



## ADMINISTRATIVE SERVICES DEPARTMENT

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### CITY COUNCIL STAFF REPORT

Meeting: May 20, 2025

#### Subject

Accept the City Manager's Third Quarter Financial Report for Fiscal Year 2024-25

#### Recommended Action

1. Accept the City Manager's Third Quarter Financial Report for Fiscal Year 2024-25
2. Adopt Resolution No. 25-XXX approving Budget Modification No. 2425-390, decreasing appropriations by \$(157,425) and increasing estimated revenues by \$5,411,435.

#### Executive Summary

The Third-Quarter Financial Report for Fiscal Year (FY) 2024-25 outlines the City's financial status as of March 31, 2025.

The FY 2024-25 Amended Budget as of March 31, 2025, is \$238.2 million across all funds. This amended budget includes an adopted budget of \$146.6 million, plus encumbrances and carryovers of \$70.0 million, and Council-approved budget adjustments from July 1, 2024, to March 31, 2025, totaling \$21.6 million.

As of Third Quarter FY 2024-25, revenue was \$3.3 million, or 5%, higher than Third Quarter 2023-24, primarily attributed to an increase in use of money and property primarily due to the reversal of the \$2.8 million mark-to-market adjustment recorded as a year-end entry in FY 2023-24, resulting in a temporary positive revenue impact in FY 2024-25, offset by a significant decrease in reported sales tax due to a shift to cash basis accounting for interim reports as recommended by the City's financial auditors, The Pun Group. While this change enhances cash flow accuracy, it may limit comparability with FY 2023-24. Third Quarter expenditures were \$14.9 million, or 23% higher than last year, primarily due to a City Council approved one-time Additional Discretionary Payment to CalPERS to address the City's Unfunded Accrued Liability retirement costs.

Key recommendations from the report include the following proposed budget adjustments:

- Sales Tax projection increase
- Funding for bank charges
- Funding for building division on-call contracts
- De-funding of several Capital Improvement Projects

#### Reasons for Recommendation

##### *Background*

On June 4, 2024, the City Council adopted the FY 2024-25 Adopted Budget, a \$146.6 million spending plan funded by \$139.3 million in revenue and \$7.3 million in fund balance. The adopted budget reflected a \$102,805 increase from the proposed budget.

As described in the City Manager's First Quarter Financial Report, the budget was revised to account for encumbrances and carryover appropriations.<sup>1</sup> As part of the FY 2023-24 year-end close, additional funds were carried forward to FY 2024-25, amounting to \$9.0 million in encumbrances and \$61.1 million in budget carryovers. The largest encumbrances were for General Fund (\$4.8 million), and the largest carryovers were for General Fund (\$24.3 million) and are largely related to The Rise Project. Outside of the General Fund the Capital Improvement Plan accounts for most of the carryovers in the Capital Funds and a large portion of the special revenue funds.

The amended budget at the end of third quarter is \$238.2 million, funded with \$183.3 million in revenue and \$55.0 million in fund balance, of which \$24.1 million is from CIP related projects. The amended budget is the adopted budget, plus encumbrances, carryovers, and Council-approved budget adjustments. The reflection of carryovers and encumbrances in the amended budget is a standard practice in municipal budgeting. Carryovers and encumbrances are appropriations approved in prior years but have not yet been spent and are still required for ongoing projects or obligations.

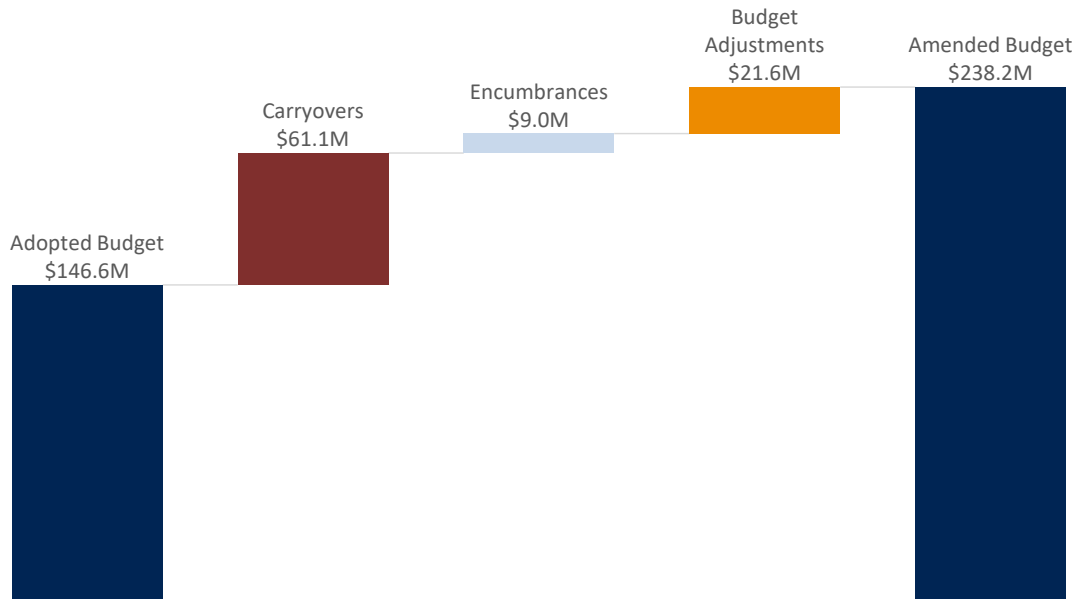
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<sup>1</sup> Encumbrances are outstanding commitments tied to unfilled purchase orders or contracts, which are rolled over to the following fiscal year until those obligations are fulfilled or terminated. Carryover appropriations are unencumbered funds for unfinished projects carried over to the following fiscal year to be spent for the same purpose for which they were approved. Carryovers can be found in the Q1 financial report presented to City Council on December 3, 2024.

### Third-Quarter Summary of Budget Adjustments by Fund

Fund	FY 2024-25			Adjustments	FY 2024-25 Amended Budget as of March 31, 2025
	Adopted Budget	Carryovers	Encumbrances	Approved in 1st, 2nd and 3rd Quarters	
General	90,041,794	24,271,306	4,753,530	18,542,231	137,608,861
Special Revenue	13,956,348	15,445,956	885,056	2,243,220	32,530,580
Debt Service	2,676,200	-	-	-	2,676,200
Capital Projects	22,057,580	20,678,417	2,449,854	988,000	46,173,851
Enterprise	9,271,222	522,360	55,396	20,545	9,869,523
Internal Service	8,643,349	151,167	837,023	(240,813)	9,390,726
<b>Total All Funds</b>	<b>\$ 146,646,493</b>	<b>\$ 61,069,206</b>	<b>\$ 8,980,859</b>	<b>\$ 21,553,183</b>	<b>\$ 238,249,741</b>

### FY 2024-25 Amended Budget as of March 31, 2025



### Discussion

The Third-Quarter Financial Report, reported as of March 31, 2025, is a critical tool for the City to evaluate its current revenue outlook and make necessary adjustments to the budget in response to changing spending priorities. It provides an overview of the City's budget status, including its revenue outlook, expenditure patterns, and other key financial metrics. Additionally, the report helps the City ensure that it stays on track toward achieving its goals and objectives by providing valuable insights into the City's financial performance. By using this information to make informed decisions and take appropriate actions, the City can maintain its fiscal sustainability.

<b>Fund</b>	<b>FY 2024-25 Amended Budget as of March 31, 2025</b>	<b>Requested Third Quarter Adjustments</b>	<b>Year-End Projections</b>
<b>General</b>	137,608,861	4,849,766	142,458,627
<b>Special</b>	32,530,580	54,239	32,584,819
<b>Revenue</b>			
<b>Debt Service</b>	2,676,200	-	2,676,200
<b>Capital Projects</b>	46,173,851	498,355	46,672,206
<b>Enterprise</b>	9,869,523	166,500	10,036,023
<b>Internal Service</b>	9,390,726	-	9,390,726
<b>Total All Funds</b>	<b>\$ 238,249,741</b>	<b>\$ 5,568,860</b>	<b>\$ 243,818,601</b>

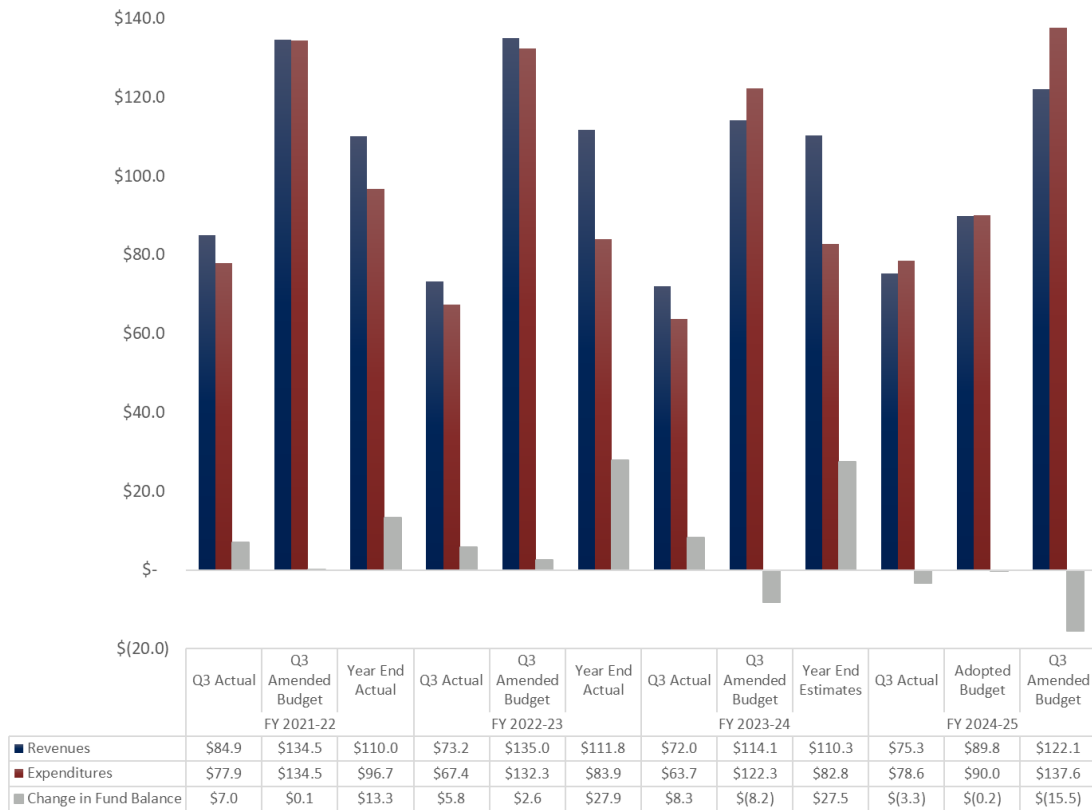
The City will continue to closely monitor revenue and expenditure trends in the coming months. This ongoing analysis is critical to ensuring that the City's budget remains responsive to the needs of its constituents and is aligned with the City's goals and objectives. By proactively managing its budget, the City can remain fiscally responsible and provide essential services and programs to its community.

#### **General Fund Forecast**

The General Fund Forecast has been updated as part of the FY 2025-26 Proposed Budget. Please refer to pages 96-111 of the FY 2025-26 Proposed Budget document to review the forecast.

## General Fund at Third Quarter

### 4-Year Comparison of Revenues, Expenditures, and Changes to Fund Balance (\$ in millions)



The General Fund's year-end actuals show that the City's revenues have historically exceeded expenditures, leading to the increase in fund balance. In addition, the City's encumbrance and budget carryover process typically led to increases in year-end fund balance. Historically, when this was not the case, it was not due to a structural deficit but the transfer of excess fund balance from the General Fund to the Capital Reserve per the City's Fund Balance policy.

By continuing to monitor and manage its financial resources effectively, the City can ensure that it maintains a healthy fund balance in the General Fund.

#### *Revenue*

General Fund revenue is \$3.3 million, or 5%, higher than the same time last year due to changes in the City's revenue sources as shown in the following table.

**Comparison of FY 2023-24 and FY 2024-25 Third Quarter Revenues  
General Fund**

Revenue Category	Third Quarter 2024	Third Quarter 2025	Variance (\$)	Variance (%)
05 - Sales tax	26,051,914	16,054,865	(9,997,048)	-38%
10 - Property tax	20,013,678	20,752,532	738,854	4%
15 - Transient occupancy	3,709,880	4,226,041	516,162	14%
20 - Utility tax	2,632,359	2,859,665	227,307	9%
25 - Franchise fees	1,988,532	1,883,406	(105,126)	-5%
30 - Other taxes	1,083,647	1,343,057	259,410	24%
35 - Licenses and permits	3,029,170	4,244,586	1,215,415	40%
40 - Use of money and property	2,585,626	7,410,031	4,824,405	187%
45 - Intergovernmental revenue	607,301	2,252,813	1,645,512	271%
50 - Charges for services	8,556,641	11,026,826	2,470,185	29%
55 - Fines and forfeitures	233,698	219,957	(13,741)	-6%
60 - Miscellaneous	1,408,477	1,690,550	282,073	20%
65 - Transfers in	111,000	15,000	(96,000)	-86%
70 - Other financing sources	-	1,338,475	1,331,275	N/A
<b>Total</b>	<b>\$ 72,011,921</b>	<b>\$ 75,317,805</b>	<b>\$ 3,298,683</b>	<b>5%</b>

*Sales Tax* revenue as of mid-year is \$16.1 million, which is a 38% decrease from the previous year. This decline is primarily due to two factors. First, as noted in the First Quarter Financial Report, the City reached a settlement agreement with the CDTFA, which resulted in the cessation of previously misallocated sales tax revenue. Sales tax revenues are received on a two-month lag, meaning the current figures account for collections from July through January 2025 (FY 2024-25), whereas Q3 figures from the prior fiscal year (FY 2023-24) included nine months of collections, spanning July through March 2024.

For FY 2024-25, the City budgeted \$11.6 million in sales tax revenue. As part of the Budget Adjustment Requests section of this report, staff recommends increasing the budget to \$16.1 million. This revised projection remains conservative yet realistic, reflecting actual collections to date while accounting for potential adjustments related to overpayments. Staff continues to closely monitor sales tax receipts and is actively working with CDTFA to confirm and process any necessary repayments.

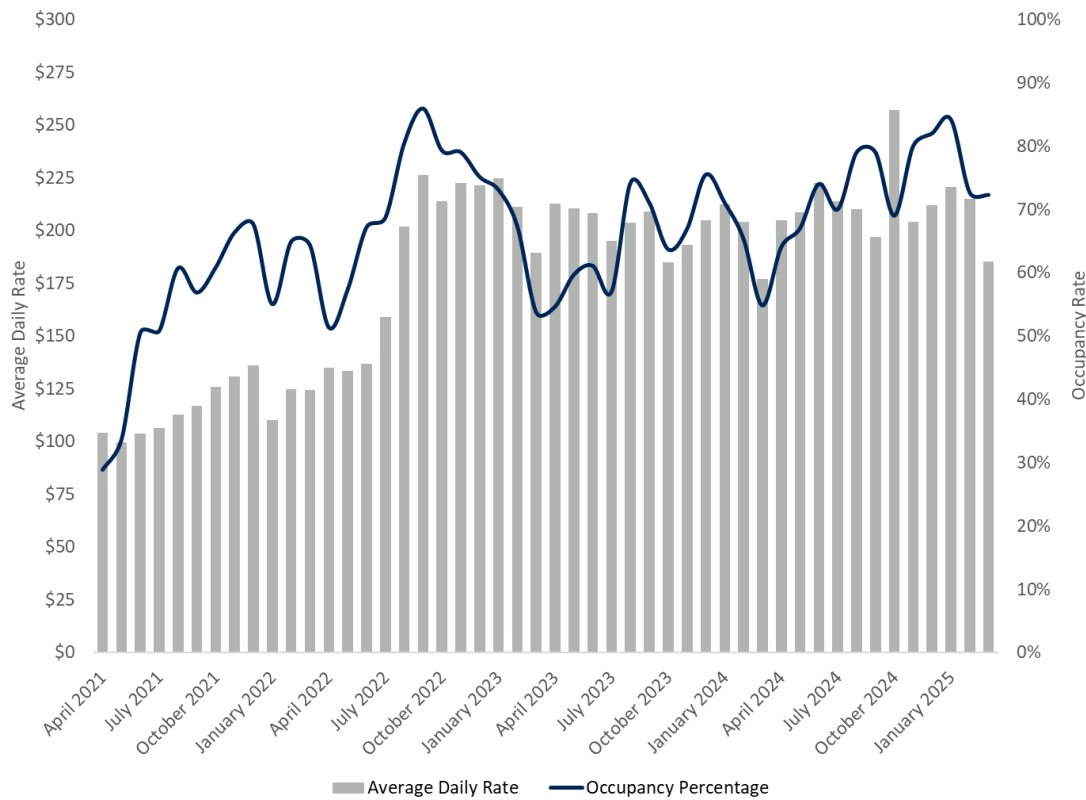
*Property Tax* revenue is higher than last year by approximately \$739,000, or 4%. According to HdL, the City's property tax consultant, residential use values increased 5.7% for a total of \$1.147 billion and represented 81% of all growth experienced in the City. The citywide growth in value in the 2024-25 assessment roll is \$1.412 billion, an increase of 4.4%. Staff will continue to monitor this top revenue source.

The City's property tax base remains strong, and HdL is currently projecting growth in property taxes over the next five years, as shown in the table below.

FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
31,223,141	32,324,317	33,606,651	35,024,886	36,531,087

*Transient Occupancy Tax (TOT)* revenue increased by \$516,000, or 14%, compared to the previous year due to the remittance of taxes from a hotel in Cupertino during the current third quarter period that were not received in the previous year. Although an increase is reflected here, business travel has not returned compared to pre-pandemic levels. According to HdL, occupancy is improving a couple of percentage points each year, however, the Average Daily Rate may still be too low, compared to prior years. So, while the Average Daily Rate is increasing, it doesn't appear that it is driven by demand.

### Average Daily Rates and Occupancy Rates by Month Hotels in Cupertino



Although TOT revenues have mostly recovered from the pandemic, the City's TOT revenues may continue to be affected in the long term due to telework and decreased business travel. Headwinds in the tech industry have resulted in layoffs and reduced spending in areas such as travel. Staff will continue to monitor economic regulations and other factors and report back on their impact on TOT revenues as part of the quarterly financial reports.

*Utility Tax* (UUT) increased by approximately \$226,000, or 9%, primarily due to an increase in the amount of UUT collected based on higher gross receipts compared to the same period in the prior year.

*Franchise Fees* decreased by approximately \$105,000, or 5%, due to a one-time overpayment of Recology fees paid to the city that were reflected in the prior third quarter period for October 2023 that was corrected with an underpayment in January 2024.

*Other Taxes* increased by approximately \$259,000, or 24%, due to an increase in collection of business license taxes and property transfer taxes.



*Licenses and Permits* increased by approximately \$1.2 million, or 40%, due to construction plan check revenues for multiple large office tenant improvement submittals, an increase in residential submittals for new homes and remodels, as well as an increase in permits to clear code enforcement cases.

*Use of Money and Property* increased by approximately \$4.8 million, or 187%, largely due to the reversal of the \$2.8 million mark-to-market adjustment recorded as a year-end entry in FY 2023-24, resulting in a temporary positive revenue impact in FY 2024-25.

*Intergovernmental Revenue* increased by \$1.6 million, or 271%, over the same period last year primarily due to the receipt of grant funds for the community shuttle.

*Charges for Services* increased by \$2.5 million, or 29%, driven mainly by increases in general service fees related to library maintenance and cost allocation plan methodology.

*Fines and Forfeitures* decreased by \$14,000, or 6%, due to decreases in revenues received for city fines and admin citations, offset by an increase in revenues in parking fines compared to the same period last year.

*Miscellaneous Revenue* increased by approximately \$282,000, or 20%, primarily due to the revenues received for a technology fee, credit card fees, and the timing of the Apple donation for sheriff services.

*Transfers In* decreased by \$96,000, or 86%, due to transfers in from other funds that occurred during the previous third quarter period.

*Other Financing Sources* increased by \$1.3 million due to revenues received from the Byrne property transaction.

### ***Expenditures***

Expenditures in the General Fund have increased by \$14.9 million, or 23%, when compared to the same time last year. The following table shows the differences between General Fund expenditures as of the third quarter in the current fiscal year and the prior fiscal year:

**Comparison of FY 2023-24 and FY 2024-25 Third Quarter Expenditures  
General Fund**

Expenditure Category	Third Quarter		Variance (\$)	Variance (%)
	2024	2025		
05 - Employee compensation	15,762,745	15,188,016	(574,729)	-4%
10 - Employee benefits	6,889,681	17,717,676	10,827,995	157%
15 - Materials	3,453,868	4,133,926	680,058	20%
20 - Contract services	20,332,877	20,760,826	427,949	2%
25 - Cost allocation	7,693,242	7,978,935	285,693	4%
30 - Capital outlays	436,373	32,349	(404,024)	-93%
31 - Special projects	2,367,480	728,275	(1,639,205)	-69%
35 - Contingencies	-	13,617	13,617	N/A
45 - Transfer out	6,595,284	11,504,732	4,909,448	74%
50 - Other financing uses	183,536	537,572	354,036	193%
<b>Total</b>	<b>\$ 63,715,086</b>	<b>\$ 78,595,924</b>	<b>\$ 14,880,838</b>	<b>23%</b>

*Salary* decreased by approximately \$0.5 million, or 4%, from the previous third quarter period due to vacancy savings.

*Benefits* increased by approximately \$10.8 million, or 157%, from last year primarily due to a City Council approved one-time Additional Discretionary Payment to CalPERS to address the City's Unfunded Accrued Liability retirement costs. In addition, increases in retirement, healthcare, and workers' compensation costs account for the remaining increase.

*Materials* increased by approximately \$0.7 million, or 20%, primarily due to increases in water service costs, software costs, electrical costs, and general supplies.

*Contract Services* increased by approximately \$428,000, or 2%, primarily driven by insurance premium increases, paid claims, settlements, transportation related contract costs, and law enforcement contract costs.

*Cost Allocation* increased by approximately \$286,000, or 4%, primarily due to increased Cost Allocation Plan (CAP) charges.<sup>2</sup>

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<sup>2</sup> The cost allocation plan (CAP) allocates indirect and overhead costs to the departments that benefit from them. Costs incurred by central service providers (e.g., City Manager's Office, City Attorney's Office, Finance, Human Resources, Facilities, etc.) are charged to the departments that benefit from the services (e.g., Parks & Recreation). The purpose of the CAP is to help the City to determine the true cost of providing services.

*Capital Outlay* decreased by approximately \$404,000, or 93%, due to the security gate project at the Service Center in the prior year.

*Special Projects* decreased by approximately \$1.6 million, or 69%, primarily due to I-280/Wolfe Road Interchange Improvement.

*Contingencies* increased by approximately \$14,000 due to the use of City Manager's Contingencies for the End of Year Townhall and Lawrence-Mitty encampment cleanup.

*Transfers Out* increased by approximately \$4.9 million, or 74%, due to the increase of transfers for retiree medical due to the use of the Other Post Employment Benefits Trust paying for the last two years. Interfund transfers are the movement of cash between one or more funds. As part of the Adopted Budget process, transfers from the General Fund to other City funds serve as operating subsidies to ensure each fund has a positive fund balance at the end of the fiscal year.

*Other Financing Uses* increased by approximately \$354,000, or 193%, due to a higher volume of on-call contracts in the Community Development Department for plan reviews and inspections.

## **Special Revenue Funds**

### **Revenue**

Special Revenue Funds revenue is \$1.5 million, or 17%, higher than the same time last year, primarily due to an increase in Other taxes and Use of money and property.

### **Comparison of FY 2023-24 and FY 2024-25 Third Quarter Revenues Special Revenue Funds**

Revenue Category	Third Quarter		Variance (\$)	Variance (%)
	2024	2025		
30 - Other taxes	240,770	815,650	574,880	239%
40 - Use of money and property	527,334	1,454,631	927,296	176%
45 - Intergovernmental revenue	3,839,401	4,681,803	842,403	22%
50 - Charges for services	942,674	987,472	44,798	5%
55 - Fines and forfeitures	971	-	(156)	N/A
60 - Miscellaneous	5,447	2,700	(2,747)	-50%
65 - Transfers in	3,449,019	2,595,150	(853,869)	-25%
<b>Total</b>	<b>\$ 9,005,616</b>	<b>\$ 10,537,406</b>	<b>\$ 1,532,605</b>	<b>17%</b>

*Other Taxes* increased by approximately \$575,000, or 239%, primarily due to Housing Mitigation and Park Ded Tax Zone 1.

*Use of Money and Property* increased by approximately \$927,000, or 176%, primarily due to Investment earnings and to the mark-to-market adjustment, mirroring the impact seen in the General Fund.

*Intergovernmental Revenue* increased by approximately \$842,000, or 22%, due primarily to transportation related federal grants.

*Charges for services* increased by approximately \$45,000, or 5%, primarily due to general fee revenues received for environmental storm drain clean-up reimbursement received.

*Fines and forfeitures* were relatively unchanged from last year.

*Miscellaneous* revenues were relatively unchanged from last year.

*Transfers In* decreased by approximately \$854,000, or 25%, due to decreased transfers in from general fund for street and sidewalk maintenance as part of service level reductions.

Interfund transfers are the movement of cash between one or more funds. As part of the Adopted Budget process, transfers from the General Fund to other City funds serve as operating subsidies to ensure that each fund has a positive fund balance at the end of the fiscal year. Additionally, when Capital Improvement Program (CIP) projects are authorized by City Council, a transfer from the Capital Reserve to the appropriate fund is necessary to record the costs and activities of the project. For more information on the City's operating and capital transfers, refer to pages 625-627 and 631-632 of the FY 2024-25 Adopted Budget.

### ***Expenditures***

Special Revenue Funds expenditures are \$1.9 million, or 28%, higher than the same time last year due primarily to increase of special projects and cost allocation.

**Comparison of FY 2023-24 and FY 2024-25 Third Quarter Expenditures  
Special Revenue Funds**

Expenditure Category	Third Quarter		Variance (\$)	Variance (%)
	2024	2025		
05 - Employee compensation	1,217,194	1,118,633	(98,560)	-8%
10 - Employee benefits	580,955	646,257	65,302	11%
15 - Materials	405,943	372,628	(33,315)	-8%
20 - Contract services	479,841	288,304	(191,537)	-40%
25 - Cost allocation	915,461	1,522,541	607,080	66%
30 - Capital outlays	2,079,958	1,288,775	(791,184)	-38%
31 - Special projects	879,776	2,910,196	2,030,420	231%
35 - Contingencies	-	-	-	N/A
45 - Transfer out	382,951	708,000	325,049	85%
<b>Total</b>	<b>\$ 6,942,078</b>	<b>\$ 8,855,333</b>	<b>\$ 1,913,255</b>	<b>28%</b>

*Salaries* decreased by approximately \$99,000, or 8%, due to a decrease in vacancy savings.

*Benefits* increased by approximately \$65,000 or 11%, from last year due to increases in health care premiums and retirement costs.

*Materials* decreased by approximately \$33,000, or 8%, due to decreases in grants expenditures.

*Contract Services* decreased by approximately \$192,000, or 40%, primarily due to annual sidewalk curb and gutter maintenance.

*Cost Allocation* increased by approximately \$607,000, or 66%, primarily due to increased City Manager and Human Resources CAP Charges.

*Capital Outlays* decreased by approximately \$791,000, or 38%, due to decreases in Facility Improvements and SB1 Road.

*Special Projects* increased by approximately \$2,030,000, or 231%, primarily due to the annual asphalt project.

*Transfers Out* increased by \$325,000, or 85%, due to increased transfers to the General Fund.

## Debt Service Funds

### Revenue

Debt Service Funds revenue is similar to last year.

#### Comparison of FY 2023-24 and FY 2024-25 Third Quarter Revenue Debt Service Funds

Revenue Category	Third Quarter 2024	Third Quarter 2025	Variance (\$)	Variance (%)
65 - Transfers in	2,677,600	2,676,200	(1,400)	0%
	\$ 2,677,600	\$ 2,676,200	\$ (1,400)	0%

### Expenditures

Debt Service Funds expenditures are similar to last year.

#### Comparison of FY 2023-24 and FY 2024-25 Third Quarter Expenditures Debt Service Funds

Expenditure Category	Third Quarter 2024	Third Quarter 2025	Variance (\$)	Variance (%)
20 - Contract services	1,500	1,500	-	0%
40 - Debt services	321,300	280,600	(40,700)	-13%
<b>Total</b>	<b>\$ 322,800</b>	<b>\$ 282,100</b>	<b>\$ (40,700)</b>	<b>-13%</b>

## Capital Projects Funds

### Revenue

Capital Projects Funds revenue is higher than last year primarily due to transfers in as the City increased the Capital Reserve to meet the minimum reserve levels per policy and restart the annual Capital Reserve funding transfers. In addition, to the funding of capital projects in the current year versus last fiscal year.

#### Comparison of FY 2023-24 and FY 2024-25 Third Quarter Revenues Capital Projects Funds

Revenue Category	Third Quarter 2024	Third Quarter 2025	Variance (\$)	Variance (%)
40 - Use of money and property	-	657,685	657,685	N/A
45 - Intergovernmental revenue	232,270	190,854	(41,416)	-18%
50 - Charges for services	-	-	-	N/A
60 - Miscellaneous	14,365	-	(14,365)	-100%
65 - Transfers in	3,746,717	12,548,000	8,801,283	235%
<b>Grand Total</b>	<b>3,993,352</b>	<b>13,396,539</b>	<b>9,403,187</b>	<b>235%</b>

Capital Projects funds differ from year to year based on projects that have been approved or worked on in a given fiscal year.

### ***Expenditures***

Capital Projects Funds expenditures are \$5.0 million, or 77%, higher than last year due to an increase in transfers out to fund capital projects as the City increased the Capital Reserve to meet the minimum reserve levels per policy and restart the annual Capital Reserve funding transfers.

### **Comparison of FY 2023-24 and FY 2024-25 Third Quarter Expenditures Capital Projects Funds**

Expenditure Category	Third Quarter 2024	Third Quarter 2025	Variance (\$)	Variance (%)
20 - Contract services	183,363	9,690	(173,673)	-95%
30 - Capital outlays	2,035,916	3,031,428	995,512	49%
45 - Transfer out	4,327,785	8,547,580	4,219,795	98%
<b>Grand Total</b>	<b>\$ 6,547,063</b>	<b>\$ 11,588,698</b>	<b>\$ 5,041,635</b>	<b>77%</b>

Capital Projects funds differ from year to year based on projects that have been approved or worked on in a given fiscal year.

### **Enterprise Funds**

#### ***Revenue***

Enterprise Funds revenue is \$217,000, or 4%, lower than the same time last year due primarily to a decrease in service fee charges.

### **Comparison of FY 2023-24 and FY 2024-25 Third Quarter Revenues Enterprise Funds**

Revenue Category	Third Quarter 2024	Third Quarter 2025	Variance (\$)	Variance (%)
40 - Use of money and property	469,561	629,731	160,170	34%
45 - Intergovernmental revenue	-	-	-	N/A
50 - Charges for services	4,527,100	3,645,433	(881,667)	-19%
55 - Fines and forfeitures	-	200	200	N/A
60 - Miscellaneous	11,310	-	(11,310)	-100%
65 - Transfers In	-	514,000	514,000	N/A
70 - Other Financing Sources	-	1,950	1,950	N/A
<b>Total</b>	<b>\$ 5,007,971</b>	<b>\$ 4,791,314</b>	<b>\$ (216,657)</b>	<b>-4%</b>

*Use of Money and Property* increased by approximately \$160,000, or 34%, primarily due to increased investment earnings and the Mark-to-Market adjustment.

*Charges for services* decreased by approximately \$882,000, or 19%, primarily due to a decrease in enterprise service fees

*Miscellaneous* decreased by \$11,300, or 100%, primarily due to stormwater pollution remediation recovery received during the prior third quarter period.

### ***Expenditures***

Enterprise Funds expenditures are \$0.7 million, or 12%, lower than the same time last year due primarily to a decrease in contract services, capital outlay and special projects.

### **Comparison of FY 2023-24 and FY 2024-25 Third Quarter Expenditures Enterprise Funds**

Expenditure Category	Third Quarter 2024	Third Quarter 2025	Variance (\$)	Variance (%)
05 - Employee compensation	1,256,052	1,323,227	67,174	5%
10 - Employee benefits	452,500	591,655	139,155	31%
15 - Materials	247,824	322,828	75,004	30%
20 - Contract services	2,960,944	1,741,110	(1,219,833)	-41%
25 - Cost allocation	704,519	1,183,073	478,554	68%
30 - Capital outlays	13,995	-	(13,995)	-100%
31 - Special projects	414,232	203,257	(210,975)	-51%
45 - Transfer out	20,000	-	(20,000)	-100%
50 - Other financing uses	-	-	-	N/A
<b>Grand Total</b>	<b>\$ 6,070,066</b>	<b>\$ 5,365,150</b>	<b>\$ (704,917)</b>	<b>-12%</b>

*Salaries* increased by approximately \$67,000, or 5%, primarily due to an increase in full-time salaries related to resource recovery staffing.

*Benefits* increased by approximately \$139,000, or 31%, primarily due to health insurance premiums and retirement costs.

*Materials* increased by approximately \$75,000, or 30%, primarily due to software and Cal Recycle payment program administration expenses.

*Contract Services* decreased by approximately \$1.2 million, or 41%, primarily due to the restructuring of the Lifetime Tennis contract at the Sports Center.

*Cost Allocation* increased by approximately \$479,000, or 68%, primarily due to increased City Manager, IT and Finance CAP.

*Special Projects* decreased by approximately \$211,000, or 51%, due to projects that differ in scope and timing from year to year.



*Transfers Out* decreased by \$20,000, or 100%, due to a transfer to the general fund that occurred in the prior third quarter period.

## Internal Service Funds

### Revenue

Internal Service Funds revenue is \$2.0 million, or 43%, higher than the same time last year due to increased transfers in.

### Comparison of FY 2023-24 and FY 2024-25 Third Quarter Revenues Internal Service Funds

Revenue Category	Third Quarter 2024	Third Quarter 2025	Variance (\$)	Variance (%)
40 - Use of money and property	108,884	250,685	141,801	130%
50 - Charges for services	3,121,230	3,603,876	482,646	15%
60 - Miscellaneous	5,666	75	(5,591)	-99%
65 - Transfers in	1,417,684	2,411,962	994,278	70%
70 - Other financing sources	-	380,593	380,593	100%
<b>Total</b>	<b>\$ 4,653,463</b>	<b>\$ 6,647,191</b>	<b>\$ 1,993,728</b>	<b>43%</b>

*Use of Money and Property* increased by approximately \$142,000, or 130%, due to increased interest earnings from the City's investment portfolio and mark-to-market adjustments.

*Charges for Services* increased by approximately \$483,000, or 15%, primarily due to Innovation Technology related Cost Allocation charges.

*Transfers In* increased by approximately \$0.9 million, or 70%, due to increased transfers from the General Fund to the Innovation & Technology and Compensated Absences Fund.

*Other Financing Sources* increased by about \$380,000 due to workers compensation charges being billed to departments and received as revenue in this fund. In FY 2023-24, the fund had enough savings to cover the workers compensation fund, and therefore no revenue was collected.

### Expenditures

Internal Service Funds expenditures are approximately \$154,100, or 3%, lower than the same time last year due primarily to a decrease in materials and special projects, offset by increases in cost allocation and contract services.

**Comparison of FY 2023-24 and FY 2024-25 Third Quarter Expenditures  
Internal Service Funds**

Expenditure Category	Third Quarter 2024	Third Quarter 2025	Variance (\$)	Variance (%)
05 - Employee compensation	1,381,919	1,178,771	(203,148)	-15%
10 - Employee benefits	1,568,233	1,684,566	116,333	7%
15 - Materials	1,142,394	817,440	(324,955)	-28%
20 - Contract services	1,160,875	1,603,654	442,779	38%
25 - Cost allocation	43,217	228,344	185,128	428%
31 - Special projects	555,924	261,713	(294,211)	-53%
35 - Contingencies	-	-	-	N/A
45 - Transfer out	76,000	-	(76,000)	-100%
50 - Other financing uses	-	-	-	NA
<b>Grand Total</b>	<b>\$ 5,928,563</b>	<b>\$ 5,774,489</b>	<b>\$ (154,074)</b>	<b>-3%</b>

*Salary* decreased by approximately \$203,000, or 15%, due to a decrease in full-time salaries.

*Benefits* increased by approximately \$116,000, or 7%, primarily due to health insurance premiums and retirement costs.

*Materials* decreased by \$325,000, or 28%, mainly due to a decrease in small tools and equipment costs.

*Contract Services* increased by approximately \$443,000, or 38%, largely due to increases in general service agreements and compensated absences.

*Cost Allocation* increased by approximately \$185,000, or 428%, primarily due to Innovation Technology and Finance related CAP charges.

*Special Projects* decreased by approximately \$294,000, or 53%, due to projects that differ in scope and timing from year to year.

*Transfers Out* decreased by \$76,000, or 100%, due to Innovation Technology related transfers that occurred in the prior third quarter period.

**Budget Adjustment Requests**

The City's departments regularly evaluate their budget expenditures throughout the fiscal year to ensure they stay within their budget appropriations. In case of any variance, they can request budget adjustments as necessary as part of the quarterly reports.

The budget adjustment requests are summarized in the table below and are also provided in this report as Attachment E.

Fund	Department	Revenue	Expenditure	Change in Fund Balance	Proposal
<b>GENERAL FUND</b>					
100 General Fund	Non-Departmental	4,451,038	-	4,451,038	Sales Tax Projection Increase
100 General Fund	Community Development	158,000	158,000	-	Bank Charges
100 General Fund	Community Development	-	87,000	(87,000)	Building On-Call Contract for Inspections
100 General Fund	Community Development	-	33,000	(33,000)	Code Enforcement - Citation Processing Center Fees
100 General Fund	Parks & Recreation	-	26,000	(26,000)	Bank Charges
100 General Fund	Parks & Recreation	301,543	-	301,543	Increased Revenue from Rentals and Programs
100 General Fund	Parks & Recreation	-	15,487	(15,487)	Part-Time Staffing
100 General Fund	Public Works	-	50,000	(50,000)	Material Bunker Wall Replacement
100 General Fund	Public Works	-	9,200	(9,200)	Portal Park Emergency Tree Removal
100 General Fund	Public Works	-	9,828	(9,828)	Civic Center Tree Grates Replacement
100 General Fund	Public Works	-	9,194	(9,194)	McClellan Ranch Park Entrance Sign Replacement
100 General Fund	Public Works	-	(336,894)	336,894	Defund - Various Projects
<b>TOTAL GENERAL FUND</b>		<b>4,910,581</b>	<b>60,815</b>	<b>4,849,766</b>	
<b>SPECIAL REVENUE FUNDS</b>					
210 Storm Drain Improvement	Public Works	-	(54,239)	54,239	Defund - Pumpkin/Fiesta Storm Drain Project
<b>TOTAL SPECIAL REVENUE FUNDS</b>		<b>-</b>	<b>(54,239)</b>	<b>54,239</b>	
<b>CAPITAL FUNDS</b>					
420 Capital Improvement Fund	Public Works	-	(498,355)	498,355	Defund - Various Projects
429 Capital Reserve	Public Works	290,354	290,354	-	Tranfers in and outs for the defund of various projects
<b>TOTAL CAPITAL FUND</b>		<b>290,354</b>	<b>(208,001)</b>	<b>498,355</b>	
<b>ENTERPRISE FUNDS</b>					
520 Resource Recovery	Public Works	-	(20,000)	20,000	Defund - CAP Dashboard Pilot
560 Blackberry Farm	Parks & Recreation	5,500	15,000	(9,500)	Bank Charges
580 Recreation Program	Parks & Recreation	205,000	49,000	156,000	Bank Charges
<b>TOTAL ENTERPRISE FUNDS</b>		<b>210,500</b>	<b>44,000</b>	<b>166,500</b>	
<b>TOTAL ALL FUNDS</b>		<b>\$5,411,435</b>	<b>\$ (157,425)</b>	<b>\$ 5,568,860</b>	

### *Sales Tax Revenue*

Staff is recommending a projected increase of \$4.5 million to the FY 2024-25 Adopted Budget sales tax amount of \$11.6 million, totaling \$16.1 million in projected sales tax

revenues. This revised projection remains conservative yet realistic, reflecting actual collections to date while accounting for potential adjustments related to overpayments.

*CDD & P&R – Bank Charges*

Staff is requesting additional appropriations of \$248,000 for processing fees that were not included as part of the FY 2024-25 Adopted Budget, due to greater revenues received than what was originally estimated and delays from contract amendment negotiations and processing. These funds are needed to cover the fees until the end of the fiscal year and if not approved, may lead to insufficient operating budgets within these programs by year end.

*CDD – Building On-Call Contracts*

Staff is requesting additional appropriations for On-Call Building Inspection services. A vacant (recently filled) Building Inspector position created a need to rely on our outside service provider consultant (4Leaf) more than was anticipated for this year.

*CDD – Citation Processing Center Fees*

Staff is requesting additional appropriations for Citation Processing Center fees. Costs have exceeded what was expected for this fiscal year as it was budgeted too low and the monthly average increased from the prior year.

*P&R – Part-Time Staffing*

Staff is requesting additional appropriations for part-time staffing to address higher-than-expected participation in creek tour programs at McClellan Ranch and swim lessons at Blackberry Farm. The increase in demand was not anticipated for within the FY 2024-25 Budget. Without this additional funding, both programs will be unable to support current and anticipated levels of service.

*Public Works – Material Bunker Wall Replacement*

Staff is requesting additional appropriations for Material Bunker Wall Replacement. The existing concrete walls at material bunker sections A and B at the Service Center have deteriorated and need to be replaced. The wall shows signs of concrete spalling as well as major cracks and leaning. The funds will be used to replace only those walls that have failed. If not approved, the walls will continue to deteriorate and eventually collapse. This will hinder the use of the material bunker.

*Public Works – Portal Park Emergency Tree Removal*

Staff is requesting additional appropriations for an emergency Portal Park Tree Removal. A redwood tree, approximately 100 ft. tall, had grown over the property line and was damaging the neighbor's fence. Previously the resident had replaced their fence and gone around the tree. The tree continued to grow over the property line and lifted their fence. City staff as well as the city's tree contractor observed the tree and determined that there

was a health issue with the tree, and recommended removal. Tree removal has been completed during third quarter.

*Public Works – Civic Center Tree Grates Replacement*

Staff is requesting additional appropriations for Civic Center Tree Grate Replacements. The Civic Center Plaza has tree grates that are broken and/or warped and need to be replaced to reduce possible safety hazards. If not approved, residents will face possible tripping and safety hazards.

*Public Works – McClellan Ranch Park Entrance Sign Replacement*

Staff is requesting additional appropriations for McClellan Ranch Preserve Park Entrance Sign Replacement. The current park sign is more than 30 years old. The wood is degrading and is failing. If not approved, there will be no signs to identify the site for people visiting the park.

*Public Works – Defund of Various Projects*

Staff is requesting to defund various projects due to successful completion, completion under budget, or project being moved to another department. For a detailed list of projects being defunded, please refer to Attachment E.

**Fund Balance**

As of third quarter, staff anticipate the General Fund will end FY 2024-25 with \$150.6 million in fund balance, a decrease of \$2.2 million from the mid-year projection of \$152.8. The decrease is primarily due to the funding of the City Enterprise Resource Planning (ERP) software of \$2.5 million. It is important to note that the only portion available for use, according to City policy, is unassigned funds. Committed funds, such as the Committed for Future Use reserve are set aside for specific purposes determined by City Council resolution. Restricted funds, such as the Section 115 Pension Trust, are allocated for specific purposes stipulated by external resource providers. Assigned funds are reserved for encumbrances. Of the total fund balance, \$26.4 million is unassigned and available to be used.

Approximately \$10.7 million of unassigned fund balance is attributed to Vallco Town Center plan check and building inspection revenues that were carried over. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized.

## General Fund Classification of Fund Balance

	Actual	Actual	Adopted	1st Quarter	Mid-Year Year	3rd Quarter Year
Classification	2022-23	2023-24	Budget 2024-25	Projection 2024-25	End Projection 2024-25	End Projection 2024-25
Non Spendable	\$ 0.9	\$ 3.4	\$ 0.4	\$ 4.7	\$ 3.4	\$ 3.4
Restricted	20.7	23.3	20.7	20.7	20.7	22.1
Committed	34.1	108.6	99.0	31.1	98.6	98.6
Assigned	9.7	4.7	7.0	7.0	4.7	-
Unassigned	73.1	26.0	23.6	106.2	25.3	26.4
<b>TOTAL FUND BALANCE</b>	<b>\$ 138.6</b>	<b>\$ 166.1</b>	<b>\$ 150.8</b>	<b>\$ 169.8</b>	<b>\$ 152.8</b>	<b>\$ 150.6</b>

Per the City's Fund Balance Policy, unassigned fund balance over \$500,000 is to be used in the following order to replenish committed/restricted fund balances with any remaining balances to be placed in the Capital Reserve:

1. Economic Uncertainty Reserve
2. For Future Use
3. CalPERS Reserve (Section 115 Pension Trust)
4. Sustainability Reserve
5. Unassigned

As of third quarter, all priority areas in the General fund are fully funded.

### Staffing

As of March 31, 2025, the FY 2024-25 Amended Budget includes a total of 207 full-time equivalent (FTE) positions. No changes are recommended in the third quarter.

### City Manager Discretionary Fund

In the FY 2024-25 Adopted Budget, City Council approved \$50,000 in funding for the City Manager Discretionary Fund. The quarterly financial reports will detail the City Manager's use of the discretionary fund and may include recommendations to replenish depending on the extent and nature of use. As of March 31, 2025, the City Manager's Discretionary Fund was used for the End of Year Townhall and Lawrence-Mitty encampment cleanup.

### Special Projects

The quarterly financial reports provide a status update on special projects, including the budget, amount spent, and estimated completion date. See Attachment F for FY 2024-25 special projects as of March 31, 2025. This quarterly report only reflects changes made to special projects as defined in the City Council Special Project Policy.

## Grants

Staff provides updates on the status of grants as part of the quarterly financial reports. As mentioned in the First Quarter financial staff report, staff will begin to provide updates only on active grants and any completed projects for which funding is yet to be received. Active grants have not yet been fully closed out with the granting agency. Previously, staff reported on grants that have also been closed out. Staff now provides information on the granting agency, grant amount spent, and grant amount remaining.

Below is a high-level summary of the grant tracking document. Please refer to Attachment G for complete grant tracking updates.

	Competitive Grants	Non-Competitive Grants
Active Grants	18	15
Pending Results	0	0
Total Grant Dollars Awarded	\$30,223,418	\$2,926,097

Staff will continue to provide additional updates on the status of grants as part of the quarterly financial reports.

## Capital Improvement Program

The quarterly financial reports provide a revised estimate and update on Capital Improvement Program (CIP) projects. As of third-quarter, the Public Works Department is not requesting any revisions to the capital budget. See Attachment H for the status of projects.

## Proposed Budget Changes

### Vacancy Reporting

On September 22, 2024, Assembly Bill 2561 ("AB 2561") was signed into law to amend the Meyers-Milias-Brown Act ("MMBA") and create a new obligation for public agencies to publicly address the status of their vacancies. AB 2561 requires public agencies to present the status of their vacancies in a public hearing before their governing body at least once per fiscal year. This section is in compliance with AB 2561. This item was agendaized for the May 6, 2025, Council meeting but was postponed to May 15, 2025.

### Budget Format Changes

Administrative Services staff was able to implement 17 of the 33 recommendations in the Budget Implementation Action Plan.

### Capital Improvement Plan

Public Works staff has brought forward potential Capital Improvement Projects to City Council in April and May 2025. Project will again be reviewed at the FY 2025-26 Proposed Budget Study Session in May 2025, for inclusion in the FY 2025-26 Final Budget Hearing

and Adoption in June 2025. In addition, a discussion on CIP defunding is set for May 15, 2025.

### **Other Budget Items**

As part of the Budget Format Implementation Action Plan presented to City Council in March 2025, the creation of a Special Projects Policy was identified as a top priority. Accordingly, City Council adopted the Special Projects Policy at this meeting which is included in the financial policies section on the City's website.

Additionally, a reorganization took place late in the third quarter transferring out both Economic Development and Office of Emergency Management from the City Manager's Office to Community Development and Parks and Recreation. This reorganization places each division within departments that are better suited to support their respective functions.

### Sustainability Impact

No sustainability impact.

### Fiscal Impact

The Third Quarter Financial Report shows the City is positioned as anticipated. City staff recommends adjustments of \$5,411,435 in revenues and a net decrease of \$(157,425) in appropriations. The City will continue to monitor its revenue and expenditure trends closely to ensure it remains on track toward achieving its budgetary goals and objectives.

### City Work Program (CWP) Item:

No.

### CWP Item Description:

Not applicable.

### Council Goal:

Public Engagement and Transparency  
Sustainability and Fiscal Strategy

### California Environmental Quality Act

Not applicable.

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Prepared by: Toni Oasay-Anderson, Acting Budget Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Tina Kapoor, Acting City Manager



Attachments:

A – FY 2024-25 Third Quarter Financial Report

B – Draft Resolution

C – Description of Budget Transfers as of March 31, 2025

D – Description of Carryovers and Adjustments as of March 31, 2025

E – FY 2024-25 Third Quarter Recommended Adjustments

F – FY 2024-25 Mid-Year Special Projects Update as of March 31, 2025

G – Competitive and Non-Competitive Citywide Grants Tracking

H – Capital Improvement Program Project Status