



STAFF REPORT

City Council

Meeting Date:

9/15/2026

Staff Report Number:

26-155-CC

Informational Item:

Update on fiscal year 2025-26 year-end status

Recommendation

Staff recommend the City Council receive an update on preliminary results for General Fund revenues and expenditures for fiscal year 2025-26. This is an informational item and does not require City Council action.

Policy Issues

The City Council maintains responsibility for all budgetary appropriations. Under Section 2.08.080(8) of the Menlo Park Municipal Code (MPMC), the city manager has the responsibility to prepare and submit to the City Council the annual budget. Regular monitoring and reporting of budget-to-actual performance, consistent with Government Finance Officers Association (GFOA) best practices, supports the City Council's ability to evaluate the structural balance of the General Fund and to make informed decisions.

Background

The City Council adopted the fiscal year 2025-26 budget June 24, 2025 (Attachment A) and approved a mid-year budget amendment on Feb. 24 (Attachment B). This report is intended to provide the City Council with an early overview of the City's General Fund fiscal year-end results and highlight significant variances from the adopted budget.

The information presented is a preliminary, unaudited summary for informational purposes. Year-end closing and audit work are ongoing, and the figures presented may change once that process is completed. Staff anticipates presenting the completed Annual Comprehensive Financial Report (ACFR) to the City Council in early 2027.

Analysis

General Fund overview

Based on preliminary, unaudited results, General Fund revenues for fiscal year 2025-26 totaled approximately \$87.6 million, \$5.6 million above the amended budget of \$82.0 million. General Fund expenditures totaled approximately \$87.3 million, \$0.7 million above the amended budget of \$86.6 million. Overall, these results reflect an operating surplus of approximately \$0.3 million. However, it is important to note that the projected surplus factors in several one-time items, including:

- Approximately \$1.1 million for a transfer-in from the Information Technology Internal Service Fund (ISF), authorized by the City Council at mid-year.

- A temporary pause in the Vehicle ISF contribution of \$1.2 million, authorized by the City Council at mid-year.
- A true-up of the Water Operating Fund transfer-in of \$0.3 million, authorized by the City Council at mid-year.
- Approximately \$2.8 million in higher-than-budgeted transient occupancy tax (TOT) revenue and \$1.9 million in higher-than-projected sales tax revenue. Of these increases, an estimated \$0.6 million in TOT revenue and \$1.1 million in sales tax revenue are considered one-time. These one-time revenue increases can be partly attributed to regional events, as outlined in the revenue summary below.

Excluding these one-time items, the General Fund would have had an underlying deficit of approximately \$4 million, which is consistent with the City's five-year financial forecast.

Recently, the City received updated information regarding its property tax in lieu of vehicle license fee (VLF) allocation that will materially affect the General Fund year-end position. On July 24, the County of San Mateo notified the City that the countywide fiscal year 2025–26 VLF shortfall increased substantially from the County's February 2026 projection of approximately \$124 million to a final shortfall of approximately \$226 million. The increase was primarily due to two school districts transitioning to basic aid funding status earlier than anticipated.

The City began fiscal year 2025-26 with a projected VLF shortfall of \$3.0 million and ended the fiscal year with a \$5.4 million shortfall following the final County adjustment. As a result of the increased shortfall, the City is required to repay approximately \$2.4 million in VLF distributions received earlier in the fiscal year based on the initial shortfall estimate. This repayment has been reflected in the unaudited year-end totals presented in this staff report. The County began recovering the excess VLF previously distributed to the City through a \$1.2 million reduction (50% of excess amount paid) to its August VLF disbursement to the City. This reduced the expected \$1.9 million disbursement to be received by the City to approximately \$0.7 million. The County will recover the remaining 50% via adjustments to property tax disbursements in December 2026 and April 2027. Although the repayment will be collected through fiscal year 2026-27 VLF distributions, the repayment obligation relates to fiscal year 2025-26 and has been recognized as liability on the balance sheet. Accordingly, there is no additional impact to the fiscal year 2026-27 General Fund budget from this repayment.

The City's VLF revenue remains subject to continued uncertainty and countywide efforts to work with the State on a permanent legislative fix. If the number of non-basic aid school districts in San Mateo County remains at two, the VLF shortfall is projected to be approximately \$1.2 million greater than anticipated in the forecast, which would result in the fiscal year 2026-27 General Fund budget no longer being balanced as adopted. The County is expected to provide an updated VLF revenue projection in November, at which time the City will have greater clarity regarding the magnitude of the shortfall and any potential budget implications. Staff will continue to monitor the situation and assess any potential budget implications as additional information becomes available.

Revenue summary

Table 1 below summarizes preliminary fiscal year 2025-26 General Fund revenue by category.

Table 1: General Fund revenue summary

Category	Fiscal year 2025-26 (amended budget)	Fiscal year 2025-26 (unaudited actual)	Variance	% Received
Property Taxes	\$ 36,696,871	\$ 35,597,686	\$ (1,099,185)*	97%
Transient Occupancy Tax	\$ 16,169,749	\$ 18,965,597	\$ 2,795,848	117%
Sales Tax	\$ 6,474,000	\$ 8,374,235	\$ 1,900,235	129%
Licenses and Permits	\$ 5,954,650	\$ 6,714,471	\$ 759,821	113%
Charges for Services	\$ 5,790,650	\$ 6,492,886	\$ 702,236	112%
Use of Money and Property	\$ 4,156,761	\$ 3,770,894	\$ (385,867)	91%
Transfers In	\$ 2,755,500	\$ 2,755,500	\$ -	100%
Franchise Fee	\$ 2,578,522	\$ 2,758,079	\$ 179,557	107%
Miscellaneous Revenue	\$ 1,286,700	\$ 1,735,714	\$ 449,014	135%
Intergovernmental	\$ 139,325	\$ 486,572	\$ 347,247	349%
Total Revenue	\$ 82,002,728	\$ 87,651,633	\$ 5,648,905	107%

* Property tax revenue includes a \$2.4 million VLF repayment, resulting in an unfavorable variance from the amended budget.

- Property tax revenue totaled approximately \$35.6 million, representing 97% of the \$36.7 million amended budget. Although several property tax categories, including secured property tax, the Education Revenue Augmentation Fund (ERAF) rebate, and other property tax revenues, exceeded budgeted amounts, these favorable variances were offset by an unfavorable VLF adjustment, which contributed to the overall shortfall in property tax revenue.
- Transient occupancy tax (TOT), approximately \$19 million, or 117% of the \$16.2 million amended budget, has been received. The favorable variance is primarily attributable to the January rate increase under Measure CC, which increased the TOT rate from 14% to 15.5%, as well as higher occupancy rates and average daily room rates likely associated with several high-profile events, including the Super Bowl, Ladies Professional Golf Association, World Cup, NVIDIA conference, and concerts. A portion of this increase is likely one-time in nature and may fluctuate from year to year depending on event activity.
- Sales tax, approximately \$8.4 million, or 129% of the \$6.5 million amended budget, has been received. The favorable variance is primarily attributable to one-time prior period corrections due to previous misallocations and unlikely to recur for future years.
- Licenses and permits, approximately \$6.7 million, or 113% of the \$5.9 million amended budget, has been received. The favorable variance is primarily attributable to higher-than-anticipated building permit activity as well as business license revenues coming in above budgeted expectations.
- Charges for services, approximately \$6.5 million, or 112% of the \$5.8 million amended budget, has been received. The favorable variance is primarily attributable to higher-than-anticipated recreation program revenues, as well as stronger-than-expected public works development-related revenues including transportation development payments, right-of-way fees, improvement plan check, and subdivision inspection fees.

- Use of money and property, approximately \$3.8 million, or 91% of the \$4.2 million amended budget, has been received. The unfavorable variance is primarily attributable to unrealized losses in the City's investment portfolio, driven by the rising interest rate environment and increased borrowing costs.
- Transfers-in came in at \$2.8 million, consistent with the amended budget, reflecting no variance.
- Franchise fee, approximately \$2.8 million, or 107% of the \$2.6 million amended budget, has been received. Results were largely in line with projections.
- Miscellaneous revenue, approximately \$1.7 million, or 135% of the \$1.3 million amended budget, has been received. The favorable variance is primarily attributable to fines and forfeitures activity, including parking and traffic citation revenue, that exceeded the amended budget.
- Intergovernmental, approximately \$0.5 million, or 349% of the \$139,000 amended budget, has been received. The favorable variance is primarily attributable to reimbursements such as police patrol reimbursement from the City of Santa Clara related to Levi's Stadium events.

Expenditure summary

Table 2 below summarizes preliminary fiscal year 2025-26 General Fund expenditures by category.

Table 2: General Fund expenditure summary						
Category	Fiscal year 2025-26 (amended budget)		Fiscal year 2025-26 (unaudited actual)		Variance	% Spent
Salaries and Wages	\$	31,707,248	\$	34,834,435	\$ 3,127,187	110%
Operating Expense	\$	21,599,480	\$	19,801,049	\$ (1,798,431)	92%
Benefits	\$	17,191,010	\$	16,828,766	\$ (362,244)	98%
Internal Service Expense	\$	9,176,676	\$	9,176,676	\$ -	100%
Transfers Out	\$	5,698,926	\$	5,698,926	\$ -	100%
Capital Outlay	\$	1,200,742	\$	974,002	\$ (226,740)	81%
Total Expenditure	\$	86,574,082	\$	87,313,854	\$ 739,772	101%

- Salaries and wages, approximately \$34.8 million, or 110% of the \$31.7 million amended budget. This category includes regular salaries, temporary and hourly wages and overtime. While regular salaries generated some savings from vacancies, those savings were partially offset by the use of personnel savings for non-personnel expenditures, as well as higher-than-budgeted overtime and limited savings in temporary and hourly wages. The resulting net variance reflects the combined effect of the 10% vacancy factor used in the budget methodology and actual spending across the various salary categories.
- Operating expense, approximately \$19.8 million, or 92% of the \$21.6 million amended budget, has been incurred. The variance reflects several factors, including the elimination of the operating factor at mid-year and the transfer of portions of personnel budgets to non-personnel operating accounts to support operational needs.
- Benefits, approximately \$16.8 million, or 98% of the \$17.2 million amended budget, has been incurred. The slight favorable variance is primarily attributable to vacancies and related lower benefit costs during the fiscal year.
- Internal service expense came in at \$9.2 million, consistent with the amended budget, reflecting no

variance.

- Transfers-out, approximately \$5.7 million, consistent with the amended budget, reflecting no variance.
- Capital outlay, approximately \$1 million, or 81% of the \$1.2 million amended budget, has been incurred. The favorable variance is primarily attributable to lower-than-anticipated equipment purchases during the fiscal year.

Fund balance and reserve status

As shown in Table 3 below, the General Fund is projected to end fiscal year 2025-26 with a total fund balance of approximately \$34 million, an increase of approximately \$0.3 million from the fiscal year 2024-25 year-end balance of \$33.7 million. The Emergency Contingency Reserve and Economic Stabilization Reserve are projected to be funded at approximately 12% and 16% of annual operating expenditures, respectively, which is below the minimum funding targets of 15% and 20% established by existing policy. Reserve funding levels have remained largely unchanged over the past two fiscal years and have been below policy targets since fiscal year 2024-25.

Table 3: General Fund balance components for fiscal year 2024-25 through fiscal year 2025-26		
Component	2024-25 year-end balances	2025-26 year-end unaudited
Strategic pension funding	\$ 653,240	\$ 653,240
Emergency contingency	\$ 10,408,537	\$ 10,408,537
Economic stabilization	\$ 13,878,049	\$ 13,878,049
VLF shortfall	\$ 959,325	\$ 959,325
Unassigned	\$ 4,860,414	\$ 5,198,194
Non-spendable	\$ 2,919,082	\$ 2,919,082
Total	\$ 33,678,647	\$ 34,016,427

Impact on City Resources

Staff will continue to monitor revenue performance, including any updates to VLF and assess the impacts on the City's ongoing financial position. Any necessary budget amendments will be brought forward in February 2027 as part of the mid-year budget process. Staff will also return to City Council for a study session on potential revenue generation options.

Environmental Review

This action is not a project within the meaning of the California Environmental Quality Act (CEQA) Guidelines Sections 15378 and 15061(b)(3) as it will not result in any direct or indirect physical change in the environment.

Public Notice

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

Attachments

- A. Hyperlink – June 24, 2025, Staff Report #25-100-CC:
<https://www.menlopark.gov/files/sharedassets/public/v/1/agendas-and-minutes/city-council/2025-meetings/20250624/g1-20250624-cc-fy2024-25-budget-amend.pdf>
- B. Hyperlink – February 24, 2026, Staff Report #26-028-CC:
<https://www.menlopark.gov/files/sharedassets/public/v/2/agendas-and-minutes/city-council/2026-meetings/20260224/i3-20260224-cc-fy-2025-26-budget-amend.pdf>

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