

CITY OF FREMONT

FY 2025/26 Mid-Year Budget Report

March 3, 2026

Overview

- ▶ Economic Update
- ▶ FY 2025/26 Budget Update
- ▶ Preliminary Forecast
- ▶ Recommended Budget Actions
- ▶ Summary and FY 2026/27 Budget Schedule

Economic and Revenue Update

▶ National Economy

- Economy growing and relatively low unemployment
- Short-term interest rates have come down, but mortgage rates remain close to 6%

▶ Local Revenue

- Continued high mortgage rates have discouraged property sales and slowed property tax growth
- Sales tax revenue is higher than anticipated at mid-year, but may reflect a 1st quarter spike due to tariffs/EV tax credit
- Business tax and hotel tax revenue performing well
- Charges for services and investment earnings are falling below their budget estimates

Estimated Revenue Up \$3.4 Million

Revenue Category Dollars in Millions	FY 2024/25 Actual	FY 2025/26 Adopted	FY 2025/26 Estimate	FY 2025/26 Estimate vs. Prior Year	FY 2025/26 Estimate vs. Adopted
Property Tax	\$145.5	\$152.8	\$ 152.5	4.8%	\$ -0.3
Sales Tax*	58.1	65.5	68.5	17.9%	3.0
Business Tax	13.1	13.4	14.8	13.0%	1.4
Franchise Fees	13.4	14.2	14.3	6.7%	0.1
Hotel Tax	6.2	6.1	6.5	4.8%	0.4
Charges for Services	8.1	8.2	7.3	-9.9%	-0.9
Other	12.7	11.3	11.0	-13.4%	-0.3
Revenue Subtotal	257.1	271.5	274.9	6.9%	3.4
Transfers In	6.3	6.8	6.8	7.9%	0.0
Total Resources	\$263.4	\$278.3	\$281.7	6.9%	\$ 3.4

* Sales tax in FY 2024/25 reflects the impact of the State’s recovery of FY 2022/23 overpayments – a reduction of approximately \$11.9 million. The FY 2025/26 estimate includes a possible one-time spike of \$3.0 million in the first quarter related to tariffs and the expiration of electric vehicle tax credits. Separately, FY 2024/25 and FY 2025/26 include misallocated revenue that could be recovered by the State during FY 2025/26.

Preliminary Estimate Remains Balanced

Dollars in Millions	FY 2024/25 Actual	FY 2025/26 Adjusted	FY 2025/26 Estimate
Sources of funds			
Encumbrance balance	\$ 1.5	\$ 1.0	\$ 1.0
Unreserved fund balance	0.0	0.0	0.0
Revenues and transfers in	263.4	278.3	281.7
Total sources of funds	264.9	279.3	282.7
Uses of funds			
Expenditures and transfers out	280.7	278.8	281.8
Encumbrance balance	1.0	0.0	0.0
Total uses of funds	281.7	278.8	281.8
Addition to Reserves*	-16.8	0.3	0.3
Unreserved fund balance	\$ 0.0	\$ 0.2	\$ 0.6

* Addition to reserves in FY 2024/25 shows \$19.9 million of the Budget Uncertainty Reserve applied to address the one-time revenue shortfall due to the State's sales tax recovery (partially offset by a \$3.1 million increase to the Contingency Reserve).

Reserves Ensure Service Continuity

- ▶ Contingency Reserve fully funded for FY 2025/26
- ▶ Budget Uncertainty Reserve funded at \$4.3 million

General Fund Reserves	Actual Funding FY 2025/26
Contingency Reserve (16.7%* of expenditures and transfers out - address unforeseen events)	\$46.4 Million
Budget Uncertainty Reserve (Financial risk in 3-year forecast - offset revenue/expenditure uncertainty)	4.3 Million
Total Reserves	\$50.7 Million

*GFOA recommended level is no less than two months of regular operating expenditures (16.7%).

Preliminary Forecast – Base Budget

Dollars in Millions	FY 2024/25 Actual	FY 2025/26 Estimate	FY 2026/27 Projected	FY 2027/28 Projected	FY 2028/29 Projected
Sources of funds					
Encumbrance balance	\$ 1.5	\$ 1.0	\$ 0.0	\$ 0.0	\$ 0.0
Unreserved fund balance	0.0	0.0	0.0	0.0	0.0
Revenues and transfers in	263.4	281.7	287.3	298.0	309.8
Total sources of funds	264.9	282.7	287.3	298.0	309.8
Uses of funds					
Expenditures and transfers out	280.7	281.8	284.0	286.8	290.7
Encumbrance balance	1.0	0.0	0.0	0.0	0.0
Total uses of funds	281.7	281.8	284.0	286.8	290.7
Addition to Reserves	-16.8	0.3	1.0	0.5	0.7
Unreserved fund balance	\$ 0.0				
Projected sources over uses		\$ 0.6	\$ 2.3	\$ 10.7	\$ 18.4

* As the City's labor agreements end on June 30, 2026, expenditure projections for FY 2026/27 through 2028/29 do not include employee compensation increases.

Recommended Budget Actions

- ▶ Approve adjustments to bring revenue and expenditure savings estimates in line with the current projections
 - Decrease property tax by \$0.3 million
 - Increase sales tax by \$3.0 million
 - Increase business tax by \$1.4 million
 - Increase franchise fees by \$0.1 million
 - Increase hotel tax by \$0.4 million
 - Decrease charges for services by \$0.9 million
 - Decrease investment earnings by \$0.3 million
 - Decrease expenditure savings by \$3.0 million

Summary

- ▶ National economy growing, but continued high mortgage rates discourage property sales
 - Sales tax, business tax, franchise fee, and hotel tax estimates increased
 - Property tax, charges for services, and investment earnings estimates reduced
- ▶ FY 2025/26 mid-year estimate remains balanced
 - Net increase in revenue offsets lower expenditure savings estimate
 - Budget Uncertainty Reserve projected to end FY 2025/26 at \$4.3 million
- ▶ Preliminary Forecast reflects revenue growth of 2%-4%
 - Assumes modest growth in economically-sensitive revenues
 - Forecast does not include compensation increases
- ▶ Recommendation
 - Adjust revenue and expenditure savings estimates to reflect current projections

FY 2026/27 Operating Budget Schedule

- ▶ May 12, 2026 Proposed Operating Budget Presentation
- ▶ June 2, 2026 First Public Hearing
- ▶ June 9, 2026 Second Public Hearing
Budget Adoption