



MEMORANDUM
CITY MANAGER'S OFFICE
1000 Gateway Avenue
San Pablo, CA 94806

Date: April 1, 2026

TO: MAYOR AND SAN PABLO CITY COUNCIL
Budget, Fiscal & Legislative Standing Committee Members

FROM: Matt Rodriguez City Manager

Re: **CITY MANAGER BUDGET MESSAGE FOR THE CITY'S PRELIMINARY DRAFT BUDGET FOR FY 2026-27 & FY 2027-28 FOR STANDING COMMITTEE & CITY COUNCIL BUDGET HEARING REVIEW**

To the Honorable Mayor and Members of the San Pablo City Council and BFLSC members:

Please accept the City Manager's Budget Message presented for the **PRELIMINARY DRAFT** General Fund (GF) Operating Budget for the upcoming two-year Fiscal Year 2027-2028 period.

Pursuant to San Pablo Municipal Code (SPMC) Section 3.04.230, the **PRELIMINARY DRAFT BUDGET** document enclosed provides detailed financial information about the policies, expenditures and revenues forecasted for the City's upcoming two-year (biennial) GF operational period **beginning July 1, 2026 and ending June 30, 2028.**

BUDGET REVIEW AND ADOPTION PROCESS

In accordance with all budget preparation requirements listed under the San Pablo Municipal Code (SPMC) Chapter 3.04, the **PRELIMINARY DRAFT BUDGET** was developed under the authority of the City Manager as the City's Budget Officer, and presented for formal consideration, as follows:

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 2

- 1) **Budget. Fiscal & Legislative Standing Committee (BFLSC):** On April 1, 2026, the City Manager will present the **PRELIMINARY DRAFT BUDGET** for the FY 2027 - 2028 period for review to the members of the BFLSC consisting of: Mayor Pabon-Alvarado and Councilmember Ponce assigned by the City Council for the Calendar Year (CY) 2026 period.
- 2) **City Council Scheduled Public Budget Hearing:** Following the BFLSC review, the **PRELIMINARY DRAFT BUDGET** will be forwarded to the City Council for formal consideration and review during a scheduled public budget hearing set for **Wednesday, April 8, 2026** (SPMC Sections 3.04.220, 3.04.240 and 3.04.250)

Scheduled Public Budget Hearing - Procedure

Following public comments received at the scheduled public budget hearing, and upon Council deliberation, the City Council will direct by majority vote via minute order all modifications to City expenses and revenues to the City Manager to finalize the **PRELIMINARY DRAFT BUDGET** for FY 2027- 2028 for subsequent formal adoption by the City Council. The City Manager and the City’s Budget Team will prepare all enabling budget Resolutions for formal consideration and adoption on in June 2026 via Consent Calendar action.

Budget Adoption and Effective Date

Once the City Council acts by majority vote on the proposed budget enabling Resolutions, per SPMC Section 3.04.280 requirements, then the **PRELIMINARY DRAFT BUDGET** is deemed as a **FINAL ADOPTED BUDGET** which becomes **effective July 1, 2026.**

BUDGET & FISCAL ISSUES OVERVIEW

Multi-Year Budget Planning

Previously, on May 20, 2024, the City Council formally adopted a two-year (Biennial) GF Operating Budget for the period FY 2025 - 2026 which concludes on June 30, 2026.

Building on the City’s tradition of implementing multi-year budget plans, the City Manager is once again proposing a multi-year budget expenditure plan for FY 2026-27 and 2027-28. This is to primarily coincide with the City’s adoption of current 5-year multi-year employee represented MOUS which have fixed labor costs until June 30, 2027.

A provision for labor cost adjustments (i.e., COLAs) has been incorporated into the FY 2027-28 section of the **PRELIMINARY DRAFT BUDGET** in anticipation of the expiration of employee labor

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 3

MOUs on June 30, 2027, and the commencement of subsequent collective bargaining negotiations during FY 2026-27. Once determined, the City Manager intends on amending the **ADOPTED FINAL BUDGET** to accommodate approved labor cost adjustments in accordance with adopted new employee labor MOUs prior to the FY 2027-28 period, effective July 1, 2027.

ONE-YEAR BUDGET vs. MULTI-YEAR BUDGET STRATEGY

In September 2025, when the new budget cycle was initiated by the City Manager, the development and progress on the City’s budget to date has been achieved in collaboration with City Departments and the City’s Budget Team which includes zero-based budgeting directive for all City Departments. All essential GF spending was reviewed and developed into two-year, Biennial **PRELIMINARY DRAFT BUDGET**, with all GF expenses and revenues adjusted at City Manager direction to present a balanced multi-year budget for formal review and adoption by the City Council as required by SPMC requirements.

****CASINO REVENUE SHORTFALL IMPACTS****

Since FY 2022-23, the City has been experiencing its fourth successive decline/shortfall in annual Casino revenue to the City’s General Fund Budget.

Most recently, for FY 2024-25, a decline of **(\$849,995)** was experienced for period ending June 30, 2025. For FY 2025-26, an annual Casino contract revenue shortfall is projected at **(\$900,877)** for period ending June 30, 2026.

Proposed for FY 2026-27, annual Casino San Pablo revenue accounts for nearly 60% of the City’s annual GF revenue. This is a unique source of revenue not traditionally used by other local municipalities to fund City programs and service delivery annually. A summary of this recurring annual Gf impact is illustrated below:

CASINO SAN PABLO REVENUE SHORTFALLS (since FY 2022-23):

- **Casino Revenue Shortfall for FY 2022-23: (\$355,342)**
- **Casino Revenue Shortfall for FY 2023-24: (\$1,243,028)**
- **Casino Revenue Shortfall for FY 2024-25: (\$849,995)**
- **Casino Revenue Shortfall for FY 2025-26: (\$900,877)**

Note: Actual cumulative Casino Deficit/Shortfall represents a total revenue loss of **(\$3,349,242) forecasted for period ending June 30, 2026.*

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 4

Ongoing Use of Temporary Hiring Freezes

Because annual salary and benefit expenses are the largest cost in the City’s General Fund Budget, the City Manager responded to fluctuating Casino revenues by introducing a recurring six-month temporary hiring freeze for all current, budgeted FTE vacancies resulting from attrition or retirement beginning in FY 2023-24. This measure was designed to guarantee enough year-end savings to offset the critical loss of Casino revenue for the City through June 30, 2026. As a result, these actions have helped reduce some of the impact on the City's General Fund revenue each year until new revenue sources are identified.

Despite decreased Casino revenue, there is enough operational need to move forward with a multi-year budget plan for FY 2026-27 & FY 2027-28 with fiscal constraints until new revenue sources materialize in FY 2027-28. The City Council adopted several strategic measures in December 2023, resulting in the ability to present a balanced **PRELIMINARY DRAFT BUDGET**.

NEW CITY FINANCIAL CONDITION AND LONG-RANGE FINANCIAL FORECAST PLAN

In August 2023, with the emergence of a GF revenue shortfall for the City’s GF Operating Budget in FY 2022-23 and projected to occur in future years, the City Manager recommended development and execution of a new Long-Range Financial Forecast Plan (LRFFP) by an independent, third-party financial services consultant (i.e., PFM Financial Consultants) to analyze and interpret current City expense and revenue trends for future budget planning practices.

On December 13, 2023, the BFLSC and City Council were presented the independent LRFFP findings by PFM which indicated the following important findings if the City were to maintain **STATUS QUO** with no adjustments to current expense trends, and revenue projections in future years.

The City’s LRFFP included the following major findings:

- First-time experiencing annual Casino revenue “Tabling Off” **(Pre-2023 10-year growth = 5.6% avg growth rate; Post-2023 10-year projected growth = 0.6% growth rate)**
- Need to re-adjust City expense and revenue projections FY 2024-2025, and future years
- LRFFP indicated **(-\$40.1M)** cumulative GF Operating deficit **over next 10-year period**
- LRFFP indicated **(-\$ 8.7M)** cumulative GF Operating deficit **over next FY 2025-2027 period**

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 5

COUNCIL APPROVED STRATEGIC BUDGET INITIATIVES FOR BUDGET BALANCING

As City Manager, and based on the PFM financial consultant's findings, moving forward with the new multi-year (two-year) GF operating budget for FY 2027 - 2028 demands ongoing adherence of strategic budget initiatives to guide budget planning and decision-making. These measures were adopted by the City Council to tackle and resolve forecasted projected deficits.

On December 13, 2023, the City Council adopted Resolution #2023-067, which approved eight (8) Strategic Budget Initiatives aimed at eliminating forecasted deficits and proceeding with the City's ongoing multi-year budget planning to date.



CITY OF SAN PABLO STRATEGIC BUDGET INITIATIVES:

CITY COUNCIL APPROVED ON 12/13/23

APPROVED BY ADOPTED RESOLUTION #2023-067

- 1) **Implement a zero-based budget planning model for FY 2025-27 budget planning to optimize city service delivery and generate annual GF operating cost savings for all City Departmental expenses**
- 2) **Eliminate or substantially reduce all GF operating subsidies**
- 3) **Identify new gf annual revenue sources**
- 4) **No (0) FTE increased authorized during FY 2025-27 period (i.e., Zero-growth; status-quo)**
- 5) **Extend FTE hiring freeze on all FTE vacancies during FY 2025-2027 period**
- 6) **Re-tool & revise adopted fiscal resiliency policy requirements to reverse forecasted structural deficits as one-time balancing measures (for FY 2025-2027 period only)**
- 7) **Explore use of one-time funds from GFDR fund balance to reverse forecasted structural deficits as one-time budget balancing measures (for FY 2025-2027 period only)**
- 8) **Explore additional fiscal measures using forecast model to reverse forecasted structural deficits as recommended by the City Manager**

(SUBJECT TO CHANGE AS RECOMMENDED BY THE CITY MANAGER)

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 6

EMERGING U.S. ECONOMY CONCERNS AND ISSUES

In building the City’s’ **PRELIMINARY DRAFT BUDGET**, the City took into account the latest economic forecasts from major economic institutions. As a result, the US economy in 2026 is expected to grow steadily but faces challenges like high prices, slower job growth, and uncertainty from government policies such as ongoing use of federal tariffs. Overall, experts think the economy will improve compared to 2025, but not without bumps along the way. This leads to increased costs for goods and consumers alike which may result in demand for more labor cost adjustments from our City workforce and cost increases for capital, services and supplies for the City’s GF and CIP Budgets annually.

1. Economic Growth Is Expected to Strengthen

Forecasts show that the U.S. economy should grow faster in 2026 than it did in 2025. The Congressional Budget Office (CBO) expects output (GDP) to strengthen because of new government policies and a rebound from earlier spending cuts. Other economists, like those at Morgan Stanley, predict moderate growth of about **1.8%** for the year, with the economy picking up speed after a weak start. This means the economy is moving forward gradually but not booming.

2. The Job Market Will Improve Slowly

The job market is expected to get a little better in 2026, but not dramatically. The CBO projects the unemployment rate will stay around **4.6%** before gradually declining in later years. The Federal Reserve’s projections show unemployment averaging **4.4%** by the end of 2026. This suggests that while hiring won’t be super strong, the job market should remain stable and avoid major layoffs across multiple job sectors and industry.

3. Inflation Will Cool Down but Stay a Concern

Inflation—how fast prices rise—is expected to slow slightly in 2026. The CBO predicts inflation will be about **2.7%**, down from 2025. The Federal Reserve also expects inflation to gradually move toward its 2% goal by 2030. However, some forecasts warn that tariffs (i.e., taxes on imported goods) could temporarily push prices higher in early 2026 before things settle down. So, prices should rise more slowly but not return to “normal” right away.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 7

4. Interest Rates Will Likely Fall

After raising interest rates in previous years to fight inflation, the US Federal Reserve is expected to slowly lower them in 2026. The CBO expects interest rates to continue declining and then stabilize. Morgan Stanley predicts several small rate cuts as the Fed tries to support the economy without letting inflation rise again. Lower interest rates make borrowing cheaper for things like cars, homes, and student loans, which can help boost spending.

****FISCAL IMPORTANCE****

DEBT SERVICE OBLIGATIONS AND RE-FINANCING

A lower interest rate environment is essential to effectively manage annual debt service obligations on previous and future bond issuances. This positioning will facilitate future debt restructuring within the next 1–3 years; thereby, reducing annual debt service obligations for the City’s GF Operating Budget in future years. Maintaining the City’s current AA- credit rating is critical for the City’s future debt re-structuring.

5. Government Debt and Tariffs Add Uncertainty

One major challenge is the federal government’s large budget deficit—about **\$1.9 trillion** in 2026—and rising national debt. High debt can limit how much the government can spend in the future. Another issue is federal tariffs, which have caused big swings in imports and economic data. For example, businesses rushed to import goods before tariff increases, causing unusual jumps and drops in GDP. These policy changes make it harder for US economists to predict exactly how the economy will behave in future cycles.

6. Overall Outlook: CAUTIOUSLY OPTIMISTIC

Most experts agree that 2026 will be a year of **steady but not spectacular** economic improvement. Growth should pick up, inflation should cool, and the job market should stay stable. But fiscal risks remain, especially if inflation doesn’t fall as expected or if global trade tensions continue. Still, compared to the uncertainty of 2025, 2026 is shaping up to be a more predictable and healthier year for the U.S. economy.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 8

AMERICAN RESCUE PLAN ALLOCATION (ARPA) FUNDING ENDING (DECEMBER 2026)

On April 4, 2022, following a City Council approved Community Needs Assessment in August 2021, and Final Rule issuance by the U.S Treasury in January 2022, the City Council adopted the American Rescue Plan Act (ARPA) Funding Allocation and Appropriation of Part I Eligible Expenses as Government Services under the Public Sector Revenue Loss Category which totaled \$900,000 via Resolution #2022-055; and Part II Eligible Expenses as Government Services under the Public Sector Revenue Loss Category which totals \$6,513,466 via Resolution #2022-056, for a combined total of \$ \$7,413.467 as a non-entitlement unit; and designated a Special Revenue Fund 120 into the City’s GF Budget.

All \$7.4M in ARPA fund allocation has been contained in the GF Operating Budget using the under \$10M Rule. All applicable financial compliance and reporting requirements pursuant to U.S. Treasury Final Rule Regulations must be adhered to with all former ARPA/Fund 120 allocations, with all federal funds to be **expended by December 31, 2026** per US Treasury Final Rule Regulations.

Notable programs/projects funded by ARPA funds that are being expended by December 31, 2026, including but not limited to, the following:

- **San Pablo Youth Scholarship Pilot Program**
- **City-funded SPEDC Business & Loan Assistance Programs (Post-COVID Recovery)**
- **New CIP Stormwater Infrastructure Investment**
- **New PD HQ Project Capital Investment**

CITY ANNUAL GROWTH FACTOR FOR FY 2026-27 & FY 2027-28

Following the Long-Range Financial Forecast Presentation (LRFFP) presentation held in December 2023, PFM reported a projected annual Casino revenue growth of **+0.6%** beginning FY 2023-24, and future years. All other City revenue streams are expected to remain flat or experience negligible growth in subsequent years until Casino revenue rebounds to pre-2002-23 level growth.

It is essential to closely oversee the **PRELIMINARY DRAFT BUDGET** using strict fiscal controls and fiscal discipline on recurring operational expenses to the City’s GF Budget. By doing so, the City can safeguard projected revenues for FY 2027-2028 and beyond, preventing significant increases in operating costs (“budget creep”) until there is growth in new GF revenue capacity to be forecasted in FY 2027-28 from the following new revenue streams:

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 9

NEW POTENTIAL GF REVENUE SOURCES + MEASURE S SALES TAX SHIFT

It is imperative that the City maintain **STATUS QUO or “HOLD THE LINE”** on adding any new City programs or new FTE investments until annual Casino Revenue rebounds to pre-FY 2022-23 annual growth levels (i.e., +5.6% avg. growth). Since new annual revenue growth is stagnant, the City Manager has been working on exploring new revenue mechanisms since March 2025 which were authorized by the City Council. These new potential GF revenue sources have been implemented or are underway to boost the City's GF Budget by FY 2027-28, and include the following:

NEW GF REVENUE SOURCES + MEASURE S TAX SHIFT:		
In process for potential implementation in FY 2027-28 until Casino Revenue Rebounds		
NEW GF REVENUE SOURCES	POTENTIAL ANNUAL REVENUE (EST.)	NOTES
• New Master Fee Schedule Update	\$200,000 - \$400,000	Adopted Nov. 2026; Effective Jan. 16, 2026
• New Commercial Cannabis Retailers (3)	\$2,200,000	In-process; (2 of 3 CUPs approved as of March 2026)
• New Half-Cent (1/2) Sales Tax Measure	\$2,000,000	Council decides July 2026; Nov. 2026 Ballot (subject to voters)
• New PD HQ Training Center Revenue	\$200,000 - \$400,000	Under Construction; Full Operation during FY 2026-27
POTENTIAL REVENUE INCREASE:	\$4,000,000 - \$5,000,000	
LESS MEASURE S SALES TAX SHIFT (10/01/2027):	(\$1,000,000)	(\$1M) Revenue Loss (1/2 to 1/4 cent); (Adopted by voters in Nov. 2020)
NET GF REVENUE INCREASE:	\$3,000,000 - \$4,000,000	

All newly identified and pending revenue sources detailed above have the potential to contribute an estimated \$4.0–\$5.0 million annually to the City's General Fund. However, the new half-cent sales tax measure proposed is contingent upon voter approval in November 2026 for implementation in Fiscal Year 2027-28.

****FISCAL CONCERN****

MEASURE S SALES TAX MEASURE SHIFT (\$1M) GF REVENUE LOSS

Measure S sales tax revenue, adopted in November 2020, will decrease (shift) when the rate drops from 0.50 to 0.25 cents on October 1, 2027, reducing the City's General Fund by **(\$1M)** annually.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 10

If these new revenue streams come through by FY 2027-28, they will put an end to the ongoing reliance on one-time Operating Reserves to pay for the City's recurring GF operating costs by providing additional GF revenue capacity. This would mark the adoption of an authentic "live within your means" budgeting approach.

FISCAL AUSTERITY VS. FISCAL DISCIPLINE STRATEGIC APPROACH

The **PRELIMINARY DRAFT BUDGET** was developed using **FISCAL DISCIPLINE** approach vs. a FISCAL AUSTERITY approach. Therefore, the **PRELIMINARY DRAFT BUDGET** reflects a hybrid and strategic approach to eliminating projected deficits using Tiered approach in cost reductions to eliminate deficits and present a balanced budget. The key is to follow a **FISCAL DISCIPLINE APPROACH** which avoids the compelling need for "across-the-board (*Draconian*) cuts" which most local cities implement to reach a certain cost-savings threshold to meet required revenue projections.

*Note: **Tier IV Reductions:** FTE cost reductions (layoffs) have not been used for this budget cycle, and thus, will NOT be recommended by the City Manager at this time.*

Fiscal Austerity vs. Fiscal Discipline Approach

FISCAL AUSTERITY	FISCAL DISCIPLINE
"SLASH & BURN" — DRACONIAN APPROACH	"SLOW BURN" — PRACTICAL & STRATEGIC APPROACH
DRACONIAN: INDISCRIMINATE "ACROSS THE BOARD" CUTS IN ALL CITY DEPARTMENTS <i>❖ Common practice to meet a maximum expense threshold</i>	TIER I REDUCTIONS: FREEZE NON-BUDGETED FTE VACANCIES <i>❖ Ongoing City practice since FY 2024-25)</i>
ALL CUTS: CUTS TO ALL CONTRACTS, SERVICES/SUPPLIES, PROGRAMS AND FTE STAFFING LEVELS <i>❖ Significant cuts in ALL Departments without strategic prioritization</i>	TIER II REDUCTIONS: USE OF ONE-TIME OPERATING RESERVES FOR ANNUAL OPERATING & CAPITAL EXPENSES <i>❖ Ongoing City practice; \$7M depleted since FY 2022-23</i>
IMMEDIATE: IMMEDIATE IMPACTS TO THE PUBLIC, REDUCED PROGRAM AND SERVICE DELIVERY <i>❖ Results in severe impacts to staff morale, recruitment & retention</i>	TIER III REDUCTIONS: REDUCE/REVISE NON-ESSENTIAL CONTRACTS, PROFESSIONAL SERVICES, CAPITAL OUTLAY & OTHER SPENDING <i>❖ New City practice to meet current budget reduction</i>
RESULT: Short-term, reactive, and potentially counter-productive. Can reduce demand, slow growth, increase unemployment, and damage public trust.	RESULT: Long-term, preventive, and strategic. Growth-compatible with counter-cyclical flexibility. This budget reflects disciplined and measured fiscal management.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 11

NOT BUSINESS AS USUAL – NO MORE RELIANCE ON ONE-TIME FUNDS

Our continued reliance on one-time Operating Reserves to balance our City's GF Operating Budget year-to-year can no longer be practiced as we are actively depleting the City's Operating Reserves, with over \$10M appropriated to date by the City Council since FY 2022-23 to address projected deficits and revenue shortfalls through the end of FY 2025-26.

Recently, the City Council addressed a significant projected shortfall of nearly **(\$2.85)** million for FY 2025-26 by implementing Mid-Year Budget Adjustments approved on March 16, 2026. These budget adjustments were necessary due to substantial increases in CalPERS pension obligations, retiree health expenses, and general liability insurance costs, all of which have tripled since 2020. To cover these increased expenses, the Council utilized the City's Operating Reserves to end FY 2025-26 with no projected deficit.

In addition to these challenges, as noted previously, the City faces another anticipated revenue deficit from Casino operations, with a shortfall of **(\$900,877)** projected for the period ending June 30, 2026.

ONGOING USE OF FISCAL RESILIENCY RESERVES POLICY (OPERATING RESERVES)

Since the Fiscal Resiliency Reserve Policy (FRRP) was adopted in 2013 and amended after 2016, the City Council has used year-end audited fund balances to boost General Fund Designated Reserves for key projects and services.

Each January, after the Annual Comprehensive Financial Report (ACFR) is adopted for the prior fiscal year period, the City Council allocates these budget surpluses by Resolution for various project and program needs during the operating period.

****FISCAL RISK WARNING****

CONTINUED USE OF ONE-TIME OPERATING RESERVES

Since FY 2017-18, the City Manager has continued to warn the City Council during his previous CM Budget Messages issued that **continued depletion of one-time GFDR funds for ongoing operational or project expenses needs to be curtailed!**

It is important to note that the City's Fiscal Resiliency Reserve Funds should not be utilized to address ongoing operating expenses as doing so would result in structural budget deficits as pointed out by the PFM consultant in December 2023. Please note that replenishment

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 12

requirements exist in the adopted FRRP for one-time use of the Catastrophic Reserve which mandates restoration within three (3) fiscal years, while the Budget Stabilization Reserve must be replenished within one (1) fiscal year period following appropriation by the City Council.

The City’s GFDR funds generated from the Fiscal Resiliency Reserves Policy acts as a “buffer” by insulating the City from economic impacts, unforeseen financial crisis, litigation/settlement, or natural disasters. This Fiscal Resiliency Reserves Policy structure was a critical balancing measure for dealing with dramatic, unforeseen GF Revenue shortfalls experienced during FY 2019-20 due to the COVID-19 pandemic, and put into effective use by the City Manager when GF revenue shortfalls were truly realized by end of June 30, 2020 period to date.

PROPOSED REVISIONS TO FISCAL RESILIENCY RESERVE POLICY (SINCE FY 2024-25)

Due to the City’s Financial Condition as of December 13, 2023, the City Manager recommended a one-time revision to the Fiscal Reserve Resiliency Policy (FRRP) which was reviewed by the BFLSC on February 26, 2024, and approved by the City Council April 15, 2024 via CC Reso. No. #2024-051.

By doing so, the City Manager is focusing on using one of the eight (8) Strategic Budget Initiatives adopted on December 13, 2023 via Resolution No. #2023-067 to assist in the elimination of the **(\$8.7M)** projected deficit during FY 2025 – 2027 period:

6) Re-tool & revise adopted fiscal resiliency policy requirements to reverse forecasted structural deficits as one-time balancing measures (for FY 2025-2027 period only)

Since then, there have been a total of five (5) additional revisions to the FRRP to implement efficiencies and to ensure that all Unassigned Audited Fund Balance becomes “Assigned” in appropriate fund allocations/designations. Revisions adopted by the City Council have greatly expanded the efficient use of the City’s Operating Reserves with revisions adopted since FY 2024-25.

**FISCAL RESILIENCY RESERVE POLICY (FRRP)
COUNCIL ADOPTED POLICY AMENDMENTS TO DATE**

The Fiscal Resiliency Reserve Policy (FRRP) has undergone several updates since the first amendment approved by the City Council:

- **June 20, 2016:** The Casino Revenue Sustainability Reserve was created to protect against loss of casino revenue (Fund 180).

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 13

- **April 15, 2024:** New Internal Service Funds (130, 140, 190) were established and funded for FY 2024-25 with one-time allocations.
- **March 3, 2025:** Three new reserve funds (103, 104, 105) were added; internal service funds 130 and 140 received one-time appropriations.
- **July 7, 2025:** Annual review of vehicle and equipment purchases from City Departments now requires Public Safety Standing Committee approval before City Council adoption.
- **March 16, 2026:** Methodology changed so a percentage of year-end audited unassigned fund balance is allocated following each annual audit and ACFR certification.

Overall Decline of City’s Operating Reserves since FY 2023-24

The City Council have formally used Operating Reserves under the FRRP policy for unexpected contingencies, expenses and deficit/shortfalls. Since December 2023, the City’s Operating Reserves have dropped from \$63M to \$53,363,270, including the most recent \$2.85M appropriation in March 2026 to cover and fund FY 2025-26 Mid-Year Budget Adjustments, reflecting a nearly **(\$10M)** decrease since FY 2023-24.

Continued reliance on Operating Reserves to cover contingencies and budget shortfalls poses a fiscal risk by eroding the City’s financial condition, reducing long-term fiscal stability, and limiting the City’s ability to respond to future emergencies. Therefore, increased revenue capacity is needed to cover ongoing and recurring GF operational expenses resulting on less reliance on the City’s Operating Reserves.

CITY MANAGER FINANCIAL GOALS FOR FY 2027 - 2028

GOAL #1: NEED FOR MORE ECONOMIC, HOUSING & TECHNOLOGY INVESTMENTS

The City is heavily dependent on annual Casino San Pablo revenues which represents nearly 60% of City’s annual GF revenues projected for FY 2027 - 2028 period. New economic and housing investments are needed to be cultivated over the next budget cycle with ongoing major capital investments in public safety technology and AI technology infrastructure to create new economic development investments within the City’s geographic constraints.

Given the City's geographic constraints and limited size (approximately 2.6 square miles), as well as the limited availability of City-owned property for in-fill development, San Pablo relies on

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 14

private sector initiatives to stimulate economic investment. Therefore, it is critical to emphasize and encourage increased private investment in in-fill development sites city-wide, which are essential for meeting the City’s Regional Housing Needs Allocation (RHNA) mandate by 2031 and for contributing to the long-term growth of the City's economic tax base.

Continued support for public safety investments remains a key component of ensuring that spillover crime from neighboring municipalities does not affect San Pablo, thereby maintaining an attractive environment for new economic and housing ventures from the private sector.

The City’s ongoing commitment to public safety investments has fostered renewed private interest as violent crime levels have significantly decreased in San Pablo due to these efforts. Sustaining private investment in economic and housing projects is vital to advancing growth and bolstering future municipal revenues.

****FISCAL IMPORTANCE****

**SAN PABLO INCREASED ASSESSED VALUE IN 2025-26
(+5.81%)**

For 2025-26, the Contra Costa County Assessor’s Office reported that San Pablo experienced the highest assessed value growth (+5.81%) surpassing all other assessed value for all 19 municipalities within the Contra Costa County region.

GOAL #2: SUPPORT PUBLIC SAFETY AND NEW ECONOMIC/HOUSING INVESTMENTS

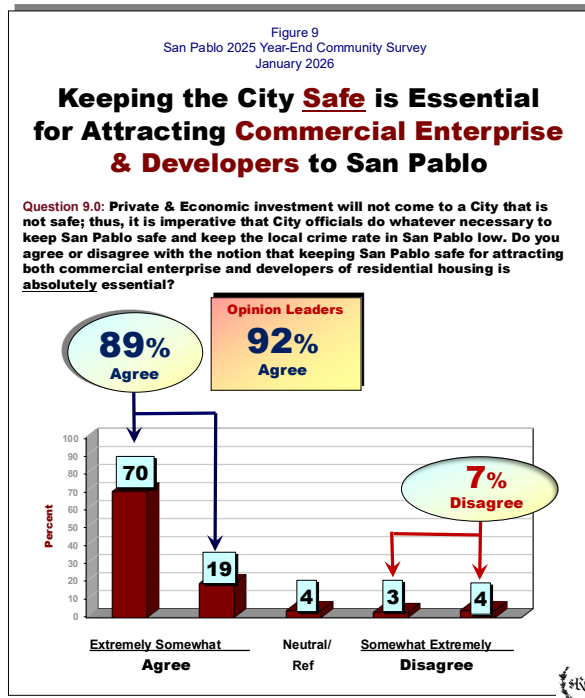
During the Annual Year-end City Survey conducted in January 2026, the City’s community outreach consultant (SRI) was able to poll local community and electorate members on the impact public safety plays with inducing private investment in the San Pablo community. See Table below (Figure 9) which highlights the importance of keeping public safety investments as a high-priority to generate new economic and housing investments in the City, with nearly **89% of those surveyed (92% opinion leaders)** in agreement with this policy.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 15



Implement New City Marketing & Branding Program

During FY 2024-25, due to the City’s Financial Condition, the City Manager’s Office embarked on a new City-wide Marketing and Branding Program to market and promote new economic investment opportunities as the City explores additional fiscal and revenue capacity.

After an RFQ/RFP process was completed during FY 2024-25, the City Council authorized the City Manager to execute a contract with Tripepi-Smith in March 2025. Several implementation strategies were collaboratively worked on between TS consultant team and City staff.

New marketing and branding concepts were presented to the City Council in January 2026. These marketing and branding concepts are now being implemented for the City’s three (3) commercial corridor areas: 23rd Street, Rumrill Blvd and San Pablo Avenue corridors. Marketing and branding commercial corridors can signal economic stability, identity, and momentum which helps attract private investors looking for places with clear market potential. When a corridor is promoted with a strong narrative, visual identity, and coordinated messaging, it builds consumer confidence and increases foot traffic. Together, these factors reduce perceived risk for businesses and developers, making the area more appealing for new investment and new revenue opportunities for the City’s economic tax base.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 16

Continue Focus on RHNA and Housing Investments

The Regional Housing Needs Allocation (RHNA) which has been in effect since 2015 as required by the State of CA HCD regulations has placed a huge daunting challenge for the City to reach affordable housing units as required by State HCD for RHNA Cycle 6 which ends in 2031.

However, during last 10-year period, the City saw steady progress toward RHNA Housing Compliance by permitting a total of

****CRITICALLY IMPORTANT****

**REGIONAL HOUSING NEEDS ALLOCATION (RHNA)
CYCLE 6 (2023-2031)**

The City continues to make steady progress toward State mandated housing requirements under RHNA. Encouraging new housing investments is essential in meeting these housing program goals under the adopted/certified City Housing Element.

RHNA Housing Goal (Cycle 6): 746 housing units

- **Annual Progress Report (2024): - 179 housing units 24% of Total Allocation**
- **Annual Progress Report (2025): - 23 housing units 27% of Total Allocation**

REMAINING UNITS NEEDED: 544 housing units needed by 2031

Continued emphasis needs to be made as well as flexibility in the upcoming 2030 General Plan Update to enable developers to increase housing density and to accommodate additional housing uses in the City’s General Plan to facilitate housing production units in San Pablo to reach RHNA compliance in future years.

GOAL #3: AVOID FRIVOLOUS GF SPENDING

Following the City’s Financial Condition report from December 13, 2023, the City Manager **strongly warns** the City Council that unnecessary General Fund (GF) spending will worsen future deficits. For the PRELIMINARY DRAFT BUDGET, proposed GF expenses and revenues are carefully balanced. However, the Council should avoid new or increased GF spending unless a dedicated revenue source is identified or cost savings or grants are identified. Reducing or eliminating annual GF subsidies is necessary, and every effort should be made to minimize them in the coming years.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

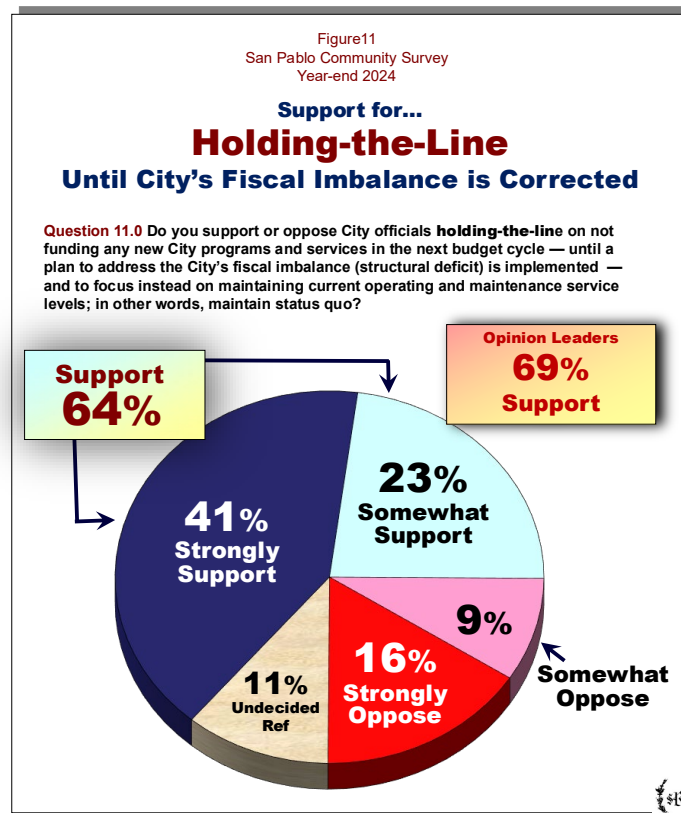
Page 17

GOAL #4: ADHERENCE TO CITY COUNCIL ADOPTED POLICY #405.2

On December 19, 2024, the City Council adopted Policy No. #405.2 via Reso #2024-149 under their FY 2024-26 Council Priority Workplan to ensure that new programs and FTE investments needed to be stabilized until additional GF revenue capacity could be generated.

POLICY #405.2: ADOPTED BY CITY COUNCIL ON 12/19/24 (Reso #2024-149)

Adopt a new fiscal discipline and financial practice to minimize new general fund spending on any new program or service without a new, fiscal impact analysis conducted by city staff, including funding options, while maintaining existing city service delivery and budgeted FTE staffing levels in the adopted FY 2024-25 class and comp plan until June 30, 2027, or until the City generates a total of +\$1,000,000 in new, net increase in annual general fund revenue capacity



CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 18

Furthermore, SRI has confirmed this policy with local community members following the Annual Year-End Survey conducted in January 2025 where **64% of those surveyed (69% of Opinion leaders)** supported the City Council **“HOLDING THE LINE”** on any additional expenses until the City’s fiscal imbalance could be corrected. (As noted in Table (Figure 11) above)

GOAL #5: SUPPORT ALL NEW GF REVENUE SOURCES BY FY 2027-28

With previous City Council approval, the City Manager has successfully implemented the new Master Fee Schedule Update (November 2025), Cannabis Retail Operators/Measure M (2024-26), new PD HQ Training Center (Completion in 2026), and still in the process of exploring several new potential General Fund revenue sources that could potentially add **\$3M–\$4M annually** in FY 2027-28 until annual Casino revenues recover.

Implementing the proposed half-cent (0.50) sales tax depends on **FULL CITY COUNCIL SUPPORT** and voter approval in November 2026 for all potential GF revenue sources to materialize.

MAJOR EXPENSE FACTORS FOR FY 2025 – 2026 PERIOD

The **PRELIMINARY DRAFT BUDGET** is built upon a series of assumptions needed to stabilize operating costs with forecasted GF revenues. There are major cost factors that need to be continually monitored. Major cost increases in the **PRELIMINARY DRAFT BUDGET** include the following:

- **Employee Labor Costs:** Starting July 1, 2026, all employees will receive a 2% COLA increase due to existing employee labor MOUs. Total projected salary and labor costs are about **\$26.9M** for FY 2026-27 and **\$27.5M** for FY 2027-28, representing **59%** of the City’s GF Budget expense total.
- **CalPERS Pension Costs:** Unfunded actuarial liability (UAL) rises due to changing assumptions and investment losses; UAL for FY 2026-27 is **\$1.03M** representing a **+22%** increase from FY 2025-26.
- **OPEB Retiree Health Care Costs:** New funding expense for FY 2026-27 at **\$717K**.
- **Healthcare Costs:** City-wide healthcare costs (excludes UAL and OPEB benefits) totaled **\$7.4M** for FY 2026-27 and **\$7.5M** for FY 2027-28. Overall, CalPERS employer health premiums will rise by **+20%** in FY 2026-27.
- **General Liability & Workers’ Compensation Costs:** Claims for FY 2026-27 are increasing, with **\$4.4M** budgeted for FY 2026-27, and **\$4.9M** for FY 2027-28.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 19

- **General Liability & Workers’ Compensation Insurance:** Higher volume and severity of claims in workers’ comp, general liability, and property programs are driving costs up **TRIPLE-FOLD** up in FY 2026-27 increasing by **\$948K**, continuing escalating trends since COVID recovery period of 2020.
- **Services & Supplies Reduction:** Departmental expenditures reduced by **(\$1.3M)** in FY 2026-27 and **(\$1.0M)** in FY 2027-28 under a zero-based budgeting directive to address the combined **(\$4.3M)** deficit forecasted for both years combined in December 2025. These efforts resulted in a further reduction to **(\$2.3M)** of projected GF forecasted deficits for both years to **(\$812K)** in FY 2026-27 and **(\$1.2M)** in FY 2027-28.
- **Community Grants/Special Events:** FY 2026-27 expense costs are down **(\$3.8M)** from FY 2025-26 City Council Departmental Budget levels, and transferred to the Multi-Departmental Budget, covering agreements including CCCFPD EMS (\$2.05M), Annual SPEDC contract (\$562K), County Library Services (\$190K), and Animal Control Services (\$423K).
- **Debt Service:** FY 2026-27 obligations are projected at **\$3.7M** for all previous issued lease revenue bonds and refinancing of previous issued bonds since 2015 to present, including **\$1M** in CIP obligations.
- **Utilities/Fuel:** Proposed citywide spending is **+\$205K** in FY 2026-27, with fuel costs adjusted to reflect increased inflation and impacts from recent Middle East tensions.
- **No FTE Layoffs:** No (0) FTE layoffs necessary due to **FISCAL DISCIPLINE APPROACH** implemented for GF budget reduction for FY 2026-27 and FY 2027-28. Note: The last FTE reductions used for budget balancing purposes were incurred during FY 2011-12.

****FISCAL IMPORTANCE****
NO FTE LAYOFFS FOR FY 2026-27 & FY 2027-28
NO FTE LAYOFFS HAVE BEEN USED FOR BUDGET REDUCTIONS (TIER IV)
OVER THE PAST 15 YEARS!

- **FTE Vacancies:** Since FY 2024-25 period, a total of six (6) FTE vacancies remain non-budgeted in Community Development (1 FTE); Community Services Department (1 FTE); Police Department/Non-Sworn (2 FTEs); and Public Works Department (2 FTEs). These FTE positions remain in the City’s adopted Classification and Compensation Plan but remain non-budgeted due to fiscal constraints for FY 2026-27.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 20

Temporary Hiring Freezes Instituted: Because of budget concerns, the City Manager has implemented a temporary hiring freeze on all full-time (F/T) employee vacancies as they materialize due to attrition or retirements from FY 2023-24 through FY 2025-26 to date. This decision was made as a cost-saving and precautionary measure after an unexpected shortfall in GF annual revenue, specifically annual Casino revenue due to projected and realized deficit/shortfalls since period ending June 30, 2023 to date. Ongoing use of this temporary cost-savings measure results in year-end cost savings to mitigate Casino revenue shortfalls and increased unforeseen operational expenses.

MAJOR REVENUE FACTORS FOR FY 2026 – 2028 PERIOD

In preparing for General Fund revenue forecasts, the **PRELIMINARY DRAFT BUDGET** includes **conservative and practical** projections to determine Total Revenues to coincide with projected GF revenue projections as noted above.

Many of the major GF revenue factors for FY 2026-27 include the following:

- **Casino Revenue + PILOT Revenue:** Budgeted at **\$33.3M** for FY 2026-27 and **\$33.6M** for FY 2027-28, representing nearly **60%** of all budgeted GF revenues. Future annual growth is projected at +0.6% since FY 2023-24.
- **Sales Tax Revenue:** Budgeted at **\$7.2M** for FY 2026-27 and **\$6.5M** for FY 2027-28, representing nearly **11%** of all budgeted GF revenues. Measure S sales tax revenue reduced by (\$1M) in FY 2027-28 due to shift from ½ cent to ¼ cent on 10/01/2027.
- **Property Tax Revenue:** General Fund property taxes are estimated at **\$4.1M** for FY 2026-27 and **\$4.8M** for FY 2027-28, representing nearly **6.4%** of all budgeted GF revenues
- **Property Taxes (in Lieu of VLF):** Budgeted at **\$3.9M** for FY 2026-27 and **\$4.0M** for FY 2027-28, representing nearly **6%** of all budgeted GF revenues.
- **Utility User Tax (7%) Revenue:** Budgeted at **\$3.2M** for FY 2026-27 and **\$3.7M** for FY 2027-28, representing nearly **5%** of all budgeted GF revenues.
- **Franchise Fees (excludes VLF):** Budgeted at **\$500K** for FY 2026-27 and **\$500K** for FY 2027-28, representing Solid Waste Franchise Fees which is nearly **1%** of all budgeted GF revenues.
- **Property Revenue (Sale Proceeds):** Budgeted at **\$2.0M** for FY 2026-27 and **\$2.4M** for FY 2027-28 for the future sale of City-owned property associated with in-fill development

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 21

projects in progress for: 1411 Rumrill Blvd and Old/Current Police Department HQ, representing nearly **3.9%** of all budgeted GF revenues

- **SB 1 Road Repair Funds:** SB1 (Gas Tax) funds will provide **\$819K** in FY 2026-27 and **\$848K** in FY 2027-28, representing nearly **1.2%** of all budgeted GF revenue.
- **Measure K Sales Tax Revenue:** Funds ConFire Emergency Medical Services Contract **(\$2.0M)** with (0.25) cent sales tax passed in 2014 with **\$1.0M** budgeted in FY 2026/27 and **\$1.0M** in FY 2027-28, resulting in a GF operational subsidy at **(\$1.0M)** for FY 2026-27 and FY 2027-28.

FINAL BUDGET RECOMMENDATIONS:

PRELIMINARY DRAFT BUDGET SUMMARY (FY 2027 – 2028 PERIOD)

DECEMBER 2025: (ORIGINAL FORECASTED BUDGET DEFICITS)

During September 2025, City Departments were issued a zero-based budgeting directive to prepare Departmental expense plans and adjusted revenues. The preliminary budget shows deficits of **(\$2.1M)** for FY 2026-27 and **(\$2.2M)** for FY 2027-28, totaling **(\$4.3M)**. See table below:

Original Budget Forecast – December 2025

BEFORE BUDGET BALANCING MEASURES, REVENUE ADJUSTMENTS, OR COST REDUCTIONS

FY 2026-27		FY 2027-28	
Total Revenue:	\$71,766,250	Total Revenue:	\$74,079,618
Total Expenditures:	\$73,934,670	Total Expenditures:	\$76,300,158
SHORTFALL:	(\$2,168,420)	SHORTFALL:	(\$2,220,539)

Biennial Total Original Shortfall:

(\$4,388,960)

Key drivers from December 2025 budget forecast:

- CalPERS UAL +\$1.03M (FY27), +\$1.26M (FY28) — 22% increase over prior year
- OPEB Retiree Healthcare +\$717K (FY27) — new funding line not previously budgeted
- General liability insurance +\$948K — costs tripled since 2020
- Casino revenue growth constrained to +0.6%/yr since FY 2022-23; New Casino Threat (Vallejo, CA) to impact future Casino Revenue growth

Between January and March 2026, City Departments were asked to review (“scrub”) their Departmental expense plans and implement the Tier-III reductions approach, which reduces non-

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 22

essential contract and service spending, along with other budget balancing measures to address projected forecasted deficits for FY 2026-27 and FY 2027-28.

SUMMARY OF BUDGET BALANCING MEASURES TO REDUCE DEFICITS

City Departments took significant steps to balance the budget and reduce forecasted deficits for FY 2026-27 & FY 2027-28, maintaining the **FISCAL DISCIPLINE** strategic approach. (Details are shown in the tables below on page 22)

March 2026 (Revised Forecasted Deficits)

By mid-March 2026, the City Manager acknowledged the significant efforts by all City Departments to cut non-essential spending, including more reductions to contracts, services and supplies. This collaborative work led to a notable reduction in projected deficits resulting in a further reduction of **+\$1.3M** for FY 2026-27 and **+\$1.0M** for FY 2027-28, with a combined remaining forecasted deficit of **(\$812K)** for FY 2026-27 and **(\$1.2M)** for FY 2027-28.

Many of these budget reductions are summarized below in the following table with Police Department leading all City Departments at **(\$767K)**, Community Services **(\$550K)**, Public Works **(\$150K)**, Community Development **(\$80K)**, and other City-wide Reductions at **(\$750K)**.

Summary of Reductions to City Programs & Service Delivery

IMPACT OF COST REDUCTIONS FROM BUDGET BALANCING MEASURES

<p>POLICE DEPARTMENT -\$767,000</p> <ul style="list-style-type: none"> Part-time and overtime personnel containment Contracted services reduction (-\$767K vs. prior year) 	<p>COMMUNITY SERVICES -\$550,000</p> <ul style="list-style-type: none"> 30% part-time salary reduction (\$300K) Elimination of secondary preschool program site Teen Lounge reduced from 5 to 4 days/week Summer camp reduced from 9 to 8 weeks <p>DUE TO WCCUSD FISCAL CUTBACKS & UNCERTAINTY:</p> <ul style="list-style-type: none"> 20% S&S reduction in Recreation/Seniors/YSCP 25% cut to Beacon Community Schools Initiative/YSCP (\$250K)
<p>CITY-WIDE REDUCTIONS -\$750,000</p> <ul style="list-style-type: none"> IT consolidation & optimization (-\$264K) Medical benefits corrected to actual costs (-\$486K) 	
<p>PUBLIC WORKS -\$150,000</p> <ul style="list-style-type: none"> Reductions to program costs & supplies Reduction to professional services (Engineering & Admin) Absorbing new facility maintenance costs from Community Services 	<p>COMMUNITY DEVELOPMENT -\$80,000</p> <ul style="list-style-type: none"> Zeroed Interwest & TRB contract lines (\$45K) Reduced 4 Leaf contract inspector budget (\$35K)

TIER III BUDGET REDUCTIONS: NECESSARY TO PROVIDE BALANCED AND STRATEGIC APPROACH TO REDUCING OPERATING COSTS TO REMAIN IN ALIGNMENT WITH AVAILABLE GF REVENUE INCOME.

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 23

****CRITICAL FISCAL CONCERN****

WCCUSD FISCAL UNCERTAINTY FOR 2026-27

The West Contra Costa Unified District (WCCUSD) is facing unpredictable fiscal challenges, leading to substantial cuts in staffing and services for the 2026-27 school year. Due to this fiscal uncertainty, the City Manager is cautiously assuming that WCCUSD will not provide full financial support for Full-Service Community Schools (FSCS) services partnership. The City currently uses Measure S sales tax revenue to fund services for FY 2026-27. During FY 2026-27, the City will review WCCUSD's finances and consider more GF support at mid-year. Also, Measure S revenue will decrease by **(\$1M)** in FY 2027-28, emphasizing the need to find new GF sources to sustain City-provided FSCS services.

The tables below provide a summary of the progress made in reducing non-essential operating expenses for contracts, professional services, and supplies in both FY 2026-27 and FY 2027-28.

Budget Balancing Measures to Reduce Deficits

CITY - WIDE REVENUE ADJUSTMENTS & COST REDUCTIONS

FY 2026-27		FY 2027-28	
PRE-BALANCING DEFICIT:	(\$2,168,420)	PRE-BALANCING DEFICIT:	(\$2,220,539)
Balancing Measures Applied:		Balancing Measures Applied:	
<ul style="list-style-type: none">• Zero-based budgeting cost reductions• New cannabis revenue (+\$350K)• Proceeds from property sales (+\$2.0M)• Earned interest properly allocated (+\$2.6M)• Departmental Services & Supplies/Contract Services reductions• IT consolidation & optimization (-\$264K)• Medical benefits corrected to actual costs (-\$486K)		<ul style="list-style-type: none">• Continued zero-based budgeting• Cannabis revenue growth (+\$750K)• Proceeds from property sales (+\$2.4M)• Continued earned interest allocation• Ongoing Departmental Services & Supplies/Contract Services reductions• Continued actual-cost medical benefits• Technology cost optimization	
REMAINING DEFICIT:	(\$812,975)	REMAINING DEFICIT:	(\$1,214,065)

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 24

Proposed DRAFT Budget – March 2026

AFTER BUDGET BALANCING MEASURES, REVENUE ADJUSTMENTS, AND COST REDUCTIONS

FY 2026-27		FY 2027-28	
Total Revenue:	\$72,417,492	Total Revenue:	\$74,625,290
Total Expenditures:	\$73,230,466	Total Expenditures:	\$75,839,355
SHORTFALL:	(\$812,975)	SHORTFALL:	(\$1,214,065)
Improvement: +\$1,355,445		Improvement: +\$1,006,474	

Biennial Proposed Shortfall:	(\$2,027,040)	Total Improvement:	+\$2,361,920
-------------------------------------	----------------------	---------------------------	---------------------

Budget balancing measures applied:
<ul style="list-style-type: none">• Zero-based budgeting cost reductions across all departments• New cannabis revenue (+\$350K FY27, +\$750K FY28) and proceeds from property sales (+\$2.0M/\$2.4M)• Earned interest properly allocated (+\$2.6M); Medical benefits corrected to actual costs (-\$486K)• IT consolidation (-\$264K); Remaining deficits closed with Services & Supplies/Contract Reductions and One-time FRRP reserves

CITY MANAGER FINAL RECOMMENDATIONS: USE OF ONE-TIME OPERATING RESERVES TO ELIMINATE REMAINING FORECASTED DEFICITS

To address the remaining forecasted deficit of **(\$812K)** for FY 2026-27 and **(\$1.2M)** for FY 2027-28, for a combined forecasted deficit of **(\$2.0M)**, the City Manager recommends using one-time Operating Reserves to eliminate the remaining projected deficits for FY 2026-27 and FY 2027-28 and balance the **PRELIMINARY DRAFT BUDGET**.

Use of One-time Operating Reserve Funds to Eliminate Forecasted Deficits

A total of **\$2,027,040** from the City’s Operating Reserves is proposed to help reduce forecasted deficits for FY 2026–2028 and balance the **PRELIMINARY DRAFT BUDGET**, as follows:

- **General Fund Designated Reserve (Fund 110)** **\$500,000**
- **Sales Tax Revenue Sustainability Reserve (Fund 103)** **\$500,000**
- **Casino Sustainability Reserve (Fund 180)** **\$1,027,040**

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 25

One-Time Operating Reserves to Eliminate Remaining Deficits

PER FISCAL RESILIENCY RESERVE POLICY (FRRP No. 5)

FY 2026-27		FY 2027-28	
REMAINING DEFICIT:	(\$812,975)	REMAINING DEFICIT:	(\$1,214,065)
• GFDR Fund 110:	\$250,000	• GFDR Fund 110:	\$250,000
• Sales Tax Fund 103:	\$250,000	• Sales Tax Fund 103:	\$250,000
• Casino Sustainability Fund 180:	\$312,975	• Casino Sustainability Fund 180:	\$714,065
<u>Operating Reserves Sub-Total:</u>	\$812,975	<u>Operating Reserves Sub-Total:</u>	\$1,214,065
BUDGET BALANCED:	\$0	BUDGET BALANCED:	\$0

OPERATING RESERVE FUND USAGE:

- GFDR Fund 110 (\$250K each year) + Sales Tax Reserve Fund 103 (\$250K each year): One-time expenses per FRRP; requires BFLSC + Council approval
- Casino Revenue Sustainability Fund 180 (\$1,027,040): Discretionary; requires BFLSC + Council approval
- Total biennial reserve usage combined: \$2,027,040 — consistent with PFM recommendation for strategic reserve deployment

Percentage of Funding Used to Eliminate Deficits and Balance Budget

The City Manager wishes to highlights the strategic use of budget reductions and one-time funds from the City’s Operating Reserves to address remaining deficits for FY 2026-27 and FY 2027-28. Of the **(\$4.3M)** combined deficit, **53.8%** was covered by Tier III cost reductions and **46.2%** by one-time reserves, demonstrating effective budget planning rather than relying solely on one-time funds.

PERCENTAGE OF COST REDUCTIONS VS. ONE-TIME FUNDING USED TO ELIMINATE FORECASTED DEFICITS PRELIMINARY DRAFT BUDGET (COMBINED BOTH FISCAL YEARS)		
• Original Forecasted Deficits (Dec. 2025):	(\$4,388,960)	
• Less Tier III Cost Reductions (Mar, 2026):	\$2,361,919	53.8%
• Use of One-Time Operating Reserves:	\$2,027,040	46.2%
BUDGET BALANCED:	\$0	100%

CITY MANAGER BUDGET MESSAGE:

FY 2027 – 2028 BIENNIAL GENERAL FUND OPERATING BUDGET (PRELIMINARY DRAFT)

April 1, 2026

Page 26

CONCLUSION AND ACKNOWLEDGEMENTS

In conclusion, the City Manager thanks the Budget Team and all City employees for their hard work on the FY 2027 - 28 **PRELIMINARY DRAFT BUDGET**. Their support made it possible to develop a balanced two-year spending plan and present the **PRELIMINARY DRAFT BUDGET** for BFLSC and City Council review.

CITY BUDGET TEAM ACKNOWLEDGEMENT

Thank you to the City’s Budget Team for their key role in preparing and delivering the FY 2027 – 2028 **PRELIMINARY DRAFT BUDGET** to include:

- **Maria Ojeda, Assistant City Manager**
- **Arturo Castillo, Administrative Services Director**
- **Cecilia Nguyen, Accounting Manager**
- **Viviana Toledo, Management Analyst**

I also acknowledge these staff members for their work on the Proposed Capital Improvement Program (CIP) Budget for FY 2026-27 and FY 2027-28:

- **Jill Mercurio, Interim Public Works Director/City Engineer**
- **Matt Brown, Senior Civil Engineer**

Finally, I also want to thank the entire San Pablo City Council for their leadership and support of this City Administration. My staff and I look forward to working with you to set additional fiscal policy priorities during the FY 2027- 2028 period, and for future multi-year budget cycles to follow.

Thank you for your time and consideration.

Respectfully submitted:



Matt Rodriguez, City Manager

Date: April 1, 2026

#