



Department: Finance
Cost Center: 2002
For Agenda of: 2/17/2026
Placement: Business
Estimated Time: 60 minutes

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

SUBJECT: REVIEW OF FY 2025-26 SECOND QUARTER BUDGET REPORT

RECOMMENDATION

1. Receive and file the FY 2025-26 Second Quarter Budget Report; and
2. Appropriate \$3,468,954 in FY 2024-25 unassigned fund balance as detailed in the report; and
3. Appropriate \$2,000,000 in FY 2024-25 assigned fund balance and authorize an Additional Discretionary Payment to CalPERS of \$3,506,187; and
4. Appropriate the \$20,000 National League of Cities Health and Wellbeing award of \$20,000 to the Community Development Department's non-staffing operating budget for the purchase of Tolemi BuildingBlocks software.

POLICY CONTEXT

The City's budget policies require that the City Council review the City's budget and financial condition at least every six months. City Charter Code Section 804 states that at any meeting after the adoption of the budget, the Council may amend or supplement the budget by motion adopted by a majority vote of the Council.

The second quarter budget review is part of the ongoing budget reporting and review process and fulfills these requirements. The accompanying Second Quarter Budget Report for FY 2025-26 provides a detailed review of the City's financial results as compared to budget half-way through the fiscal year.

DISCUSSION

Background

Budget Report Organization

The Second Quarter Budget Report (Attachment A) is intended to provide a high-level overview of the City's performance against budget during the fiscal year. Additional emphasis is placed on those areas where results are expected to differ from budget over the full year. The report also includes an update on the Capital Improvement Projects and

Item 6a

Major City Goal Tasks active during the quarter. The report (Attachment A) includes the following sections and themes:

General Fund Summary: Halfway through the year, staff note two areas of divergence from revenue budgets. First, the City's consultants have advised that sales tax revenue may not grow as expected and a revenue miss is possible. Second, staff note that development activity has picked up since the last fiscal year and expect development review fees to exceed budget at year end.

Staff also note that several departments are at risk of exceeding their staffing budgets, and lower unassigned fund balance at year-end should be expected.

Use of FY 2025-26 Fund Balance: The City's Annual Comprehensive Financial Report (ACFR), including audited financial statements, was presented to Council on January 13, 2026. The ACFR indicated there was General Fund unassigned fund balance of \$3,468,954 as of June 30, 2025. The Second Quarter Report details staff recommendations for allocation of Fiscal Year 2024-25 unassigned fund balance, including additional discretionary payments to address pension liabilities and investments in infrastructure.

Enterprise Fund Summary: The Second Quarter Report includes a detailed analysis of the Water, Sewer, Parking, and Transit enterprise funds. All enterprise funds are expected to achieve their budgeted fund balance targets for the year.

Special Revenue and Other Funds: The Report includes information on the various Community Financing District funds and certain other funds. All are expected to finish the year in line with their budgets.

Capital Improvement Program Update: The Report includes an update on the various projects completed or in progress during the first half of the fiscal year. Key projects highlighted in the report include the Water Resource Recovery Facility Upgrade, Mission Plaza Enhancements, and the Cultural Arts District Parking Structure.

Major City Goal Update: The Report also includes a summary of the Major City Goal tasks with completion dates in the first half of the fiscal year. Halfway through the year, eleven tasks are on track and four are proposed to be delayed to the second half of the fiscal year.

Additional Recommendations

Quarterly budget reports are occasionally used to make appropriation recommendations as needed throughout the year. This report includes one such recommendation:

National League of Cities Health and Wellbeing Award: The City was awarded \$20,000 from the National League of Cities. Staff recommend an appropriation of this funding to purchase a trial license of BuildingBlocks software from Tolemi. It is hoped that this tool can be used to build a 'Green and Healthy Homes Concierge Service', the goal

of which is to provide residents with a single point of contact to access coordinated municipal and community partners services including weatherization, electrification, home repairs, and housing stability support.

Previous Council or Advisory Body Action

Council adopted the FY 2025-26 budget on June 17, 2025. During the FY 2024-25 year-end budget report hearing on November 4, 2025, Council directed staff to include a recommendation to provide \$500,000 to the San Luis Obispo Museum of Art (SLOMA), contingent upon availability of funds as demonstrated by a completed audit and a satisfactory grant agreement. A proposed Grant Agreement with SLOMA will be presented for consideration in a separate item on the same agenda as this report as part of the February 17, 2026 regular City Council meeting, which would memorialize the terms and conditions for the \$500,000 grant.

Public Engagement

Public engagement on this item can be provided to the City Council through written correspondence prior to the meeting or through public testimony at the meeting. The report will also be posted on the City’s website for public review.

CONCURRENCE

All departments were involved in preparation of the report and concur with the staff recommendations.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act (CEQA) does not apply to the recommended action in this report because the action does not constitute a “Project” under CEQA Guidelines Sec. 15378.

FISCAL IMPACT

Budgeted: Yes

Budget Year: 2025-26

Funding Identified: Yes

Fiscal Analysis:

Staff recommend appropriation of FY 2024-25 General Fund unassigned fund balance of \$3,468,954 according to the audited financial statements as follows:

Unassigned Fund Balance*	\$ 3,468,954
Appropriation Recommendations	
Increased CalPERS ADP	869,804
Infrastructure Investments	1,212,229
Insurance Fund	802,798
SLOMA Contribution	500,000
Parks & Rec Grants	84,123
Remainder	\$ -

*After \$2.0 million CalPERS ADP

The Second Quarter Report provided in Attachment A includes further explanation and discussion of these recommended allocations.

The amounts above are in addition to the \$2,000,000 in General Fund assigned fund balance for an Additional Discretionary Payment (ADP) to CalPERS to continue progress toward paying down the City’s unfunded pension liability. Staff recommend total Additional Discretionary Payments as follows:

CalPERS ADP	
General Fund	\$ 2,869,804
Water Fund	238,745
Sewer Fund	246,093
Parking Fund	98,570
Transit Fund	15,959
Whale Rock	27,033
TBID	9,983
Total	\$ 3,506,187

ALTERNATIVES

Council could direct staff to use fund balance for another purpose. Such purposes could include higher or lower payments to CalPERS, funding for specific projects, or to be held in reserve for future years or future needs.

ATTACHMENTS

A - FY 2025-26 Q2 Budget Report