



## Council Agenda Correspondence

**DATE:** November 4, 2025

**TO:** Mayor and Council

**FROM:** Emily Jackson, Director of Finance  
Prepared By: Riley Kuhn, Principal Budget Analyst

**VIA:** Whitney McDonald, City Manager

**SUBJECT:** ITEM #6A - FISCAL YEAR 2024-25 YEAR END BUDGET REPORT

Staff received the following questions regarding the Fiscal Year 2024-25 Year End Budget Report. The questions are below with staff's response shown in italics:

- 1) On page 101, the report references a reduction in business tax at least partially to a local tax paying business being bought by a tax exempt entity. Can you provide more detail on this and also what the lasting impacts are predicted to be?**

*As a general rule, businesses operating in the City are subject to the local business tax equal to 0.05% of gross receipts attributable to business conducted within the City. Not for profit entities such as 501(c)(3) organizations are exempt from this tax. While acquisitions by exempt entities are rare, several large taxpaying businesses were acquired in recent years, reducing the level of business tax collections for the foreseeable future.*

- 2) Page 122/123 describes our Insurance Fund balance and policy. It appears we have a policy to maintain a fund balance of 150% of our 75% confidence level, but we are not currently at that level. Do we intend to meet our policy level in the future? What happens if we do not meet our own policy level?**

*In the last two fiscal years, the City has opted to increase its self-insurance levels, which can result in higher actuarial recommendations for reserves. A one-time transfer to achieve a higher fund balance has not yet been made. However, in recent years, the Insurance Fund has spent well below its operating budget, including savings of \$1.3M in FY 2024-25, and these unspent amounts remain in the Fund to address future expenses. Staff is currently working to develop a multi-year plan to fund the Insurance Fund at the policy-required level. Not meeting the funding level required by policy could negatively impact the City's ability to pay insurance and claim related expenses.*

- 3) Can you explain in a little more detail how Governmental Standards Accounting Board (GASB) 87 changed our reporting of lease revenue? What is meant by “the City must recognize the value of lease payments over the full term of the lease rather than only when payments are received”? Can you give some examples of where we have leases this applies to?**

*GASB 87 applies to all leases that the City holds, including but not limited to: the Garden Street lease to support construction of Hotel Cerro on land formerly used as a surface parking lot, the lease for commercial retail space located in the Marsh Street Parking Structure, leases for use of City utility poles for communications equipment, and leases for use of City property for cellular communications sites. Under GASB 87 the City must recognize income evenly over the life of a lease rather than recording the cash payments as called for in the lease agreement. This applies to a lease in the Parking Fund which calls for annual increases over the 99 year term. For accounting purposes, the total contract value is amortized over the remainder of the lease. Currently, this amortized amount is greater than cash received but as cash payments increase, it will be less than the higher cash payment.*

- 4) On page 138, it shows that our Water Fund “Other Revenue” far exceeds what was anticipated for the year, and it give some explanation as to why (investment income, some grants, etc.). If that level of revenue is not expected to continue and therefore cannot justify rate decreases, what happens to that one-time revenue? Do we save it in a reserves in case of future deficit years?**

*Investment income came in higher than expected because of strong market performance. Grant revenue was also higher since several projects received reimbursement this year instead of last year. These are one-time revenues and will stay in the Water Fund’s reserves. Keeping these funds in reserve helps maintain a strong financial position, provides protection against future shortfalls, and may help limit the need for larger rate adjustments in future years.*

- 5) Do we have any performance measures for our solid waste and recycling program? I see a couple for water and sewer, but none for that program.**

*Staff currently tracks the total number of illegal dumping incidents, compliance with State laws such as AB 341, AB 1826, and SB 1383 (including organics procurement target compliance), outreach metrics, overall waste diversion for franchised residential and commercial waste, and contamination levels in City facility containers. However, these indicators are used for internal monitoring purposes and have not been formally adopted by the City Council as performance metrics.*

**6) On page 155, I think there is a typo-- there is a number \$967,3363?**

*This number represents salary savings within the Emergency Response division of the Fire Department and should read \$967,363. This has been corrected in the document posted to the City's budget webpage.*

**7) With regard to impacts of federal shut down and grants:**

- a. On page 195 of the packet, there is a -\$742 in the FY 2025-26 "other federal grants" column. What does that mean?**

*This negative revenue represents an accounting adjustment to an ongoing Transit grant and has no operational impact. It is expected that this adjustment will be offset with revenue collections in the remainder of the year.*

- b. What is the status of our federal broadband funding? Is that in jeopardy?**

*Staff have been communicating with the California Public Utility Commission (CPUC). While there is some concern about the Federal government potentially pulling back broadband funding, staff have not seen serious efforts to do so. The CPUC's guidance is to continue moving projects forward. As a result, Information Technology and Public Works staff are completing their review of the construction plans for the City's grant funded broadband project, and plan to bring those plans to the City Council for authorization to advertise the project at the December 2, 2025 City Council Meeting. Other agencies currently under construction on their projects are experiencing delays in reimbursements due to the ongoing federal government shutdown, but staff expects these issues to be resolved once the Federal government reopens.*

**8) On page 190, there is reference to a deferred work plan item to consider a charter amendment to enable alternative capital project delivery methods. Do we have an estimated timeframe for that item? 2027-29? 2029-31?**

*This workplan item is likely recommended to be deferred to the 2029-31 Financial Plan. Alternative delivery methods are primarily intended to benefit large scale vertical construction of capital improvement projects such as the Public Safety Center and a long-term permanent Fire Station 5. The Entitlement and Design efforts for the Public Safety Center are expected to be re-initiated within that Financial Plan period.*