



CITY OF MANHATTAN BEACH

**MID-YEAR BUDGET REPORT
FISCAL YEAR 2026**

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INTRODUCTION

This Mid-Year Budget Report presents an overview of the City's operating revenues and expenditures for the first half of Fiscal Year 2026 comparing actual figures to budgeted amounts and explaining any notable deviations or trends in the numbers. The information in this report is organized into two sections: General Fund and Other Funds.

The purpose of the Mid-Year Budget Report is threefold. First, it illustrates the City's commitment to monitoring its revenues and expenditures, allowing for proactive responses to unforeseen changes or emerging trends. Second, and equally important, it supports fiscal transparency and accountability by providing the City Council and members of the public with detailed information on the sources and uses of City funds. Lastly, this report serves as a starting point for preparing the Fiscal Year 2027 Budget.

Each January, City staff analyzes fiscal year-to-date activity and prepares mid-year projections for revenues and expenditures to evaluate potential budget variances and forecast year-end results. This report focuses on those mid-year projections and explains budget variances to provide an accurate representation of the City's fiscal position. The FY 2026 Adjusted Budget already includes some anomalies such as the one-time purchase of the Public Safety Radios and one-time Bond Proceeds revenues related to the 2025 Certificates of Participation (COPs) for the purchase of 400 Manhattan Beach Boulevard and Public Safety Radios.

Overall, General Fund Expenditures are trending above budget due to higher projected costs associated with Salaries & Wages, Employee Benefits, Contract & Professional Services and Materials & Services. A driving factor of overages in these categories are sworn salaries, overtime and part-time salaries. Increases in the Contract & Professional Services category are due to various contract services and legal services. An example of this is a \$1.0 million increase in the Community Development Department Contract Services budget for additional Plan Check services that are critically needed to accommodate increased development activity within the City. Increases in Plan Check fees will offset the increase in expenditures.

Other major shifts in the General Fund and other City Funds include a change in the accounting of Transfers In and Transfers Out. Historically, the City has accounted for fund transfers within Balance Sheet Accounts, however, the industry standard and accounting best practice is to account for Transfers In as Revenues and Transfers Out as Expenditures. Furthermore, at the close of the FY 2025 Audit, the City's external auditors issued a recommendation to adjust the accounting of these transfers to reflect these best practices. This post-audit recommendation is incorporated in this Mid-Year Budget Report for FY 2026 as all Transfers In are now reclassified as Revenues and Transfers Out are reclassified as Expenditures. This change in accounting methodology also changes the way the City's Surplus/(Deficit) is reflected. Because these transfers used to be classified as Balance Sheet Accounts, they were not captured within the previously stated Surplus/(Deficit). With the Transfers classified as Revenue and Expenditure accounts and built into the Surplus/(Deficit) calculation, they will be more visible in the City's Budget documents, which further enhances financial transparency for the public.

GENERAL FUND REPORT HIGHLIGHTS:

- **General Fund Revenues** In the current fiscal year, General Fund revenues are estimated to exceed the adjusted budget by \$2,023,134 (1.6%). Additional General Fund Revenue details are provided beginning on page 2 of this report. To align the budget with projected year-end estimates, staff is recommending various revenue adjustments as highlighted on Table 2 of this Report.
- **General Fund Expenditures** Operating Expenditures are projected to exceed budget by \$11,139,619 (10.0%) over the adjusted budget. The adjusted budget includes City Council-approved amendments from the current year as well as encumbrances carried forward from the previous year. The proposed mid-year budget adjustments are explained in detail within this Mid-Year Budget Report, along with Appendix A.
- **General Fund Transfers To and From Other Funds** Projected year-end Transfers Out to other funds include the Street Lighting Fund (\$142,693), Capital Improvement Program (CIP) Fund (\$5,000,000), Storm Drain Fund (\$500,000) and Pension Stabilization Fund (\$3,246,893). A Transfer In from the County Parking Lots Fund is projected at \$246,227 pursuant to a revenue sharing agreement with the County. These Transfers In and Out have been reclassified as revenues and expenditures and are reflected on the projected year-end surplus shown in this Mid-Year Budget Report.

OTHER FUND HIGHLIGHTS:

- **Water Fund and Sewer Fund Revenues:** Water Fund revenues are projected up overall by \$575,918 (3.1%) from the budget as a result of continued higher water consumption and pass-through volumetric rate adjustments approved in May 2025. Sewer Fund revenues are also projected up by \$368,306 (7.8%). Water consumption remains relatively higher due to warmer and drier conditions that support elevated irrigation demand. In contrast, Sewer Fund revenues did not experience as high of growth because sewer rates were unaffected by the pass-through adjustment.

Reserves in the Water Fund and Sewer Fund are not meeting the City's reserve policy. A new Water and Sewer Rate Study is currently underway to address the reserve shortfalls and funding needs for future infrastructure projects.

- **Insurance Reserve Fund:** The unpredictable and volatile nature of insurance claims activity can cause significant fluctuations in claims expenses and make budgeting for the Insurance Fund difficult. As of the end of FY 2025, the Insurance Fund is not meeting the current policy reserve of \$8,004,000 by \$1,711,200 due to prior year increases in claims and litigation expenses. Historically, staff used a 5-year average to determine claims expenses for the budget. However, with claims expenses significantly rising year-over-year, the current methodology is no longer sufficient to provide adequate funding levels. An appropriation of \$1.0 million is requested for FY 2026 to meet current year anticipated expenditures and additional General Fund transfers will be required to meet policy reserves. Staff is actively engaging an actuarial firm to analyze the Insurance Fund and recommend funding strategies to address this ongoing concern.

GENERAL FUND

GENERAL FUND REVENUES

Several key revenues are highlighted in the following table. Generally, the largest contributors to the City's revenue are Property Tax, Sales & Use Tax, Service Charges and Transient Occupancy Tax. In FY 2026, the Miscellaneous category includes one-time Bond Proceeds totaling \$16.6 million revenues related to the 2025 Certificates of Participation (COPs) issued for the purchase of 400 Manhattan Beach Boulevard and Public Safety Radios.

GENERAL FUND REVENUES BY CATEGORY

General Fund Revenues	FY 2025 Actual	FY 2026 Adjusted Budget ^(a)	Mid-Year Projected Year End	Variance (Under)/Over Budget ^(b)	%
Key Revenues					
Property Tax	\$44,973,260	\$47,018,618	\$47,376,731	\$358,113	0.8%
Sales & Use Tax	11,493,166	11,440,000	11,529,000	89,000	0.8%
Local Transaction & Use Tax	1,545,334	5,943,000	6,448,000	505,000	8.5%
Transient Occupancy Tax	7,510,501	7,682,000	7,689,988	7,988	0.1%
Short Term Transient Occupancy Tax	1,538,823	1,367,000	1,367,000	-	0.0%
Business License Tax	5,589,153	5,850,000	6,000,000	150,000	2.6%
Building Permits	2,390,192	2,557,433	2,557,433	-	0.0%
Building Plan Check Fees	2,215,433	2,000,000	3,500,000	1,500,000	75.0%
Interest Earnings	1,504,348	1,484,313	1,560,100	75,787	5.1%
Subtotal Key Revenues	\$78,760,209	\$85,342,364	\$88,028,252	\$2,685,888	3.1%
Other Revenues by Category					
Other Taxes & Assessments	\$1,738,843	\$1,781,600	\$1,807,300	\$25,700	1.4%
Real Estate Transfer Tax	950,553	850,000	850,000	-	0.0%
Revenue from Permits	2,030,906	1,980,286	2,065,699	85,413	4.3%
Fines	2,480,863	2,936,943	2,810,000	(126,943)	-4.3%
Use of Property & Money	5,749,323	4,106,130	4,145,453	39,323	1.0%
Other Governments	747,195	604,862	428,524	(176,338)	-29.2%
Service Charges	9,791,086	8,461,195	8,324,242	(136,953)	-1.6%
Miscellaneous	1,104,310	17,748,807	17,629,624	(119,183)	-0.7%
Operating Service Transfers In	3,540,490	5,533,136	5,033,136	(500,000)	-9.0%
Subtotal Other Revenues	\$28,133,568	\$44,002,959	\$43,093,978	(\$908,981)	-2.1%
Interfund Transfers In	-	-	246,227	246,227	n/a
Total GF Revenues	\$106,893,777	\$129,345,323	\$131,368,457	\$2,023,134	1.6%

Table 1

Table 1 shows a comparison between revenues received in the prior fiscal year and the current Fiscal Year 2026. Actual revenues for Fiscal Year 2026 are projected to be nearly \$131.4 million or 1.6% above the current adjusted budget. Significant factors in this increase are an increase in Plan

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Check Fee revenue, Measure MMB Local Transactions and Use Tax, Property Tax and Business License Tax. Offsetting these increases are decreases in Engineering Service Charges (within the Operating Service Transfers category), Federal Grant award adjustments (Other Governments) and Parking Citations (Fines). Current revenue trends are highlighted below.

- **Property Tax** – Property Tax is the strong foundation of the City’s General Fund revenues. The City’s Property Tax revenues are projected to total nearly \$47.4 million, which is \$358,113 (0.8%) above the amount currently budgeted. Factors such as high demand for single-family homes, low inventory, and high home prices over the last few years have all contributed to the increase in taxable property values. It is important to note that valuation increases in the current year correlate to sales activity from the prior year(s).
- **Sales & Use Tax** – Sales & Use Tax is projected \$89,000 (0.8%) above budget, for an approximate total of \$11.5 million. While the overall total has remained relatively stable, there have been fluctuations in various sales tax categories. Categories with reductions include general consumer goods, autos and transportation, and fuel and service stations. Offsetting these reductions is an increase in sales tax generated from restaurants and hotels, food and drugs, and business and industry categories.
- **Local Transaction & Use Tax** – With the implementation of the Measure MMB Local Transaction & Use Tax beginning April 1, 2025, the City anticipates \$6,448,000 will be received this fiscal year. This reflects an increase of \$505,000 or 8.5% above the currently budgeted amount.
- **Transient Occupancy Tax (TOT)** – TOT receipts, which are trending over budget by \$7,988 (0.1%), are estimated to bring in about \$7.7 million to the General Fund. Additionally, by policy, the City Council allocates 15% of the base 10% tax of the TOT to the CIP Fund, which is expected to total \$922,385 for the current fiscal year.
- **Short-Term Rentals TOT** – TOT from short-term rentals in the coastal zone, which are projected to total around \$1.4 million, is trending at budget this fiscal year, however, it is trending \$171,823 or 11.2% less than last fiscal year primarily due to ongoing TOT payment delinquency from one of the major short-term rental operators in the City. The City is pursuing further action regarding these critical TOT delinquencies. Currently, the City has over 190 licensed short-term rentals, with about half of the rentals highly active over the summer months. With the upcoming FIFA World Cup and other regional special events, the City anticipates increased short-term rental activity within the coastal zone in the months ahead. In addition to pursuing delinquencies and unlicensed operators, staff is also sending extra communications to licensed operators to ensure compliance with the required monthly payment remittances.
- **Business License Tax** – Business license tax, typically based on a business’s prior year gross receipts, has stayed consistent or experienced minor increases year-over-year. Approximately, 104 businesses pay the maximum “cap” amount of business license tax, contributing around 34% of the total business license revenue collected. For FY 2026, business license tax revenues are estimated to exceed the adjusted budget by \$150,000 (2.6%) and be \$410,847 (7.4%) over the prior year. This increase is primarily due to the

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partnership with HdL in providing a user friendly business license tax payment portal, along with additional compliance and discovery services to ensure all businesses operating within the City are complying with local regulations.

- **Real Estate Transfer Tax** – Real Estate Transfer Tax is a key indicator of real estate activity, with revenue derived from a charge of fifty-five cents per \$500 of sales price during property transfers, split equally between the City of Manhattan Beach and the County of Los Angeles. Based on transfer tax collections from all properties (residential and commercial) to date, revenues are expected to yield \$850,000 for the year, in line with the current budget.
- **Building Permits and Plan Check Fees** – Revenues from all Building Permits are projected at budget but Plan Check fees are expected to be above budget by \$1,500,000 (75%) due to a higher volume of permits and plan checks issued in the first half of FY 2026. The increased revenue is attributed to several large projects undergoing construction within the City. The number of demolition permits issued is slightly lower compared to the same period last year, which saw an uptick in January 2025 after the tragic Palisades and Eaton Fires.
- **Charges for Services** – Revenue from other Service Charges (not including Plan Checks) is projected to be under budget by approximately \$136,953 (1.6%), primarily due to projected decreases in Traffic Engineering Services, New Residential Unit Fees and Older Adult Activities.
- **Operating Service Transfers** – Operating Service Transfers include reimbursements to the General Fund, as outlined in the Cost Allocation Plan adopted in February 2025, from other Special Revenue and Enterprise Funds for Administrative Service Charges. In addition, Engineering staff time allocated to capital projects and grants is included in this reimbursement to the General Fund. Due to various vacancies in the Engineering Division, the Operating Service Transfers In category in the General Fund is down by \$500,000 or 9.0%.
- **Miscellaneous Revenues** – This category includes miscellaneous revenues such as the \$16.6 million in one-time bond proceeds and Workers Compensation Salary Continuation. Salary Continuation reimbursement revenues fluctuate year-to-year with the number of employees out on Injury-On-Duty leave. Workers Compensation costs are volatile and difficult to predict due to our small population.

To align the Budget with projected actuals, the recommended Mid-Year Revenue Adjustments for FY 2026 include:

Revenue Adjustments to General Fund			
#	Department	Description	Amount
1	Community Development	Plan Check Revenues Based on Year-to-Date Trends	\$1,500,000
2	Community Development	CPA Reach Code Program Grant Revenue Removal	-12,500
3	Fire	Reimbursement of Fire Ops Mutual Aid Overtime	50,000
4	Finance	Property Tax	358,113
5	Finance	Transactions and Use Tax (Measure MMB)	505,000
6	Finance	Interfund Transfers In	246,227
7	Finance	Engineering Operating Service Transfer In	-500,000
9	Police	Parking Citations and Other Fines	-123,706
Total GF Revenue Adjustments			\$2,023,134

Table 2

- **Plan Check Revenues Based on Year-to-Date Trends: \$1,500,000**
 The Community Development Department is projecting an increase in Plan Check Fee revenues in the amount of \$1,500,000. The Department is experiencing a substantial increase in Plan Checks due to large scale projects and overall increased development in the City. There is also a requested expenditure adjustment of \$1,000,000 for Plan Check Services described further in this Report.
- **Clean Power Alliance (CPA) Reach Code Program Grant revenue removal: \$(12,500)**
 Grant revenues will decrease by \$12,500 as a result of the Clean Power Alliance (CPA) Reach Code Program Grant revenue that is no longer expected. The City is no longer participating in the CPA Reach Code Program due to changes in State law that limit the City's ability to adopt reach codes. As such, the City no longer anticipates the grant award of \$12,500 for program participation.
- **Reimbursement of Fire Ops Mutual Aid Overtime: \$50,000**
 An increase of \$50,000 is projected for the increased assistance provided through the State's master mutual aid agreement, and is expected to receive funds higher than the budgeted amount for the year. The \$50,000 increase in revenues will be offset by a corresponding increase in expenditures associated with these operations.
- **Property Tax: \$358,113**
 An increase in Property Tax revenues in the amount of \$358,113 is projected based on the most recent growth projections for property assessed valuations.
- **Transactions and Use Tax (Measure MMB): \$505,000**
 Based on the most recent projections by the City's Sales and TUT consultant, HdL, an increase of \$505,000 in Transactions and Use Tax (Measure MMB) revenues is projected.
- **Interfund Transfers In: \$246,227**
 Transfers In have been added in the amount of \$246,227 to reflect the annual transfer of excess funds from the County Parking Lots Fund. As previously mentioned, Interfund Transfers have been added to align with best practices and increase financial transparency for the public.

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- **Engineering Operating Service Transfers In: \$(500,000)**

A decrease in the amount of \$500,000 for Engineering Operating Service Transfers In.

- **Parking Citations and Other Fines: \$(123,706)**

The Police Department is projecting a decrease in parking citations and other fines in the amount of \$123,706. Based on lower-than-expected actuals, staff is projecting a decrease in revenues.

Staff recommends approving these revenue adjustments to bring the revised General Fund revenue budget to \$131.4 million.

GENERAL FUND EXPENDITURES

The following are highlights of several key expenditure areas. Table 3 summarizes key General Fund Expenditures in Fiscal Year 2026 and compares this with prior year actuals. Projections for expenditures in FY 2026 are approximately \$11.1 million (10.0%) above the current revised budget. Per the City's Financial Policies, total expenditures of a particular fund cannot exceed that which is appropriated by the City Council without a budget amendment. As such, staff is recommending budget adjustments to align the budget with specific one-time projects and expenditure overages that occurred during the first half of the fiscal year or are anticipated by fiscal year-end.

Table 3 displays General Fund Expenditures projected at the end of the year, in comparison to the adjusted budget and prior year by Category.

GENERAL FUND EXPENDITURES BY CATEGORY

General Fund Expenditures	FY 2025 Actual	FY 2026 Adjusted Budget ^(a)	Mid-Year Projected Year End	Variance Under/(Over) Budget ^(b)	%
Salaries & Wages	\$45,699,908	\$46,119,778	\$47,059,199	(\$939,421)	-2.0%
Employee Benefits	16,639,537	17,083,678	17,197,302	(\$113,624)	-0.7%
Contract & Professional Services ^(c)	14,759,786	16,543,272	17,956,805	(\$1,413,534)	-8.5%
Materials & Services	3,922,865	5,067,494	5,140,398	(\$72,904)	-1.4%
Utilities	1,468,748	1,754,711	1,456,700	\$298,011	17.0%
Internal Service Charges	12,095,245	15,297,279	15,300,716	(\$3,437)	0.0%
Property & Equipment	45,289	3,889,850	3,874,475	\$15,375	0.4%
Bond Debt	5,644,322	5,677,102	5,696,970	(\$19,868)	-0.3%
Operating Service Transfers Out	276,972	13,134	13,765	(\$631)	-5%
Subtotal Expenditures	\$100,552,672	\$111,446,297	\$113,696,330	(\$2,250,033)	-2.0%
Interfund Transfers Out	-	-	8,889,586	(\$8,889,586)	n/a
Total GF Expenditures	\$100,552,672	\$111,446,297	\$122,585,916	(\$11,139,619)	-10.0%

Table 3

Salaries and Wages for FY 2026 are projected to be nearly \$939,421 (2.0%) above budget. The increases to this category largely stem from Sworn Employee Salaries, Sworn Overtime and Part-Time Salary costs.

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When budgeted positions remain unfilled, additional budgetary savings may occur. The FY 2026 Budget included a six percent vacancy factor to account for these savings upfront. However, departments often must utilize overtime, part-time and/or contract services to ensure critical operations continue. When departments are fully staffed throughout the year or backfill vacant positions to keep up with workload demands, that department will exceed their budgeted personnel costs.

Eligible City employees can receive an annual “cash-out” of unused vacation or general leave instead of using it. Additionally, whenever an employee retires or separates from the City, accrued leave balances are also paid out. Cash-outs to date total \$532,381. These cashouts were factored in the FY 2026 budget, however, they continue to be unpredictable due to fluctuations in retirement or separation cash-outs.

Sworn Overtime in the Fire Department is over budget by nearly \$545,000. Of this amount, \$190,000 is related to Overtime Sworn Employees in Fire Operations, \$305,000 is related to EMS Overtime Sworn Employees due to vacancies and IOD's (Injury On Duty) and about \$50,000 is related to fire mutual aid deployments, which will be reimbursed by State resources (a corresponding revenue adjustment is also requested).

The Benefits category is expected to exceed budget by \$113,624 (0.7%), consistent with the salary cost overruns. The benefits category includes employee medical insurance, Medicare, CalPERS retirement cost contributions, and 401A Plan contributions.

Contract & Professional Services expenditures are expected to be approximately \$1,413,534 (8.5%) over budgeted costs. The primary drivers contributing to these cost increases are Contract Services (\$938,601) and Legal Services (\$497,400). These cost increases are further described within the Mid-Year Appropriation Adjustment Requests section of this Report. Additionally, a portion of the cost increases are related to encumbered contracts and/or specific projects that will be carried forward into the next fiscal year.

Materials & Services are \$72,904 (1.4%) over the budgeted amount. This variance is primarily due to increases in Bank Service Charges and POST Training, coupled with cost savings coming from Uniforms/Safety Equipment and Memberships & Dues.

The Utilities category is trending under budget by \$298,011 (17%). When the budget was calculated for FY 2026, CPI increases were applied to utility costs based on estimated rate increases, however, usage factors and less severe rate adjustments, specifically related to electricity, have resulted in cost savings for FY 2026.

Mid-Year Appropriation Adjustment Requests

At the midpoint of the year, departments have reviewed their expenditures and staffing levels and have submitted requests for adjustments based on operational needs. The recommended appropriation adjustments in the General Fund total approximately \$11.1 million. There are fifteen individual expenditure adjustments to the General Fund, which are outlined in Table 4 of this Report. Staff recommends approving these appropriations to align the revised General Fund expenditure budget with the year-end projection of \$122.6 million.

Table 4 provides a summary of the appropriation requests.

Expenditure Adjustments to General Fund			
#	Department	Description	Amount
1	Community Development	Building Plan Check Consultants	1,000,000
2	Community Development	Building Inspection services	100,000
3	Finance	Business License Code Update Including Fiscal	202,400
4	Finance	Cost of Issuance for Debt Financing 2025 COPs	19,868
5	Finance	Interfund Transfers Out	8,889,586
6	Finance	Bank Service Charges	64,882
7	Fire	Fire Operations Overtime Sworn Employees	190,000
8	Fire	Fire Ops Mutual Aid Overtime	50,000
9	Fire	EMS Overtime Sworn Employees	305,000
10	Human Resources	Legal Services	100,000
11	Human Resources	Contract Services	250,000
12	Management Services	Chamber of Commerce Annual Agreement	35,000
13	Management Services	City Attorney Legal Services to Account for Balance Sheet Costs from Past Fiscal Years	332,000
14	Citywide	Utilities	-298,011
15	Citywide	Overtime Special Events	-101,106
Total GF Expenditure Adjustments			\$11,139,619

Table 4

Requested Changes to Community Development

- **Building Plan Check Consultants: \$1,000,000**

With increased development activity within the City, the Community Development Department is experiencing a significant increase in building permit applications and associated plan check requests. To meet anticipated demand for plan check services, the City will supplement plan check review through third party consultants which requires a budget adjustment request in the amount of \$1,000,000. This added cost is entirely offset by the increased plan check revenues in the amount of \$1,500,000.

- **Building Inspection Services: \$100,000**

In tandem with the increased building activity and plan check services, the Department is experiencing an increased volume of next-day building inspections. The Department is requesting \$100,000 in contract services to ensure the City has the capacity to complete next-day building inspections.

Requested Changes to Finance

- **Business License Code Update Including Fiscal Analysis, Consulting, Polling and Legal Services: \$202,400**

The City of Manhattan Beach is undergoing a business license municipal code update and

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potential ballot measure to adjust business license tax rates. Fiscal Analysis, Consulting, Polling and Legal Services are necessary to move process forward, and the Finance Department is requesting an increase in the amount of \$202,400 to complete these services.

- **Cost of Issuance for Debt Financing 2025 COPs: \$19,868**

The Cost of Issuance for the 2025 COPs was not originally budgeted to include all costs for both 400 MBB and Public Safety Radios. A minor adjustment of \$19,868 is requested to reflect the actual costs incurred from the debt financing.

- **Interfund Transfers Out: \$8,889,586**

As mentioned in the introduction of this Report, the Finance Department has reclassified Transfers Out from balance sheet accounts to expenditure accounts to align with best practices and increase financial transparency for the public. This increase is broken down further below in the General Fund Transfers to Other Funds section below.

- **Bank Service Charges: \$64,882**

The Finance Department has continued to see an increase in Bank Service Charges due to increased credit card usage and various online payment platforms that give customers the convenience of paying by credit card. Based on year-to-date trends, Bank Service Charges are expected to increase by \$64,882 in the General Fund.

Requested Changes to Fire

- **Fire Operations Overtime Sworn Employees: \$190,000**

The Fire Department is requesting an increase to the overtime budget in the amount of \$190,000 for Fire Operations sworn personnel and Division Chiefs in anticipation of World Cup/FIFA coverage needs.

- **Fire Operations Mutual Aid Overtime: \$50,000**

The Fire Department is requesting an increase to the overtime budget in the amount of \$50,000 for the increased assistance provided through State's master mutual aid agreement and has incurred overtime costs exceeding the budgeted amount for the year. The \$50,000 request will be offset by corresponding increase in revenues associated with these operations.

- **EMS Overtime Sworn Employees: \$305,000**

The Fire Department is requesting an increase to the overtime budget in the amount of \$305,000 for incurred overtime costs exceeding the budgeted amount for the year related to EMS sworn personnel due to vacancies and IOD's (Injury On Duty).

Requested Changes to Human Resources

- **Legal Services: \$100,000**

The Human Resources Department is requesting an increase in the amount of \$100,000 for Legal Services related to legal consultation for labor relation issues and workplace legal matters.

- **Contract Services: \$250,000**

The Human Resources Department is requesting an increase in the amount of \$250,000 for Contract Services related to workplace and administration investigative and consulting services. The Department has received an increased volume of administrative investigations

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currently in process and continues to utilize the services of multiple different legal services and investigative services vendors on an as-needed basis in response to personnel investigations.

Requested Changes to Management Services

- **Chamber of Commerce Annual Agreement: \$35,000**
The Management Services Department received City Council direction at the November 18, 2025, City Council Meeting, to include a Mid-Year Budget Request to increase the expenditure for the Chamber of Commerce by the amount of \$35,000, which increases the existing budget from \$40,000 to \$75,000. The Department is including this formal request to increase the Chamber budget by \$35,000 accordingly.
- **City Attorney Legal Services to Account for Past FYs: \$332,000**
Legal costs associated with a development project were previously charged to a balance sheet account, however, the charges require reclassification to the appropriate expenditure account under legal services. Accordingly, an increase in the amount of \$332,000 for City Attorney Legal Services related to prior fiscal year expenditures is necessary.

Requested Changes Citywide

- **Utilities: \$(298,011)**
The City is experiencing an overall decrease in citywide utility costs across Electricity, Natural Gas, Water and Postage. Based on year-to-date trends, a decrease in the amount of \$298,011 is expected.
- **Overtime Special Events: \$(101,106)**
The City annually supports several special events through the use of Police, Fire and Public Works Special Events Overtime. Based on year-to-date trends, a decrease in the amount of \$101,106 is expected for Overtime Special Events.

General Fund Transfers

Over the next five years, net General Fund transfers are projected to range between \$8.6 million and \$9.5 million per fiscal year. In FY 2026, net transfers out are projected to total \$8.6 million.

GENERAL FUND TRANSFERS

#	Fund	Amount
1	Street Lighting & Landscape Fund	(142,693)
2	CIP Fund	(5,000,000)
3	Storm Drain Fund	(500,000)
4	Section 115 Trust Fund	(3,246,893)
5	County Parking Lots Fund	246,227
Total GF Interfund Transfers		(8,643,359)

Table 5

The *Street Lighting & Landscaping Fund* currently has no fund balance and assessments are inadequate to fund operations or provide for future capital needs. As a result, the General Fund

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subsidizes this fund every year. An estimated subsidy of \$142,693 will be required in FY 2026. Budgeted transfers to *Capital Improvement Program (CIP) Fund* include \$5.0 million to support ongoing infrastructure and project needs. As part of the City’s adopted Financial Policies, the City will dedicate up to \$5.0 million in General Fund revenues or as otherwise set by City Council for any given fiscal year. This dedication is directly supported by the additional General Fund revenues received through the new Local Transaction & Use Tax (Measure MMB) that went into effect on April 1, 2025.

A transfer of \$500,000 to the *Storm Drain Fund* was included in the Adopted Budget to support critical capital projects.

A transfer out to the *Section 115 Pension Rate Stabilization Trust Fund* is budgeted at \$3.2 million in accordance with the City’s Pension Policy (Pension Obligation Bond budgetary savings). These funds are available to fund any pension-related payments to CalPERS at the City Council’s discretion.

Lastly, a transfer in from the County Parking Lots Fund of \$246,227 is anticipated per a revenue sharing agreement with the County. At the end of each fiscal year, Bruce’s Beach and El Porto parking revenues in excess of operational and maintenance costs are transferred into the General Fund.

ADJUSTMENTS TO OTHER FUNDS

Expenditure Adjustments to All Other Funds				
#	Department	Fund	Description	Amount
1	Finance	CIP	Cost of Issuance and Debt Service 2025 COPs	\$136,165
2	Human Resources	Insurance	Unemployment Claims	25,000
3	Human Resources	Insurance	Claims Paid	1,000,000
4	Public Works	Measure R	Adjustment to CIP ST16014 Aviation @Artesia	-100,000
5	Public Works	Gas Tax	Adjustment to CIP ST16014 Aviation @Artesia	100,000
6	Public Works	Measure W	Adjustment to CIP 28th St. Storm Drain Project	-13,471,566
7	Public Works	Grants	Adjustment to CIP 28th St. Storm Drain Project	13,471,566
8	Public Works	Storm Drain	Adjustment Request Dominguez Channel Trash TMDL	-258,337
9	Public Works	Measure W	Adjustment Request Dominguez Channel Trash TMDL	258,337
10	Public Works	CIP	Fire Station #2 HVAC	50,000
Total Other Expenditure Adjustments				\$1,211,165

Table 6

Requested Changes to Finance

- **CIP Fund - Cost of Issuance and Debt Service 2025 COPs: \$136,165**

The Cost of Issuance for the 2025 COPs was not originally budgeted to include all costs for both 400 MBB and Public Safety Radios, therefore, an increase of \$236,374 in financing costs

ATTACHMENT 1

is necessary. Additionally, the Debt Service payment for 400 MBB in FY 2026 is expected to decrease by \$100,209, therefore, the net increase in these financing costs is \$136,165.

Requested Changes to Human Resources

▪ **Insurance Fund - Unemployment Claims: \$25,000**

The Human Resources Department is requesting an increase in the amount of \$25,000 for unemployment claims. Based on the historical expenditures, year-to-date actuals and billing statements from Employment Development Department (EDD), an additional \$25,000 is needed to supplement the current budget for unemployment claims.

▪ **Insurance Fund - Claims Paid: \$1,000,000**

The Human Resources Department is requesting an increase in the amount of \$1,000,000 for claims paid based on current fiscal year actuals. The Department anticipates this increase is needed to cover increased costs related to ongoing litigation matters.

Requested Changes to Public Works

▪ **Measure R & Gas Tax Funds - Adjustment to CIP ST16014 Aviation at Artesia: Net Zero**

The Public Works Department is requesting a net zero adjustment for Project ST16014 (Aviation at Artesia). The Department is requesting to cease the expenditure of \$100,000 of Measure R Funds and increase expenditure on Gas Tax funds by \$100,000. Additionally, the Department is requesting to cease the revenues of \$100,000 of Measure R Funds and increase revenues of Gas Tax funds by \$100,000. This change will allow staff to maximize the grant reimbursement.

▪ **Measure W & Grants Funds - Adjustment to CIP 28th St. Storm Drain Project: Net Zero**

The Public Works Department is requesting a net zero adjustment for Project SW21402 (28th Street Storm Drain Project). The Department is requesting to cease the expenditure of \$13,471,566 of Measure W Funds and increase use \$13,471,566 of Prop 1 and CRNA Grant funds. Additionally, the Department is requesting to cease revenues of \$8,535,000 of Measure W Funds and increase revenues of Grants Fund by \$8,535,000. Additionally, the Department is requesting to cease the revenues of \$4,936,566 of Measure W Funds and increase revenues of Grant funds by \$4,936,566. This change will allow staff to record the grant for financial transparency.

▪ **Storm Drain & Measure W Funds - Adjustment Request Dominguez Channel Trash TMDL: Net Zero**

The Public Works Department is requesting a net zero adjustment for Project SW26011 (Dominguez Channel Trash TMDL). The Department is requesting to cease the expenditure of \$258,337 of Storm Drain Funds, and to instead use \$258,337 of Measure W Funds. This change will allow staff to better utilize the Measure W local return funds to prevent the lapse of funding.

▪ **CIP Fund - Fire Station #2 HVAC: \$50,000**

The Public Works Department is requesting an increase in the amount of \$50,000 as Fire Station #2 has an outstanding Planning Department requirement regarding HVAC screening. Once this has been completed, Staff can begin the project close out process. Staff estimate that the design and construction (along with contingency and permitting) will total an additional \$50,000.

Revenue Adjustments to All Other Funds				
#	Fund	Department	Description	Amount
1	Measure R	Public Works	Adjustment to CIP ST16014 Aviation @Artesia	-\$100,000
2	GasTax	Public Works	Adjustment to CIP ST16014 Aviation @Artesia	100,000
3	Measure W	Public Works	Adjustment to CIP 28th St. Storm Drain Project	-13,471,566
4	Grants	Public Works	Adjustment to CIP 28th St. Storm Drain Project	13,471,566
5	Measure W	Public Works	Reduce Grant Revenues for TMDL Trash Treatment Project	-37,350
Total Other Fund Revenue Adjustments				(37,350)

Table 7

Requested Changes to Public Works

- The Revenue Adjustments contained in Table 7, items 1- 4 above, are described further within the CIP Expenditure Adjustments on page 13 of this Report.
- **Measure W Fund - Reduce Grant Revenues for TMDL Trash Treatment Project: \$(37,350)**
The Public Works Department is requesting a decrease in the amount of \$37,350 for Project SW24005. The Department no longer expects to realize revenues from the Grant Funds related to this project due to a clerical error where appropriation exceeded the share of expected proceeds of grant funding whereas the Los Angeles County Flood Control District is expected to receive the \$37,350 portion of the grants in lieu of the City.

CONCLUSION

General Fund projections for Fiscal Year 2026 show total estimated revenues at \$131.4 million, \$2.0 million above the current adjusted budget total, and estimated expenditures at \$122.6 million, \$11.1 million above the current adjusted budget total.

When comparing estimated year-end revenues and expenditures irrespective of the budget, revenues are expected to exceed expenditures by nearly \$8.8 million.

General Fund Summary

Adopted Surplus/(Deficit)	\$19,839,399
Net Budget Adjustments to Date	(1,940,374)
Revenues over Budget Including Transfers	2,023,134
Expenditures over Budget Including Transfers	(11,139,619)
Projected Surplus/(Deficit) at Year-End	\$8,782,541

Table 7

GENERAL FUND SUMMARY

General Fund	Adopted Budget	Adjusted Budget	Mid-Year Projection	Transfers	Mid-Year Projection*
Revenues	\$125,419,628	\$129,345,323	\$131,122,230	\$246,227	\$131,368,457
Expenditures	\$105,580,229	\$111,446,297	113,696,330	8,889,586	122,585,916
Operating Surplus/(Deficit)	\$19,839,399	\$17,899,025	\$17,425,900	(8,643,359)	\$8,782,541
Net Interfund Transfers	(\$8,631,206)	(\$8,631,206)	(8,643,359)		-
Surplus/(Deficit)	\$11,208,193	\$9,267,819	\$8,782,541		\$8,782,541

*New methodology that includes Interfund Transfers within Revenues and Expenditures to align with best practices and external auditor recommendations.

Table 8

Table 8 shows the progression from the Adopted Budget to the Mid-Year Projection, including showing the methodology change to include Transfers within Revenues and Expenditures. Taking into account all year-end projections and expected transfers, the unreserved General Fund balance is estimated at be \$19.8 million at year-end. As part of the budget process, staff is refining the five-year forecast model for revenue and expenditure growth to ensure long-term fiscal sustainability. The City’s Financial Policies and fund transfers are also being thoroughly reviewed and will be presented to the Finance Subcommittee and subsequently the City Council with the FY 2027 Proposed Budget presentation in May.

City staff is also developing the FY 2027 Proposed Budget and making efforts to address budget challenges that could potentially lead to future deficits. This includes a thorough review of cost controls, explorations of potential revenue enhancements, and considerations of financial policy changes.

Finance staff will continue to monitor the City’s resources to ensure adequate funding for City services, public facilities, and infrastructure, meeting the community’s present and future needs.