



CITY OF COMMERCE AGENDA REPORT

TO: Honorable City Council **Item No.** _____

FROM: City Manager

SUBJECT: FY 2025-26 Mid-Year Budget Report

MEETING DATE: February 24, 2026

RECOMMENDATION:

It is recommended that the City Council receive and file the FY 2025-26 Mid-Year Budget Report and approve the related budget amendments.

BACKGROUND:

The City Council adopted the Fiscal Year 2025–26 Budget on June 24, 2025. As part of the City’s ongoing commitment to fiscal responsibility and proactive financial management, staff prepares quarterly budget status reports to provide updates on the City’s financial position and to highlight key trends and areas of focus for City Council consideration. This Mid-Year Budget Report covers financial activity for the period July 1, 2025 through December 31, 2025, representing 50% of the fiscal year.

DISCUSSION:

Quarterly budget reporting provides the City Council with timely insight into revenues and expenditures in comparison to adopted budget estimates. Because many major revenues and expenditures do not occur evenly throughout the year, performance through the 2nd quarter serves as a benchmark to identify expected patterns versus notable deviations. While certain revenues, such as property tax and sales tax, are received based on external distribution schedules, expenditure activity may fluctuate due to the timing of annual payments, encumbrances, and planned project implementation.

The Finance Department continues to meet individually with each department to review their quarterly results in greater detail. These discussions have helped identify any emerging budgetary issues, allow for proactive adjustments as needed, and help maintain an open channel of communication between departments and the Finance Department, promoting collaboration and shared accountability in managing city resources.

FY 2025-26 Mid-Year Key Observations

Overall revenues and expenditures for citywide funds through December 31, 2025 generally align with expected performance at the mid-point of the fiscal year. While most revenue and expenditure categories are tracking consistent with historical timing patterns, staff have identified concerns related to sales tax performance and the potential regulatory impacts to card club license fees that warrant continued monitoring.

The following tables provide summary-level information for citywide funds and the General Fund as of December 31, 2025.

Table 1. Citywide Revenue

FY 2025-26 Mid-Year Citywide Revenue

Fund	FY 2025-26 Amended	Actuals As of December 31, 2025	% Received
General Fund	\$ 81,715,700	\$ 29,247,412	36%
Special Revenue	1,748,000	1,440,800	82%
Art in Public Places	400,000	250,618	63%
Community Benefit Fund	225,000	43,667	19%
Capital Improvement Fund	6,688,908	2,693,306	40%
Measure AA Fund	9,782,000	7,712,937	79%
Debt Service Payment	2,915,400	2,483,335	85%
Enterprise Funds	10,354,370	4,599,522	44%
Successor Agency	9,419,200	258,351	3%
TOTAL	\$ 123,248,578	\$ 48,729,948	40%

Table 2. Citywide Expenditures

FY 2025-26 Mid-Year Citywide Expenditures

Fund	FY 2025-26 Amended	Actuals As of December 31, 2025	% of Budget Spent
General Fund	81,955,200	39,540,733	48%
Special Revenue	1,884,300	305,520	16%
Art in Public Places	595,167	106,127	18%
Community Benefit Fund	225,000	127,994	57%
Capital Improvement Fund	7,912,825	1,685,847	21%
Measure AA Fund	34,179,359	4,505,768	13%
Debt Service Payment	2,915,400	2,482,594	85%
Enterprise Funds	13,594,012	4,374,644	32%
Successor Agency	9,788,900	984,471	10%
TOTAL	\$ 153,050,163	\$ 54,113,699	35%

Table 3. General Fund Revenues

FY 2025-26 Mid-Year General Fund Revenues

Revenue Source	FY 2025-26 Adopted	Actuals As of December 31, 2025	% Received
License Fees - Card Club	\$ 30,320,000	\$ 12,772,736	42%
Sales Tax	28,793,200	8,830,512	31%
Other Taxes	9,632,700	1,848,271	19%
Licenses & Permits	5,744,800	2,684,631	47%
Use of Money	2,241,200	1,744,337	78%
Rev - Other Agencies	1,694,200	400,300	24%
Current Charges	1,402,000	426,996	30%
Transfers-In	755,000	-	0%
Parks and Recreation	368,100	219,103	60%
Misc. Revenue	441,500	162,296	37%
Fines & Penalties	323,000	158,230	49%
Total	\$ 81,715,700	\$ 29,247,412	36%

Table 4. General Fund Expenditure

FY 2025-26 Mid-Year General Fund Expenditures

Department	FY 2025-26 Amended	Actuals As of December 31, 2025	% of Budget Spent
City Administration	\$ 4,020,200	\$ 1,493,636	37%
Community Development	1,614,000	653,689	41%
Debt Service/Transfers-Out*	2,915,500	2,482,495	85%
Finance	3,067,600	1,365,894	45%
Human Resources	2,131,300	728,100	34%
Library Services	5,024,600	2,033,580	40%
Non-Departmental*	9,540,700	5,497,348	58%
Parks and Recreation	10,915,000	5,159,469	47%
Public Safety	28,926,000	13,829,482	48%
Public Works	11,328,100	4,396,405	39%
Transportation*	2,472,200	1,900,637	77%
Total	\$ 81,955,200	\$ 39,540,733	48%

**Reflects one-time annual payments made during the first half of the year*

Citywide Funds

Citywide revenues are tracking below the 50% of estimates, primarily due to the timing of major tax and intergovernmental receipts, which is typical for the 2nd quarter. Expenditures across most funds remain below 50% of budget, consistent with expected 2nd quarter spending patterns. Capital improvement-related expenditures remain modest through the 2nd quarter, reflecting the planning, design, and procurement phases for several projects that are anticipated to accelerate in the latter half of the fiscal year. Other funds, including Special Revenue, Enterprise, and Successor Agency funds, reflect spending levels that vary based on operational activity, which is typical at mid-year.

General Fund:

General Fund revenues through the 2nd quarter remain generally consistent with historical timing trends for major revenue categories such as property tax and franchise-related revenues. However, sales tax revenues are currently trending below the estimated amount. The variance is primarily driven by weaker than anticipated receipts in certain sales tax categories (i.e., business and industry, building and construction, fuel and service stations, etc.) and also reflects broader economic conditions and consumer spending patterns.

As of February 18th, the City has received sales tax data from the state for the months of July – November. Notably, the sales tax data for the month of December has not yet been processed by the state. As such, it is too early to determine whether the sales tax shortfall will persist for the full fiscal year; staff anticipates additional clarity will be available in the third quarter as additional allocation data is received. If the downward trend continues, staff may return to the City Council with recommended budget adjustments and/or expenditure controls to ensure the City ends the fiscal year with positive financial results.

Historical Trends and Context

To place the City's current mid-year performance in context, it is important to consider the broader financial trends that have developed over multiple fiscal years. To provide a clearer view of these trends, staff evaluated financial activity beginning in FY 2017-18, which represents a pre-COVID baseline, through FY 2024-25, allowing for comparison of conditions before, during, and after the pandemic. Since FY 2020-21, the City has experienced ongoing challenges related to revenue performance and expenditure pressures.

The City's General Fund revenue structure is unique in that it relies almost exclusively on two primary sources: sales tax revenue (including Bradley-Burns allocation and Measure VS) and card club license fees. For FY 2025-26, these two revenue sources are estimated to generate approximately \$60.0 million, representing roughly 72% of total General Fund revenues. Because of this concentration, the City's financial condition is particularly sensitive to economic fluctuations.

Sales Tax

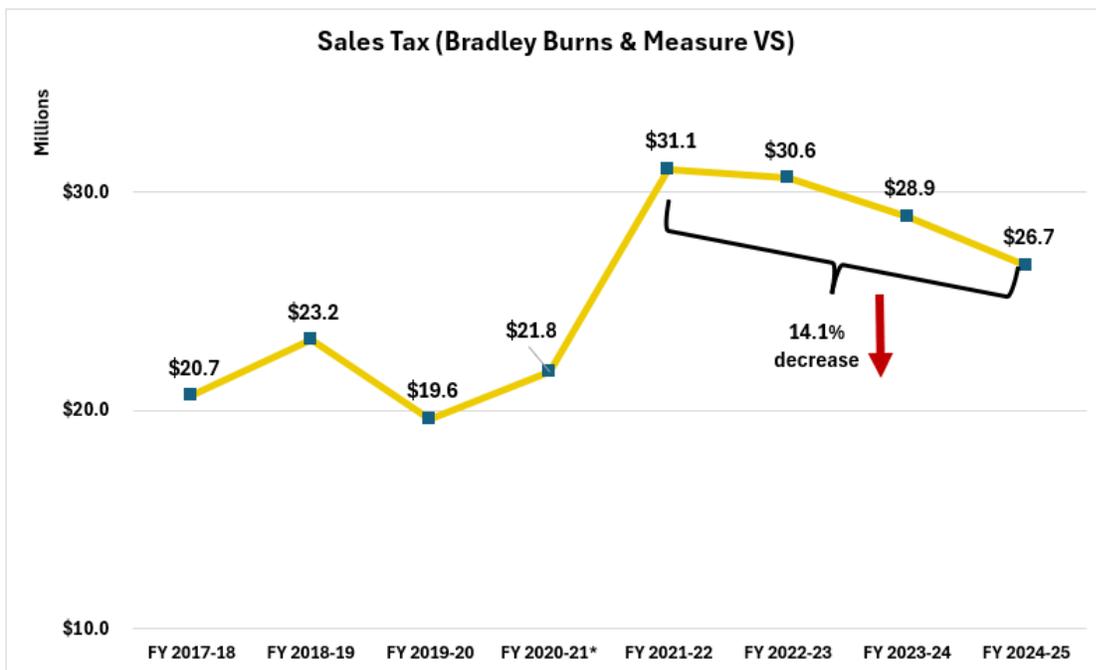
Sales tax revenues, in particular, have recently been affected by a combination of factors, including tariff-related impacts, labor market challenges, and federal enforcement activity, all of which have contributed to reduced consumer spending within the City.

As shown in the chart on the next page, the City's sales tax revenues have historically fluctuated in response to broader economic conditions, with a clear shift occurring during and after the COVID-19 period. Sales tax revenues averaged approximately \$20-\$23 million annually prior to the pandemic, with revenues totaling \$20.7 million in FY 2017-18 and increasing to \$23.2 million in FY 2018-19, followed by a decline to \$19.6 million in FY 2019-20.

On November 3, 2020, with the support of the City Council, voters approved Measure VS, which has generated approximately \$4.5 million annually in additional sales tax revenue. Measure VS has helped stabilize the revenues and partially offset volatility in taxable sales. Without the revenue generated by Measure VS, the City's sales tax performance during the COVID period, particularly in FY 2020-21, would have been significantly lower.

Due to Measure VS, sales tax revenues increased to \$21.8 million in FY 2020-21 and then rose sharply to a peak of \$31.1 million in FY 2021-22, reflecting strong post-pandemic economic activity and consumer spending trends. However, since that peak, the City has experienced a consistent downward trend. Sales tax declined to \$30.6 million in FY 2022-23, decreased further to \$28.9 million in FY 2023-24, and fell again to \$26.7 million in FY 2024-25.

Overall, this represents a 14.1% decline from the FY 2021-22 peak to FY 2024-25. While sales tax revenues remain above pre-pandemic levels, the sustained multi-year decline indicates the City may be transitioning away from the elevated revenue levels experienced during the post-COVID surge.



Card Club License Fees

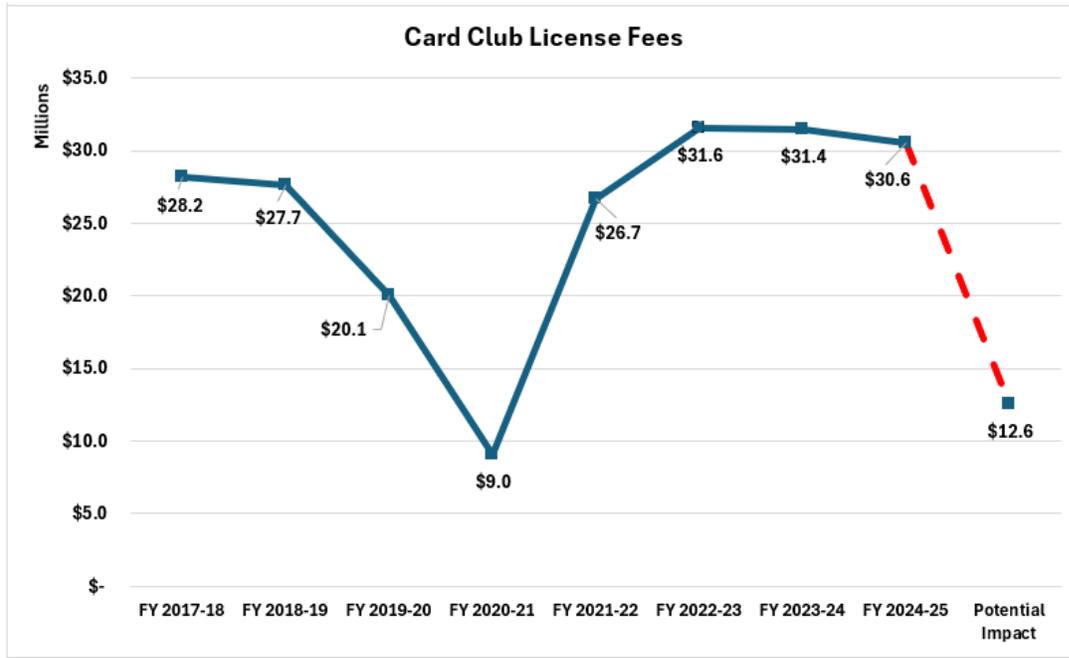
In addition, recent regulatory changes issued by Attorney General Rob Bonta, related to new cardroom operating rules scheduled to take effect on April 1, are expected to have a significant impact on the City’s card club license fee revenues. While the full magnitude of these impacts is not yet known, staff estimates a potential revenue loss of approximately \$8.0-\$18.0 million based on the license tax structure and historical performance. The chart on the following page illustrates this preliminary range and is intended to demonstrate the City’s potential exposure to the new regulatory changes; it is provided for planning purposes only and does not represent a forecast of actual revenues.

Prior to the COVID-19 pandemic, as illustrated in the chart on the next page, revenues remained relatively stable, averaging approximately \$28 million annually between FY 2017-18 and FY 2018-19.

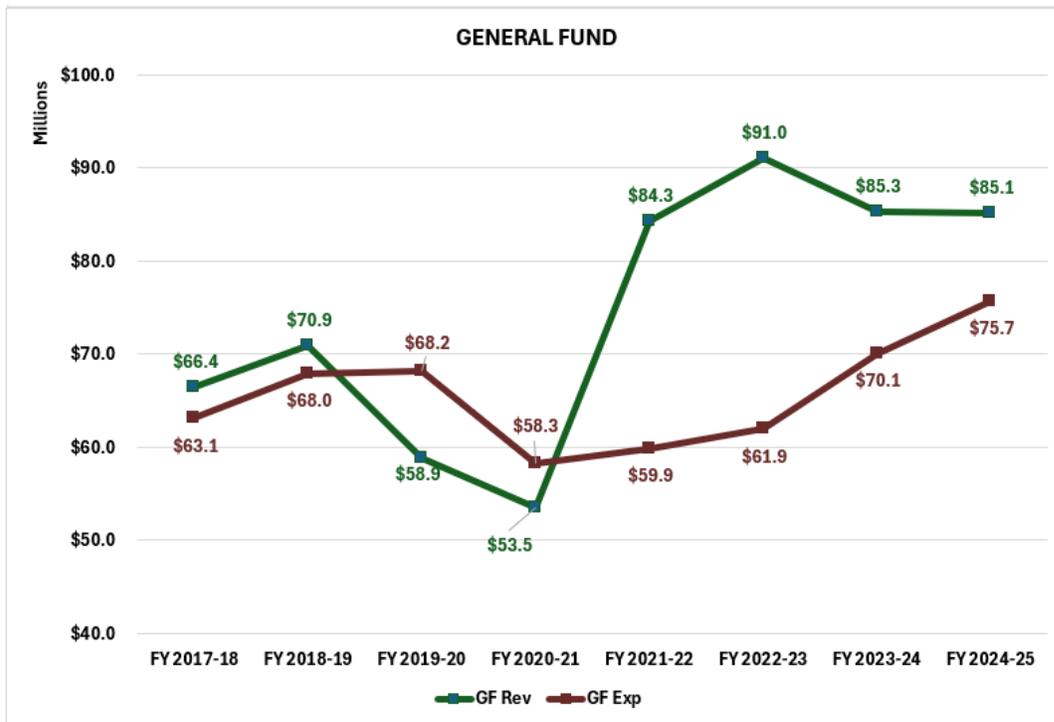
In FY 2019-20, revenues declined to \$20.1 million, followed by a sharp reduction in FY 2020-21 to \$9.0 million, attributable to pandemic-related closures and operational restrictions affecting cardroom activity.

Beginning in FY 2021-22, revenues rebounded significantly as operations resumed, increasing to \$26.7 million and peaking at \$31.6 million in FY 2022-23. Revenues remained strong but slightly curbed in FY 2023-24 at \$31.4 million and declined moderately to \$30.6 million in FY 2024-25, indicating stabilization at levels consistent with pre-pandemic performance.

Overall, the trend highlights the importance of card club license fees to the City’s revenue base.



General Fund Expenditure Trends



General Fund expenditures have increased steadily in recent fiscal years, reflecting the City's return to full operational capacity in a post-COVID period and the rising cost of maintaining core service levels. In the pre-pandemic period, expenditures grew from \$63.1 million in FY 2017-18 to \$68.0 million in FY 2018-19, consistent with normal operation growth. Expenditures remained elevated at \$68.2 million in FY 2019-20, prior to the impacts of the COVID-19 pandemic.

During FY 2020-21, General Fund expenditures declined to \$58.3 million, reflecting temporary reductions and operational adjustments implemented during the pandemic period. However, beginning in FY 2021-22, expenditures resumed an upward trend as City operations and service delivery began returning to pre-pandemic levels. Expenditures increased to \$59.9 million in FY 2021-22 and \$61.9 million in FY 2022-23, followed by a more significant increase to \$70.1 million in FY 2023-24 and \$75.7 million in FY 2024-25.

This expenditure growth reflects the combined impacts of inflation, rising contractual and service delivery costs, and the City's continued restoration of programs and operational activity. While this trajectory is consistent with a return to full-service levels, the pace of expenditure growth is occurring at a time when General Fund revenues have begun to level off and decline from recent post-pandemic highs. As a result, the City faces increasing pressure to ensure that ongoing expenditures remain aligned with sustainable long-term revenue projections.

Budget Adjustments & Additional Revenue Recognition

As part of this 2nd quarter review, staff is recommending three budget adjustments along with requesting City Council action to recognize additional revenue in the amount of \$1,415,000. The additional revenue is attributable to higher interest earnings in the City's investments. Currently, staff is projecting interest earnings to be approximately \$2.3 million, which is approximately \$1.4 million higher than the estimated amount when the budget was adopted.

The recommended budget adjustments are as follows:

- Recognize \$1,415,000 in additional revenue in account 10-4000-34000 attributable to higher than anticipated interest earnings on City investments.
- Appropriate \$1,000,000 in account 10-6510-73980 to support participation in the Proposition A Local Return fund exchange program, which is intended to help address the projected operating deficit in the Transportation Fund.
- Appropriate \$215,000 in account 10-8725-54095.10081 to fund event-related operational costs associated with the City's 2026 Independence Day celebration.
- Appropriate \$200,000 in account 10-1020-52001 to fund professional services, outreach, and other eligible expenditures related to the potential placement of a local sales tax ballot measure.

FISCAL IMPACT:

The recommended budget adjustments are fully offset by additional interest earnings of \$1,415,000 and result in no net fiscal impact to the General Fund. The appropriations support one-time expenditures, including potential participation in the Proposition A Local Return fund exchange program, as well as costs related to the City's 2026 Independence Day celebration and activities associated with a potential local sales tax ballot measure.

ALTERNATIVES:

1. Approve the staff's recommendations.
2. Reject the staff's recommendations.

3. Provide staff with alternate or further direction.

Recommended by: Alvaro Castellon, Director of Finance

Approved as to form: Noel Tapia, City Attorney

Respectfully submitted: Ernie Hernandez, City Manager