



**City of South San Francisco
Legislation Text**

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South San Francisco, CA

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Item #:

Report regarding the City of South San Francisco Operating Budget for Fiscal Year 2026-27.
(Christie Donnelly, Director of Finance)

RECOMMENDATION

It is recommended that the Budget Standing Committee provide feedback in preparation for the City Council study session on May 27, 2026, related to the establishment of the City's Fiscal Year (FY) 2026-27 operating budget.

BACKGROUND/DISCUSSION

The City's budget process is an annual cycle that aligns financial planning with service delivery, policy goals, and community needs for the fiscal year beginning July 1 and ending June 30. It serves as both a financial plan and a policy document, guiding how City resources are allocated and managed.

Each year, the process begins with the development and refinement of City Council policy goals, typically occurring in the first quarter of the calendar year. These goals serve as a strategic foundation for budget development, providing direction for departmental priorities, new initiatives, and resource allocation. This early-stage policy discussion ensures that the budget reflects the long-term vision and evolving priorities of the City Council and the community.

Following this, departments prepare budget requests based on operational needs and policy alignment. These requests are reviewed by the Finance Director and City Manager, and department heads participate in individual meetings to evaluate and refine their proposals. Revenue forecasting is conducted primarily by the Finance Department for major tax categories, while departments contribute estimates for fees, permits, and other sources.

Capital improvement requests are managed separately by the Public Works Department and submitted via a dedicated staff report to ensure alignment with infrastructure planning and long-term capital needs.

The public component of the budget process begins with the Budget Standing Committee, which reviews preliminary recommendations and key assumptions. The proposed budget is then presented in a public City Council Study Session for discussion and feedback. A final version is adopted by the City Council in a regular meeting, completing a three-step public review and approval process.

The process is guided by best practices in fiscal management, emphasizing transparency, accountability, and the alignment of financial resources with strategic priorities.

EXECUTIVE SUMMARY

The FY 2026-27 Proposed Budget reflects a generally stable financial outlook for the City, shaped by a combination of rising operating costs and steady, though varied, revenue performance. Like many California municipalities, the City continues to experience broad cost pressures, particularly in personnel-related expenses driven by scheduled labor agreement increases, higher healthcare premiums, and growing retirement obligations. Additional operating costs are anticipated with the opening of the new aquatics center and the establishment of recently completed parks, alongside continued inflation in supplies and contracted services.

Despite these pressures, the City's revenue base remains resilient. Strong performance in unsecured property taxes, continued improvement in transient occupancy tax revenue, and steady results across several other major revenue categories collectively help to offset higher operating costs. In addition, the City has right-sized several supplies and services budgets to reflect realistic spending patterns, and Measure W funding will be used strategically to offset the increased operating costs of the new aquatics center.

The primary driver of the General Fund shortfall in the upcoming fiscal year is the reduction in Property Tax in-lieu of Vehicle License Fee (VLF) revenue. Absent this change, the City's budget would be generally balanced. Because the fiscal impacts of VLF adjustments are still evolving at the state level, and at the direction of the budget subcommittee, staff have taken a conservative approach and excluded any potential backfill from the FY 2026-27 Proposed Budget. More detail on VLF impacts is provided in a later section of this report.

Overall, the Proposed Budget represents a measured and sustainable approach that maintains service levels while responding to changing cost drivers. The following sections provide additional detail on revenue trends, expenditure changes, and specific departmental requests informing the FY 2026-27 budget.

GENERAL FUND OVERVIEW

FY 2025-26 UPDATED PROJECTION

City Council adopted the FY 2025-26 mid-year budget on February 12, 2026. At that time, the General Fund was projected to close the year with a \$ 5.8 million deficit. Since then, updated revenue and expenditure information has resulted in a significantly improved outlook. As shown in Table 1, the projected year-end deficit has narrowed to approximately \$0.6 million.

Revenue Adjustments

Transient Occupancy Tax (TOT): +\$2.0M

Hotel revenue has continued to strengthen, and staff now anticipates TOT collections returning to pre-pandemic levels. This updated projection aligns with the broader three-year trend of gradual recovery and has been incorporated into the FY 2026-27 Proposed Budget with an assumed 6%

year-over-year increase. This increase is in line with the post-pandemic trend. Part of the variance from the mid-year estimate reflects the timing of the City’s transition to a new TOT collection vendor, which limited the data available when the mid-year budget was prepared.

Unsecured Property Tax: +\$1.7M

Unsecured property tax is typically volatile and historically modest. Over the past five years, annual receipts have not exceeded \$250,000 and have been routinely budgeted at \$200,000. This year, however, the City collected \$1.9 million. Based on updated assessment information and guidance from the City’s tax consultant, staff expects this higher level of revenue to continue moving forward. As a result, the ongoing increase is included in next year’s budget. Because this represents a large departure from historical patterns, staff will continue to monitor collections closely and adjust future projections if needed.

Expenditure Adjustments

While payroll accounts for roughly 80 percent of General Fund expenditures and is tracking in line with earlier projections, updated data shows additional savings in Supplies and Services.

At the mid-year update, finance staff had estimated approximately \$4.5 million in Supplies & Services budget savings for fiscal year end. At the time of this report, departments had a combined \$8.6M remaining budget authority for Supplies and Services. Based on current spending trends, staff anticipate approximately \$2.6M of the current authority to be expended by fiscal year end, leaving savings of approximately \$6.0M. This update results in an additional estimated savings of \$1.5M above the \$4.5M mid-year projection. As mentioned above, and which will be discussed further in proposed budget, for FY 2026-27, staff have made efforts to eliminate excess slack in the budget.

Table 1. General Fund Projection- Excluding Measure W (in millions)

	2025-26 Adopted Budget	Mid-Year 2025-26 Projected FYE	Updated 2025-26 Projected FYE
Revenues/Transfers In	\$ 140.5	\$ 154.7	158.4
Expenditures/Transfers Out	(152.7)	(160.5)	(159.0)
Net Change in Fund Balance	\$ (12.2)	\$ (5.8)	\$ (0.6)

FY 2026-27 PROPOSED BUDGET - SUMMARY

As the City begins development of the FY 2026-27 budget, it continues to monitor a range of national and state economic risks that may impact fiscal performance. At the national level, slower-than-expected economic growth, persistent core inflation, and the potential for prolonged high interest rates are creating uncertainty for both consumer behavior and municipal revenues. At the state level, ongoing budget deficits in California, which are unlikely to improve in near term, pose additional risks, particularly for local governments that rely on intergovernmental funding or economic activity linked to state-level policy. These factors present a greater risk to the City’s revenues than to its expenditures, as approximately 77 percent of General Fund spending is committed to personnel costs, which tend to remain stable and are less immediately affected by

economic fluctuations. These fiscal pressures provide important context for the City’s FY 2026-27 General Fund budget, which, as shown in Table 2, requires the use of \$5.5 million in General Fund available unassigned fund balance to close the budget gap.

Table 2. Proposed General Fund Operating Budget & Fund Balance Projections

FY 2026-27 Proposed Operating Budget (in millions)	
Revenues	\$ 156.9
Less: Expenditures	(162.4)
Surplus/ (Deficit)	\$ (5.5)
Use of Available Unassigned Balance	\$ 5.5
Net Surplus/(Deficit)	Balanced Budget

Based upon the General Fund 2025-26 FYE Projection which was first outlined in Table 1 and then taking into account the Proposed operating budget as summarized in Table 2 the following Tables 3 and 4 specify the updated projected General Fund balances and the projected General Fund reserves at the end of the FY 2026-27 proposed budget.

Table 3. General Fund Balances and Reserves

FY 2026-27 Projected General Fund Balances (in millions)	
FYE Committed GF Balance – Measure W	24.6
FYE Restricted/Committed/Assigned GF Bal – other	5.0
Restricted & Committed Total	\$29.6
FYE Reserves: GF Policy	\$ 34.3
FYE Reserves: Infrastructure	5.3
FYE Reserves: Pension	6.2
Reserves Total	\$ 45.8
FYE Remaining/Available Unassigned Fund Balance	\$ 40.5

As shown above, the *Available Unassigned General Fund Balance* is expected to be approximately \$40.5 million. This amount is the portion of the General fund balance in the General Fund that has not been assigned, committed or restricted for any particular purpose. This balance will change depending on the final unassigned general fund balance in FY 2025-26 and to the extent in which expenditures exceed revenues (deficit) during FY 2026-27. It is important to note that this available unassigned fund balance also acts as a buffer allowing for the natural ebb and flow within the General Fund that occurs during the year as a result of the mismatch between when revenues are received, and expenditures are incurred.

In addition to the Available Unassigned General Fund Balance, the City’s financial reserve funds are expected to be approximately \$45.8 million. A breakdown is shown below:

The **General Reserve** represents 20 percent of the City’s annual revenue budget, excluding transfers in (General Fund), which follows best practices guidelines from the Government Finance Officers’ Association (GFOA).

The **Infrastructure Reserve** is largely comprised of General Fund surpluses that were set aside over previous years in anticipation of the City’s future infrastructure projects. The value shown is the unencumbered monies available that have not yet been designated toward a project. It should be noted that within the proposed FY 2026-27 Capital Improvement Program, \$1.45 million of direct capital project funding is requested from the Infrastructure Reserves, which is reflected in the ending balance above.

The **Pension Stabilization Reserve** was established through two separate Council actions in FY 2015-16 and FY 2017-18, with those reserves totaling \$5.5 million. Finance took advantage of the higher interest rate environment and set up a separate investment account with the City’s investment advisor, Chandler Asset Management, in December 2022 that yields a higher rate of return. As of April 30, 2026, the balance of the account has grown to \$6.2 million, which is what was used to calculate the reserve.

Table 4. General Fund Unassigned Fund Balance (in millions)

	2024-25 Actuals FYE	Mid-Year 2025-26 Projected FYE	Updated 2025-26 Projected FYE	2026-27 Proposed Budget
Available Unassigned - Begin	\$25.3	\$ 43.1	\$ 43.1	\$42.5
Revenues	167.9	\$ 154.7	158.4	156.9
Expenditures	(150.1)	(160.5)	(159.0)	(162.4)
Surplus (Deficit)	<u>\$ 17.8</u>	<u>\$ (5.8)</u>	<u>\$ (0.6)</u>	<u>\$ (5.5)</u>
Available Unassigned - End	\$ 43.1	\$ 37.3	\$ 42.5	\$ 40.5
Total Unassigned Balance - End	\$92.4	\$86.6	\$ 91.8	\$ 86.3
Less: Reserves	(49.3)	(49.3)	(49.3)	(45.8)
Available Unassigned - End	<u>\$ 43.1</u>	<u>\$ 37.3</u>	<u>\$ 42.5</u>	<u>\$ 40.5</u>

FY 2026-27 PROPOSED GENERAL FUND BUDGET - DETAIL

To better understand the factors driving the City’s financial position, the following sections provide additional detail, with more specifics on revenue projections in Section 1 which is followed by detailed expenditure proposals in Section 2. Each revenue source and expenditure item is influenced by a range of economic, policy, and operational factors that shape the City’s ability to fund services and maintain fiscal stability.

1. FY 26-27 GENERAL FUND REVENUE PROJECTIONS

The FY 2026-27 Operating Budget has been developed, assuming many of the revenue categories will experience flat to moderate growth. Comparisons are generally made to the FY 2025-26 adopted budget, unless otherwise noted. Categories with larger variances or increases are explained in the paragraphs following the table.

Table 5. General Fund Operating Revenue Budget

REVENUES (in millions)	FY 2024-25	FY 2025-26		FY 2026-27	
	Actual as of 6/30/2025	Adopted Budget	Adjusted Budget	Proposed Budget	Percent Change from FY 2025-26 Adopted
Taxes					
<i>Property Tax</i>	\$62.2	\$56.9	\$64.1	\$61.5	8.2%
<i>Sales Tax</i>	21.6	21.2	21.2	21.6	1.6%
<i>Transient Occupancy Tax</i>	16.3	15.3	15.3	17.3	13.2%
<i>Other Tax</i>	13.2	9.0	10.2	10.1	12.4%
Franchise Fees	5.8	6.2	6.2	5.5	-11.3%
License and Permits					
<i>Building</i>	8.5	5.7	6.3	5.7	0.0%
<i>Fire</i>	4.4	2.7	3.4	2.7	0.0%
<i>Public Works</i>	3.5	2.3	2.3	2.3	0.0%
<i>Other</i>	0.4	0.1	0.1	0.1	0.0%
Fines & Forfeitures	0.6	0.9	0.9	0.9	0.0%
Intergovernmental	4.7	2.9	5.1	5.0	70.0%
Charges for Services					
<i>Planning</i>	1.0	0.8	0.8	0.8	0.0%
<i>Fire</i>	4.6	3.3	3.3	4.0	21.0%
<i>Parks & Recreation</i>	5.0	3.5	3.3	4.5	30.0%
<i>Police</i>	1.0	1.0	1.0	1.0	0.0%
<i>Other*</i>	0.1	0.0	0.0	0.0	0.0%
Inter-Fund Admin Charge	2.0	2.0	2.0	2.1	2.5%
Use of Money & Property	10.4	5.1	7.5	8.3	63.7%
Other Revenues	0.9	0.3	0.4	0.3	0.0%
Transfers In	1.5	1.5	2.2	2.3	53.2%
PO/CIP Rollover			10.5		N/A
Measure W	0.0	0.0	0.0	1.1	N/A
TOTAL REVENUES	\$167.9	\$140.5	\$166.1	\$156.9	11.7%

*Revenue appears as 0 due to rounding.

Property Tax remains the City’s largest revenue source, projected at \$61.5 million in FY 2026-27. While higher than the FY 2025-26 adopted budget, this projection is a decrease from mid-year adjusted budget. The primary drivers of the proposed update are changes to Secured and Unsecured Property Taxes as well as the Vehicle License Fee (VLF) revenue.

As noted earlier, there was a new increase in unsecured property tax revenue during FY 2025-26 which has continued to be reflected in FY 2026-27 proposed budget. Although unsecured tax receipts have typically been around \$200,000 in prior years, and even with some inherent volatility in this revenue source, the City unexpectedly received \$1.9 million this year. Based on consultation with the City’s property-tax advisor, this increase is understood to be the result of updated assessment data, rather than the result of a one-time anomaly. Therefore, although this increase is a significant departure from historical patterns, staff expect this higher level to continue. Staff will continue to monitor this revenue closely.

Secured property tax revenue has been increased by 3.5 percent following the recommendation of the City’s consultant. This increase reflects updated countywide assessed valuation growth and represents a moderate, sustainable assumption compared to the higher growth rates experienced earlier in the decade.

The portion of the property tax forecast that brings the most uncertainty is the “Property Tax in lieu of VLF,” also referred to simply as “VLF.” The VLF consists of two pieces: the current-year payment and the repayment of the shortfall from two fiscal years ago, which is also known as the backfill. These two components behave differently because the current-year payment is tied to the number of non-basic-aid school districts in the county, while the backfill is subject to a two-year lag, and is paid through direct State of California appropriation and at the discretion of the state.

This year, staff anticipate an increase in the number of basic-aid districts, which in turn will reduce the FY 2026-27 VLF current-year payment. As a result, the City’s expected current-year VLF payment has been reduced in this proposed budget from \$7.0 million to \$5.7 million.

For the backfill, staff, under the advisement of the Budget Standing Committee, are assuming no repayment of the outstanding FY 2024-25 \$5.2 million balance. Although the City received approximately two-thirds of the FY 2023-24 shortfall during the current fiscal year, the State’s structural budget deficit and the growing magnitude of backfill claims create substantial uncertainty. Out of caution, the Proposed Budget assumes the State will not make any shortfall payment in the upcoming year.

Transient Occupancy Tax (TOT) revenue has experienced a strong recovery since the pandemic, reflecting renewed domestic travel activity. Staff have budgeted a 6% increase over current year’s revised projection, which is a 13% increase over the current year adjusted budget. This increase continues the current trend of return to travel. This is a revenue that staff will continue to monitor, especially given the uncertainty in this sector – an argument that can be made both to increase or to decrease projections.

Other Tax revenues comprised primarily of the Business License Tax and Commercial Parking Tax. The proposed budget generally matches the mid-year adjustment as staff are not anticipating much of an inflationary increase.

Franchise Fees are projected to decrease over the current year’s adopted and adjusted budget. This returns the amount to match current trends and in line with current and prior year actuals.

Use of Money and Property revenue has increased primarily to match the City’s expected return, which anticipates that interest rates will remain higher on the city’s investments. This value brings the budget in line with actuals.

Transfers In from are budgeted to match the current amended budget. This is in part an offset due to limitations in current system to fund certain positions over multiple funds.

Measure W transfer represents an offset to the increased cost needed to operate the new pool. Staff will monitor actual costs and revenues to ensure that this transfer is limited to the net actual increase. Measure W is being applied to support the portion of expanded Aquatics staffing and operating expenses associated with opening and running the new, two-pool Orange Memorial Park Aquatic Center.

This use of City Measure W funds is fully aligned with the measure’s voter-approved purpose which includes: maintaining and enhancing essential South San Francisco services, including youth and teen programs, recreational services, and other core community offerings; as per the City’s internal budget guidance and Measure W implementation materials. Staff recommend this usage of Measure W funds because operating the pool is both an essential community service and the expanded facility increases ongoing operational costs. Without utilizing Measure W funds for increased expenditures related to the Measure W-funded facility, additional *General Fund* expenditures would be required in order to open and operate the new Aquatics Center.

2. PROPOSED FY 2026-27 GENERAL FUND EXPENDITURES

The following tables, 6 and 7, show the proposed FY 2026-27 General Fund expenditure budgets (in millions).

Table 6. General Fund Operating Expenditure Budget by Category (in million)

EXPENDITURES (in millions)	FY 2024-25	FY 2025-26		FY 2026-27	
	Actual as of 6/30/2025	Adopted Budget	Adjusted Budget	Proposed Budget	% Change from FY 2025- 26 Adopted
Salary and Benefits ¹	\$111.2	\$116.9	\$121.0	\$125.2	7.1%
Supplies and Services	25.2	25.0	29.9	24.4	-2.5%
Capital Outlay	0.6	0.0	0.3	0.0	0.0%
Debt Service	0.0	0.0	0.0	0.0	0.0%
Interdepartmental Charges	12.0	10.2	10.2	12.2	19.8%
Transfers - Operation	0.5	0.5	6.5	0.5	0.0%
Transfers - Capital Transfers	50.6	0.0	1.8	0.0	0.0%
TOTAL EXPENDITURES	\$150.1	\$152.7	\$169.7	\$162.4	6.4%

1. FY 2025-26 and 2026-27 Salary and Benefits budget assumes \$8.0 million in vacancy savings.

Table 7. General Fund Operating Expenditure Budget by Department (in million)

EXPENDITURES (in millions)	FY 2024-25	FY 2025-26		FY 2026-27	
	Actual as of 6/30/2025	Adopted Budget	Adjusted Budget	Proposed Budget	Percent Change from FY 2025-26 Adopted
City Council	\$0.3	\$0.3	\$0.3	\$0.3	10.9%
City Clerk	1.2	1.4	1.4	1.6	15.9%
City Treasurer	0.2	0.2	0.2	0.2	-7.1%
City Attorney	2.1	1.5	1.5	1.4	-6.0%
City Manager	3.4	4.8	5.0	4.2	-12.6%
Finance	3.4	4.3	4.6	4.6	5.9%
Non expense/Dept	3.1	3.0	3.1	3.6	17.3%
Economic & Comm Develop	9.9	9.6	10.4	10.4	8.2%
Fire	38.6	40.2	40.4	42.3	5.2%
Police	37.7	42.3	42.9	46.1	8.8%
Public Works	13.3	12.6	13.8	13.2	4.9%
Library	7.6	9.3	9.6	9.8	5.7%
Parks and Recreation	24.6	29.1	32.0	31.3	7.6%
CIP	4.1	1.9	7.9	1.4	-28.2%
Non expense/Dept	0.0	(8.0)	(5.0)	(8.0)	-
Salary Savings	0.6	0.0	1.8	0.0	0.0%
TOTAL EXPENDITURES	\$150.1	\$152.7	\$169.7	\$162.4	6.4%
Information Technology ¹	4.4	4.7	5.0	5.3	12.2%

1. Non-General Fund: budgeted as internal service fund in Fund 785

FY 2026-27 Base Payroll Update

Although Salary and Benefits show a 7.1 percent increase over the current-year *adopted* budget, this comparison does not fully reflect the amendments, which are ongoing, made during FY 2025-26. These amendments, most notably the approval of new labor agreements and the addition of several grant-funded positions, were incorporated into the adjusted budget and have now carried forward into the FY 2026-27 Proposed Budget. For this reason, the adjusted budget provides the more accurate baseline for year-over-year comparison.

Relative to the adjusted budget, Salary and Benefits are projected to increase by 3.4 percent in FY 2026-27. This increase is comprised of several factors:

1. Salaries are increasing by 4.1 percent, driven primarily by the 4 percent cost-of-living adjustment included in the approved MOUs for FY 2026-27, in addition to standard annual step-increases.
2. The City’s annual California Public Employees Retirement System (CalPERS) Unfunded Accrued Liability (UAL) payment will increase by 3.7 percent.
3. Health insurance premiums are rising, with projected increases of 3.2 percent for Kaiser and 9.2 percent for Blue Shield.
4. Most other benefit categories remain flat or show only minimal changes.

The Proposed Budget continues to include a vacancy factor, which assumes \$8.0 million in salary savings, which equates to approximately 6.4% and is consistent with historical vacancy trends.

FY 2026-27 Services and Supplies Adjustment

Finance staff, in collaboration with departmental teams, conducted a detailed review of Supplies and Services budgets. Together they were able to remove over \$2.4M from the base budget. This collaborative effort focused on identifying and eliminating recurring budget capacity that had historically gone unused, which in turn ensures that appropriations more accurately reflect actual operational needs. As noted in an earlier section on current-year spending trends, departments are projected to end the year with approximately \$6.0 million in savings in these categories. Aligning the base budget with demonstrated spending patterns improves accuracy, enhances fiscal discipline, and helps ensure that ongoing budget allocations remain transparent and aligned with service requirements.

FY 2026-27 Interdepartmental Charges Adjustment

Interdepartmental charges represent expenses recorded in the Internal Service Funds and allocated out to operating departments. The Proposed Budget includes an increase of \$2.5 million across all funds, of which \$2.0 million applies to the General Fund. This increase is primarily related to the City's Self-Insurance Fund in order to align its budgeted charges with the City's current premiums. These insurance costs – including liability, workers comp, and health – have risen steadily over the past several years, and the proposed adjustment brings the budgeted amount into alignment with the City's actual risk-management obligations.

FY 2026-27 Recommended Departmental Adjustments

The following adjustments were submitted by departments, reviewed through the budget process, and are included in the City Manager's recommended budget for Council consideration. Attachments 2 and 3 to this report provide a more detailed listing of each departmental submission, along with the proposed funding budget breakdown of payroll and supplies and services.

The following provides additional information for each of the major expenditure categories.

Supplies and Services:

The proposed budget includes all departmental decision packages (new adjustments) that have been reviewed by the City Manager and are to be submitted for City Council's approval. These requests are detailed in **Attachment 2** for all funds.

Overall, there is \$3.9 million in new adjustments, \$1.7 million for the General Fund (GF), and \$2.2 million Other Funds (OF). In particular:

- City Attorney: \$55k **GF** for a contract increase.
- City Clerk: \$200k **GF** for election services.
- Economic and Community Development: \$493k **GF** / \$330k **OF** for legal and consulting fees, housing contracts, and EAC operational and rent costs.

- Fire: \$262k **GF** / \$525k **OF** for radio and fire alerting hardware replacement, service and fee increases, and office, program, and operational expenses.
- Human Resources: \$340k **GF** for labor negotiations, a city-wide compensation study, and staffing study.
- Information Technology: \$309k **OF** for software and equipment.
- Library: \$40k **GF** due to Peninsula Library System Network increases.
- Parks and Recreation: \$310k **GF** for operations and maintenance for the new Aquatics Center and Parks.
- Police: \$525k **OF** for handgun, camera, and taser replacement.
- Public Works: \$11k **GF** / \$518k **OF** for attorney costs, office and meeting expenses, permit fee increase, and Orange Memorial Park Stormwater Capture Maintenance.

Position Adjustments:

The following are department position adjustments with a net change of 18.27 FTE. Payroll adjustment details for all funds are provided in **Attachment 3**.

- 1) These adjustments are budget-neutral and involve converting previously approved positions to existing, City Council-approved job titles. The original titles associated with these positions were not formally approved by the City Council, which prevented recruitment. Aligning the positions with approved job titles will allow hiring to proceed.
 - Parks and Recreation
 - Convert 1.0 FTE Building Maintenance Stationary Engineer to Lead Crafts Person
 - Convert 1.0 FTE Arborist Technician to Parks Maintenance Supervisor
 - Public Works
 - Convert 1.0 FTE Utility Locator to Senior Public Works Maintenance Worker

- 2) As previously mentioned, the following General Fund positions will be fully offset with new and increased revenue from the Aquatic Center and a transfer from Measure W.
 - Parks and Recreation
 - Add 15.77 FTE Aquatics Positions
 - Add 0.5 FTE Park Maintenance Worker - Hourly
 - Add 0.5 FTE Building Maintenance Custodian

- 3) The following additional position adjustments are also included in this request, those noted as “GF” below will be funded through the General Fund:
 - City Manager’s Office:
 - Remove - (1.0) FTE Diversity, Equity and Inclusion Officer (GF)
 - Economic and Community Development:
 - Convert - 1.0 FTE Management Analyst I to Management Analyst II
 - Information Technology:
 - Add 1.0 FTE Information Technology Manager
 - Library:
 - Add 1.0 FTE Librarian II (GF)

- Add 0.5 FTE Office Specialist – Hourly (GF)

Finally, due to increased revenue from the Oyster Point Community Facilities District (CFD) Special Tax B (Fund 236), funding responsibility for three positions (Parks Maintenance Worker, Lead Parks Maintenance Worker, and Senior Parks Maintenance Worker) has been shifted accordingly, relieving the General Fund of the cost.

FY 2026-27 PROPOSED BUDGET – OTHER FUNDS

As noted in the Citywide section, the City’s Enterprise Funds are also experiencing pressure from rising costs. The Enterprise Funds are summarized below in Table 8. Each fund follows a distinct process for adjusting revenues.

However, due to statutory limitations in increasing Stormwater funding, the Stormwater fund is currently heavily subsidized with transfers from the General Fund and Gas Tax revenues. For FY 2026-27, there is a proposed increase of \$500,000 from Measure W to the Stormwater fund to cover the expense of operating the City’s new storm capture improvement (project sd1801). The City hopes to receive outside funds in the future to reduce the reliance on Measure W funding.

Table 8. Enterprise Funds Operating Budgets (in millions)

Enterprise	Sewer	Parking	Storm
Revenue	\$38.6	\$1.0	\$0.5
Transfers In	-	-	\$1.4
Payroll	(\$13.2)	(\$0.7)	(\$1.1)
Supplies & Services	(\$13.2)	(\$0.8)	(\$0.9)
Capital Purchases	(\$1.1)	-	-
Debt Service	(\$4.1)	-	-
Inter Dept	(\$2.5)	(\$0.2)	(\$0.1)
Transfers Out	-	-	-
Surplus/ (Deficit)	\$4.5	(\$0.7)	(\$0.2)

FISCAL IMPACT

For Fiscal Year 2026-27, the City’s General Fund is projected to have operating revenues of \$156.9 million and use of Available Unassigned General Fund fund balance of \$5.5 million for a total of available revenues and resources of \$162.4 million. Expenditures net of any carryover purchase orders are projected to be \$162.4 million, resulting in a balanced budget.

RELATIONSHIP TO CITY COUNCIL PRIORITIES ACTION PLAN

This effort supports the City Council Major Focus Area of “Modern and Sustainable Organization” and specifically the Key Strategy to ensure financial sustainability.

CONCLUSION

The General Fund continues to experience a structural deficit, as revenue growth remains insufficient to keep pace with rising expenditures. Key cost drivers, including personnel

expenses, healthcare costs, and inflation, are escalating at a faster rate than incoming revenues. Property tax revenue continues to increase, but is anticipated to do so at a slower pace than in previous years. In light of increasing fiscal pressure from the State's own budget deficit, staff has assumed that the State will not backfill the FY 2025-26 Property Tax in-lieu of Vehicle License Fees (VLF) shortfall. Should this funding materialize, it could reduce the FY 2026-27 budget deficit by approximately \$5 million, resulting in a significant decrease in the use of available unassigned fund balance. Staff will continue to monitor this and provide updates as new information becomes available.

Revenue sources such as sales taxes and TOT are subject to ongoing uncertainty due to tariffs and inflation, but may be offset by increased Bay Area tourism. Additionally, permit fee revenues from developers have slowed, influenced by high interest rates and trade-related pressures. To help address the long-term structural deficit, the City is evaluating potential revenue enhancement strategies. The proposed budget is structured to maintain current service levels, and no significant cuts are proposed at this time.

A key driver of rising expenditures in the FY 2026-27 Proposed Budget is the continued growth in personnel related costs. On the other hand, since the City has experienced higher-than usual staff turnover, staff has included a 6.4% vacancy assumption, which is approximately \$8 million in personnel costs to account for the anticipated salary savings. Staff will continue to update the budget as more information becomes available.

This budget is prepared with a strategic effort to align the City's service levels with available resources, ensuring fiscal sustainability while minimizing the accumulation of ongoing obligations in a challenging revenue environment.

Staff welcomes feedback from the Budget Standing Committee related to the information contained herein.

Attachments:

- Att 1 – General Fund Revenue and Expenditure Reports
- Att 2 – New Request – Supplies and Services – GF and Other Funds
- Att 3 – New Request – Positions – GF and Other Funds
- Att 4 – Department Revenue Adjustments – GF and Other Funds