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

File ID: 2026-00630

Location: Citywide

Recommendation: Receive and file.

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Presenter: None

Attachments:

1-Description/Analysis

2-Second 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 second quarter of FY2025/26 (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:

California Environmental Quality Act (CEQA): 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

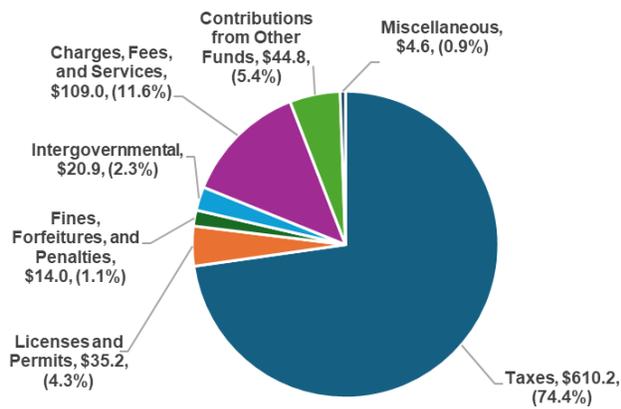
The Fiscal Year (FY) 2025/26 Approved Budget (Budget) includes \$1.7 billion and 4,984.83 authorized full-time equivalent (FTE) positions from all funding sources. The breakdown is as follows:

- General Fund¹ - \$873 million and 3,735.06 FTE
- Enterprise Funds² - \$460 million and 946.78 FTE
- Internal Service Funds³ - \$147 million and 118.00 FTE
- Other Governmental Funds⁴ - \$195 million and 184.99 FTE

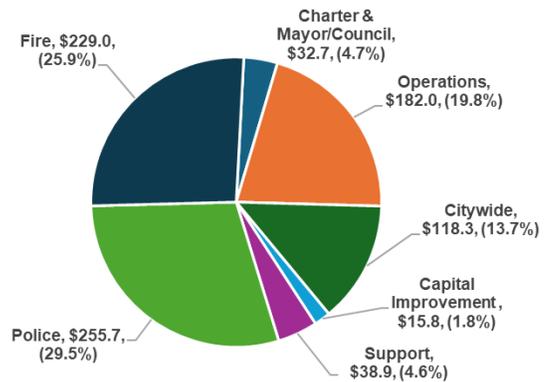
GENERAL FUND

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 December 31, 2025.

GENERAL FUND (\$ in '000s)

	Budget	YTD Actuals	Percent
Balance, Beginning of FY2025/26	12	-	
Other Sources and Uses	34,219		
Revenues	838,742	281,818	34%
Expenditures	872,485	485,864	56%
Total General Fund:	488	(204,046)	

The development of the Budget remained challenging as the City continues to address a structural deficit driven by rising labor costs, inflationary pressures, and

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

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

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

⁴ **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 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 Revenues	Projected Year-End Variance
City Attorney	52	194	142
City Clerk	42	42	-
City Manager	186	186	-
City Treasurer	5,400	5,400	-
Community Development	33,439	32,201	(1,238)
Convention and Cultural Services	810	836	26
Finance	4,929	5,250	320
Fire	72,741	79,651	6,911
Human Resources	-	-	-
Information Technology	400	400	-
Police	9,205	7,400	(1,805)
Public Works	38,145	38,643	498
Youth, Parks & Community Enrichment	6,705	6,723	18
Total:	172,055	176,926	4,871

¹Revenue shortfalls will be offset by expenditure savings.

²Revenue 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	6,015	6,015	-
City Attorney	9,281	9,174	107
City Auditor	1,313	1,177	136
City Clerk	2,871	2,666	205
City Manager	9,271	7,420	1,851
City Treasurer	1,592	1,453	139
Community Development	51,037	46,866	4,172
Community Response	5,909	5,338	571
Convention and Cultural Services	3,792	3,594	198
Finance	11,847	10,546	1,300
Fire	228,316	240,278	(11,963)
Human Resources	4,820	4,927	(107)
Information Technology	20,768	20,368	400
Police	251,059	252,320	(1,261)
Public Works	31,138	30,923	215
Youth, Parks & Community Enrichment	46,928	45,112	1,816
Subtotal General Fund:	685,956	688,176	(2,220)

¹ 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 \$5.1 million is driven by overtime expenses associated with the extended fire season during Quarter 1 and ongoing staffing shortages, including 43 injury-on-duty cases that have increased backfill and mandatory overtime requirements. This is an increase of 39% injury-on-duty cases over Quarter 1. These factors have placed additional pressure on labor costs during the second quarter. 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. While a projected revenue surplus is partially offsetting these overages, the department anticipates additional revenue from Fees and Charges to help further mitigate impacts by year-end.

Police. The projected net deficit of \$3.1 million is primarily due to expense overages driven by backfill overtime related to staffing shortages in patrol and at the Communications Center, as well as increased labor costs related to arbitration with the Sacramento Police Officers Association. In addition, a revenue shortage is anticipated with the termination of service contracts with Regional Transit and Natomas Unified School District, which will further impact overall funding levels. 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 \$1.9 million is primarily attributable to expenditure savings across both the Executive Office and Office of Innovation and Economic Development (OIED). Salary savings from vacancies—including the Assistant City Manager, Administrative Analyst, two Senior Project Managers, Economic Development Manager, and Program Specialist positions 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 \$2.9 million is primarily attributable to labor savings resulting from ongoing vacancies across the department, which totaled 45.5 FTE in the second quarter, generating personnel cost savings that contribute to the favorable variance. Second-quarter revenues increased due to higher-than-anticipated activity in Building, Planning, and Animal Care services, and the department anticipates this trend to continue while closely monitoring revenue performance in the third quarter to assess sustainability.

Finance. The projected net surplus of \$1.6 million is attributable to a combination of additional revenues and expenditure savings across multiple Finance divisions. The Revenue Division accounts for a significant portion of the favorable variance due to higher-than-anticipated revenues related to delinquency charges. Expenditure savings are driven by salary and professional services in the Public Infrastructure Finance (PIF) Division and salary savings in the Procurement and Payroll Divisions.

Youth, Parks & Community Enrichment. Youth, Parks & Community Enrichment. The projected net surplus of approximately \$1.8 million is primarily attributable to labor savings within the Community Enrichment division, driven by vacancies and reduced personnel costs. 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	69,657
Sales and Use Tax ¹	236,843	61,057
Utility User Tax ² (UUT)	70,444	28,292
Business Operations Tax ² (BOT)	32,185	13,034
Public Safety Sales Tax	9,412	2,795
Transient Occupancy Tax ² (TOT)	6,932	992
Total General Fund Revenues:	603,143	175,826

¹Includes Measure U Transactions and Use Tax

²Businesses 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 15th 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	12/2024	12/2025
City Unemployment Rate (UR)	4.9%	5.0%
County UR	4.7%	4.9%
State UR	5.2%	5.1%
National UR	4.1%	4.4%
CPI (10/2024-12/2024 vs. 10/2025-12/2025)	2.75%	2.74%
30-Year Fixed Mortgage Rate	6.85%	6.09%

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	50,669	50,850	181
Drainage Property Fee	20,307	20,678	371
Parking	20,314	21,562	1,248
Solid Waste	97,935	101,247	3,312
Storm Drainage	44,966	46,603	1,637
Wastewater	46,174	47,249	1,076
Water	139,643	138,081	(1,562)
Total Enterprise Funds:	420,007	426,271	6,264

ENTERPRISE FUND EXPENDITURES (\$ in '000s)

Fund Name	FY2025/26 Adopted Budget	Projected Year-End Expenditures	Projected Year-End Variance
Community Center	53,193	51,574	1,618
Drainage Property Fee	10,787	11,477	(690) ¹
Parking	18,998	19,030	(31) ¹
Solid Waste	84,243	84,555	(312) ¹
Storm Drainage	38,136	35,555	2,582
Wastewater	39,130	38,233	897
Water	131,347	126,856	4,491
Total Enterprise Funds:	375,834	367,279	8,555

¹ 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 due to transient oriented tax, user fees, and commissions tracking at target, as well as vacancy savings, Crocker expenses, use of on-call contracts, and adjustments to citywide contacts.

Parking Fund. The projected net surplus of \$1.2 million is primarily due to revenues trending above budget, driven by fee increases and steady demand. Expenditures are projected to exceed budget due to higher costs for security, repairs, and utilities, largely offset by labor savings from vacant positions.

Solid Waste Fund. The projected net surplus of \$3.0 million reflects higher user fee collections and late payment penalties, partially offset by lower recycling rebate revenues and higher services and supplies expenditures due to vehicle accidents, repairs and maintenance, and rising fuel costs. The prior-year settlement payment included in the current budget will be removed in FY2026/27.

Storm Drainage. The projected net surplus of \$4.2 million reflects revenues projected \$1.6 million over budget and expenditures projected \$2.6 million below budget. Revenue growth is driven by higher drainage property fee collections and interest earnings. Expenditure savings are primarily attributable to vacancy savings, partially offset by higher Services and Supplies costs due to a revised assumption for mechanical supplies. Projections also reflect manual transfer activity and an anticipated reimbursement from Fund 6021. Compared to the first quarter forecast, projected expenditures are \$5.6 million lower due to updated transfer activity and the anticipated reimbursement.

Wastewater. The projected net surplus of \$2.0 million reflects expenditure savings associated with increased vacancies, as well as updated revenue and transfer assumptions. Second-quarter projections include \$491,000 in FEMA reimbursements related to the FY2022/23 storm event, and manual transfer activity is now reflected and projected through year-end based on first quarter actuals. In addition, a first-quarter projection error that included a FY2024/25 entry in the revenue data, resulting in an overstated revenue projection, has been identified and corrected.

Water Fund. The projected net surplus of \$2.9 million is primarily attributable to expenditure savings resulting from 46 vacant positions. Utility rate revenues are trending lower than prior years through the second quarter. FY2025/26 revenue budgets related to the Special Item Revenue account will be adjusted via a future Council action to reflect recently received per- and poly-fluoroalkyl substances (PFAS) settlement payments totaling \$2.0 million, which will be redirected to the Water Fund CIP.