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5/19/2026

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**Third Quarter Financial Report - Fiscal Year (FY) 2025/26**

File ID: 2026-00996

**Location:** Citywide

**Recommendation:** Receive and file.

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Department of Finance

**Presenter:** None

**Attachments:**

1-Description/Analysis

2-Third Quarter Financial Report

**Description/Analysis**

**Issue Detail:** The purpose of the quarterly report is to provide the City Council with timely information regarding the City's current financial condition. The attached report provides an update on the City's major revenues and department expenditures through the third quarter of Fiscal Year (FY) 2025/26 (Attachment 1).

**Policy Considerations:** The quarterly financial reporting to the City Council is intended to provide an overview of the City's financial status consistent with Section 61 of the City Charter.

**Economic Impacts:** Not applicable.

**Environmental Considerations:** This report concerns administrative activities and government fiscal activities that do not constitute a "project" as defined by the CEQA Guidelines Sections 15378 (b)(2) and 15378(b)(4) and are not subject to the provisions of CEQA (CEQA Guidelines 15060(c) (3)). CEQA review for any project, which utilizes funds allocated in this report, has been or will be performed in conjunction with planning, design, and approval of each specific project as appropriate.

**Sustainability:** Not applicable.

**Commission/Committee Action:** Not applicable.

**Rationale for Recommendation:** The City Manager is responsible for reporting in accordance with the authority granted by Section 61 of the City Charter.

**Financial Considerations:** The quarterly report reflects the City's continuing need to actively monitor revenues and manage expenditures. Finance staff will continue to work with all department staff toward achieving budgetary goals over the remainder of the fiscal year.

**Local Business Enterprise (LBE):** No goods or services are being purchased under this report.

**OVERVIEW**

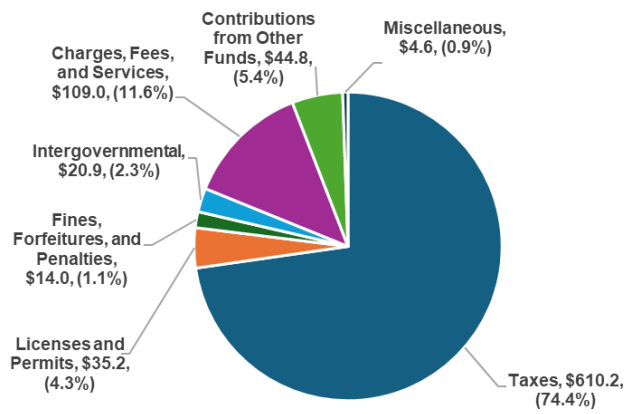
The Fiscal Year (FY) 2025/26 Approved Budget (Budget) includes \$1.7 billion and 4,984.83 authorized full-time equivalent (FTE) positions from all funding sources. The breakdown is as follows:

- General Fund<sup>1</sup> - \$873 million and 3,735.06 FTE
- Enterprise Funds<sup>2</sup> - \$460 million and 946.78 FTE
- Internal Service Funds<sup>3</sup> - \$147 million and 118.00 FTE
- Other Governmental Funds<sup>4</sup> - \$195 million and 184.99 FTE

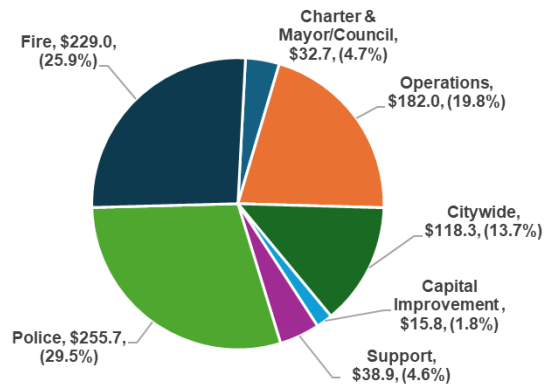
**GENERAL FUND**

The following graphs represent the City's General Fund approved revenue and expenditure budgets for FY2025/26.

**FY2025/26 General Fund Revenues**  
**\$838.7 Million**



**FY2025/26 General Fund Expenditures**  
**\$872.5 Million**



- Charter: City Attorney, Auditor, Clerk, Manager, and Treasurer
- Operations: Community Development, Community Response, Convention and Cultural Services, Public Works, Utilities, Youth, Parks & Community Enrichment
- Support: Finance, Human Resources, and Information Technology
- Citywide: Debt, Property Taxes, and Insurance

**General Fund Financial Condition**

The following chart reflects the Budget and actual expenditures for all activities in the General Fund (e.g., department operations, debt service, capital projects) through March 31, 2026.

**GENERAL FUND (\$ in '000s)**

	GENERAL FUND (\$ in '000s)		
	Budget	YTD Actuals	Percent
Balance, Beginning of FY2025/26	12	-	
Other Sources and Uses	34,219		
Revenues	838,742	503,653	60%
Expenditures	872,485	669,997	77%
<b>Total General Fund:</b>	<b>488</b>	<b>(166,344)</b>	

<sup>1</sup> **General Fund** - the City's principal operating funds, including Measure U Fund, supported by taxes and fees.

<sup>2</sup> **Enterprise Funds** - operations supported through user fees including the Community Center, Parking, Solid Waste, Storm Drainage, Wastewater, and Water Funds.

<sup>3</sup> **Internal Service Funds** - internal operations, e.g., Fleet Management and Risk.

<sup>4</sup> **Other Governmental Funds** - activities associated with specific revenues and/or reimbursements that are restricted to expenditures for specific purposes, e.g., Gas Tax Fund, Operating Grant Fund, Library Parcel Tax Fund.

The development of the Budget remained challenging as the City continues to address a structural deficit driven by rising labor costs, inflationary pressures, and the expiration of one-time federal resources that had supported expanded service levels. The Budget reflects a measured approach to closing the gap through a combination of ongoing and one-time solutions, with an emphasis on protecting core services and avoiding layoffs. Departments implemented targeted reductions that prioritized operational efficiencies and service delivery, while Council made strategic adjustments to sustain small business relief, youth and equity programs, and community safety initiatives. The City remains focused on achieving long-term structural balance through disciplined cost management, proactive revenue strategies, and continued alignment of resources with Council priorities.

### Department Projections

The following charts present the estimated variance of budget to projected year-end results for the General Fund Departments:

GENERAL FUND DEPARTMENT REVENUES (\$ in 000s)			
	FY2025/26 Adopted Budget	Projected Year-End Revenue	Projected Year-End Variance
City Attorney	52	359	307
City Clerk	42	42	-
City Manager	186	186	-
City Treasurer	5,400	5,400	-
Community Development	33,514	33,001	(512) <sup>1</sup>
Convention and Cultural Services	810	854	44
Finance	4,929	5,440	510
Fire	72,741	79,651	6,911 <sup>2</sup>
Human Resources	-	-	-
Information Technology	400	400	-
Police	9,205	8,389	(816)
Public Works	38,145	38,384	239
Youth, Parks & Community Enrichment	6,705	6,363	(343) <sup>1</sup>
<b>Total:</b>	<b>172,130</b>	<b>178,469</b>	<b>6,340</b>

<sup>1</sup>Revenue shortfalls will be offset by expenditure savings.

<sup>2</sup>Revenue surplus will entirely or partially offset expenditure overage.

GENERAL FUND DEPARTMENT EXPENDITURES (\$ in 000s)			
	FY2025/26 Adopted Budget	Projected Year-End Expenditures	Projected Year-End Variance
Mayor/Council	10,162	10,162	-
City Attorney	9,344	9,131	213
City Auditor	1,313	1,129	184
City Clerk	2,871	2,673	198
City Manager	9,271	7,164	2,107
City Treasurer	1,592	1,192	400
Community Development	51,031	47,883	3,149
Community Response	5,909	5,142	767
Convention and Cultural Services	3,792	3,588	204
Finance	11,847	11,602	245
Fire	228,316	240,826	(12,510) <sup>1</sup>
Human Resources	4,822	5,012	(189)
Information Technology	20,705	20,305	400
Police	251,059	255,658	(4,599)
Public Works	31,138	30,541	597
Youth, Parks & Community Enrichment	46,728	44,069	2,659
<b>Subtotal General Fund:</b>	<b>689,899</b>	<b>696,075</b>	<b>(6,176)</b>

<sup>1</sup> Expenditure overage will be entirely or partially offset by revenue surplus.

Departments projecting a net deficit (combined year-end revenue and expenditure variances exceeding \$1 million) have been highlighted in the chart above and have provided the following summary explanations.

**Fire.** The projected net deficit of \$5.6 million is driven by overtime expenses associated with ongoing staffing shortages, elevated injury-on-duty (IOD) cases, retirements, and operational staffing demands. The Department currently maintains 178 daily staffed positions and is experiencing 45 injury-on-duty cases, in addition to personnel on scheduled leave, resulting in increased backfill and mandatory overtime requirements. The Department also experienced more than 30 retirements during the second quarter, creating additional firefighter vacancies that will remain until academy recruits become operational in July 2026. The deficit is also due to overages in services and supplies related to ongoing annual contracts and mandated payments, including the Sacramento Regional Fire/Emergency Management Services (EMS) Communication Center and Medic Ambulance Basic Life Support (BLS) services needed to sustain operations and response capacity.

**Police.** The projected net deficit of \$5.4 million is primarily due to expense overages driven by backfill overtime related to staffing shortages in Patrol and the Communications Center, as well as increased overtime usage related to homicide investigations, IMPACT operations, protests/events, supplemental patrol, SWAT activities, recruiting/background investigations, and other investigative assignments. The projected deficit increased by approximately \$2.5 million between the

second and third quarter projections, primarily due to increased employee services costs, including increased payout estimates, additional sworn vacancies during the third quarter, and increased overtime hours needed to maintain operational staffing levels. The loss of retired annuitant working hours also contributed to increased overtime usage needed to maintain service levels for critical operational needs. In addition, a significant revenue shortage is anticipated with the termination of service contracts with Regional Transit and Natomas Unified School District. The Department will review forecasted reimbursements for possible undercharging and continue to monitor overtime and expenditures closely to mitigate further impacts through year-end..

Departments projecting a net surplus (combined year-end revenue and expenditure variances exceeding \$1 million) have been highlighted in the chart above and have provided the following summary explanations.

**City Manager.** The projected net surplus of \$2.1 million is primarily attributable to labor and services and supplies savings across both the Executive Office and Office of Innovation and Economic Development (OIED). Salary savings from several vacancies account for a significant portion of the favorable variance. Additional savings are due to lower-than-anticipated expenditures in professional services within OIED.

Cannabis permit revenues were inadvertently recorded in the City Manager’s Office during July and August due to the transition of the Office of Cannabis Management to the Finance Department in FY2025/26. These revenues will be reallocated to the Finance Department by fiscal year-end and do not contribute to the projected surplus.

**Community Development.** The projected net surplus of \$2.6 million is primarily attributable to labor savings resulting from ongoing vacancies across the department, which totaled 35.6 FTE in the third quarter, generating personnel cost savings that contribute to the favorable variance. Expenditure increases related to planned departmental computer replacements and animal care contract services offset a small portion of the vacancy savings. The Building and Planning Divisions saw smaller valuations projects during the first two quarters, which contributed to minor revenue shortages, but began trending upward during the third quarter.

**Youth, Parks & Community Enrichment.** The projected net surplus of approximately \$2.3 million is primarily attributable to labor savings within the Community Enrichment Division, driven by vacancies and reduced personnel costs as positions tied to FY 2026/27 reduction strategies were frozen pending Council deliberations. The Department is also continuing efforts to correct the services and supplies budgets across all divisions to align expenditures with current operational needs.

**City’s Major Revenue Sources**

**Top General Fund Revenues (\$ in 000s)**

Revenue Type	Approved Budget	YTD Actuals
Property Tax	247,327	135,941
Sales and Use Tax <sup>1</sup>	236,843	136,400
Utility User Tax <sup>2</sup> (UUT)	70,444	52,507
Business Operations Tax <sup>2</sup> (BOT)	32,185	23,823
Public Safety Sales Tax	9,412	5,045
Transient Occupancy Tax <sup>2</sup> (TOT)	6,932	3,263
<b>Total General Fund Revenues:</b>	<b>603,143</b>	<b>356,980</b>

<sup>1</sup>Includes Measure U Transactions and Use Tax

<sup>2</sup>Businesses have 30 days to remit UUT, BOT, and TOT revenue to the City after the end of the month. After the 30-day remittance period, the City processes/reconciles the transactions over the following 10 days. Monthly reporting data is available by the 15<sup>th</sup> of the following month (45 days after the reporting period ends).

**Property Tax.** Property taxes account for approximately 29% of all General Fund revenues. Revenues related to property taxes are affected by fluctuations in the real estate market, levels of new construction activity, and the corresponding changes to the tax roll. Most of the City’s current secured property tax revenues are received in mid-December and mid-April. The balance of the current secured property taxes as well as the current unsecured, supplemental, and miscellaneous property tax revenues are received in late January and late May. The first apportionment of the City’s FY2025/26 property taxes was received in December 2025 and was 0.9% higher than FY2024/25. On February 10, 2026, the City Council approved a \$1.5 million increase to the FY2025/26 Current Secured Property Tax budget. All property tax revenues are being monitored and will be reassessed as part of the FY2026/27 budget development process.

**Sales Tax.** Sales Taxes make up approximately 28% of General Fund revenues. Sales tax includes Sales and Use Tax and the Measure U Transactions and Use Tax. Sales tax is imposed on all retailers for the privilege of selling tangible personal property in the state, whereas the use tax is imposed on the purchase for storage, use, or other consumption of tangible personal property purchased from any retailer. The Measure U Transactions and Use Tax is a destination-based tax, meaning it is applied to transactions based on the buyer's location rather than the seller's location. In November 2018, a voter approved ballot measure increased the Measure U Transactions and Use Tax from 8.25% to 8.75% effective April 1, 2019. The City receives monthly apportioned payments and a true-up payment for the prior period at the end of each quarter. The first true-up payment for this fiscal year was received in late November 2025. Sales tax revenues will be monitored closely with regard to consumer confidence and inflation, and budget adjustments may be necessary if consumer and business spending decline.

**Utility User Tax (UUT).** UUT is the City's third largest source of General Fund revenue at 8%. Measure O approved by the voters in November 2008, reduced the 7.5% tax rate to 7.0% on telecommunication services, but was expanded to include Voice over Internet Protocol (VoIP), text messaging, and many other previously excluded technologies. The 7.5% tax rate continues to be in effect for gas, electric, and cable services. The gas and electric components of UUT comprise approximately 70% of the revenue. As PG&E and SMUD continue to increase rates, the energy components of UUT will continue to grow and increase the overall UUT base. On February 10, 2026, the City Council approved a \$3.9 million increase to the FY2025/26 Utility User Tax budget. Staff will reassess this revenue as part of the FY2026/27 budget development process.

**Other City Revenue Sources**

**Business Operations Tax (BOT).** BOT is remitted annually by individuals and businesses that commence, transact, engage in, or carry on any business, trade, profession, calling, occupation, or gainful activity in the city. BOT (including cannabis) makes up approximately 5% of General Fund revenues. On February 10, 2026, City Council approved a \$2.3 million decrease to the FY2025/26 Cannabis BOT budget due to an 8.1% year over year decrease in the first six months.

**Public Safety Sales Tax.** On November 2, 1993, California voters enacted Proposition 172 which established a permanent statewide half-cent sales tax for support of local public safety functions in cities and counties. This tax represents approximately 1% of General Fund revenue. This revenue will be monitored, and budget adjustments may be considered later in the fiscal year if necessary.

**Transient Occupancy Tax (TOT).** The current rate of 12% is charged to all guests of hotels, motels, inns, and bed and breakfasts within city limits. The General Fund portion of TOT revenues is equal to two percentage points of the 12% rate. The remaining TOT revenues collected are directed to the Community Center Fund. TOT revenue will continue to be monitored and may be adjusted later in the fiscal year. On February 10, 2026, the City Council approved a \$0.2 million increase to the FY2025/26 Transient Occupancy Tax budget. Staff will reassess this revenue as part of the FY2026/27 budget.

**Economic Indicators**

The following chart reflects key economic indicators utilized in projecting General Fund revenues.

Key Economic Indicators	03/2025	03/2026
City Unemployment Rate (UR)	4.7%	4.9%
County UR	4.7%	4.8%
State UR	5.3%	5.2%
National UR	4.2%	4.3%
CPI (10/2024-12/2024 vs. 10/2025-12/2025)	2.74%	3.29%
30-Year Fixed Mortgage Rate	6.65%	6.38%

**ENTERPRISE FUNDS**

The Departments of Convention and Cultural Services, Public Works, and Utilities have prepared projections for the City's enterprise funds as follows:

- Community Center
- Parking
- Solid Waste
- Storm Drainage and Drainage Property Fee
- Wastewater
- Water

**ENTERPRISE FUND REVENUES (\$ in '000s)**

Fund Name	FY2025/26 Adopted Budget	Projected Year-End Revenues	Projected Year-End Variance
Community Center	51,471	52,114	643
Drainage Property Fee	20,307	20,608	301
Parking	20,314	21,573	1,259
Solid Waste	97,935	101,804	3,869
Storm Drainage	44,966	43,245	(1,722)
Wastewater	46,174	47,226	1,053
Water	141,628	138,387	(3,241)
<b>Total Enterprise Funds:</b>	<b>422,794</b>	<b>424,957</b>	<b>2,162</b>

**ENTERPRISE FUND EXPENDITURES (\$ in '000s)**

Fund Name	FY2025/26 Adopted Budget	Projected Year-End Expenditures	Projected Year-End Variance
Community Center	53,192	52,055	1,137
Drainage Property Fee	11,577	11,478	99
Parking	18,998	18,944	54
Solid Waste	84,243	84,503	(260) <sup>1</sup>
Storm Drainage	37,270	35,531	1,739
Wastewater	39,130	38,321	809
Water	132,816	126,995	5,821
<b>Total Enterprise Funds:</b>	<b>377,226</b>	<b>367,827</b>	<b>9,399</b>

<sup>1</sup> Expenditure overage will entirely or partially be offset by revenue surplus.

Of the above funds, none are projecting a net deficit exceeding \$1 million.

The following Funds are projecting a net surplus exceeding \$1 million and have provided the following summary explanations.

**Community Center Fund.** The projected net surplus of \$1.8 million is primarily driven by vacancy savings, along with favorable transient occupancy tax, user fee, and commission revenues. Increased services and supplies expenditures related to Crocker expenses and on-call contracts provide a minor offset.

**Parking Fund.** The projected net surplus of \$1.3 million is primarily due to revenues trending above

budget, driven by fee increases, steady demand, implementation of electric vehicle (EV) charging fees, and increased In-Lieu Franchise Tax Fee revenue. Expenditures are projected to exceed budget due to higher costs for security, repairs, and utilities, largely offset by labor savings from 19.0 FTE vacant positions.

**Solid Waste Fund.** The projected net surplus of \$3.6 million is primarily driven by higher user fee collections, late payment penalties, new container fee revenues, and labor savings associated with 13.0 FTE vacant positions anticipated to be filled later in FY2025/26, partially offset by higher services and supplies expenditures related to increased disposal cost rates per tonnage, rising fuel costs, and increased vehicle repairs and maintenance expenditures.

**Wastewater.** The projected net surplus of \$1.9 million is primarily driven by expenditure savings associated with 9.0 FTE vacant positions and FEMA reimbursement related to the FY2022/23 storm event, as well as higher-than-budgeted service account revenues and interest earnings. These favorable variances are partially offset by overages in labor and supply offsets and transfers due to unbudgeted manual transfer activity reflected in this quarter's projections, along with higher chemical and permit expenditures within services and supplies.

**Water Fund.** The projected net surplus of \$2.6 million is primarily attributable to expenditure savings resulting from 41.2 FTE vacant positions. Additional savings are reflected in services and supplies, city property, and transfers. These favorable variances are partially offset by utility rate revenues trending approximately \$3.2 million below budget through the third quarter, as well as increased interdepartmental transfer activity and special district manual transfers reflected in this quarter's projections. Updated projections also reflect increased land and water rights costs and computer equipment expenditures.