



City of Gilroy

STAFF REPORT

Agenda Item Title: Strategic Planning Session #2 - Receive Mid-Year Report on Fiscal Year 2024-2025 Budget and Update on the General Fund Five-Year Forecast

Meeting Date: March 17, 2025

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Department: Finance

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STRATEGIC PLAN GOALS

Develop a Financially Resilient Organization

RECOMMENDATION

Receive the mid-year report on the Fiscal Year 2024-2025 (FY25) budget and update on the General Fund five-year forecast.

BACKGROUND

The FY25 budget was adopted on June 5, 2023 as part of the City's Biennial Budget process. Activity for FY25 began on July 1, 2024. The City has completed two quarters of operations for FY25, and this report provides a financial summary of such activity for the period of July 1, 2024 through December 31, 2024.

ANALYSIS

General Fund Forecast Update

The City Council last received the comprehensive General Fund forecast at the May 2024 City Council meeting and an update on the General Fund balance with Fiscal Year 2024 (FY24) preliminary year-end report in November 2024. The chart below is an updated General Fund Forecast, which incorporates additional adjustments based on the information available since that report.

General Fund Forecast (In Millions)	Actual FY24	Projected FY25	Forecast FY26	Forecast FY27	Forecast FY28	Forecast FY29
Beginning Fund Balance	\$ 38.3	\$ 36.0	\$ 27.4	\$ 25.7	\$ 23.3	\$ 20.7
Add: Revenues	68.1	69.3	69.1	71.1	73.3	75.3
Less: Expenditures	(63.8)	(67.9)	(70.8)	(73.5)	(75.9)	(78.9)
Operating Margin	\$ 4.3	\$ 1.5	\$ (1.7)	\$ (2.4)	\$ (2.6)	\$ (3.6)
One-time Use of Fund Balance	(6.6)	(10.1)	-	-	-	-
Ending Fund Balance (after one-time use)	\$ 36.0	\$ 27.4	\$ 25.7	\$ 23.3	\$ 20.7	\$ 17.0
Fund Balance as a % (min 30% per CC policy)	51%	35%	36%	32%	27%	22%

Following are the notable adjustments to the updated General Fund Forecast:

- **Sales Tax** – In June 2023, when the current biennial budget was adopted, the adopted budget for sales tax revenue for FY25 was projected to be \$22.4 million. Since adoption, the sales tax revenue forecast has been adjusted and discussed with the City Council at various intervals. With the most recent update during the comprehensive mid-cycle budget adjustments in November 2024, the sales tax revenue budget for FY25 was adjusted downwards by about \$0.6 million for a revised budget for FY25 of \$21.8 million. Based on the latest sales tax forecast, FY25 is now projected to come in at \$20.3 million, resulting in an additional \$1.5 million downward adjustment. Sales tax is projected to remain relatively flat, with little to no growth for the next two fiscal years and is expected to return to a regular rate of growth after FY27 of about 2% annually. The forecast for subsequent years has also been adjusted accordingly. The downward adjustment is attributed to a slowdown in consumer spending on taxable goods. High and rising housing, insurance, groceries, healthcare, and energy costs continue to consume personal income, thus shifting the spending towards non-taxable services and away from taxable goods and items, further demonstrating the volatility and eroding nature of the revenue source as it relies directly on consumers' discretionary spending.
- **Utility User Tax** – The adopted budget for utility user tax revenue for FY25 is \$6.7 million. This revenue is projected to come in at \$7.6 million for FY25, a net increase of about \$0.9 million, with notable increase in the electricity segment, offset by a decline in the natural gas segment due to decline in segment prices. Subsequent years' assumptions have also been adjusted accordingly.
- **Investment Income** – The FY25 budget for investment earnings is \$0.9 million. Based on the current performance of the investment portfolio, investment earnings in the General Fund for FY25 is now forecasted to end with \$1.3 million, an increase of \$0.4 million. Assumptions for subsequent forecast years have also been adjusted.
- **Pension**—The City has received updated actuarial valuation reports for its pension plans prepared by CalPERS actuaries. Staff has updated the General Fund Forecast to reflect the impact, which is an increase to the unfunded

accrued liability payment of an average of \$0.4 million per year throughout the forecast.

- **Year-end Savings**—The General Fund typically ends the year with nominal budgetary savings, typically between 1% and 2%. Staff have assumed 1% savings for FY25, which equates to about \$0.8 million.

For FY25, the General Fund is currently forecasted to end the year with a positive operating margin of about \$1.5 million, with a projected ending fund balance of \$27.4 million, which represents approximately 35% of reserves. The General Fund is expected to maintain the minimum required fund balance of 30% through FY27, and dip below the required level in the latter two years of the forecast. As previously communicated to the City Council, the City will enter its FY26 and FY27 biennial budget development process with a structural deficit of \$1.7 million and \$2.4 million, respectively, which is manageable and can be addressed through the budget development process. Some of the considerations underway include review of cost allocation and recovery, identification of alternative funding sources, or minor adjustments to non-personnel operational costs.

General Fund

Revenues

General Fund revenues received through mid-year of FY25 total \$23.6 million. This is approximately 34% of the amended budget of \$69.9 million. Revenues received up to this point are typically under the 50% fiscal-year mark, especially tax revenues, due to the lag between when the economic transaction occurs and when the City's revenues are received. The table below provides a breakdown of General Fund Revenues by category and a comparison of the actual revenues to the amended budget.

(In Millions)				
FY25				
General Fund Revenues by Category	Amended Budget	FY25 Q2 Actuals	% of Budget	
Sales Tax	\$ 21.8	\$ 6.7	31%	
Property Tax	21.2	5.4	25%	
Utility User Tax	6.7	3.3	48%	
Franchise Tax	2.5	0.5	20%	
Transient Occupancy Tax	2.0	0.5	24%	
Business License	0.8	0.3	40%	
Other Revenues	14.8	6.9	46%	
Total	\$ 69.9	\$ 23.6	34%	

Sales Tax - The City receives its sales tax revenue approximately two months after funds are collected by the California Department of Tax and Fee Administration. The FY25 budget for sales tax revenue is \$21.8 million of which \$6.7 million (31%) has been received as of December 31, 2024. Receipts reflect collections through the month of October 2024. Based on the latest quarterly sales tax report, the City's sales tax revenue for FY25 is expected to come in at \$20.3 million, approximately \$1.5 million underbudget. Originally, sales tax adopted budget was set at \$22.4 million, staff included a downward adjustment of \$0.6 million to the Sales Tax budget as part of the comprehensive mid-cycle adjustments approved by the City Council on November 18, 2024. The latest projected shortfall of \$1.5 million is in addition to the \$0.6 million adjustment previously made.

Property Tax - The City's property tax revenues are received in various intervals from Santa Clara County and are not distributed in even amounts. Property tax installments are typically due in November and April of each fiscal year. The FY25 budget for property tax revenue is \$21.2 million of which \$5.4 million (25%) has been received as of December 31, 2024. Much of the annual property tax revenue is received in the second half of the fiscal year, including the annual ERAF payment. Property tax revenue is projected to come in at the budgeted level.

Utility Users Tax (UUT) - Utility taxes are assessed against the value of energy and telecommunications, such as gas, electricity, steam, cable, and phone charges. The current tax rates are 4.5% for telecommunications and 5% for gas and electricity. The City's UUT revenues are received one month after the revenues are earned. The FY25 budget for utility user tax is \$6.7 million of which \$3.3 million (48%) has been received as of December 31, 2024. Receipts to date represent revenue through the month of November 2024. As discussed above in the General Fund Forecast section, the UUT revenue is expected to come in higher for FY25 by about \$0.9 million.

Franchise Tax - The City receives franchise tax revenue from three franchise types, including gas and electric, cable tv, and garbage/refuse. The FY25 budget for franchise tax is \$2.5 million of which \$0.5 million (20%) has been received as of December 31, 2024, which primarily reflects Recology franchise payments. The larger portion of franchise tax comes from PG&E, which remits payments once a year and is typically received in April and will be reported as part of the fourth quarter of the fiscal year.

Transient Occupancy Tax (TOT) - The City's TOT revenue comes from a 9% tax on hotel room rentals under 30 days, as well as from some of the RV parks in the City. The hotels pay approximately one month after the quarter ends. The FY25 budget for TOT is \$2.0 million of which \$0.5 million (25%) has been received as of December 31. Returns for second quarter are expected to be received in January and will be reported in subsequent quarterly reports.

Business License - The FY25 budget for Business License fees is \$0.8 million of which \$0.3 million (40%) has been received as of December 31, 2024. The business license revenue is tied to the timing of the annual renewal of the license, generally occurring in June and December each year, based on business category.

Other General Fund revenues - This category comprises departmental service charges, general administration charges, fines and forfeitures, and other intergovernmental revenues. The FY25 budget for this aggregate revenue category is \$14.8 million of which \$6.9 million (46%) has been received as of December 31, 2024. At this time, this revenue is expected to come in as budgeted.

Expenditures

General Fund expenditures through mid-year of FY25 total \$36.2 million. This is approximately 46% of the amended budget of \$78.9 million. The table below provides a breakdown by department and function comparing the actual expenditures for the first two quarters of the fiscal year to the amended budget. Generally, departments are within or below their expenditure target for this time of the fiscal year.

(In Millions)				
FY25				
General Fund Expenditures by Department/Function	Amended Budget	FY25 Q2 Actuals	% of Budget	
Administration	\$ 4.9	\$ 2.0	41%	
Recreation Transfer	1.5	0.8	50%	
Other Transfers	1.0	0.5	50%	
Human Resources	1.8	0.8	42%	
Community Development	6.2	2.5	41%	
Finance	1.3	0.6	45%	
Fire	14.9	7.7	52%	
Other General Government	3.5	2.1	59%	
Police	32.7	15.7	48%	
Public Works	11.0	3.5	32%	
Total	\$ 78.9	\$ 36.2	46%	

Non-General Fund

Revenues

The City has approximately 60 non-general funds. The information (revenues and expenditures) for these funds is presented in the table below in aggregate, by fund type, along with a brief description of what is included in these categories.

Non-General Fund revenues received as of December 31, 2024 total \$41.3 million or 33% of the amended budget of \$124.8 million. Revenues received up to this point are usually under the 50% fiscal-year mark due to the timing of receipts, especially for special revenue and capital/development funds.

(In Millions)					
FY25					
Non-General Fund	Amended		FY25 Q2		
Revenues by Fund Type	Budget		Actuals	% of Budget	
Special Revenue	\$	13.8	\$	3.3	24%
Recreation		2.3		1.1	48%
Capital/Development		52.6		8.2	16%
Debt Service		5.0		1.6	33%
Internal Service		18.0		8.1	45%
Sewer		18.2		9.7	53%
Water		14.8		9.3	62%
Total	\$	124.8	\$	41.3	33%

Special Revenues – The primary source of this fund type is intergovernmental funds in the manner of tax sharing or grants from Federal, State, County, and other regional governments. For the City of Gilroy, these Special Revenues provide funding for transportation (Gas Taxes, Vehicle Registration, and Measure B), public safety (Proposition 172 sales tax, Gang Prevention, and regional task forces), and community development (CDBG and housing) among others. The FY25 budget for Special Revenues is \$13.8 million of which \$3.3 million (24%) has been received as of December 31, 2024. Many of these revenues are based on quarterly claims submitted by staff, therefore it is normal for this type of revenue to be received in the next quarter after it was earned.

Recreation – The Recreation Fund receives an annual allocation of \$1.5 million from the General Fund in addition to the revenues it acquires from charges for services or grants related to recreation programs. The services provided by Recreation are seasonal, typically most active during spring and summer. The FY25 budget for Recreation revenue is \$2.3 million of which \$1.1 million (48%) has been received as of December 31, 2024.

Capital/Development Impact Funds – Revenues in the Capital and Development Impact Funds are primarily generated by new development approvals and the required contributions to offset infrastructure impacts. Revenue depends on the size and impact of the development and the timing of the project; therefore, revenue is not evenly distributed throughout the fiscal year. The FY25 budget for Capital/Development Funds

revenue is \$52.6 million of which \$8.2 million (16%) has been received as of December 31, 2024. In discussion with the Public Works Department, larger private development projects anticipated in FY25 have not commenced. Staff are re-evaluating the timing of these projects materializing and will report any updates in future quarterly reports.

Debt Service – Debt Service funds receive their revenue from annual property tax levies and/or via interfund transfers from other funds and are typically aligned with the timing of the debt service payment. The FY25 Quarter 2 amounts primarily reflect the interfund transfers. The property tax levies for the Library Bond debt service are received similar to the General Fund property tax distribution, majority of it in Quarter 2 through Quarter 4.

Internal Service – Internal Service Funds (Information Technology (IT), Fleet, Facilities, Worker's Compensation, and Liability Funds) primarily receive their revenue from charges to other departments and funds in the City. The FY25 budget for Internal Service Funds revenue is \$18.0 million of which \$8.1 million (45%) has been received as of December 31, 2024. These charges are assessed based on the budget and it is expected that the full budgeted amount will be received.

Sewer – The FY25 budget for Sewer revenue is \$18.2 million of which \$9.7 million (53%) has been received as of December 31, 2024. The Sewer Fund is tracking slightly above for the period. The Sewer Enterprise Fund generates its revenue from utility user charges. At this time, it is expected the revenue will come in at budget.

Water – The FY25 budget for Water revenue is \$14.8 million of which \$9.3 million (62%) has been received as of December 31, 2024. The Water Fund is tracking above for the period. Like the Sewer Fund, the Water Fund generates its revenues from utility user charges and it fluctuates based on consumption levels.

Expenditures

Non-General Funds expenditures as of December 31, 2024 total \$36.3 million, or 24% of the amended budget of \$154.0 million. The table below presents the Non-General Fund expenditures by Fund Type.

(In Millions)				
FY25				
Non-General Fund	Amended		FY25 Q2	
Expenditures by Fund Type	Budget		Actuals	% of Budget
Special Revenue	\$	16.1	\$	1.9 12%
Recreation		2.2		0.9 39%
Capital/Development		44.0		5.8 13%
Debt Service		4.9		2.9 59%
Internal Service		23.7		7.7 32%
Sewer		26.5		9.8 37%
Water		36.6		7.4 20%
Total	\$	154.0	\$	36.3 24%

Special Revenues – The primary expenditures in this fund type are for roads and sidewalk infrastructure, followed by grant-related expenditures for the Police Department. As of December 31, 2024, expenditures are at \$1.9 million (12%) of the budgeted amount of \$16.1 million. Road and infrastructure capital projects typically begin after the winter/rainy season, therefore, staff expects funds to be encumbered and expenditures to occur in the third and fourth quarter of the fiscal year.

Recreation – As of December 31, 2024, expenditures are at \$0.9 million (39%) of the budgeted amount of \$2.2 million. The services provided by Recreation are seasonal, typically most active during spring and the summer therefore staff expects funds to be encumbered and expenditures to occur in the third and fourth quarter of the fiscal year.

Capital/Development – As of December 31, 2024, expenditures are at \$5.8 million (13%) of the budgeted amount of \$44.0 million. The below target spending is primarily in the capital outlay. Several capital projects are currently in their design phases and the subsequent construction phase, the larger expenditure category, typically begins after the winter/rainy season, therefore staff expects funds to be encumbered and expended in the third and fourth quarters of the fiscal year.

Debt Service – As of December 31, 2024, expenditures are at \$2.9 million (59%) of the budgeted amount of \$4.9 million. The debt service payments typically include semiannual interest payments, and one annual principal payment. These expenses are expected to come in at budgeted levels.

Internal Services - As of December 31, 2024, expenditures are at \$7.7 million (32%) of the budgeted amount of \$23.7 million. The City's internal services funds are IT, Fleet, Facilities, Equipment Outlay, Worker's Compensation, and Liability Funds. These expenses are expected to come in at budgeted levels.

Sewer – As of December 31, 2024, expenditures are at \$9.8 million (37%) of the budgeted amount of \$26.5 million. Approximately \$9.8 million of this budget is related to the operations of the South County Regional Wastewater Authority and the Plant's Expansion project which is currently under construction.

Water – As of December 31, 2024, expenditures are at \$7.4 million (20%) of the budgeted amount of \$36.6 million. Approximately \$18.6 million of this budget is related to capital outlay projects, several of which are currently in their design phases.

ALTERNATIVES

There are no recommended alternatives to receiving the Mid-Year Budget Report for FY25.

FISCAL IMPACT/FUNDING SOURCE

There are no fiscal impacts as this is a report and no budgetary action is proposed. Preparation of the quarterly budget update reports are an annual workplan item for the Finance Department.