

Agenda Report

June 22, 2026

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: **AMENDMENTS TO FISCAL YEAR 2026 OPERATING BUDGET**

RECOMMENDATION:

1. Find that the proposed action herein is not a “project” subject to the California Environmental Quality Act (CEQA) pursuant to Public Resources Code Section 21065 and within the meaning of State CEQA Guidelines Section 15378; and
2. Amend the Fiscal Year (FY) 2026 Operating Budget as detailed in the following report by a net amount of \$8,056,000.

BACKGROUND:

Throughout the fiscal year, budgetary adjustments are necessary to account for unanticipated changes to the adopted budget. These revenue and appropriation amendments are presented to the City Council for consideration. This agenda report includes proposed amendments to the FY 2026 Operating Budget as adopted by the City Council on June 16, 2025.

Proposed Budget Amendments

1. **Outside Legal Services** – The City Attorney/City Prosecutor Department recommends appropriating \$3,100,000 from the unappropriated fund balance in the General Fund (101) for outside legal services. The Department currently has \$2.6 million budgeted for outside legal services; however, this will not be sufficient given the number and range of legal matters required to be handled. The Civil Division has handled a high number of ongoing and time-consuming litigation matters, with protracted discovery and law and motion in several high-profile litigation matters involving the City in both Plaintiff and Defendant capacities, as well as several complex advisory legal matters.

2. **Police Department Internal Service Budget Adjustment** – The Police Department recommends appropriating \$511,000 from the unappropriated fund balance in the General Fund (101) to cover fleet maintenance, repair, and replacement costs. Although the FY 2026 budget includes \$2.5 million for these expenses, rising repair costs for aging vehicles have created a shortfall. Delivery of new vehicles has been delayed due to supply chain issues, and the cost of upfitting new vehicles was not previously included in the replacement budget.
3. **Encampment Clean-up Funding Transfer** – The Public Works Department recommends transferring \$75,000 from the Refuse Fund (406) to the General Fund (101) within the Housing Department to support the Municipal Assistance, Solutions, and Hiring (MASH) program staff time and associated expenses for the cleanup and disposal of items at encampment sites. These responsibilities were previously performed by Public Works; however, since MASH has assumed these duties, the Refuse Fund will now fund these costs on an annual basis.
4. **Library Grant Programs** – The Libraries and Information Services Department recommends recognizing revenue and appropriating \$50,108 in the Library Services Fund (212) for two grants: (a) \$35,108 for the Lunch at the Library Grant Program and (b) \$15,000 for the Civic Makers Lab for Adults initiative. The Lunch at the Library program is a state-wide initiative that provides grants, training, and resources to help libraries establish successful summer meal sites or provide programming and resources at other community meal sites. The grant was awarded in January 2026 and concludes in January 2027. The Civic Makers Lab for Adults is a program that equips librarians to serve as civic learning facilitators and empowers young adults ages 18-24 to be active contributors to their communities. The grant was awarded by the Urban Libraries Council in April 2026 and concludes in September 2027.
5. **Purchase of Clean Air Vehicles** – The Human Resources Department recommends appropriating \$64,000 from the unappropriated fund balance in the Air Quality Improvement Fund (216) to purchase two clean-air electric vehicles for the Finance Department’s Business License Inspectors. On October 27, 2025, the City Council approved an appropriation of \$7,200 to lease a vehicle for the inspectors. This adjustment reflects the Finance Department’s decision to purchase the vehicle rather than lease it as originally planned, as well as the acquisition of a second vehicle. This allocation of Air Quality Management District funding supports the City’s ongoing commitment to sustainability and clean-air initiatives.
6. **CalHome Award Funding** – The Housing Department recommends recognizing revenue and appropriating \$2,625,000 of the \$5,000,000 CalHome Program award funded by the State of California Department of Housing and Community Development approved by the City Council on May 20, 2024. The program provides down payment assistance to low-income households and provides financing for the rehabilitation and construction of accessory dwelling units (ADUs). The remaining balance of the grant award will be budgeted before the grant terminates in July 2027.

7. **Year-End Budget Reconciliation** – The Housing Department recommends appropriating a total of \$4,381,000 from the unappropriated fund balances of the following funds to align budgeted appropriations with projected expenditures through June 30, 2026.
 - a. Rental Assistance Programs Fund (220) – Appropriate \$4,196,000 from the fund’s unappropriated balance to account for rising rents and the administration of partner PHAs, for which reimbursement is expected. Additionally, the timing of HUD’s delayed funding notification contributed to the variance and underscores the need for continued alignment between federal funding cycles and local budget planning.
 - b. Low and Moderate Income Housing Fund (237) – Appropriate \$148,000 from the fund’s unappropriated balance to account for increased administrative costs.
 - c. Inclusionary Housing Trust Fund (239) – Appropriate \$37,000 from the fund’s unappropriated balance to account for increased administrative costs.

COUNCIL POLICY CONSIDERATION:

The City Council’s strategic planning goal of maintaining fiscal responsibility and stability will be advanced by monitoring the FY 2026 Operating Budget and by implementing necessary budget amendments.

ENVIRONMENTAL ANALYSIS:

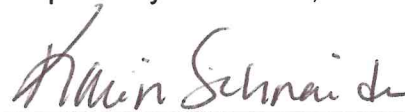
CEQA excludes, from environmental review, actions that are not “projects” as defined by Public Resources Code 21065 and within the meaning of State CEQA Guidelines Section 15378(b). Sections 21065 and 15378 define a project as an action which may cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Section 15378(b) excludes from the definition of “project” government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. The actions proposed herein, amending the City’s FY 2026 Operating Budget, is a governmental fiscal activity, and therefore is not a “project” as defined by CEQA. Since the action is not a project subject to CEQA, no environmental document is required.

FISCAL IMPACT:

As detailed in the table below and in the attached “Summary of Proposed 4th Quarter FY 2026 Budget Amendments”, approval of the proposed budget amendments will increase FY 2026 total authorized operating appropriations across multiple funds by \$10,806,108. These additional costs will be offset through increased revenue of \$2,750,108. The General Fund’s unappropriated fund balance will decrease by \$3,536,000.

Item #	Fund	Fund Description	Department	Revenue Recognition	Expenditure Appropriations	One-Time / Ongoing
1	101	General Fund	City Attorney	\$0	\$3,100,000	One-Time
2	101	General Fund	Police	\$0	\$511,000	One-Time
3	101/406	General Fund/Refuse Fund	Housing/Public Works	\$75,000	\$75,000	Ongoing
4	212	Other Housing Fund/Refuse Fund	Library	\$50,108	\$50,108	One-Time
5	216	Air Quality Improvement Fund	Human Resources	\$0	\$64,000	One-Time
6	238	Other Housing Fund	Housing	\$2,625,000	\$2,625,000	One-Time
7a	220	Rental Assistance Programs Fund	Housing	\$0	\$4,196,000	One-Time
7b	237	Low and Moderate Housing Fund	Housing	\$0	\$148,000	One-Time
7c	239	Inclusionary Housing Trust Fund	Housing	\$0	\$37,000	One-Time
			Total	\$2,750,108	\$10,806,108	

Respectfully submitted,



KARIN SCHNAIDER
 Director of Finance

Prepared by:



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Approved by:



MATTHEW E. HAWKESWORTH
 Interim City Manager

Attachment: (1)

Attachment A - Summary of Proposed 4th Quarter FY 2026 Budget Amendments