



City of Oceanside

300 North Coast Highway,
Oceanside, California 92054

Staff Report

File #: 26-1187

Agenda Date: 2/4/2026

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DATE: February 4, 2026

TO: Honorable Mayor and City Councilmembers

FROM: Financial Services Department

TITLE: GENERAL FUND FIVE-YEAR FINANCIAL FORECAST, PROPOSED COUNCIL POLICY UPDATE AND APPROPRIATION OF FUNDS TO CALPERS UNFUNDED ACCRUED LIABILITY ACCOUNT.

RECOMMENDATION

Staff presents the FY 2026-27 through FY 2030-31 General Fund Five-Year Financial Forecast for review, recommends approval of updates to the City Council Policy 200-13 - Financial Policies, and requests an appropriation of \$1,339,141 from prior-year General Fund surplus to the CalPERS unfunded accrued liability account.

BACKGROUND AND ANALYSIS

General Fund Five Year Forecast

The financial forecast is a forward look at the City of Oceanside's General Fund revenues and expenditures. Its purpose is to identify financial trends and issues so the City can proactively address them. The forecast projects fiscal outcomes based on the continuation of current service levels, policies, and anticipated changes to revenue streams or expenses. It also incorporates historical data to provide context and illustrate the financial trajectory resulting from past decisions.

Generally speaking, positive results within the forecast indicate surplus funds available for new initiatives and projects, while negative results highlight potential budget gaps which could result in spending reductions. For this latest five-year forecast period, staff projects a consistent positive balance, beginning with a projected surplus of \$3.69 million for FY 2026-27, based on projected revenues of \$238.92 million and expenditures of \$235.23 million. Details on the five-year forecast are included in the attached forecast report.

This financial forecast is not a budget or a proposed financial plan for achieving City or City Council objectives. Instead, it is a projection based on current economic conditions, consultant analyses, and staff assumptions, reflecting a consensus view of anticipated revenues and expenditures under existing policies and service levels.

Year-one of the forecast serves as the foundation for developing the FY 2026-27 General Fund

annual operating budget, which will be presented during the budget workshop to be held on April 15, 2026 and finalized during the budget adoption on June 3, 2026.

Proposed Council Policy Update

Additionally, staff recommends approval of an update to Council Policy 200-13 - Financial Policies. Specifically, staff recommends an update to the policy section that addresses the use of surplus general fund revenues. Under the existing policy, surplus revenues are allocated equally between enhancement of the unassigned fund balance and reduction of long-term unfunded liabilities.

The proposed policy update prioritizes the use of year-end surpluses to first restore required General Fund reserves and then replenish assigned fund balances that were utilized during the prior fiscal year for one-time, non-recurring purposes. This change does not authorize the use of surplus revenues for ongoing operating needs, but rather ensures that reserves and one-time funding sources are restored before surplus revenues are allocated for other purposes. Additional updates were made to clarify language and adjust thresholds, such as the threshold to appropriate grant funds and the threshold to notify of budget changes within the same fund and department, to levels appropriate for current conditions, as these thresholds have not been revised since 2012.

This update reinforces the City's conservative financial practices by prioritizing reserve restoration, supporting long-term financial stability, and ensuring that surplus revenues are used strategically to address critical needs while mitigating future fiscal risks.

Proposed language be added to City Council Policy 200-13:

Any excess general fund revenue at the close of the fiscal year shall be allocated in the following priority order:

- a. Healthy City Reserve Fund - Restore the reserve to the required level of 12 percent of General Fund operating expenditures.
- b. Economic Stabilization Reserve Fund - Restore the reserve to the required level of 3 percent of General Fund operating expenditures.
- c. Post-Employment Leave Reserve Fund - Restore the reserve to 8 percent of the prior fiscal year's compensated absences balance for governmental activities, as reported in the City's Annual Comprehensive Financial Report.
- d. Other Fund Balances - Replenish any Fund Balances that were utilized in the prior fiscal year per City Manager's discretion.

After the above fund balance requirements have been met, any remaining General Fund surplus shall be allocated as follows:

- a. 50 percent to enhance the unassigned fund balance.
- b. 50 percent to reduce long-term unfunded liabilities.

For fiscal year 2024-25 the General Fund ended the year with a \$1,058,119 operating surplus and a market valuation gain on investments of \$6,220,678. Therefore, there is a total of \$7,278,797 to allocate.

Funds	Amount
2024-25 General Fund Operational Surplus	\$1,058,119
Market Valuation Gain	6,220,678
Total Surplus to Allocate	\$7,278,797

Consistent with the proposed updates to Council Policy 200-13, staff evaluated the FY 2024-25 General Fund surplus using the proposed priority order for reserve restoration and one-time fund balance replenishment.

The Healthy City Reserve Fund and the Economic Stabilization Reserve Fund currently meet their respective policy-required minimum levels. As a result, no additional allocation to these reserves is necessary at this time. A minimal allocation of \$515 is needed to fully restore the Post-Employment Leave Reserve Fund to its required level of 8 percent of prior year compensated absences.

During the prior fiscal year, the City utilized one-time funding from the Assigned Infrastructure Reserve and the Assigned San Luis Rey River Reserve to address specific, non-recurring project needs. Consistent with the intent of the proposed policy update, staff recommends replenishing these reserves to maintain their availability for future one-time capital and infrastructure-related needs.

Following the restoration and replenishment of reserves, approximately \$2.7 million in remaining surplus funds are available for allocation. In accordance with the proposed policy updates, the remaining surplus will be allocated evenly between the unassigned General Fund balance and the reduction of the City’s long-term unfunded liabilities, with the liability portion applied as a one-time payment toward the CalPERS Unfunded Accrued Liability (UAL).

Allocation Type	Amount
Post-Employment Leave Reserve	\$ 515
Assigned Infrastructure Reserve	2,300,000
Assigned San Luis Rey River Reserve	2,300,000
CalPERS UAL payment	1,339,141
Unassigned General Fund Balance	1,339,141
Total	\$7,278,797

FISCAL IMPACT

For the CalPERS Unfunded Accrued Liability (UAL), staff requests a budget appropriation of \$1,339,141 to the NonDepartmental CALPERS Unfunded Liability expense account. Funding source is prior year (FY 2024/25) general fund surplus.

Funds are to be appropriated as follows:

Account Description	Account Number	Appropriate
Non Departmental Expense	170174101.5213	\$1,339,141

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY'S ANALYSIS

Approved as to form.

Prepared by: Jill Moya, Financial Services Director
Reviewed by: Michael Gossman, Assistant City Manager
Submitted by: Jonathan Borrego, City Manager

ATTACHMENTS:

1. Staff Report
2. General Fund Five-Year Financial Forecast Report
3. FY 2026-27 Budget Calendar
4. Proposed Council Policy Update



General Fund Five-Year Financial Forecast

February 2026

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

PURPOSE OF THE FORECAST

The purpose of the financial forecast is to project trends, anticipate shortfalls, and address potential concerns regarding the City of Oceanside's General Fund revenues and expenditures. By providing these projections, the forecast enables the city to proactively prepare for future fiscal challenges and opportunities. It evaluates the prospective impact of recent decisions while offering historical financial data to contextualize past performance. Positive projections reveal surpluses that can fund new initiatives, whereas negative projections highlight potential budgetary gaps that may require corrective actions.

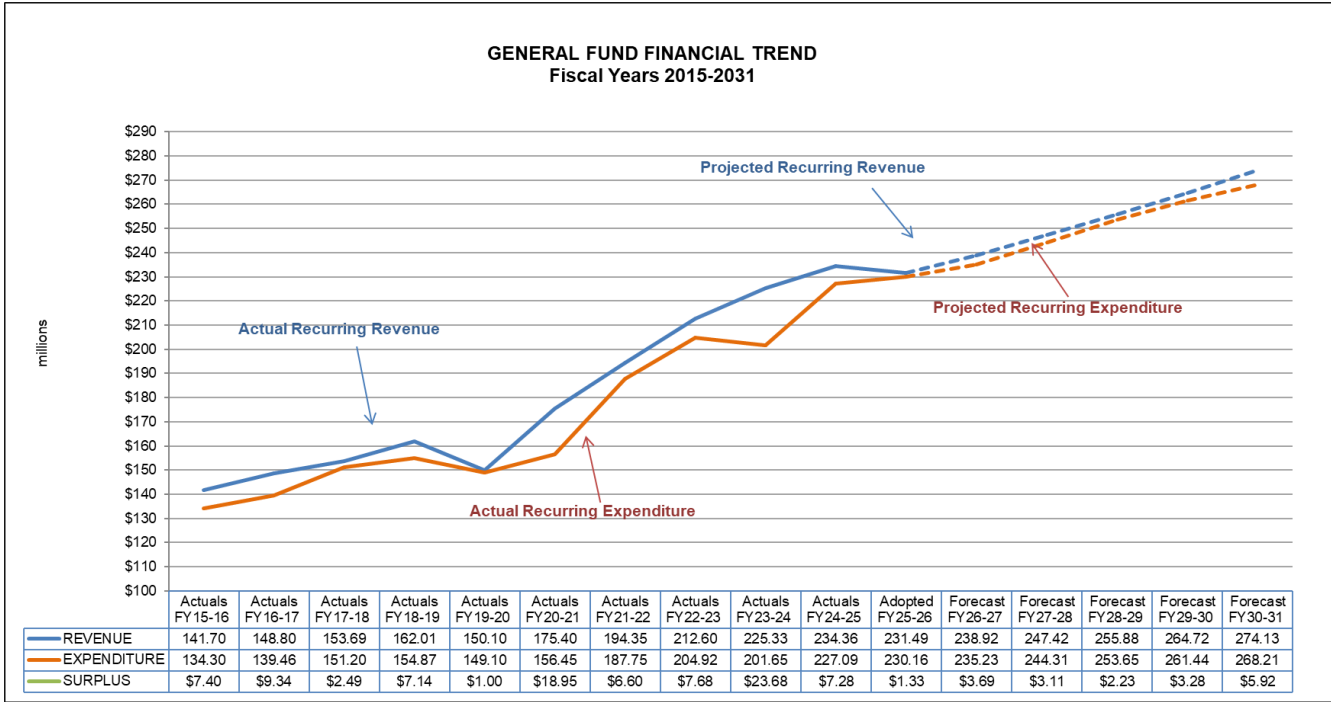
This approach aligns with the Recommended Budget Practices established by the National Advisory Council on State and Local Budgeting (NACSLB), which emphasizes forecasting as a critical component of sound fiscal management. However, it is important to note that this financial forecast is neither a budget nor a financial strategy designed to achieve specific objectives. Instead, it serves as a planning tool to inform decision-making and support long-term fiscal health.

GENERAL FUND FINANCIAL TREND

Below is a chart showing the actual General Fund revenues and expenses for the past ten years, as well as projected revenues and expenses for the current year and the next five years. The revenue decline in fiscal year 2019-20 was a result of the Covid-19 pandemic. In response, the city's general fund expense budgets were reduced, allowing the city to avoid a deficit by the end of the year. Following the pandemic, with economic uncertainty and concerns about a potential recession, the city adopted a conservative approach to revenue projections, which led to larger-than-expected surpluses. The General Fund Five-Year forecast for FY 2026-27 to FY 2030-31 takes a somewhat less conservative approach, factoring in projected revenue increases driven by anticipated development and a growing economy.

Under current assumptions, the General Fund is expected to remain structurally balanced through FY 2030–31, with modest but stable operating surpluses each year. This sustained positive operating margin indicates that the City is positioned to maintain service levels, absorb cost pressures, and plan strategically for future financial needs.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST



GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

The following table summarizes projected General Fund revenues, expenditures, and annual operating surpluses for the five-year forecast period. These projections incorporate the City's long-term assumptions, expected economic conditions, and known contractual obligations. Beginning in FY 2026–27, the first year of the forecast, the General Fund is projected to generate a modest operating surplus that continues throughout the forecast period. The table provides a consolidated view of the City's financial trajectory and serves as the foundation for the detailed revenue and expenditure discussions that follow.

General Fund Five-Year Forecast Summary

	Adopted Budget FY25-26	Forecast Year 1 FY26-27	Forecast Year 2 FY27-28	Forecast Year 3 FY28-29	Forecast Year 4 FY29-30	Forecast Year 5 FY30-31					
RECURRING REVENUES											
Property Taxes	\$ 95.69	\$ 101.12	5.7%	\$ 107.34	6.2%	\$ 113.31	5.6%	\$ 119.73	5.7%	\$ 126.64	5.8%
Sales & Use Taxes	32.98	32.15	-2.5%	32.99	2.6%	33.96	2.9%	35.06	3.2%	36.19	3.2%
Transient Occupancy Tax	13.29	13.49	1.5%	13.60	0.8%	13.71	0.8%	14.43	5.3%	14.55	0.8%
Beachfront TOT	3.59	4.07	13.3%	4.19	3.0%	4.32	3.0%	4.45	3.0%	4.58	3.0%
All Other Taxes	5.49	5.71	4.0%	5.82	1.9%	5.94	2.1%	6.06	2.0%	6.18	2.0%
Franchise Fees	4.56	4.02	-11.8%	4.01	-0.2%	3.99	-0.5%	3.98	-0.3%	3.97	-0.3%
Licenses & Permits	4.97	5.05	1.6%	5.05	0.0%	5.05	0.0%	5.06	0.2%	5.06	0.0%
Fines & Forfeitures	4.28	4.29	0.2%	4.29	0.0%	4.29	0.0%	4.29	0.0%	4.29	0.0%
Use of Money & Property	10.42	10.32	-1.0%	10.44	1.2%	10.56	1.1%	10.69	1.2%	10.81	1.1%
Intergovernmental	0.56	0.60	7.1%	0.60	0.0%	0.60	0.0%	0.60	0.0%	0.60	0.0%
Ambulance Billing	9.80	10.42	6.3%	10.62	1.9%	10.84	2.1%	11.05	1.9%	11.27	2.0%
Charges for Services	25.12	25.63	2.0%	25.91	1.1%	26.23	1.2%	26.39	0.6%	26.60	0.8%
Transfers In & Other Revenues	20.75	22.06	6.3%	22.56	2.3%	23.08	2.3%	23.53	1.9%	23.99	2.0%
TOTAL RECURRING REVENUES	\$ 231.49	\$ 238.92	3.2%	\$ 247.42	3.6%	\$ 255.88	3.4%	\$ 265.32	3.7%	\$ 274.73	3.5%
RECURRING EXPENDITURES											
Personnel											
Compensation Cost	85.16	89.26	4.8%	93.62	4.9%	97.57	4.2%	101.53	4.1%	105.33	3.7%
Overtime	8.06	8.25	2.4%	8.51	3.1%	8.76	3.0%	9.02	3.0%	9.29	3.0%
PERS	35.68	36.95	3.6%	38.54	4.3%	41.24	7.0%	42.07	2.0%	42.54	1.1%
Pension Bond	0.26										
Health Insurance	13.27	13.11	-1.2%	13.77	5.0%	14.45	5.0%	15.18	5.0%	15.94	5.0%
Workers Comp	6.05	6.30	4.1%	6.61	5.0%	6.90	4.3%	7.18	4.1%	7.45	3.8%
Other Benefits	4.50	4.82	7.1%	4.95	2.8%	5.07	2.4%	5.19	2.3%	5.33	2.7%
<i>Personnel Cost Subtotal</i>	\$ 152.99	\$ 158.69	3.7%	\$ 166.00	4.6%	\$ 173.99	4.8%	\$ 180.18	3.6%	\$ 185.88	3.2%
Maintenance & Operations											
Maintenance & Operations	36.48	38.82	6.4%	39.59	2.0%	40.19	1.5%	40.99	2.0%	41.73	1.8%
Rebate for Beachfront Resort	2.80	2.19	-22.0%	2.12	-3.2%	2.18	3.0%	2.25	3.0%	2.31	3.0%
Rebate for Carmax	0.61	0.57	-5.0%	0.60	3.5%	0.62	3.5%	0.64	3.5%	0.47	-25.9%
Transfers Out & Internal Service Charges	34.29	34.97	2.0%	36.01	2.9%	36.68	1.8%	37.39	1.9%	37.81	1.1%
One-time transfer to CIP	3.00										
TOTAL RECURRING EXPENDITURES	\$ 230.16	\$ 235.23	2.2%	\$ 244.31	3.9%	\$ 253.65	3.8%	\$ 261.44	3.1%	\$ 268.21	2.6%
Expected Remaining Surplus (Shortfall)	\$ 1.33	\$ 3.69		\$ 3.11		\$ 2.23		\$ 3.88		\$ 6.52	
One-time costs	\$ 4.38										

ECONOMIC OUTLOOK

Recent economic indicators suggest that the U.S. economy is entering a period of moderate and more balanced growth following several years of volatility. Inflation has eased from recent highs, labor market conditions have cooled but remain stable, and economic activity continues to expand at a slower, more sustainable pace. While cost pressures and uncertainty persist in certain sectors, most economic forecasts anticipate continued expansion rather than recession over the near term.

The most recent UCLA Anderson Forecast characterizes the national outlook as slowing but resilient, with growth supported by consumer spending, business investment in select high-productivity sectors, and easing inflation. For California, UCLA projects a continuation of relatively weak job growth in the near term, followed by a gradual improvement later in the forecast period. Economic growth is expected to be led by technology, aerospace, and other innovation-driven industries, while interest-sensitive sectors such as construction and commercial real estate remain more constrained.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Regional conditions in San Diego County generally reflect these statewide trends. Economic indicators point to slower employment growth, softer commercial real estate activity, and more cautious business investment. At the same time, the region benefits from a diverse economic base, a strong tourism sector, and long-term demand for housing and services, which continue to support overall economic stability.

While broader economic trends influence the City's revenue outlook, Oceanside's local economy continues to demonstrate relative resilience. Ongoing development activity, stable residential demand, and sustained visitor activity support continued growth in property tax and transient occupancy tax revenues. These local conditions, combined with conservative forecasting assumptions, support the City's expectation of remaining structurally balanced throughout the forecast period.

DEMOGRAPHIC TRENDS

Population - According to the California Department of Finance, Oceanside's population is estimated at approximately 174,340, compared to 171,483 in the prior year, representing an increase of about 1.7 percent. This modest growth reflects continued population stability and incremental increases. While statewide population growth has moderated in recent years, Oceanside continues to benefit from its coastal location, employment base, and ongoing residential development, supporting sustained demand for City services.

Inflation - The City monitors inflation using the Consumer Price Index for All Urban Consumers (CPI-U) for the San Diego metropolitan area, as reported by the U.S. Bureau of Labor Statistics. Over the most recent 12-month reporting period, CPI-U for the San Diego region increased by approximately 4.0 percent, reflecting moderation from peak inflation levels observed in prior years. While energy prices have stabilized, price increases remain elevated for food, housing, and labor-intensive services. These conditions support the City's use of a 2 percent long-term inflation assumption in the forecast, reflecting expected normalization toward historical inflation levels over the planning horizon.

Consumer Confidence Index — The Consumer Confidence Index has fluctuated in response to inflation trends, labor market conditions, and broader economic uncertainty. While recent readings show periods of improvement, sentiment remains sensitive to evolving economic conditions. This variability underscores the importance of using conservative revenue assumptions, particularly for economically sensitive sources such as sales tax and TOT.

Unemployment Rate – According to the California Employment Development Department (EDD), Oceanside's unemployment rate was approximately 4.5 percent as of November 2025, the most recent data available, compared to about 4.6 percent for San Diego County and approximately 5.4 percent statewide. These figures reflect slower job growth in interest-sensitive sectors. Overall, Oceanside's labor market remains relatively stable and aligned with regional conditions.

REVENUES

General Fund revenues are projected to grow steadily over the five-year forecast period, supported by continued strength in property values, stable economic activity, and consistent tourism performance. Although individual revenue categories move at different rates, Oceanside benefits from a diverse revenue base that helps buffer the General Fund from economic fluctuations. The following section highlights the major revenue drivers that influence the City's financial outlook and shape year-over-year changes in the forecast.

Property Tax – The City of Oceanside contracts with HdL Companies for property tax management services. HdL Companies reports the median sale price of a detached single-family home in Oceanside at \$880,000 in 2025, a slight decrease from 2024. However, Oceanside continues to experience commercial and residential construction

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

growth. The City's taxable assessed value increased by 5.6% or \$1.9 billion from FY 2024-25. Forecasted revenues based on market trends and timing of future construction projects an average increase of 5.8% for the next five years.

Sales & Use Tax –The City of Oceanside contracts with HdL Companies for sales tax management services. Sales tax is projected to decline by 2.5 percent in Year 1 due to statewide consumer softening and is expected to increase an average of 3% in the next 4 years.

Transient Occupancy Tax (TOT) – City's transient occupancy tax revenues (not including the beachfront hotels) are projected to be \$13.49M in Year 1 based on prior year history, an increase of 1.5 percent over the FY 2025-26 adopted budget. The future years are only projected to have a slight increase at an average of 0.8 percent due to the change in STR zoning ordinance.

Beachfront Hotels (TOT) – The City's transient occupancy tax revenues for the Seabird and Mission Pacific hotels are projected to increase 13 percent in Year 1. Years 2 through 5 are expected to increase 3 percent annually.

All Other Taxes - This category includes business license, card room, and Measure M Cannabis Business tax revenues. Year 1 is expected to increase 4 percent based on the actual revenue received in the 2 prior years. This category is forecasted to grow 2 percent in Years 2 through 5 due to moderate economic growth.

Franchise Fees - Includes fees from SDG&E, Cox, and AT&T. Overall revenues are projected to decline due to decreasing numbers of cable subscribers and an increase in internet-based options. Year 1 is projected to decrease by 11.8% based on prior year actuals and an average of 0.3% decline in the future years.

Licenses & Permits - A majority of these permits are development and parking related, with the largest portion for building permits and annual parking permits. The forecast projects a 1.6 percent increase in Year 1 due to expected increase in construction. Years 2 through 5 are projected to remain relatively flat.

Fines & Forfeitures - The majority of these revenues collected by the City are for parking citations and code enforcement citations. The forecast projects for futures years to remain relatively flat.

Use of Money and Property - The revenues collected in this category are from investment returns, leases and rentals. The forecast projects a 1 percent decrease in Year 1 is based on interest rate cuts effecting investment returns. Future years are projected to increase by an average of 1.2%, mostly due to the CPI built into current contracts.

Intergovernmental - The revenue in this category relies on State and Local programs such as Peace Officer P.O.S.T training reimbursements, and Fire training agreement with Palomar College, which can be difficult to project. Years 1 through 5 are projected to remain flat.

Ambulance Billing - Rates are adjusted annually each year in July. This category is expected to increase 6.3 percent in Year 1 based on prior years revenues received. Years 2 through 5 are projected to increase an average of 2 percent.

Charges for Services - This category includes development-related revenues, fire inspections, parking machine collection and general administration charges. The forecast assumes revenues will increase 2 percent in Year 1 due to an increase in land development plan review. Years 2 through 5 are projected to increase an average of 0.9 percent.

Transfers In & Other Revenue - Transfers from other funds are projected to increase 6.3 percent in Year 1, primarily driven by the overall budgets based on M&O CPI and bargained salary increases. Years 2 through 5 are projected to increase an average of 2.1 percent.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

EXPENDITURES

While revenue growth provides the foundation for the City's fiscal outlook, expenditure trends ultimately determine Oceanside's long-term capacity to sustain service levels and respond to emerging needs. The expenditure forecast reflects known labor agreement salary increases, expected benefit cost changes, operational requirements, and long-term financial obligations. The following sections summarize projected changes across major expenditure categories, including personnel costs, maintenance and operations, internal service charges, and rebate agreements, that collectively shape the General Fund's cost structure over the next five years.

Personnel - Personnel costs, including compensation, overtime, pension contributions, health insurance, workers' compensation, and other employee benefits, are projected to increase 3.7% in FY 2026–27, reflecting:

- Negotiated labor agreement salary increases
- Scheduled step increases
- Updated CalPERS employer rates
- Expected changes in employee benefit costs.

From FY 2027–28 through FY 2030–31, personnel costs grow between 3.2% and 4.8% annually, averaging about 4%. This growth is driven by normal staffing adjustments, contractual compensation changes, and benefit-related cost increases.

CalPERS retirement costs remain a major component of personnel expenditure. Because annual employer contributions depend on CalPERS investment returns, actuarial assumptions, and statewide payroll trends, costs may fluctuate over time. The City maintains both a General Fund pension reserve of \$5 million and an IRS Section 115 Pension Trust of \$19 million to help buffer against potential volatility.

Workers Compensation and General Liability - Workers Compensation costs are projected to increase by an average of 4.3% annually over the next five years, driven by rising healthcare costs, base wage increases, state Labor Code changes, and rulings from the Workers Compensation Appeals Board. To manage long-term liability costs, the City has implemented enhanced safety training, proactive injury management with the City's Third-Party Administrator, and modified duty opportunities to support injured employees returning to work. Staff also aggressively investigates questionable claims and expedites settlements. Over time, these measures aim to reduce exposures and improve Workers Compensation insurance rates.

General Liability costs are similarly rising due to the hardening of the insurance markets, which is impacted by rising claims costs within PRISM, the City's insurance pool provider. To address these rising costs, last year the City increased its self-insured retention from \$750,000 to \$1 million. These trends are consistent with challenges faced by other public agencies.

Maintenance & Operations – Maintenance & Operations (M&O) expenditures include professional and contractual services, equipment maintenance and rentals, memberships and subscriptions, training, utilities, and a variety of other operating costs that support General Fund departments. The forecast reflects baseline adjustments that incorporate Council-approved contractual costs and a 2 percent CPI factor. Any future adjustments will stem from Council actions, contractual obligations, or operational needs necessary to maintain service levels.

Beachfront Hotels Rebate – Under the City's TOT rebate agreement with the Seabird and Mission Pacific hotels:

- The Mission Pacific rebate obligation is projected to be completed in FY 2026–27
- The Seabird rebate is projected to be completed in FY2031-32

As the City's total obligation decreases, the City retains an increasing share of beachfront TOT. Over FY 2026–27 through FY 2030–31, the City is expected to retain approximately \$10.57 million in beachfront TOT as rebates phase down.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Carmax Rebate – CarMax’s sales tax rebate agreement provides:

- A rebate capped at \$5 million or 10 years, whichever comes first
- A City-retained base amount beginning at \$100,000, increasing 3% annually.

To date, the City has issued \$1,548,229 in rebates. Current projections show the \$5 million cap being reached in FY 2030–31, after which the City will retain 100% of sales tax revenue from the site.

Internal Service Charges/Transfers – Internal service charges fund centralized City services including Risk Management, Fleet, Information Services, General Services, and City Building Maintenance. Key cost drivers include rising liability and property insurance premiums, higher vehicle acquisition costs, software subscriptions and cybersecurity cost increases, and facility maintenance and equipment replacement schedules. Overall, internal service charges grow moderately as operational needs, insurance rates, and replacement costs evolve over time.

Information Technology (IT)

FY 2026–27 includes several IT adjustments tied to cybersecurity, software renewals, infrastructure upgrades, and operational support, totaling approximately \$262,700 in incremental costs. These include:

- Cybersecurity enhancements (MS-ISAC, Arctic Wolf, DarkTrace) — \$38,500
- Software renewals & system licensing updates (CommVault, SeamlessDocs, GoAnywhere, Website/Legistar) — \$83,400
- Infrastructure & operational support (camera hardware, Azure, microwave support, Council Chambers stipend, reserve increase) — \$140,800

Additionally, \$200,000 is added into the Police budget for the CAD hardware refresh that is needed every 5 years.

Public Works – Building & Fleet Services

Public Works internal service allocations include cost increases tied to expiring service contracts and one-time equipment purchases, totaling approximately \$312,550:

- Building Maintenance needs (gym floors/dance rooms resurfacing; OPD/Library facility maintenance) — \$56,800 (One-time cost)
- Fleet equipment purchases (MAHA lifts, electric forklift, shop improvements) — \$255,750 (One-time cost)

These adjustments reflect market-driven contract pricing and necessary equipment replacements to maintain operational readiness.

Human Resources/Risk Management

Human Resources–related internal service costs increase by approximately \$155,000 in FY 2026–27, reflecting cost increases in workforce support, safety, and risk management. Key components include:

- Benefits — approximately \$65,000 increase, driven by ongoing recruitment and compliance tools, including enhanced background screening services and testing software to support hiring and workforce management.
- Risk Management — relatively flat net impact, as increases in general liability insurance and self-insured claims costs are largely offset by decreases in property, cyber, crime, and pollution insurance estimates, along with minor administrative adjustments.
- Workers’ Compensation — approximately \$75,000 increase, reflecting expanded pre-employment physicals and drug screening, additional safety consulting support, and compliance software. These investments support employee safety, regulatory compliance, and proactive claims management.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

KEY FORECAST RISKS

Although the Five-Year Forecast projects operating surpluses through FY 2030–31, several factors could materially influence the City's financial position. CalPERS investment performance and actuarial adjustments remain key cost drivers and may increase required pension contributions beyond current projections. Economic softening, particularly in consumer spending, could affect sales tax revenues, while tourism-related revenues remain sensitive to fluctuations in travel demand and broader economic conditions. In addition, continued volatility in liability and workers' compensation insurance markets may place upward pressure on internal service charges. Labor negotiations currently underway also present uncertainty, as final contract terms may differ from assumptions built into the forecast. Finally, development activity and inflationary pressures may vary from projected levels, affecting both revenues and operating costs. Staff will continue to monitor these risks closely and provide updates should conditions change materially.