0.163 million).** Staff recommends that aquatic programs revenue be reduced by \$163,000. This takes into account the postponed Orange Memorial Park Aquatics Center opening, along with the expected closure of the existing pool.
5. **Planning Staffing Offset: \$0.45 million.** This request provides for a transfer of \$450,000 from the Developer Fee Fund to the General Fund. This amount represents approximately 25% of Planning staff's total payroll budget (\$1,795,245.73) and reflects work on General Plan maintenance. These costs are funded through the General Plan Maintenance Fee, which is collected and held in the Developer Fee Fund.
6. **Use of Money and Property: \$2.35 million.** This increase brings revenue in line with recent rent and interest earnings and to a total expected revenue of \$7,500,000.

B. GENERAL FUND APPROPRIATIONS REQUESTS

The following are General Fund expenditure appropriation requests totaling \$110,000. The proposed adjustments address identified needs and reflect updated projections, enabling the City to maintain balanced operations while adapting to changing conditions.

1. **Economic and Community Development: \$20,000.** This request is for staff attendance at the BIO 2026 Conference.
2. **Human Resources: \$50,000.** This request is for additional labor and employee relations consultants contract expenses related to the most recent round of labor negotiations.

3. **Information Technology: \$40,000.** This request is for additional Americans with Disability Act digital compliance support.
4. **Library: \$20,000.** This request is for the replacement of the A/V screen and projector at the Gene Mullin Community Learning Center.
5. **Parks and Recreation Department: (\$20,000).** This request reduces pool-related expenses due to delayed Orange Memorial Park Aquatics Center construction schedule.

All items requested for this mid-year adjustment are one-time and have no ongoing effect.

C. POSITION REQUESTS

The following department position requests are budget-neutral but represent ongoing adjustments to the authorized positions.

1. **Fire Department: Budget neutral.** This request converts the contracted Permit Technician to 1.0 full-time Permit Technician.
2. **Public Works: Budget neutral.** This request converts the limited duration Laboratory Chemist position to 1.0 full-time Laboratory Chemist.

D. ADMINISTRATIVE ITEMS

This section outlines a series of technical adjustments and budget refinements intended to maintain accuracy and alignment within our financial framework. These items primarily address prior inconsistencies and ensure that allocations are correctly reflected in the current cycle. These adjustments are not limited to the General Fund. Importantly, the majority of these adjustments do not affect the available fund balance and are focused on improving clarity and precision in our reporting.

1. **Planning Services: \$200,000 (Transfer) / \$200,000 (Expense).** This request increases Planning expenditure authority in the General Fund to cover legal services related to the entitlement process. This appropriation is fully offset by a transfer from the Developer Fee Fund, which holds fee revenue designated for this purpose.
2. **Shuttle Grant: \$161,853 (Grant Funding) / \$169,311 (Expense).** This request provides for unbudgeted grant funds and corresponding expenditure authority to the project budget. The grant was previously accepted by Council; this action ensures full utilization of awarded funds.
3. **Sewer Fund Transfer: \$13,787,957.** This request provides for a transfer from the Sewer Capacity Fund to the Sewer Enterprise Fund. This transfer was approved by Council in the prior fiscal year but not executed before year-end. Completing this action ensures compliance with legal spending requirements and finalizes the intended transaction.

4. **Legal Settlement: \$1,812,000.** This request provides for an additional appropriation of \$1.8 million to complete payment for a settlement previously approved by Council in the amount of \$2.4 million. The existing project appropriation was insufficient to cover the full obligation. These funds will be appropriated from unassigned fund balance; however, funds for this purpose had initially been identified as being available from funds provided by a retroactive parking tax payment made in FY 2024-25. Because of the timing of the settlement, these funds closed into unassigned fund balance and are being appropriated at mid-year.
5. **ERP Implementation: \$6,000,000.** This request provides for a \$6 million transfer from the General Fund to the IT Fund and provides corresponding expenditure authority within the IT Fund for the ERP implementation project. There is no impact on the available and unassigned General Fund balance, as these funds were previously designated for this purpose.

E. MID-YEAR CAPITAL IMPROVEMENT PLAN REQUESTS (CIP)

The following are CIP project appropriation requests and their corresponding funding sources, amounting to \$1.48 million:

Request	Amount	Funding Source	Project
1	\$50,000	Infrastructure Reserve (513)	Sd2201 - Francisco Terrace Flood Protection Levy
2	\$130,000		St2303 - Bridge Asset Management Program
3	\$800,000		St1703 - Bridge Preventative Maintenance Program (9 Bridges)
4	\$12,280.84	OMP Ballfield Bond Fund (522)	Pk2309 - OMP Sportsfield Renovation
5	(\$12,280.84)		Pk2301 - OMP Main Playground Replacement
6	\$200,000	Solid Waste Reduction (710)	Sd2502 - Storm Water Trash Capture Devices
7	\$1,000,000	Sewer Capacity (730)	Ss2405 - Headworks #1 Grit Chamber Tower Rehabilitation
8	\$300,000	Storm Water Fund (740)	Sd2502 - Storm Water Trash Capture Devices
9	\$1,500,000		Sd2304 - Hickey Blvd Hillside Stabilization Project
10	(\$1,000,000)		Sd2501 - Storm Drain Improvement Project
11	(\$2,000,000)		Sd2401 - Storm Drain Repairs
12	\$500,000	Citywide TIF (825)	St1807 - GBI Phase 3

GENERAL FUND FORECAST

Through the first half of FY 2025-26, the updated revenue projections demonstrate an increase in several major revenue sources, including property tax, commercial parking tax, licenses and permits, and investment earnings. A portion of the property tax increase and all of the commercial parking tax increase are expected to be ongoing and thus increase the revenue baseline for forecasting purposes. Other major revenue sources, including sales tax and transient occupancy tax, remain on track to meet original projections through the first six months of the year.

Payroll expenditures are generally tracking at budget. However, service and supply expenditures are trending below the mid-year budget, and the projected year-end has been adjusted down \$4.5 million to account for this. This adjustment does not reduce budget authority but represents staff's best estimate at this time of where year-end total supplies and services expenditures will land.

REVENUES (in millions)	FY 2025-26			
	Adopted Budget	Adjusted Budget	Mid-Year Budget	Projected Year End
Taxes				
<i>Property Tax</i>	\$56.9	\$56.9	\$64.1	\$64.1
<i>Sales Tax</i>	21.2	21.2	21.2	21.2
<i>Transient Occupancy Tax</i>	15.3	15.3	15.3	15.3
<i>Other Tax</i>	9.0	9.0	10.2	10.2
Franchise Fees	6.2	6.2	6.2	6.2
License and Permits	10.7	10.7	11.5	11.5
Fines & Forfeitures	0.9	0.9	0.9	0.9
Intergovernmental	2.9	4.9	5.0	5.0
Charges for Services	8.5	8.5	8.4	8.4
Inter-Fund Admin Charge	2.0	2.0	2.0	2.0
Use of Money & Property	5.1	5.1	7.5	7.5
Other Revenues	0.3	0.3	0.3	0.3
Transfers In	1.5	1.5	2.2	2.2
TOTAL REVENUES	\$140.5	\$142.6	\$154.7	\$154.7

EXPENDITURES <i>(in millions)</i>	FY 2025-26			
	Adopted Budget	Adjusted Budget	Mid-Year Budget	Projected Year End
Salary and Benefits	\$116.9	\$120.9	\$121.0	\$121.0
Supplies and Services	25.0	29.0	31.2	26.7
Capital	0.0	0.3	0.3	0.3
Interdepartmental	10.2	10.2	10.2	10.2
Transfers - Operational*	0.5	0.5	0.5	0.5
Transfers - Capital	0.0	1.8	1.8	1.8
TOTAL EXPENDITURES	\$152.5	\$162.7	\$165.0	\$160.5
Revenue in excess of Expenditures	(12.0)	(20.2)	(10.3)	(5.8)

As shown in the table, the General Fund is now projected to end the fiscal year with a \$5.8 million shortfall, which is an improvement over the budgeted shortfall from the adjusted mid-year budget. Staff will continue to monitor revenues and expenditures throughout the budget development process and will have an adjusted year-end projection for the proposed FY 2026-27 budget.

Given this updated year end projection, the following forecast projects out the next five years. The inflation factors are shown in the second column of the forecast. The annual structural deficit remains, but is significantly better in comparison to the forecast presented in the FY 2025-26 adopted budget. This is predominantly the result of an increase in assumptions about future property tax growth based on historical growth trends and a reduction in the assumption for the growth in compensation increases from 4% to 3% to better align with expected City financial capacity. The financial forecast will continue to be refined, and an updated version will be included with the proposed FY 2026-27 budget.

General Fund 10 year Forecast (in millions)	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
	Estimated Year End	Forecast	Forecast	Forecast	Forecast	Forecast
REVENUES						
Taxes						
Property Tax	\$ 64.1	\$ 65.3	\$ 67.9	\$ 70.6	\$ 73.4	\$ 76.4
Sales Tax	21.2	21.6	22.1	22.5	23.0	23.4
Transient Occupancy Tax	15.3	15.6	15.9	16.2	16.5	16.9
Other Tax	10.2	10.4	10.7	11.0	11.3	11.6
Charges for Services	6.2	6.4	6.5	6.7	6.9	7.1
License and Permits	11.5	11.8	12.1	12.5	12.8	13.2
Fines & Forfeitures	0.9	0.9	0.9	0.9	1.0	1.0
Intergovernmental	5.1	5.2	5.4	5.5	5.7	5.8
Charges for Services	10.4	10.4	10.4	10.4	10.4	10.4
Use of Money & Property	7.5	7.7	7.9	8.1	8.4	8.6
Other Revenues	0.3	0.3	0.3	0.3	0.3	0.3
Transfers In	2.2	2.2	2.3	2.4	2.4	2.5
TOTAL REVENUES	\$ 154.7	\$ 157.9	\$ 162.5	\$ 167.2	\$ 172.1	\$ 177.2
EXPENDITURES						
Salaries & Benefits	\$ 120.9	\$ 124.6	\$ 128.3	\$ 132.2	\$ 136.1	\$ 140.2
Supplies & Services	26.7	25.5	26.2	26.9	27.7	28.4
Capital Outlay	0.3	-	-	-	-	-
Interdepartmental Charges	10.2	10.5	10.7	11.0	11.3	11.6
Transfers (CIP & Other)	2.3	2.3	2.3	2.3	2.3	2.3
TOTAL EXPENDITURES	\$ 160.5	\$ 162.8	\$ 167.6	\$ 172.4	\$ 177.4	\$ 182.6
Revenue in excess of Expenditures*	(5.8)	(4.9)	(5.1)	(5.2)	(5.3)	(5.4)

Conclusion

Through the first half of FY 2025-26, the General Fund's financial results are exceeding expectations, resulting in a projection for an annual deficit that is lower than what is budgeted. Correspondingly, some of the improved results are expected to be ongoing and positively impact the financial forecast, resulting in a more manageable structural deficit going forward. As the City moves into the process of developing the proposed FY 2026-27 budget and financial forecast, staff will continue to evaluate revenues and proposed spending and update final projections for FY 2025-26.