



# FY 2025-26 MID-YEAR BUDGET PRESENTATION

City Council Study Session  
April 28, 2026



# OVERVIEW

- FY 2025-26 General Fund Adopted Budget Overview
- FY 2025-26 Economic Conditions and Outlook
- FY 2025-26 Revenues Projections
- FY 2025-26 Expenditures Projections
- FY 2025-26 Summary Projected Results
- FY 2026-27 Outlook and Budget Calendar

# FISCAL YEAR 2025-26 GENERAL FUND ADOPTED BUDGET OVERVIEW



# FY 2025-26 ADOPTED BUDGET HIGHLIGHTS

- City Council approved the All Funds FY 2025-26 budget of \$224.9 million in June 2025, with a General Fund Budget of \$186.9 million;
- Structurally balanced budget with no use of General Fund Reserves or ARPA Funds;
- Dedicated 54% of General Fund to public safety departments;
- Partially deferred the Capital Assets Needs (CAN) of \$1.25 million;
- Partially deferred the Information Technology Needs of \$1.16 million; and
- Prefunded CalPERS Unfunded Accrued Liability (UAL), saving the General Fund approximately \$1.0 million.



# ECONOMIC OUTLOOK & OVERVIEW



# ECONOMIC OUTLOOK & OVERVIEW

- In late 2025 and early 2026, economic indicators in Orange County showed moderate but uneven growth, with stable labor conditions and steady consumer spending, even as inflation pressures re-emerged due to higher oil and gas prices driven by geopolitical tensions.
- Sales Tax was beginning to show some early signs of a slowdown, but many industry forecasts still anticipated year over year growth based on a resilient consumer.

# ECONOMIC CONDITIONS & OUTLOOK

## Macro Economic Challenges:

2025 Heightened  
Volatility



The U.S. economy experienced volatility driven by shifting federal policies, new tariffs, and prolonged federal government shutdowns.

2026 Continued  
Disruption



Economic instability continued and intensified due to the ongoing conflict in Iran, leading to higher fuel prices and weakened consumer confidence.

Policy & Market  
Impacts



Immigration enforcement and lingering tariff effects created uncertainty across labor, real estate, and financial markets.

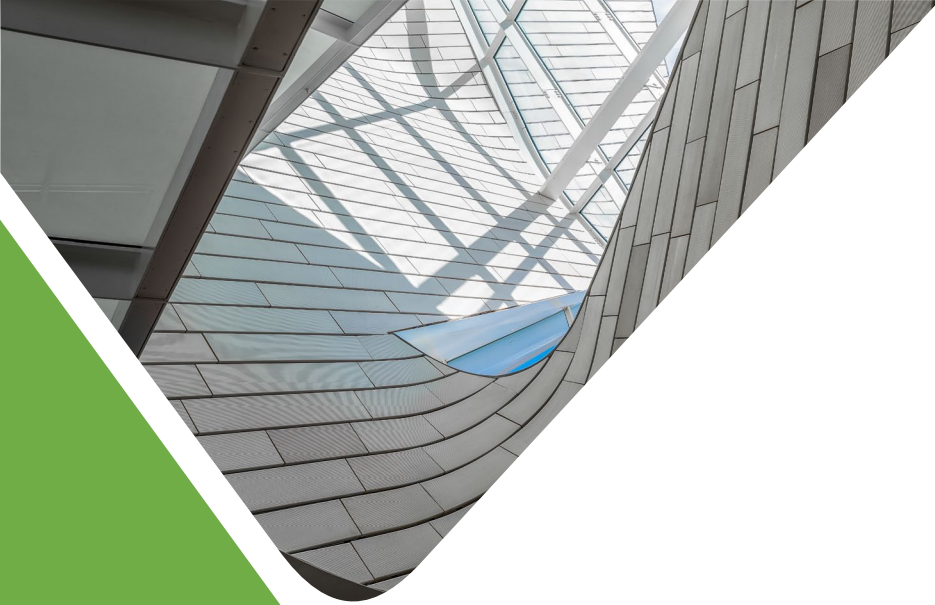
Outlook for City  
Revenues &  
Expenditures



Forecasts indicate that the conflict in Iran, elevated fuel prices, and shifting household liquidity will influence City revenues and expenditures in the near and long term.

# ECONOMIC OUTLOOK & OVERVIEW

- Headwinds to consumers and businesses continue to pose risks to City revenues as Orange County navigates a mixed economic environment, with growth in key sectors but persistent cost pressures.
  - *Particularly in Sales Tax, the City's largest revenue category.*
- Sales Tax is a higher proportion of total revenues in Costa Mesa.
  - *As a lagging indicator, impacts to Property Taxes can be delayed.*
- National and State level economic data may not necessarily reflect the local business impacts due to variances in business composition, consumer and labor demographics.
  - *Costa Mesa has higher percentage of businesses in the Consumer Goods and Auto sectors.*



# GENERAL FUND OVERVIEW



# FY 2025-26 GENERAL FUND REVENUES

Certain key revenues are received at different times throughout the fiscal year:

- **Sales Tax** represents 40% of General Fund adopted revenue budget and is primarily received two months in arrears;
- **Property Tax** represents 34% of General Fund adopted revenue budget and is primarily received in December/January and April/May;
- **Transient Occupancy Tax (TOT)** represents 5% of total General Fund adopted revenue budget and is received one month in arrears; and
- **Cannabis Gross Receipts Tax** represents 2% of total adopted revenue budget and is received one month in arrears.

# FY 2025-26 GENERAL FUND REVENUES (IN MILLIONS)

Category	FY 2024-25 Actuals	FY 2025-26 Adopted Budget	FY 2025-26 Projected	Difference	FY 2025-26 Adopted vs Projected %
Property Taxes	\$59.3	\$62.9	\$62.2	\$(-0.7)	(-1.1%)
Sales Taxes	79.6	75.0	80.9	5.9	7.9%
TOT( Hotel Tax)	9.9	9.8	10.0	0.2	2.0%
Cannabis Tax	3.7	3.7	3.7	-	0.0%
Other Revenue	37.5	35.5	37.1	1.6	4.5%
<b>Total Revenues</b>	<b>\$190.0M</b>	<b>\$186.9M</b>	<b>\$193.9M</b>	<b>\$7.0M</b>	<b>3.7%</b>

# FY 2025-26 GENERAL FUND EXPENDITURES

## Highlights & Key Drivers

- Pursuing full staffing across Public Safety operations.
- Significant reduction in vacancies citywide.
- Increased Unfunded Accrued Liability (UAL) costs.
- Higher insurance premiums impacting overall expenditures.

# FY 2025-26

## GENERAL FUND EXPENDITURES

(IN MILLIONS)

Category	FY 2024-25 Actuals	FY 2025-26 Adopted Budget	FY 2025-26 Projected	Difference	FY 2025-26 Adopted vs Projected %
Salaries & Benefits	138.4	137.4	145.8	8.4	6.1%
Operating Expenses	44.8	46.7	45.2	(-1.5)	-3.2%
<b>Subtotal</b>	<b>\$183.2M</b>	<b>\$184.1M</b>	<b>\$191.0M</b>	<b>\$6.9M</b>	<b>3.7%</b>
<b>Transfers Out:</b>					
Capital Improvement	3.9	1.2	1.2	0.0	0%
IT Replacement	2.9	1.6	1.6	0.0	0%
<b>Subtotal</b>	<b>6.8</b>	<b>2.8</b>	<b>2.8</b>	<b>0.0</b>	<b>0%</b>
<b>Total Expenditures</b>	<b>\$190.0M</b>	<b>\$186.9M</b>	<b>\$193.8M</b>	<b>\$6.9M</b>	<b>3.7%</b>

# FY 2025-26 ACHIEVEMENTS

- Filled all Police Officer vacancies, achieving full staffing in sworn classifications;
- Strategically secured grant funding, including Traffic Enforcement grants, Transportation grants, and Federal earmarks;
- Maintained the City's AA+ bond rating;
- Earned multiple GFOA and CSMFO awards and delivered a balanced budget;
- Projected to increase year-end General Fund balance by \$0.1 million;
- Projected to exceed the City Council General Fund Reserve Policy of \$55 million by \$6.0 million; and
- Maintained General Fund reserves at \$61.0 million, 31% of revenues, far exceeding the GFOA best-practice minimum of 16% to 17%.

# FY 2025-26 GENERAL FUND SUMMARY (IN MILLIONS)

Category	FY 2024-25 Actuals	FY 2025-26 Adopted Budget	FY 2025-26 Projected	Difference	FY 2025-26 Adopted vs Projected %
Total Revenue	\$190.0M	\$186.9M	\$193.9M	\$7.0M	3.7%
Total Expenditures	\$190.0M	\$186.9M	\$193.8M	\$6.9M	3.7%
Balance	-	-	\$0.1M	\$0.1M	

# FUND BALANCE IN GENERAL FUND

## (IN THOUSANDS)

Fund Balance Category	FY 2022-23 Audited	FY 2023-24 Audited	FY2024-25 Audited	FY2025-26 Projected
<b>Nonspendable</b>	\$460	\$630	\$883	\$883
<b>Restricted</b>				
Pension & OPEB	3,178	3,367	2,092	2,092
<b>Committed</b>				
Declared Disasters	14,125	14,125	14,125	14,125
Self Insurance	2,000	2,000	2,000	2,000
Economic Reserves	9,000	9,000	9,000	9,000
<b>Assigned</b>				
Compensated Absences	6,209	5,982	5,982	5,982
Police Retirement	1,737	1,572	1,572	1,572
Workers Comp	2,000	2,000	2,000	2,000
Facilities Reserve	2,000	2,000	2,000	2,000
Strategic Plan Projects	2,000	2,000	2,000	2,000
<b>Unassigned</b>	16,328	17,686	19,307	19,407
<b>Total</b>	<b>\$59,037</b>	<b>\$60,362</b>	<b>\$60,962</b>	<b>\$61,062</b>



# SUMMARY

- Balanced General Fund budget projected for FY 2025-26 despite economic and geopolitical volatility.
- Sales tax remains strongest revenue source; still growing but vulnerable to fuel price spikes and tariff impacts.
- Property tax and hotel tax are performing near or slightly above expectations; cannabis tax trending flat to slightly below prior year.





# FY 2026-27 OUTLOOK



# FY 2026-27 GENERAL FUND BUDGET DEVELOPMENT

- Revenue estimates for the next fiscal year are prepared months in advance.
- Cost-containment measures underway with a focus on core services, limiting non-essential expenses and exploring other potential funding sources.
  - *FY 2026-27 planning includes 5% reduction targets, and 2% attrition factor across departments.*
- Considerations for FY 2026-27 Proposed Budget:
  - Repayment and fully funding of the Capital Asset Needs and IT Needs Funds
  - Rising UAL payments
  - Increasing insurance premiums
  - Anticipated election-year costs
  - Increasing labor costs

# FY 2026-27 Budget Calendar

Date	Meeting	
4/28/2026	FY 2026-27 Mid-Year Budget Study Session	City Council
5/7/2026	FY 2026-27 Proposed Operating Budget	Finance & Pension Advisory Committee
5/12/2026	FY 2026-27 Proposed Budget Study Session	City Council
6/2/2026	FY 2026-27 Proposed Operating and CIP Budget Public Hearing & Adoption	City Council
6/16/2026	FY 2026-27 Proposed Operating and CIP Budget Public Hearing & Adoption (if needed)	City Council



# QUESTIONS

