



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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CITY COUNCIL STAFF REPORT

Meeting: May 19, 2026

Subject

Acceptance of the City Manager's Third Quarter Financial Report for Fiscal Year 2025-26; Budget Modification increasing appropriations by \$526,184 and increasing estimated revenues by \$372,500.

Recommended Action

1. Accept the City Manager's Third Quarter Financial Report for Fiscal Year 2025-26
2. Adopt Resolution No. 26-XXX approving Budget Modification No. 2526-443, increasing appropriations by \$526,184 and increasing estimated revenues by \$372,500; and
3. Adopt Resolution No. 26-XXX amending the Unrepresented Employees' Compensation Program to incorporate revised salary schedule.

Executive Summary

The Third-Quarter Financial Report for Fiscal Year (FY) 2025-26 outlines the City's financial status as of March 31, 2026.

The FY 2025-26 Amended Budget as of March 31, 2026, is \$229.7 million across all funds, increasing from an adopted budget of \$136.1 million due to carryovers and encumbrances from the last fiscal year, in addition to Council-approved budget adjustments in the first three quarters of the fiscal year.

As of Third Quarter FY 2025-26, revenue was \$2.5 million, or 3%, lower than Third Quarter 2024-25, primarily due to a combination of the lingering effects of the CDTFA settlement agreement and the timing of payments related to the City's tax sharing agreements and associated rebates paid during the comparable period. Third Quarter expenditures were \$0.5 million, or 1% lower 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 this Third Quarter report include the following proposed budget adjustments:

- Funding for City Attorney Contract Services
- Funding for bank charges and credit card fees (with offsetting revenue)
- Funding for on-call contracts and environmental review contracts (with offsetting revenue)

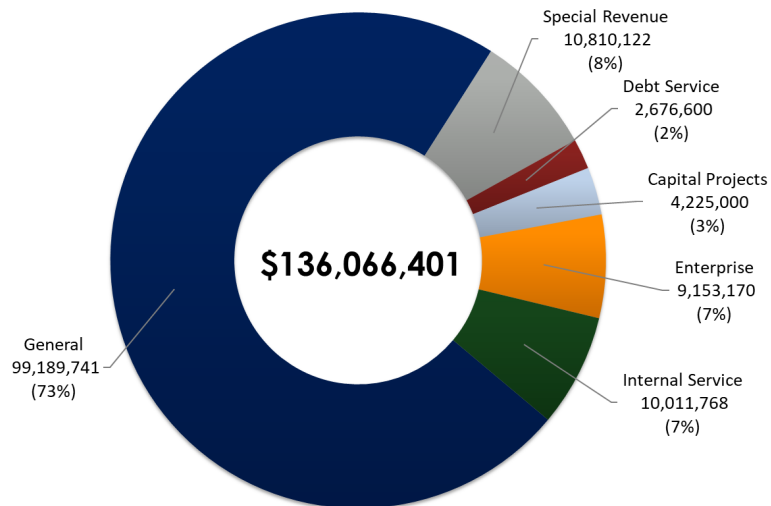
Reasons for Recommendation

Background

On June 3, 2025, the City Council adopted the FY 2025-26 Adopted Budget, a \$136.1 million spending plan funded by \$133.7 million in revenue, and \$2.4 million in use of fund balance. The adopted budget reflected a \$68,966 increase from the proposed budget as illustrated below.

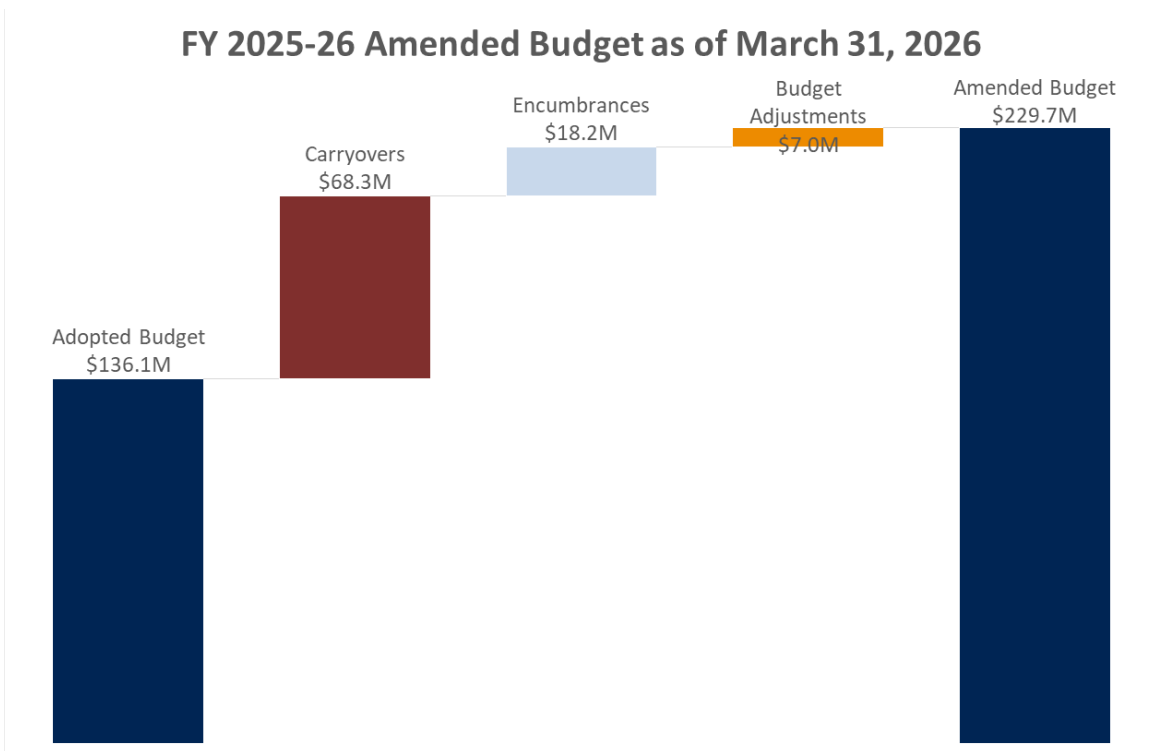
Budget Actions	Amount
Proposed Budget & Capital Improvement Program (Including Transfers)	\$ 135,997,435
Final Budget Hearing & Adoption Operating Changes	68,966
FY 2025-26 Adopted Budget	\$ 136,066,401

**FY 2025-26 Adopted Budget
Expenditures by Fund**



Third-Quarter Summary of Budget Adjustments by Fund

Fund	FY 2025-26			Adjustments	
	Adopted Budget	Carryovers	Encumbrances	Approved in 1st, 2nd and 3rd Quarters	FY 2025-26 Amended Budget as of March 31, 2026
General	99,189,741	28,105,391	7,162,543	3,983,189	138,440,864
Special Revenue	10,810,122	17,269,837	1,604,982	135,181	29,820,122
Debt Service	2,676,600	-	-	-	2,676,600
Capital Projects	4,225,000	22,691,140	8,198,536	2,538,284	37,652,960
Enterprise	9,153,170	181,612	535,558	123,005	9,993,345
Internal Service	10,011,768	96,963	712,952	264,688	11,086,371
Total All Funds	\$ 136,066,401	\$ 68,344,943	\$ 18,214,571	\$ 7,044,347	\$ 229,670,262



Discussion

The Third Quarter Financial Report, reported as of March 31, 2026, 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.

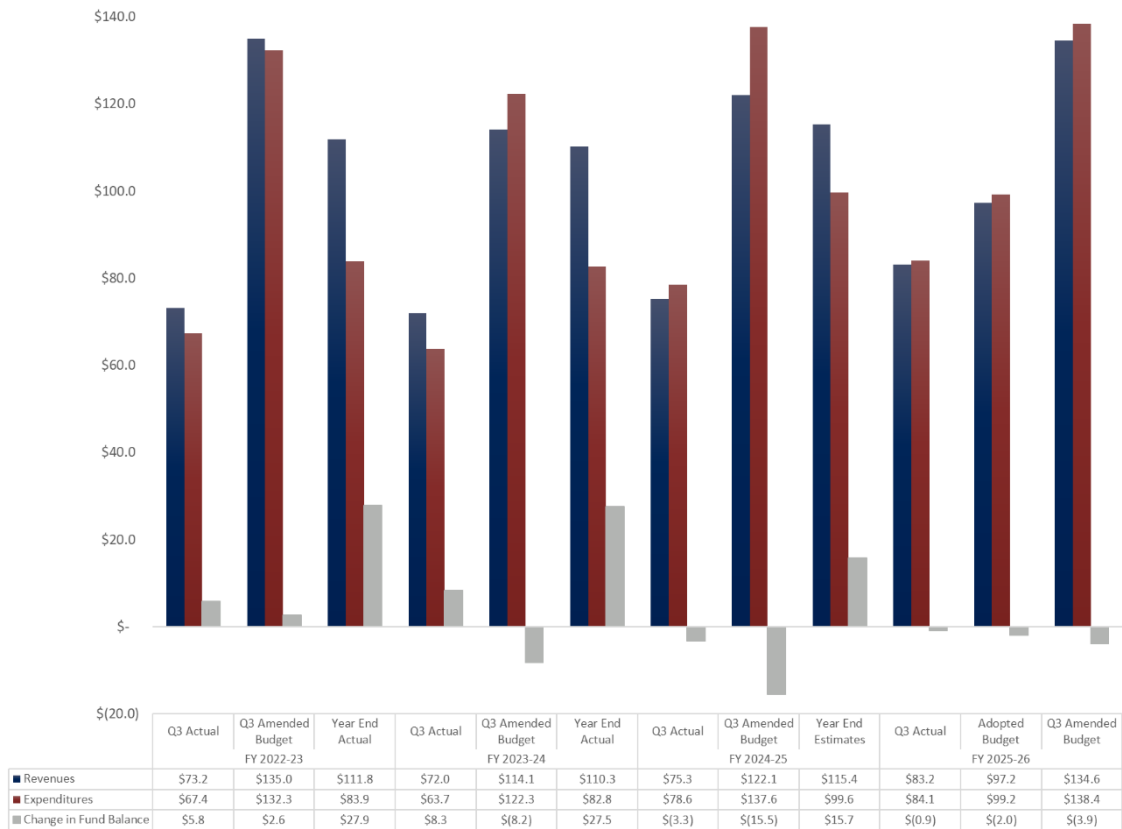
The City will continue to closely monitor revenue and expenditure trends in the coming months. This ongoing analysis is critical to ensuring that the City's budget remains responsive to the needs of its constituents and is aligned with the City's goals and objectives. By proactively managing its budget, 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 2026-27 Proposed Budget. Please refer to pages 51-78 of the FY 2026-27 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.

General Fund Revenue

The following table shows the differences between General Fund revenues as of the third quarter in the current fiscal year and the prior fiscal year.

**Comparison of FY 2024-25 and FY 2025-26 Third Quarter Revenues
General Fund**

Revenue Category	Third Quarter		Variance (\$)	Variance (%)
	2025	2026		
05 - Sales tax	16,054,865	12,493,796	(3,561,069)	-22%
10 - Property tax	20,752,532	21,300,606	548,074	3%
15 - Transient occupancy	4,226,041	4,425,328	199,287	5%
20 - Utility tax	2,859,665	2,921,800	62,135	2%
25 - Franchise fees	1,883,406	2,071,281	187,876	10%
30 - Other taxes	1,343,057	1,240,600	(102,458)	-8%
35 - Licenses and permits	4,244,586	4,679,031	434,445	10%
40 - Use of money and property	7,410,031	6,406,916	(1,003,115)	-14%
45 - Intergovernmental revenue	2,252,813	4,611,121	2,358,308	105%
50 - Charges for services	11,026,826	10,842,374	(184,452)	-2%
55 - Fines and forfeitures	219,957	210,444	(9,513)	-4%
60 - Miscellaneous	1,690,550	1,519,590	(170,960)	-10%
65 - Transfers in	15,000	15,000	-	0%
70 - Other financing sources	1,338,475	99,118	1,331,275	99%
Total	75,317,805	72,837,005	\$ (2,480,800)	-3%

Revenues in the General Fund decreased by \$2.5 million, or 3%, when compared to the same time last year. The major drivers for the \$2.5 million variance in General Fund revenues are attributed to decreases in Sales Tax and Use of Money and Property, offset by increases in Intergovernmental Revenue and Other Financing Sources. These major variance categories will be discussed in further detail below.

Sales Tax revenue as of third quarter is \$12.5 million, which is a 22% decrease from the previous year. This decline is due to a combination of the lingering effects of the CDTFA

settlement agreement and the timing of payments related to the City's tax sharing agreements and associated rebates paid during the comparable period.

Property Tax revenue is higher than last year by approximately \$548,100, or 3%. According to the HdL, the City's property tax consultant, the citywide growth in value in the 2025-26 assessment roll is \$1.21 billion, an increase of 3.6%. This is in comparison to the positive increase in 2024-25 tax year of \$1.4 billion for an increase of 4.4%. The bulk of the increase was due to increases in residential properties by \$1.4 billion, or 6.4%. This category makes up 64.8% of the net taxable value. Unsecured property tax decreased by \$229.3 million, or 21.2%. This category makes up 2.4% of the net taxable value. Lastly, commercial property values increased by \$49.8 million, or 0.5%. This category makes up 26.9% of the net taxable value.

Use of Money and Property decreased by approximately \$1.0 million, or 14%, 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 the prior third-quarter period FY 2024-25.

Intergovernmental Revenue increased by \$2.4 million, or 105%, over the same period last year primarily due to the receipt of a \$3.7 million transportation grant from Apple.

Other Financing Sources decreased by \$1.3 million, or 99%, due to revenues received from the sale of the Byrne property in the prior third quarter period.

The remaining revenue categories of transient occupancy tax, utility tax, franchise fees, other taxes, licenses and permits, charges for services, fines and forfeitures, miscellaneous, and transfers in have nominal change or remain relatively consistent with the prior third-quarter period.

General Fund Expenditures

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 2024-25 and FY 2025-26 Third Quarter Expenditures
General Fund**

Expenditure Category	Third Quarter		Variance (\$)	Variance (%)
	2025	2026		
05 - Employee compensation	15,188,016	16,014,569	826,553	5%
10 - Employee benefits	17,717,676	7,122,462	(10,595,214)	-60%
15 - Materials	4,133,926	4,070,628	(63,298)	-2%
20 - Contract services	20,760,826	22,589,036	1,828,210	9%
25 - Cost allocation	7,978,935	8,323,844	344,909	4%
30 - Capital outlays	32,349	80,484	48,135	149%
31 - Special projects	728,275	5,760,913	5,032,639	691%
35 - Contingencies	13,617	9,850	(3,767)	N/A
45 - Transfer out	11,504,732	13,225,753	1,721,021	15%
50 - Other financing uses	537,572	886,722	349,150	65%
Total	\$ 78,595,924	\$ 78,084,261	\$ (511,663)	-1%

Expenditures in the General Fund decreased by \$0.5 million, or 1%, when compared to the same time last year. The major drivers for the \$0.5 million variance in General Fund expenditures are attributed to a decrease in Employee Benefits, offset by increases in Special Projects, Contract Services, Transfers Out, and Employee Compensation. These major variance categories will be discussed in further detail below.

Salary increased by approximately \$0.8 million, or 5%, from the previous third quarter period due to vacancy savings in the prior year and negotiated cost of living adjustments

Benefits decreased by approximately \$10.6 million, or 60%, primarily due to a City Council approved one-time \$10.0 million Additional Discretionary Payment to CalPERS to address the City’s Unfunded Accrued Liability retirement costs in the prior third-quarter period.

Contract Services increased by approximately \$1.8 million, or 9%, primarily driven by outsourcing legal services, law enforcement contract costs, and community shuttle rate increases and increased ridership.

Special Projects increased by approximately \$5.0 million, or 691%, primarily due to the I-280/Wolfe Rd Interchange Improvement project and fluctuations in one-time expenditures. It’s important to note that staff has not adjusted projects in this category to align with the Special Project policy thus expenses in this category include all special projects, including development and City Work Program items.

Transfers Out increased by approximately \$1.7 million, or 15%, primarily due to an increase in transfers to restart annual Capital Reserve funding transfer. 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 \$0.3 million, or 65%, due to a higher volume of on-call contracts in the Community Development Department for plan reviews and inspections, and an increase in special contracts for current planning. Special contracts are for larger special projects or specialized tasks outside the scope of on-call agreements.

The remaining expenditure categories of materials, cost allocation, and contingencies have nominal change or remain relatively consistent with the prior third-quarter period.

Special Revenue Funds

Revenue

Special Revenue Funds revenue is \$1.4 million, or 13%, lower than the same time last year, primarily due to a decrease in Other Taxes, Use of Money and Property, and Transfers In.

Comparison of FY 2024-25 and FY 2025-26 Third Quarter Revenues Special Revenue Funds

Revenue Category	Third Quarter		Variance (\$)	Variance (%)
	2025	2026		
30 - Other taxes	815,650	270,897	(544,754)	-67%
40 - Use of money and property	1,454,631	925,952	(528,678)	-36%
45 - Intergovernmental revenue	4,681,803	4,952,705	270,902	6%
50 - Charges for services	987,472	964,876	(22,596)	-2%
55 - Fines and forfeitures	800	208	(592)	N/A
60 - Miscellaneous	2,700	1,337	(1,363)	-50%
65 - Transfers in	2,595,150	2,067,000	(528,150)	-20%
Total	\$ 10,538,206	\$ 9,182,975	\$ (1,355,231)	-13%

Other Taxes decreased by approximately \$545,000, or 67%, primarily due to less Housing Mitigation and Park Ded Tax Zone 1.

Use of Money and Property decreased by approximately \$529,000, or 36%, primarily due to the mark-to-market adjustment, mirroring the impact seen in the General Fund.

Intergovernmental Revenue increased by approximately \$271,000, or 6%, due primarily to Measure B Transportation fund street pavement maintenance.

Charges for services decreased by approximately \$23,000, or 2%, primarily due to less engineering fees revenues received for traffic impact.

Fines and forfeitures and *Miscellaneous* revenues were relatively unchanged from the prior third quarter period.

Transfers In decreased by approximately \$528,000, or 20%, due to decreased transfers in from general fund for roadway safety improvements, Bollinger Road corridors and non-departmental for Bridge rehab minor.

Expenditures

Special Revenue Funds expenditures are \$3.1 million, or 35%, lower than the same time last year due primarily to decrease in special projects and employee benefits.

**Comparison of FY 2024-25 and FY 2025-26 Third Quarter Expenditures
Special Revenue Funds**

Expenditure Category	Third Quarter 2025	Third Quarter 2026	Variance (\$)	Variance (%)
05 - Employee compensation	1,118,633	1,151,139	32,506	3%
10 - Employee benefits	646,257	551,363	(94,893)	-15%
15 - Materials	372,628	358,917	(13,711)	-4%
20 - Contract services	288,304	326,109	37,805	13%
25 - Cost allocation	1,522,541	1,507,987	(14,554)	-1%
30 - Capital outlays	1,288,775	1,473,094	184,320	14%
31 - Special projects	2,910,196	144,103	(2,766,093)	-95%
35 - Contingencies	-	-	-	N/A
45 - Transfer out	708,000	221,032	(486,968)	-69%
Total	\$ 8,855,333	\$ 5,733,744	\$ (3,121,589)	-35%

Salaries increased by approximately \$32,500, or 3%, due to an increase in salaries and overtime.

Benefits decreased by approximately \$94,900 or 15%, from last year due to decreases in health care premiums and retirement costs.

Materials decreased by approximately \$13,700, or 4%, due to decreases in grants expenditures.

Contract Services increased by approximately \$37,800, or 13%, primarily due to annual sidewalk curb and gutter maintenance.

Cost Allocation decreased by approximately \$14,600, or 1%, primarily due to increased Innovation & Technology reimbursements and Human Resources CAP Charges.

Capital Outlays increase by approximately \$184,300, or 14%, due to increases in SB1 Road projects.

Special Projects decreased by approximately \$2,766,100, or 95%, primarily due to the annual asphalt project.

Transfers Out increased by \$487,000, or 69%, due to increased transfers to the General Fund.

Debt Service Funds

Revenue

Debt Service Funds revenue is similar to last year.

**Comparison of FY 2024-25 and FY 2025-26 Third Quarter Revenue
Debt Service Funds**

Revenue Category	Third Quarter		Variance (\$)	Variance (%)
	2025	2026		
65 - Transfers in	2,676,200	2,676,600	400	0%
	\$ 2,676,200	\$ 2,676,600	\$ 400	0%

Expenditures

Debt Service Funds expenditures are similar to last year.

**Comparison of FY 2024-25 and FY 2025-26 Third Quarter Expenditures
Debt Service Funds**

Expenditure Category	Third Quarter	Third Quarter	Variance (\$)	Variance (%)
	2025	2026		
20 - Contract services	1,500	1,500	-	0%
40 - Debt services	280,600	238,300	(42,300)	-15%
Total	\$ 282,100	\$ 239,800	\$ (42,300)	-15%

Capital Projects Funds

Revenue

Capital Projects Funds revenue is lower than last year primarily due to less transfers in.

**Comparison of FY 2024-25 and FY 2025-26 Third Quarter Revenues
Capital Projects Funds**

Revenue Category	Third Quarter	Third Quarter	Variance (\$)	Variance (%)
	2025	2026		
40 - Use of money and property	657,685	-	(657,685)	-100%
45 - Intergovernmental revenue	190,854	212,230	21,376	11%
65 - Transfers in	12,548,000	6,744,316	(5,803,684)	-46%
Grand Total	\$ 13,396,539	\$ 6,956,546	\$ (6,439,993)	-48%

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 \$7.1 million, or 62%, lower 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 2024-25 and FY 2025-26 Third Quarter Expenditures
Capital Projects Funds**

Expenditure Category	Third Quarter	Third Quarter	Variance (\$)	Variance (%)
	2025	2026		
20 - Contract services	9,690	41,676	31,986	330%
30 - Capital outlays	3,031,428	2,372,608	(658,820)	-22%
45 - Transfer out	8,547,580	2,038,284	(6,509,296)	-76%
Grand Total	\$ 11,588,698	\$ 4,452,568	\$ (7,136,130)	-62%

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 \$670,000 or 14%, higher than the same time last year due primarily to an increase in service fee charges.

Comparison of FY 2024-25 and FY 2025-26 Third Quarter Revenues Enterprise Funds

Revenue Category	Third Quarter 2025	Third Quarter 2026	Variance (\$)	Variance (%)
40 - Use of money and property	629,731	455,748	(173,983)	-28%
45 - Intergovernmental revenue	-	15,078	15,078	N/A
50 - Charges for services	3,645,433	3,755,303	109,870	3%
55 - Fines and forfeitures	200	-	(200)	-100%
60 - Miscellaneous	-	1	1	N/A
65 - Transfers In	514,000	1,235,000	721,000	140%
70 - Other Financing Sources	1,950	-	(1,950)	-100%
Total	\$ 4,791,314	\$ 5,461,129	\$ 669,815	14%

Use of Money and Property decreased by approximately \$174,000, or 28%, primarily due to decreased in the Mark-to-Market adjustment.

Charges for services increased by approximately \$110,000, or 3%, primarily due to an increase in engineering fees.

Transfers In increased by approximately \$721,000, or 140%, due to transfers from the General Fund.

Expenditures

Enterprise Funds expenditure is \$0.3 million, or 5%, lower than the same time last year due primarily to a decrease in contract services, capital outlay and special projects.

**Comparison of FY 2024-25 and FY 2025-26 Third Quarter Expenditures
Enterprise Funds**

Expenditure Category	Third Quarter		Variance (\$)	Variance (%)
	2025	2026		
05 - Employee compensation	1,323,227	1,323,357	130	0%
10 - Employee benefits	591,655	512,212	(79,443)	-13%
15 - Materials	322,828	399,895	77,067	24%
20 - Contract services	1,741,110	1,579,931	(161,180)	-9%
25 - Cost allocation	1,183,073	1,234,922	51,849	4%
30 - Capital outlays	-	-	-	0%
31 - Special projects	203,257	29,204	(174,053)	-86%
Grand Total	\$ 5,365,150	\$ 5,079,520	\$ (285,629)	-5%

Salaries is relatively unchanged from last year.

Benefits decreased by approximately \$79,000, or 13%, primarily due to health insurance premiums and retirement costs.

Materials increased by approximately \$77,000, or 24%, primarily due to electrical; service and Cal Recycle payment program administration expenses.

Contract Services decreased by approximately \$161,000, or 9%, primarily due to the restructuring of the Lifetime Tennis contract at the Sports Center.

Cost Allocation increased by approximately \$52,000, or 4%, primarily due to increased City Manager, Innovation & Technology and Finance CAP.

Special Projects decreased by approximately \$174,000, or 86%, due to projects that differ in scope and timing from year to year.

Internal Service Funds

Revenue

Internal Service Funds revenue is \$773,500, or 12%, higher than the same time last year due to increased charges for services and transfers in.

**Comparison of FY 2024-25 and FY 2025-26 Third Quarter Revenues
Internal Service Funds**

Revenue Category	Third Quarter	Third Quarter	Variance (\$)	Variance (%)
	2025	2026		
40 - Use of money and property	250,685	193,632	(57,054)	-23%
50 - Charges for services	3,603,876	4,060,471	456,596	13%
60 - Miscellaneous	75	4,295	4,220	5627%
65 - Transfers in	2,411,962	2,747,153	335,191	14%
70 - Other financing sources	380,593	415,146	34,553	8%
Total	\$ 6,647,191	\$ 7,420,697	\$ 773,506	12%

Use of Money and Property decreased by approximately \$57,000, or 23%, due to decrease interest earnings from the City’s mark-to-market adjustments.

Charges for Services increased by approximately \$457,000, or 13%, primarily due to Innovation Technology and Public Works related Cost Allocation charges.

Transfers In increased by approximately \$335,000, or 14%, due to increased transfers from the General Fund to the Innovation & Technology and Compensated Absences Fund.

Other Financing Sources increased by about \$35,000, or 8% due to workers compensation charges being billed to departments and received as revenue in this fund.

Expenditures

Internal Service Funds expenditures are approximately \$980,000, or 17%, higher than the same time last year due primarily to an increase in cost allocation, materials, special project, and employee benefits offset by decreases in contract services.

**Comparison of FY 2024-25 and FY 2025-26 Third Quarter Expenditures
Internal Service Funds**

Expenditure Category	Third Quarter	Third Quarter	Variance (\$)	Variance (%)
	2025	2026		
05 - Employee compensation	1,178,771	1,329,870	151,099	13%
10 - Employee benefits	1,684,566	1,909,280	224,714	13%
15 - Materials	817,440	1,046,794	229,355	28%
20 - Contract services	1,603,654	1,303,686	(299,968)	-19%
25 - Cost allocation	228,344	653,886	425,542	186%
31 - Special projects	261,713	509,190	247,476	95%
Grand Total	\$ 5,774,489	\$ 6,752,706	\$ 978,218	17%

Salary increased by approximately \$151,000, or 13%, due to an increase in full-time salaries.

Benefits increased by approximately \$225,000, or 13%, primarily due to health insurance premiums and retirement costs.

Materials increased by \$229,000, or 28%, mainly due to a decrease in small tools and equipment costs.

Contract Services decreased by approximately \$300,000, or 19%, largely due to less contracted services and insurance.

Cost Allocation increased by approximately \$426,000, or 186%, primarily due to City Manager, City Attorney and Finance related CAP charges.

Special Projects increased by approximately \$247,000, or 95%, due to projects that differ in scope and timing from year to year.

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
GENERAL FUND					
100 General Fund	Administration	-	175,000	(175,000)	CAO Contract Services
	Administration	-	15,696	(15,696)	Sr. Asst. City Attorney salary alignment to Dept. Director - Retro to Jan 2026
100 General Fund	Community Development	-	150,000	(150,000)	Bank Fees
100 General Fund	Community Development	200,000	-	200,000	Credit Card Transaction Fees
100 General Fund	Community Development	-	25,000	(25,000)	Contracts awarded to grant recipients for FY26
100 General Fund	Community Development	-	150,000	(150,000)	Environmental Review Contracts
100 General Fund	Community Development	-	3,000	(3,000)	Advertising and Legal Notices
100 General Fund	Community Development	172,500	-	172,500	Refundable Deposit On-Call Contracts
	TOTAL GENERAL FUND	372,500	518,696	(146,196)	
610 Innovation & Technology	Innovation & Technology	-	7,488	(7,488)	GIS - Wordly
	TOTAL ENTERPRISE FUNDS	-	7,488	(7,488)	
TOTAL ALL FUNDS		\$ 372,500	\$ 526,184	\$ (153,684)	

Administration – City Attorney’s Office (CAO) – Contract Services

Staff is requesting \$175,000 for Legal Services as costs have increased due to unique circumstances, including various personnel matters, a City-sponsored affordable housing project which has led to litigation, a development project involving novel CEQA exemption issues, builder’s remedy cases and anticipated responses to a recently released Grand Jury Report.

Administration – City Attorney’s Office (CAO) – Senior Assistant City Attorney Salary Alignment to Department Director – effective January 1, 2026.

Staff is requesting an increase to salaries and benefits beginning January 1, 2026, through the remainder of Fiscal Year 2026 in the amount of \$15,696 to align the salary of the Senior Assistant City Attorney. This alignment reflects the elevation of that classification as a member of the City’s Executive Management Team and increased responsibilities including review and revision of department staff reports, review of an increasing volume of Public Records Act requests, increased work on special complicated projects such as interagency agreements and appointment as the Board member to PLAN and its concomitant responsibilities in risk and insurance management. This alignment will result in an ongoing expense of approximately \$31,391 for future fiscal years.

Innovation and Technology – GIS - Wordly

Staff is requesting an approval of an annual cost of \$7,488 for this proposal to ensure compliance with Senate Bill (SB) 707 language accessibility requirements by providing real-time translation for Chinese-speaking residents at City Council meetings. It improves transparency and civic participation, reduces staff workload and meeting-related risks, and clearly demonstrates the City's commitment to equity, inclusion, and accessible public engagement.

CDD & P&R – Bank Charges and Credit Card Fees

Staff is requesting \$150,000 in additional appropriations for bank charges, offset by \$200,000 in revenues from credit card transaction fees. This is needed to correct budget line items omitted from the base budget. If this request is not approved, the revenues and expenditures will not be correctly reflected in the department budget.

CDD – Human Services Grant Program

Staff is requesting \$25,000 in additional appropriations for the GF Human Services Grant Program (HSG). This is needed to meet the funding recommendations awarded to the applicants of the HSG program. If this request is not approved the grant recipients won't receive the funding needed for their public service activities.

CDD – Refundable Deposit Contract - Environmental Review

Staff is requesting \$150,000 in additional appropriations for On-Call Contracts and Special Contracts related to CEQA environmental review. This is needed due to an increase in contracts for large residential development projects utilizing Assembly Bill (AB) 130, a new State law created to accelerate housing development by streamlining approvals, creating exemptions from CEQA for infill projects, and making housing law reforms permanent. AB 130 streamlines development by reducing CEQA burdens and requires that the City act within a shorter timeframe than most other projects. As these tasks are time sensitive, not conducting them would put the City at risk of violating the mandated State timelines.

Commissions – Planning Commission – Advertising & Legal Notices

Staff is requesting \$3,000 in additional appropriations for Advertising and Legal Notices. This is needed because more hearings were required, which necessitated more advertising and legal noticing than was anticipated at the beginning of the year.

Fund Balance

The General Fund's audited ending fund balance for FY 2024-25 is \$181.8 million, a 15.7 million increase from FY 2023-24 actuals primarily due to the prior year ending with expenditure savings that outpaced revenue decreases. Expenditure savings were primarily because of salary and contract savings along with increased revenues across almost all revenue categories, primarily due to increased investment earnings.

As of third quarter, staff anticipate the General Fund will end FY 2025-26 with \$178.0 million in fund balance, an increase of \$22.0 million from the FY 2025-26 Adopted Budget fund balance projection. The increase from the Adopted Budget is a result of both year-end revenues exceeding expenditures and budget savings achieved in the prior fiscal year. It's important to note that the only portion available for use, according to City policy, is unassigned funds. Committed funds 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, \$63.5 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 (\$ in millions)

Classification	Actual		Adopted Budget	1st Quarter Year End		Mid-Year Year End		Third Quarter Year	
	2023-24	2024-25	2025-26	Projection		Projection		End Projection	
				2025-26	2025-26	2025-26	2025-26	2025-26	2025-26
Non Spendable	\$ 3.4	\$ 4.0	\$ 3.5	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0
Restricted	23.3	25.8	22.1	24.8	24.8	25.8	24.3	24.3	24.3
Committed	108.6	88.6	87.2	88.6	86.1	86.1	86.1	86.1	86.1
Assigned	4.7	7.3	-	-	-	-	-	-	-
Unassigned	26.0	56.1	43.3	65.5	62.7	62.7	63.5	63.5	63.5
TOTAL FUND BALANCE	\$ 166.1	\$ 181.8	\$ 156.0	\$ 183.0	\$ 178.7	\$ 178.7	\$ 178.0	\$ 178.0	\$ 178.0

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, 2026, the FY 2025-26 Amended Budget includes a total of 211 full-time equivalent (FTE) positions. No changes are recommended in the third quarter.

City Manager Discretionary Fund

In the FY 2025-26 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, 2026, the City Manager’s Discretionary Fund has been used for Property Appraisal Services for 10480 Finch Avenue at a cost of \$9,850.

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 2025-26 special projects as of March 31, 2026. 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 and a count of pending potential awards including a combined state budget request, a single federal budget request and 3 standard competitive proposal processes. Please refer to Attachment G for complete grant tracking updates.

	Competitive Grants	Non-Competitive Grants
Active Grants	15	17
Applications Submitted Awaiting Possible Award	5	0
Total Grant Dollars Awarded	\$29,176,392	\$3,394,360

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.

Capital Improvement Plan

Public Works staff has brought forward potential Capital Improvement Projects to City Council in March 2026. Projects will again be reviewed at the FY 2026-27 Proposed Budget Study Session in May 2026, for inclusion in the FY 2026-27 Final Budget Hearing and Adoption in June 2026.

Sustainability Impact

No sustainability impact.

Fiscal Impact

The Third Quarter Financial Report shows the City is positioned as anticipated. City staff recommends adjustments of \$526,184 in new appropriations, funded by \$372,500 in revenues and \$153,684 in one-time fund balance. 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/ Description:

Not applicable.

Council Goal:

Public Engagement and Transparency, Fiscal Strategy

California Environmental Quality Act

Not applicable.

Prepared by: Toni Oasay-Anderson, Acting Budget Manager

Reviewed by: Jonathan Orozco, Acting Director of Administrative Services

Approved for Submission by: Tina Kapoor, City Manager

Attachments:

A – FY 2025-26 Third Quarter Financial Report

B – Draft Resolution

C – Description of Budget Transfers as of March 31, 2026

D – Description of Carryovers and Adjustments as of March 31, 2026

E – FY 2025-26 Third Quarter Recommended Adjustments

F – FY 2025-26 Third Quarter Special Projects Update as of March 31, 2026

G – Competitive and Non-Competitive Citywide Grants Tracking

H – Capital Improvement Program Project Status

I – Draft Resolution – Unrepresented Employees’ Compensation Program

J - Amendments to the Unrep Employees’ Compensation Program (clean)

K - Amendments to the Unrep Employees’ Compensation Program (redline)