



City Council Report

DATE: March 24, 2026

TITLE: Fiscal Year 2026 Mid-Year Financial Update and Budget Adjustments

RECOMMENDED ACTION:

Staff recommends that the City Council accept the Fiscal Year 2026 Mid-Year Financial Update Report and adopt a Resolution authorizing the Fiscal Year 2026 Mid-Year Budget Adjustments.

BACKGROUND

The City's Financial policies require staff to provide the City Council with a mid-year financial status update report each fiscal year. The report discusses how the City's year-to-date actual results are progressing with respect to their prior-year actual and current-year budgeted revenues and expenditures, including a discussion of recommended budgetary adjustments, if any. The current mid-year report before Council is for **Fiscal Year (FY) 2026** and the basis for year-end estimates is current trends through December 31, 2025, Executive Team analysis, and discussions with the City's property and sales tax consultants. The main focus of this report will be the General Fund (101), which supports most of the City's ongoing and essential operations, but recommended budgetary adjustments, where necessary, may also be included for other funds as well.

DISCUSSION

Attachment 1 (General Fund Revenue vs. Expenditure Comparison) of this report provides Council with a high-level overview of the items described above and incorporates mid-year budget corrections and requests so that their full impact can be considered by Council. Proposed mid-year budget corrections and requests are further detailed in ***Attachment 2 (Resolution) and Attachment 3*** (Budget Adjustment Account Detail). Furthermore, a full reconciliation of the FY 2026 Adopted Budget to the FY 2026 Amended Budget is shown in ***Attachment 4*** (Adopted to Amended Budget Reconciliation). This attachment provides a summary of Council approved budgetary adjustments since July 1, 2025, as well as any encumbrance and Capital Improvement Program (CIP) carryovers from FY 2025 that are still expected to be expended.

General Fund Overview

At the start of FY 2026, the General Fund was **fully balanced** due to \$3.75 million of short-term corrective strategies implemented by the City in the FY 2026 Adopted Budget. Such short-term corrective strategies included a temporary hiring freeze, limited to no use of temporary staffing, utilization of FEMA reimbursements for COVID-19 expenses, utilization of ARPA interest earnings, partial utilization of the City's CalPERS Pension Reserve, liquidation of duplicative reserves, and other miscellaneous reductions across all City departments. While several emergency repairs to City facilities and greater than expected overtime, legal, and claims expenses detailed in Attachment 3 and Attachment 4 could cause the General Fund to become imbalanced in FY 2026, the City has also experienced elevated turnover and attrition greater than the 2% assumed vacancy factor built into the FY 2026 Adopted Budget to account for normal turnover and attrition. The Executive Team regularly reviews, prioritizes, and coordinates the filling of vacancies that are not frozen with the Human Resources Division, but not all unexpected vacancies can be filled immediately due to a number of steps required for the recruitment process. Nevertheless, given these excess vacancy savings, staff recommends using **\$1,005,905** of the savings as shown in Attachment 3 to ensure that the General Fund remains **fully balanced** in FY 2026; with projected revenues matching projected expenditures as shown in Attachment 1. Please note that this does not account for any other unknown and unexpected budget adjustments that might be needed between now and the end of FY 2026. Further details on revenues, expenditures, and proposed adjustments will be provided in the following sections:

- **Revenues** – In summary, as of December 31, 2025, General Fund revenues equaled approximately **\$26.92 million**; an **increase** of **\$792,200** or **3.03%** when compared to the same time period last fiscal year, which showed approximately \$26.13 million in year-to-date revenues. And when compared to budgetary estimates for FY 2026, revenues are at 38.39%. Last fiscal year at the same time period, General Fund revenues equaled 34.58% of year-end actual revenues. After extensive analysis, staff now expects year-end General Fund revenues for FY 2026 to equal approximately **\$70.18 million**; an **increase** of **\$53,193** from the budgetary estimates for FY 2026. The following will discuss key factors leading to the revision of year-end revenue estimates:
 - **Property Tax** – FY 2026 Budget Estimate of \$23,761,700 vs. Revised Year-End Projection of **\$24,542,000** (**increase** of **\$780,300**) – The City relies on property tax estimates from both a consultant as well as the Santa Clara County Office of the Assessor and Controller-Treasurer Department. The latter two County agencies provide quarterly projections and recently provided an update on February 12, 2026. While most property tax categories are tracking very close to initial budgetary estimates for FY 2026, the County expects the City to receive slightly more in Secured Property Tax than originally expected; demonstrating the relative overall strength in core property taxes despite the slowdown in the housing market due to high interest rates and a shortage in supply. Educational Revenue Augmentation Fund (ERAF) payments made to the City by the State through property taxes are also projected to be higher than originally expected.

- o **Sales Tax** – FY 2026 Budget Estimate of \$16,071,437 vs. Revised Year-End Projection of **\$15,756,028** (**decrease of \$315,409**) – The City relies on sales tax estimates from a qualified consultant. Based on the fact that several of the City’s top sales tax producers have moved to other cities in the past few years and a general slowing in sales tax revenue statewide, the sales tax consultant significantly decreased revenue estimates for FY 2025 and beyond. It may be possible that recent departures can be offset by other sales tax generators in the future, but their departure leaves a significant hole in the City’s sales tax base for the immediate future. Staff will continue to monitor the situation and keep Council updated. Implementation of the City’s Economic Development Strategic Plan should help in this area as well as Property Tax, Transient Occupancy Tax (TOT), and Permits. Please also note that the Sales Tax numbers shown above do not include the City’s Sales Tax Add On (Measure K), which was approved by voters in November 2024 and went into effect April 1, 2025. The City was legally challenged on this matter by a taxpayer advocacy group and the funds remain untouched in an interest-bearing escrow account pending the final outcome of the legal process. Before interest earnings, Measure K funds equal \$3.46 million through the mid-point of FY 2026 and \$5.11 million since implementation on April 1, 2026. If the City receives a favorable and final non-appealable judgement on Measure K, accumulated and ongoing revenues will be added to the General Fund.

- o **Other Taxes** – FY 2026 Budget Estimate of \$7,050,100 vs. Revised Year-End Projection of **\$6,850,200** (**decrease of \$204,900**). This revenue category consists of Franchise Taxes, Construction Tax, Business License Tax, Real Property Tax Transfers, and Transient Occupancy Tax (TOT). Most of these categories are expected to meet budgetary estimates in FY 2026 except Cable Franchise Fees, Business License Tax, and Construction Tax; which are projected to miss budgetary estimates by \$55,000, \$49,900, and \$100,000 respectively.

- o **Licenses and Permits** - FY 2026 Budget Estimate of \$6,813,075 vs. Revised Year-End Projection of **\$6,824,086** (**increase of \$11,000**). This category consists primarily of Community Development Construction Permit Fees and Plan Check Fees. Based on year-to-date activity as well as known and planned developments throughout the remainder of the fiscal year, staff expects a \$100,000 decrease in Construction Permits, a \$100,000 increase in Advanced Plan Check Fees, and slight increases in other related fees in FY 2026 compared to original budgetary estimates.

- o **Intergovernmental Revenue** - FY 2026 Budget Estimate of \$1,489,210 vs. Revised Year-End Projection of **\$1,378,100** (**decrease of \$111,000**). This revenue category largely consists of smaller limited restriction federal, state, and county grants, state mandated cost reimbursements, contractual arson investigator payments from the Santa Clara County Fire Department. Year-end projections are expected to miss budgetary estimates primarily due to not having sufficient staffing to assign to the County of Santa Clara Regional

Auto Theft Task Force (RATTF) and not receiving subsequent and estimated reimbursement from RATTF.

- o **Charges for Service** - FY 2026 Budget Estimate of \$6,412,442 vs. Revised Year-End Projection of **\$5,937,277** (**decrease** of **\$475,165**). This category consists of fee-based programs, camps, and classes in the Recreation and Community Services (RCS) Department as well as service fees in the Community Development, Public Works, and Police Departments. The downward revision to estimates is largely due to lower-than-expected participation in sports programs (offset by decreased staffing costs), lower than expected Zoning Fees, and lower than expected Public Works Project Overhead Charges (due to delay in Hamilton Avenue Resurfacing project).
- o **Leases and Rentals** - FY 2026 Budget Estimate of \$3,087,143 vs. Revised Year-End Projection of **\$3,255,700** (**increase** of **\$168,557**). This increase is due primarily to greater than expected leases and rentals at the Heritage Theater and the Campbell Community Center.
- o **Miscellaneous Revenue** - FY 2026 Budget Estimate of \$204,649 vs. Revised Year-End Projection of **\$243,699** (**increase** of **\$39,050**). This is a relatively small revenue category for the City consisting of Donations, In-Lieu fees, and other miscellaneous and sporadic revenue sources. The increase in FY 2026 estimates is due primarily to higher-than-expected donations and other miscellaneous items.
- o **Other Funding Sources (OFS) Committed / Assigned Reserves** - FY 2026 Budget Estimate of \$3,282,120 vs. Revised Year-End Projection of **\$3,442,880** (**increase** of **\$160,760**). The increase is due to staff recommended utilization of the Community Center Reserve and Heritage Theater Reserve for various unexpected repairs at both locations over FY 2026.
- **Expenditures** - As of December 31, 2025, General Fund expenditures equaled approximately **\$32.31 million**; an **increase** of **\$185,987** or **0.58%** when compared to the same time period last fiscal year, which showed approximately \$32.13 million in year-to-date expenditures. The minimal growth in year-to-date expenditures is primarily due to larger than expected vacancy savings to date as discussed previously. As **Attachment 1** shows, if staff proposed mid-year budget adjustments are approved by City Council, General Fund expenditures for FY 2026 will equal approximately **\$70.18 million**; a **decrease** of **\$529,876** from FY 2026 budgetary appropriations amended since July 1, 2025. This decrease is again primarily due to proposed utilization of excess vacancy savings to date; offset by previously approved emergency repairs and slightly higher than expected General Fund revenue discussed previously. Mid-year cost adjustments are detailed further in **Attachment 2** and **Attachment 3**. The expenditure summary above as well as **Attachment 1** again reflects the inclusion of requested mid-year appropriations adjustments so that their full impact can be considered by Council:

Economic Update (as of March 13, 2026)

National Economy - The U.S. economy showed moderating growth in late 2025 amid the October–November federal government shutdown, but remains resilient heading into Q1 2026. Real GDP grew at an annual rate of just **0.7%** in Q4 2025 (second estimate released today, March 13, 2026), down sharply from 4.4% in Q3 and the advance estimate of 1.4%. Full-year 2025 GDP rose **2.2%**, below 2024's 2.8%. Consumer spending and private investment drove the modest Q4 gain, offset by weaker government spending and exports.

Inflation remains contained. The CPI rose **0.3%** month-over-month in February 2026 and **2.4%** year-over-year, unchanged from January.

The labor market softened unexpectedly: nonfarm payrolls fell **92,000** in February (versus expected gains), and the unemployment rate ticked up to **4.4%** from 4.3%.

Consumer sentiment dipped to **55.5** (preliminary March University of Michigan index), down from February's final 56.6, pressured by the U.S.–Iran conflict and higher gasoline prices. Despite this, consumer spending held firm—retail sales rose **~0.3%** month-over-month in February (per NRF data) and **6.2%** year-over-year, marking the fifth straight monthly gain.

Manufacturing expanded modestly for the second straight month: the ISM Manufacturing PMI registered **52.4** in February (down slightly from 52.6). New orders and backlogs strengthened, though employment remained soft.

Housing showed early signs of improvement. Existing-home sales rose **1.7%** month-over-month in February to a 4.09 million annualized rate; the median price was **\$398,000** (+0.3% year-over-year).

Overall, national growth has slowed but consumer resilience and contained inflation provide a stable backdrop, with AI-driven investment supporting longer-term optimism.

California Economy - California's economy outperformed the nation in recent quarters but faces higher unemployment and housing affordability challenges. Real GDP grew a robust **4.5%** (annualized) in Q3 2025—led by the information sector—slightly above the national pace.

The statewide unemployment rate stood at **5.5%** in December 2025 (latest detailed EDD data), down 0.1 percentage point month-over-month but well above the national figure. Job losses occurred in construction and professional services, partially offset by gains in education/health and leisure/hospitality.

Housing activity remains elevated but prices are softening modestly. The median existing single-family home price fell to **\$850,680** in December 2025 (–1.2% year-over-year), while sales volume edged up **2%**. Building permits averaged 101,000 units year-to-date through October 2025 (+1.1% year-over-year).

California benefits from tech strength but remains sensitive to federal policy shifts and energy costs tied to geopolitical events.

Santa Clara County Economy - Santa Clara County (Silicon Valley) continues to outperform state and national averages, driven by technology. The unemployment rate was a low **4.0%** in December 2025 (San Jose-Sunnyvale-Santa Clara MSA), down from prior months and far below California’s 5.5% and the U.S. 4.4%.

Local employment has stabilized post-shutdown effects, with tech and professional services providing resilience. Housing demand remains strong in this high-income region, supporting Campbell’s local market. The county’s low unemployment and innovation focus position it well for continued moderate growth amid national moderation.

City of Campbell Economy - Campbell’s economy is closely tied to Santa Clara County’s tech ecosystem and remains stable with high asset values. Median home sale prices in February 2026 ranged from **\$1.701 million** (Redfin, –12.8% year-over-year in one dataset) to **\$1.937 million** average (Zillow, +1.7% year-over-year), reflecting a high-value but competitive market with homes selling in ~21 days (up from 13 days last year). February saw 21 sales (+31% year-over-year).

Key Takeaways for Campbell - National and state growth has moderated due to temporary factors (shutdown, geopolitics), yet inflation is stable, consumer spending resilient, and Silicon Valley unemployment exceptionally low. Campbell benefits from strong local home values and tech adjacency but should monitor future General Fund pressures and prepare for potential federal policy impacts on energy prices and investment. Overall, the local outlook remains positive with cautious vigilance on spending and revenue diversification.

FISCAL IMPACT

If approved, staff proposed adjustments would result in an increase to General Fund budgeted revenues of **\$53,193** and a decrease to General Fund budgeted expenditures of **\$529,876**; as shown in Attachments 1, 2, and 3. If approved, the General Fund will remain fully balanced in FY 2026.

ALTERNATIVES

1. Approve requested budget adjustments, but modify as desired.
2. Do not approve requested budget adjustments, but ask staff to return at a later date with modifications.
3. Provide staff with other direction.

PREPARED BY: Will Fuentes, Finance Director

Report Approval Details

Document Title:	Fiscal Year 2026 Mid-Year Financial Update and Budget Adjustments.docx
Attachments:	Attachment 1 - Mid-Year Fiscal Update (FY 2026) - General Fund Summary (v 01-26-26).pdf Attachment 2 - FY 2026 Midyear Resolution.docx Attachment 3 - Line-Item Detail for Mid-Year Adjustments (FY 2026).pdf Attachment 4 - Reconciliation of FY 2026 Adopted Budget to FY 2026 Amended Budget.pdf
Final Approval Date:	March 18, 2026

This document and all of its attachments were approved and signed as outlined below:



Will Fuentes, Finance Director



Andrea Sanders, City Clerk



Brian Loventhal, City Manager