



Agenda Item No. 12B  
April 14, 2026

TO: Honorable Mayor and City Council Members  
Attention: Savita Chaudhary, City Manager

FROM: Ken Matsumiya, Director of Finance  
(Staff contact: Ken Matsumiya, Director of Finance (707) 449-5180)

**SUBJECT: BUDGET UPDATE – COST SAVING MEASURES**

**ACTIONS FOR CONSIDERATION:**

There is no formal action with this item.

**RECOMMENDATION:**

Receive the information and provide feedback.

**BACKGROUND:**

Over the past several fiscal years, the City's expenditure growth has increasingly outpaced the growth of General Fund revenues. As highlighted in previous quarterly and midyear updates, revenues from the City's two largest General Fund sources—sales tax (including Measure M) and property tax—have been pressured by broader economic conditions such as inflation, prolonged high interest rates, weaker consumer confidence, and reduced discretionary household spending. These trends have contributed to slower General Fund revenue growth at the same time the City's cost structure continues to rise.

The combination of softening revenues and increasing expenditures has resulted in the City entering a period of recurring deficit spending since FY 2023-24, a relatively new challenge for the organization, as General Fund revenues historically exceeded expenditures annually for more than a decade following the Great Recession. To help mitigate this imbalance and slow the drawdown of the General Fund Reserve, the FY 2025-26 budget incorporated a series of internal cost-saving measures. These included pausing certain discretionary expenditures, deferring new General Fund and Measure M contributions to the Capital Improvement Program, pausing Additional Discretionary Payments to CalPERS, reducing contributions to internal service funds, and directing each department to identify at least 2.5% in savings within their operating budgets.

These savings were incorporated into the current operating budget. While impacts vary across departments, the focus of these reductions has been to minimize disruption to ongoing services and avoid personnel layoffs. Despite implementing these measures, the City continues to face a structural gap between recurring revenues and recurring expenditures. Regular budget updates, including midyear and quarterly reports, continue to show that although certain revenue categories have improved modestly, overall revenue growth remains below historical norms and below levels needed to sustain current service delivery.

Given the persistence of these economic challenges and the slower-than-anticipated recovery in revenue growth, the City must continue to evaluate additional cost-saving options to ensure long-term fiscal sustainability.

## **DISCUSSION:**

The purpose of this budget update is to provide Council with an overview of the current fiscal outlook and to begin discussing the next phase of cost-saving measures that may be required if General Fund revenues do not improve. While the 2.5% departmental reductions implemented in the current fiscal year have helped narrow the budget gap, they are not sufficient to fully resolve the City's ongoing structural deficit. Without a significant increase in revenue performance, the City will need to consider additional reductions to maintain a balanced budget over the long term.

At this time, staff is not recommending the implementation of further reductions in the upcoming FY 2026-27 operating budget. Rather, the potential options presented in this budget update are intended to illustrate the types of programmatic, service-level, and operational impacts that may be unavoidable in future years if economic conditions and revenue trends do not improve. This discussion of a 5% departmental reduction is meant to provide transparency to the Council and community regarding the possible scenarios the City may face should fiscal conditions remain constrained.

As part of current-year efforts to manage costs and reduce overtime expenditures, the Police and Fire Departments will implement targeted operational adjustments effective May 1, 2026:

- **Fire Department** – The Department will brown out Medic 72, reducing minimum daily staffing from 29 to 27 personnel to lower overtime costs. This unit was selected because its central location allows surrounding units to absorb its response area more effectively. While this action avoids layoffs and minimizes personnel impacts, it will increase workload on other units, may affect response times during peak call periods, and reduces system redundancy. The Fire Department will continue monitoring system impacts and will provide updates to Council.
- **Police Department** – The Department will dissolve the Community Response Unit (CRU) and reassign one sergeant and four officers to patrol to stabilize staffing levels and reduce overtime. This action supports the Department's current-year cost-saving requirement while ensuring that core patrol operations and emergency response remain adequately staffed. However, it will reduce the Department's ability to conduct proactive, community-based policing and may result in increased repeat calls for service. Staff will monitor workload and service levels and report material impacts to Council.

These operational changes represent immediate steps being taken within the current fiscal year to help control rising overtime costs while supporting the broader cost-saving targets previously established by the Council. They also illustrate the types of trade-offs the City may be required to consider more broadly should additional cost-reduction measures become necessary.

The remainder of the budget update presentation will provide a high-level overview of potential future cost-saving scenarios by department, including the potential impacts on services, programs, and community-facing operations. These options are being presented for discussion only and are not recommendations for adoption in FY 2026-27. Staff will continue to monitor revenue performance closely and will return to Council with refined recommendations as part of the upcoming budget development cycle.

## **ENVIRONMENTAL REVIEW:**

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline Section 15378.

**FISCAL IMPACT:**

Amount Requested: No funding is required or requested for this item.

Funding Source: Not applicable

Budget Distribution: Not applicable

**ALTERNATIVES:**

Council could choose not to receive the information.

**STRATEGIC PLAN GOALS/INITIATIVES:**

Goal #4 – Maintain Effective and Efficient Services  
Initiative 4A: Ensure Fiscal Sustainability

**LEVINE ACT:** No