



# City of San Marino

## Staff Report

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TO: Mayor and City Council

FROM: Philippe Eskandar, City Manager

BY: Hillary Guirola-Leon, Finance Director  
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DATE: April 25, 2025

**SUBJECT: PRESENTATION OF FY 2025-26 PROPOSED OPERATING BUDGET BY DEPARTMENT**

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### STRATEGIC PLAN CRITICAL SUCCESS FACTORS

Efficient, Responsive, and Effective City Services  
Engaged and Connected Residents  
Fiscally Responsible and Transparent City Government

### BACKGROUND

The annual budget is an important document where government resources are allocated to programs and services for the year. This allocation of resources is driven by the City's priority initiatives. The Fiscal Year 2025-26 budget process began at the first meeting in February and the goal is to adopt the budget by May/June before the start of the fiscal year.

- At the February 12, 2025, City Council meeting, staff presented the Fiscal Year 2025-26 budget calendar, a budget overview, and presented the proposed priority initiatives.
- At the February 28, 2025, City Council meeting, staff presented the FY 2024-25 mid-year review and the five-year financial forecast. FY 2025-26 projections were also presented along with an update of FY2024-25 CIP projects.

- Community feedback on priority initiatives was gathered through a community survey. The results of the community feedback were presented to Council on March 12, 2025.
- At the March 12, 2025, City Council meeting, City Council selected the FY 2025-26 priority initiatives. The selected priority initiatives are listed below:

Theme 1-	Public Safety Excellence
1	Improve Cellular Coverage
2	Explore Pedestrian and Traffic Safety Improvements
Theme 2-	Preserve our Residential Neighborhoods
3	Housing Element Implementation
Theme 3-	Build Upon our Fiscal Health
4	Financially Self-sustaining Sewer System
5	Ensure Fiscal Stability Through Revenue
6	Maintain Local Control of Sales Tax
Theme 4-	Foster Economic Development
7	Streamline Brick and Mortar Openings
8	Highlight Local Commerce
Theme 5-	Celebrate San Marino
9	Lacy Park 100th Anniversary
10	Lacy Park Arboretum Accreditation

- At the March 28, 2025, City Council meeting, staff presented the draft FY 2025-26 Capital Equipment, FY 2025-26 Construction Plans, and the 5-year Capital Improvement Plan. Developing a 5-year Capital Improvement Plan is a best practice used by governments to identify the City's present and future capital investment needs.

Today's meeting continues the next stage of the budget process; the review of the operating budget by department. Staff will provide a high-level budget summary including revenues, operating expenditures, and fund balance impacts.

## **DISCUSSION**

Today's meeting will focus on the departmental budget packets and proposed revenues included as Attachments 1 through 12 of this staff report. The departmental budget packets include a budget memorandum, a narrative description, current year accomplishments, next year's objectives, an up-to-date operating dashboard, and the department operating budget separated

into Personnel and Services & Supplies sections. Departmental Organizational Charts are also included in the attached budget packets.

### **FY 2025-26 Proposed Revenue Budget**

The proposed revenue budget for FY 2025-26 is **\$39,089,260**, which is a **\$1.42M** or **3.5%** decrease from the current budget.

Revenues by Fund	FY 2024-25 Amended	FY 2025-26 Proposed	\$ Change	% Change
General Fund Group	\$36,348,037	\$36,261,981	\$(86,056)	-0.2%
Restricted Funds	4,168,163	2,827,279	(1,340,884)	-32.2%
<b>Total</b>	<b>\$ 40,516,200</b>	<b>\$ 39,089,260</b>	<b>\$(1,426,940)</b>	<b>-3.5%</b>

The table below provides the breakdown of the General Fund revenues in more detail:

General Fund Group Revenues	FY 2024-25 Amended	FY 2025-26 Proposed	\$ Change	% Change
Ad Valorem Property Taxes	\$ 20,150,000	\$ 20,950,000	\$ 800,000	4.0%
Property Tax In Lieu of VLF	2,100,456	2,198,457	98,001	4.7%
Utility Users Tax	2,515,900	2,466,750	(49,150)	-2.0%
Public Safety Property Tax	3,528,294	3,704,709	176,415	5.0%
Sales Tax	645,000	637,000	(8,000)	-1.2%
Charges for Service	2,247,156	2,169,360	(77,796)	-3.5%
Licenses & Permits	1,705,000	1,750,170	45,170	2.6%
Other Revenues	3,456,231	2,385,535	(1,070,696)	-31.0%
<b>Total</b>	<b>\$ 36,348,037</b>	<b>\$ 36,261,981</b>	<b>\$ (86,056)</b>	<b>-0.2%</b>

The decrease in the General Fund group revenues is primarily due to one-time revenues received in FY 2024-25. During FY 2024-25, the City recognized one-time revenues related to the Sale of Proposition A funds in the amount of **\$750,000** and American Rescue Plan Act funds in the amount of **\$401,406**.

The top three General fund revenue sources are Property taxes, Utility Users Tax, and the Public Safety Parcel Tax, together making up 75% of the total General fund revenues for FY 2025-26.

A 4% growth factor was used to budget property tax revenue for FY 2024-25. As of March 2025, Property tax receipts are trending 3.86% higher than prior

year receipts. Based on year-to-date trends, historical trends, and the City's property tax consultants' (HDL) latest estimates, 4% remains the growth factor for FY 2025-26 property taxes.

The Public Safety Parcel tax for FY 2025-26 is estimated to grow by **\$176,415** or **5%** from current year.

Charges for Services decreased from prior year mainly due to the elimination of the Lil' Learners and Aquatics programs.

## **Proposed Expenditures**

### **Operating Expenditures-All Funds**

The city-wide proposed operating expenditure budget for FY 2025-26 is **\$36,887,480**, which is a decrease of **\$1.7M** or **4.6 %** decrease from the current budget.

<b>All Funds Operating Budget</b>	<b>FY 2024-25 Amended</b>	<b>FY 2025-26 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Personnel	\$21,318,867	\$22,142,129	\$823,262	3.9%
Personnel- Workers Comp	1,466,680	822,546	(644,134)	-43.9%
Pension UAL & OPEB	3,750,171	4,127,395	377,224	10.1%
Services & Supplies	12,130,885	9,795,410	(2,335,475)	-19.3%
<b>Total</b>	<b>\$38,666,603</b>	<b>\$36,887,480</b>	<b>\$(1,779,124)</b>	<b>-4.6%</b>

### **Operating Expenditures-General Fund Group**

The proposed General Fund operating expenditures budget for FY 2025-26 is **\$36,261,737**, which is a decrease of **\$1.015M** or **2.7%** from current year.

<b>General Fund Group Operating Budget</b>	<b>FY 2024-25 Amended</b>	<b>FY 2025-26 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
Personnel	\$21,289,444	\$22,122,129	\$832,685	3.9%
Personnel- Workers Comp	1,466,680	822,546	(644,134)	-43.9%
Pension UAL & OPEB	3,750,171	4,127,395	377,224	10.1%

Services & Supplies	10,770,135	9,189,667	(1,580,468)	-14.7%
<b>Total</b>	<b>\$37,276,430</b>	<b>\$36,261,737</b>	<b>\$(1,014,693)</b>	<b>-2.7%</b>

Overall, the personnel budget increased by 3.9% from current year. The proposed personnel budget includes a reduction of approximately **\$200,000** due to temporary salary savings from freezing one Police Officer position and one part-time Cadet position. These positions are not being eliminated but will remain unfilled for the upcoming fiscal year to support budget balancing efforts for FY 2025-26. Recruitment for these positions is expected to resume once the budget stabilizes. The proposed personnel budget also includes reductions in Community Services Department of **\$78,151** or **2.7%** decrease from the current year. The decrease is primarily due to the elimination of the Lil' Learners and Aquatics programs.

The proposed budget also includes a **\$100,000** reduction in annual contributions to the City's California Employers' Retiree Benefit Trust Fund (CERBT). This adjustment is a temporary measure to assist in balancing the FY 2025-26 budget. The goal is to continue making these additional contributions to the trust fund in future years.

The proposed FY 2025-26 operating budget does not include depreciation, as it is a non-cash expense recognized only for financial reporting purposes. Although not part of the FY 2025-26 proposed budget, depreciation estimates can serve as a long-term capital planning tool by setting aside funds for future asset replacement. Capital contributions can be proposed once the budget stabilizes, and Council can consider them separate from the operating budget. In previous years, depreciation was included in the budget and was used to fund capital expenditures during the same fiscal year.

### **Department Budget Reductions**

As part of this year's budget process, departments reviewed each expenditure line item and proposed operating expenditure reductions to help balance the budget. The table below shows the net department reductions in the services and supplies expenditure category. Of these reductions, \$304,050 will continue to be funded through an alternative revenue source for FY 2025-26. This approach allows the City to maintain essential services while supporting overall budget balancing efforts.

<b>General Fund Expenditures (Services &amp; Supplies) By Department</b>	<b>FY 2024-25 Amended</b>	<b>FY 25/26 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
City Council	\$ 29,475	\$ 33,350	\$ 3,875	13.1%
City Attorney	450,000	355,000	(95,000)	-21.1%
City Manager's Office	273,640	204,150	(69,490)	-25.4%
Community Development	794,042	521,991	(272,051)	-34.3%
Community Services	1,145,031	1,070,270	(74,761)	-6.5%
El Molino Viejo	60,000	60,000	-	0.0%
Finance	259,482	179,877	(79,605)	-30.7%
Fire & Emergency Management	879,065	847,845	(31,220)	-3.6%
Human Resources	738,537	640,267	(98,270)	-13.3%
Non-Departmental	2,690,130	2,078,201	(611,929)	-22.7%
Parks & Public Works	2,591,793	2,615,788	23,995	0.9%
Police	858,940	582,928	(276,012)	-32.1%
<b>Total</b>	<b>\$ 10,770,135</b>	<b>\$ 9,189,667</b>	<b>\$ (1,580,468)</b>	<b>-14.67%</b>

The FY 2025-26 budget process is the second year of departmental budget reductions to help bridge the gap between revenues and expenditures. Below is a table showing the departmental budget reductions in the Services & Supplies expenditure category for FY 2024-25 and FY 2025-26 Proposed budget. For the FY 2025-26 proposed budget, the department reductions total \$1.8M.

<b>Department</b>	<b>FY 2024-25 Budget Reductions</b>	<b>FY 2025-26 Budget Reductions</b>
City Council	\$3,700	\$0
City Attorney	25,000	95,000
City Manager's Office	39,328	70,000
Finance	12,921	82,312
Non-Departmental	500	646,256
Human Resources	4,442	120,680
Community Development	572,000	290,790
Police	111,735	275,000
Fire & Emergency Management	67,690	24,600
Parks & Public Works	43,450	138,562
Community Services	36,925	39,264
<b>Total</b>	<b>\$ 917,691</b>	<b>\$ 1,782,464</b>

## **General Fund Overview**

Overall, the General Fund FY 2025-26 proposed budget has a net change of \$244 before transfers in/out.

<b>GENERAL FUND</b>	<b>FY 25/26 Proposed</b>
General Fund Revenues	\$ 36,261,981
General Fund Expenditures	36,261,737
<b>Net Change before Transfers In/Out</b>	<b>\$ 244</b>

Since January 2025, there have been significant changes at the federal level that could create ripple effects throughout our local economy. There is ongoing uncertainty related to tariffs, inflation, federal funding freezes, and other key economic factors.

The City's proposed budget does not currently reflect these potential economic changes, but staff will continue to monitor conditions and remain prepared to adjust if necessary. The City's proposed budget also does not reflect revenue increases that may result due to approval of the Fee Study and Sewer Rate Study which are both expected to be presented for City Council approval over the next 2 months.

### **The Path Forward:**

While City staff have worked tirelessly with the City Council to make cuts across every single department both in Fiscal Years 2024-25 and 2025-26 to ensure a balanced budget without the use of reserves, these cuts have not cured the structural deficit the City is experiencing due to lagging revenues and will need to navigate the problem again next fiscal year. The impacts of the structural revenue issues, which have been highlighted by staff for years, were significantly exasperated by the COVID-19 pandemic and the historic economic challenges it brought with it, resulting in a present-day need to address them head on as soon as possible. The compounding effects of inflation at rates not seen in decades, disruptions to workforce availability, and supply chain issues, have resulted in more dire impacts to cities with limited revenue streams or growth like San Marino.

For historic context, the table below highlights the compounding effects that rising costs have had on a select number of the City's operating expenses since Fiscal Year 2018-19, the year before the COVID-19 pandemic. Just the below 11 items alone represent more than \$1.6M in unavoidable cost increases impacting the City's budget. These items are not those which have grown the most over this period of time but rather a small selection of items

that the City cannot operate without. Cutting any one of these items would have an adverse impact on service delivery, liabilities, etc. Additionally, several of these items have been competitively bid over this period of time to ensure that the City is complying with procurement policies and obtaining the best rates in the market.

Expense	Budget Year			
	FY 2018-2019	FY 2025-2026	\$ Difference	% Difference
General Liability Insurance Premium	\$531,930.00	\$1,169,379.00	\$637,449.00	120%
Citywide Water Utilities	\$171,666.48	\$392,251.42	\$220,584.94	128%
Citywide Electric Utilities	\$241,829.94	\$429,012.34	\$187,182.40	77%
Excess Workers Compensation Insurance Premiums	\$27,176.20	\$207,917.00	\$180,740.80	665%
Crossing Guards to Support SMUSD Students	\$129,426.00	\$236,523.00	\$107,097.00	83%
Citywide Tree Management	\$297,000.00	\$389,438.00	\$92,438.00	31%
Annual Sewer Cleaning	\$129,336.00	\$204,610.00	\$75,274.00	58%
Fire Emergency Medical Services Supplies	\$31,000.00	\$77,700.00	\$46,700.00	151%
Verdugo Fire Dispatch Fees	\$74,200.00	\$110,000.00	\$35,800.00	48%
Department of Industrial Relations- SIP CA	\$11,943.08	\$45,657.00	\$33,713.92	282%
Fire Department 911 Lines	\$8,300.00	\$27,000.00	\$18,700.00	225%

Additionally, it's important to note that in order to deliver on the expectations of the community and City Council related to public safety, community services, permitting, responding to new State legislation, etc., past administrations have grown the organization from approximately 96 full time employees in Fiscal Year 2016-17 to 112 full time employees in the current fiscal year. All of which has occurred without substantial new structural revenue growth over the same period of time.

As a response to this mounting revenue issue, during the FY 2024-25 budget process, the City Manager outlined a roadmap of actions necessary to be undertaken in order to stabilize the City's finances. This roadmap included short, mid- and long-term actions that must be implemented if the City Council and the community wish to maintain the current levels of service. A few of the actions implemented to date include the passage of the Public Safety Parcel Tax (Measure SM) by voters in the November 2024 Election, the sale of excess Proposition A funds to the City of Pasadena, and the reallocation of COPS funds to better support Police Department operations.



In the mid-term, staff have been working to update the City's user fees (fees for services delivered to individuals such as those necessary to inspect fire plans, obtain a conditional use permit, film permit, etc.), study revenue sources for maintaining the City's aging sewer infrastructure, and addressing operational efficiencies to reduce expenses. One primary area of focus as outlined last year is to address the drivers of overtime expenses. As an example, the Fire Department will continue reducing the utilization of forced overtime hiring as a method of staffing when personnel are unable to fill shifts for various reasons. This is expected to result in significant reduction of unbudgeted expenditures while still ensuring that the high levels of life-safety services are delivered to the community.

In the long-term, over the course of the next one to two years, several additional actions will need to be taken to maintain the San Marino we know and love. These include renewal of the City's Utility Users Tax at a rate that more appropriately reflects the community's expectations of the City by way of service delivery; a one cent district tax measure to keep dollars spent in San Marino; and working with The Huntington to better fund impacts to City services by their visitors, to name a few.

By implementing the actions outlined above, coupled with sound budgeting practices across the City's budget, the City will be able to address the structural deficit over the next few years and continue to deliver services at the levels expected by the community.

### **Estimated General Fund Balance**

The estimated unassigned General Fund balance at June 30, 2026, is \$17.9M, which is about 49.5% of the FY 2025-26 proposed operating revenues which meets the City's General Fund Reserves Policy of 40%. The reserve balance above the minimum amount required is \$3.4M. Should the City not recognize new structural revenue streams as outlined in the path forward above, this amount will be critical to monitor as a source to temporarily fund operations in FY 2026-27 given the anticipated deficit and limited ability to make further cuts to department budgets next year.

### **FISCAL IMPACT & PROCUREMENT REVIEW**

Total operating budget expenses are proposed to be \$36,887,480 for the FY 2025-26, of which \$36,261,737 are supported by the General Fund.

### **LEGAL REVIEW**

The City Attorney's office has reviewed and approved as to form.

## **RECOMMENDATION**

Staff recommends the City Council provide direction to the City Manager on the proposed FY 2025-26 Operating Budget.

## **ATTACHMENTS**

1. City Council
2. City Attorney
3. City Manager's Office
4. El Molino Viejo (The Old Mill)
  5. Finance & Non-Departmental
6. Human Resources
7. Community Development
8. Police
9. Fire & Emergency Management
10. Parks & Public Works
11. Community Services
12. Revenue Schedule (Summary & Detail)
13. Detail of FY 2025-26 Budget Reductions