



PUBLIC HEARING

City of San Bernardino Request for Council Action

Date: June 4, 2025

To: Honorable Mayor and City Council Members

From: Bill Gallardo, Interim City Manager
C. Jeannie Fortune, Interim Director of Finance and Management Services
Lynn Merrill, Director of Public Works

Department: Finance & Management Services Department

Subject: **City Manager's Proposed Fiscal Year 2025/26 Operating Budget & FY 2026-2030 Capital Improvement Program (All Wards)**

Recommendation:

It is recommended that the Mayor and City Council of the City of San Bernardino:

1. Conduct the Public Hearing on the proposed Fiscal Year 2025/26 Operating Budget and 2025/26-2029/30 Capital Improvement Plan; and
2. Adopt Resolution No. 2025-298 approving the City of San Bernardino's Fiscal Year 2025/26 Operating Budget and 2025/26-2029/30 Capital Improvement Plan; and
3. Approve the reallocation of General Fund expenses to the Gas Tax fund, as reflected in the FY 2025/26 Proposed Budget; and
4. Authorize the creation of the Operations and Maintenance Department and the Director of Operations and Maintenance position; and
5. Adopt Resolution No. 2025-299 establishing the City's Appropriations Limit as required by Article XIII B of the California State Constitution; and
6. Approve the FY2025-26 Position Summary; and
7. Adopt Resolution No. 2025-300 approving the updated Investment Policy for FY 2025/26; and
8. Formally approve any modifications made during the Public Hearing to be incorporated into the City of San Bernardino's Fiscal Year 2025/26 Operating Budget and 2025/26-2029/30 Capital Improvement Plan and included as part of the final adopted budgets.

Executive Summary

The City Manager's Proposed Fiscal Year 2025/26 Operating Budget and FY 2026–

2030 Capital Improvement Program (CIP) reflect a disciplined and strategic approach to fiscal planning, totaling \$348.7 million in expenditures across all funds. Developed in preparation for continued economic uncertainty, the budget incorporates department-wide 5% expenditure reductions, a six-month hiring deferral for non-safety positions generating \$8.1 million in estimated savings, and a \$31.2 million use of fund balance to invest in infrastructure, fleet, and operations. General Fund revenues total \$228.2 million and remain concentrated in four major sources: Measure S, Sales and Use Tax, Utility User Tax, and Property Tax in Lieu of VLF. The budget establishes a new Maintenance and Operations Department, aligns with the City's Strategic Plan goals, and includes a \$45.7 million CIP with a focused investment in street rehabilitation, shifting from the prior year's emphasis on parks. Additionally, the item establishes the City's Appropriations Limit, updates the citywide salary schedule, adopts the FY 2025/26 Position Summary, and incorporates revisions to the City's Investment Policy in accordance with recent state law.

Background

Section 701 of the City Charter provides that the City Manager shall prepare and submit a proposed budget to the Mayor and City Council for the ensuing fiscal year. Article VII in Section 703 further states that the Council shall publish a general summary of the budget and CIP and hold one (1) or more public hearings. After the public hearing(s), the Budget and CIP shall be adopted, as they may be amended, by the Council before the beginning of each fiscal year.

The Fiscal Year 2025/26 budget process formally kicked off in early January 2025, when the City Manager's Office communicated to departments that the proposed FY 2025/26 Operating Budget was to be status quo. Upon continued monitoring of the developing economic uncertainty at the national, state, and county levels, the City Manager's Office proactively instructed departments to assess their status quo budgets and submit operational expenditure decreases of 5% per department to align with expected revenue projections. On April 29, 2025 and May 22, 2025 the Mayor and City Council held Budget Workshops to review and discuss the proposed Fiscal Year 2025/26 Operating Budget and the 2025/26-2029/30 Capital Improvement Plan.

The City Manager's Proposed Fiscal Year 2025/26 Operating Budget & CIP Book can be found on the City's website at: [Proposed Budget Book](https://www.sanbernardino.gov/DocumentCenter/View/10044/City-Managers-Proposed-FY2025-26-Operating-Budget-and-CIP-2026-2030)
<<https://www.sanbernardino.gov/DocumentCenter/View/10044/City-Managers-Proposed-FY2025-26-Operating-Budget-and-CIP-2026-2030>>

Discussion

Currently, national, state, and local economies face volatility and uncertainty in the economic landscape. Given the City Manager's proactive direction to departments to submit operational expenditures decreases of 5%, it is critical to examine the broader economic landscape shaping revenue and expenditure assumptions for FY 2025/26. The proposed budget is informed by ongoing national, state, and county economic volatility, including signs of slowing growth, inflationary pressures, and uncertainties surrounding key funding sources.

National Economic and Financial Trends

Broader economic trends influence local revenue streams, including sales and property taxes, development activity, and municipal investments. While the U.S. economy experienced moderate growth in the 4th quarter of 2024, emerging data for the 1st quarter of 2025 should show signs of an economic slowdown. The following national trends are particularly relevant to the City's financial planning:

- **Real Growth Domestic Product (GDP) Decline:** Real GDP trends are important to the City because they directly impact the local economy by influencing job creation, business investment, and overall economic activity. The U.S. real GDP declined from +2.4% in Q4 2024 to -0.3% in Q1 2025. This decrease signals slowed growth in early 2025, primarily attributed to federal fiscal policy decisions creating uncertainty in the market. Emerging data indicate the national economy shows signs of reduced consumer spending, which impacts sales tax revenues in San Bernardino.
- **Interest Rates:** The Federal Reserve has kept interest rates elevated at 4.25 – 4.50%, which has tempered borrowing and reduced investment in real estate and business expansion, impacting the City's development-related fees. While the interest rates are slowly decreasing, and lower rates can encourage borrowing, they also signal concerns about a slowing economy as consumer spending declines.
- **Unemployment Rates:** Despite challenges, employment growth has remained steady, with the unemployment rate at 4.2% and 228,000 jobs added in recent months. The City continues to monitor job growth quality, stability, and geographic distribution because these factors directly influence local economic conditions. Employment trends shape consumer spending, housing affordability, and the City's tax revenues.

California Economic and Financial Trends

Economic trends in California shape local revenue streams, employment levels, and housing markets. The state is facing budget constraints, labor market shifts, housing shortages, and trade policy changes, resulting in cities needing to proactively adapt to this changing economic landscape while remaining fiscally sustainable and minimizing service disruption. Key statewide trends include:

- **State Budget Constraints:** The California 2025-26 Governor's Budget is *roughly* balanced, projecting a \$363 million "surplus" through a combination of one-time solutions, reserve withdrawals (\$7.1 billion), and conservative revenue assumptions. With the projected future state budget deficits and revenue growth closely tied to volatile stock market performance rather than underlying economic strength, local governments like San Bernardino must prepare for fiscal uncertainty.
- **Housing Market:** The housing market is stagnant due to high mortgage rates and consumer hesitancy, impacting local property tax growth, sales tax generation, and housing-related development revenues. From January 2020 to February 2025, housing costs have outpaced wage growth, placing additional strain on housing affordability across California, including in San Bernardino. As

a result, residents face increased financial strain, which can reduce local discretionary spending, slow permit activity, and increase demand for City services such as housing assistance and code enforcement.

- **Tariffs and Trade:** Ongoing trade and tariff challenges suppress consumer spending and business investment. This translates into reduced goods movement activity for the City of San Bernardino, particularly given the region's strong reliance on logistics, warehousing, and distribution sectors. Slower trade flows can result in lower sales tax revenues, decreased demand for industrial space, and job instability in supply chain-related employment, all of which influence the City's economic outlook. Additionally, when business investment slows, it can delay commercial development, impact permit revenues, and reduce the pace of economic growth within the local economy.

County Economic and Financial Trends

San Bernardino County's current economic landscape reflects both statewide pressures and regional strengths. The County continues to experience strong job growth and steady retail activity. However, challenges like housing affordability and limited new construction could shape the City of San Bernardino's future revenue and service demands. Key countywide trends include:

- **County Unemployment Rate:** San Bernardino County's unemployment rate sits at 5.0%, which remains lower than the state average of 5.3%. This is a positive indicator for local economic activity: a healthier labor market generally supports consumer confidence, retail activity, and business stability.
- **Housing Affordability:** Housing affordability continues to be a pressing concern at the County level. With approximately 67.8% of per capita income allocated toward mortgage payments, many households face limited discretionary income. This dynamic directly impacts the City by potentially suppressing taxable sales and could contribute to resident displacement, further increasing the demand for affordable housing within the County and City of San Bernardino. This will then translate into pressure on City resources and social services to address the demand.
- **Inland Empire CPI:** On a more positive note, local inflation, as measured by the Consumer Price Index (CPI), has declined from 4.3% in March 2024 to 2.5% in March 2025. This signals stabilization in the cost of goods and services, which helps reduce cost pressures on City operations, including contracted services, materials, and capital projects. However, this data does not fully capture the continued impact of trade and tariff challenges, which remain a significant pressure point for sectors heavily tied to goods movement and international supply chains. These external economic forces may still drive higher costs for construction materials, delays in procurement, and disruptions to business investment, particularly in a region like San Bernardino that is deeply integrated with logistics and warehousing industries.

Total FY 2025/26 Proposed Operational & CIP Budget

The total FY 2025/26 Proposed Operating & CIP Budget is \$317.5 million in revenues

and \$348.7 million in operating and CIP expenditures, of which \$45.7 million is for CIP expenditures. A total of \$31.2 million in additional resources from Fund Balance will be used to invest in CIPs, Fleet, O&M, and CATV builds: \$25.7 million from General Fund and \$5.5 million from Other Special Revenue Funds.

FY 2025/26 TOTAL PROPOSED BUDGET (GENERAL FUND)

<u>Fund</u>	<u>FY 2024/25 Adopted</u>	<u>FY 2025/26 Proposed</u>
Revenues		
General Fund Revenues	236,603,800	228,192,811
Total Proposed Revenues	236,603,800	228,192,811
<i>Use of Fund Balance for Fleet Fund</i>	-	1,929,129
<i>Use of CIP Reserve</i>	-	23,775,000
Total Available Funding	236,603,800	253,896,940
Expenditures		
General Fund Operating Expenditures	237,453,690	228,192,811
<i>Transfer Out to Fleet Fund</i>	-	1,929,129
General Fund CIP Expenditures	3,565,500	23,775,000
Total Operating & CIP Expenditures	241,019,190	253,896,940

FY 2025/26 TOTAL PROPOSED BUDGET (OTHER FUNDS)

<u>Fund</u>	<u>FY 2024/25 Adopted</u>	<u>FY 2025/26 Proposed</u>
Revenues		
Other Fund Revenues	95,076,919	87,382,104
<i>Transfer In from General Fund for Fleet Fund</i>	-	1,929,129
Total Proposed Revenues	95,076,919	89,311,233
<i>Use of Fund Balance for CATV/HD Build</i>		121,000
<i>Use of Fund Balance for Operations & Maintenance</i>		2,979,855
<i>Use of Other Funds - Fund Balance for CIPs</i>		2,350,984
Total Available Funding	95,076,919	94,763,072
Expenditures		
Other Fund Operating Expenditures	74,988,484	72,820,992
Other Fund CIP Expenditures	9,671,000	21,942,080
Total Operating & CIP Expenditures	84,659,484	94,763,072

Proposed FY 2025/26 General Fund Revenues

The FY 2025/26 revenue forecast reflects both cautious optimism and fiscal prudence, with projections incorporating a mix of moderate increases and decreases across key categories in response to ongoing economic uncertainty at the national, state, and county levels. Revenue assumptions were developed using a conservative, data-

driven approach, grounded in year-end actuals and consistent with reported economic outlooks. While every effort is made to ensure projections are realistic and well-informed, it is important to recognize that the budget remains a living financial plan, subject to change as new information and economic conditions emerge throughout the year. The City remains committed to ongoing analysis and timely adjustments to maintain structural balance and ensure continued fiscal health.

The proposed budget totals \$228.2 million, showing a moderate 2.5% increase, or \$5.6 million, from the FY 2024/25 projected year-end totals of \$222.6 million. The City's General Fund remains heavily reliant on four primary revenue sources: Measure S (23%), Sales and Use Tax (23%), Utility User Tax (14%), and Property Tax in Lieu of VLF (11%). Collectively, these categories comprise over 70% of total General Fund revenues. This revenue composition highlights the importance and necessity for the City to continuously monitor economic activity, consumer behavior, and state-level fiscal policy. Measure S and Sales Tax are particularly sensitive to changes in local and regional spending patterns, while utility consumption trends, often due to surrounding weather conditions, influence Utility Users Tax. Property tax revenues, in turn, are shaped by real estate trends and assessed valuation formulas at the state level.

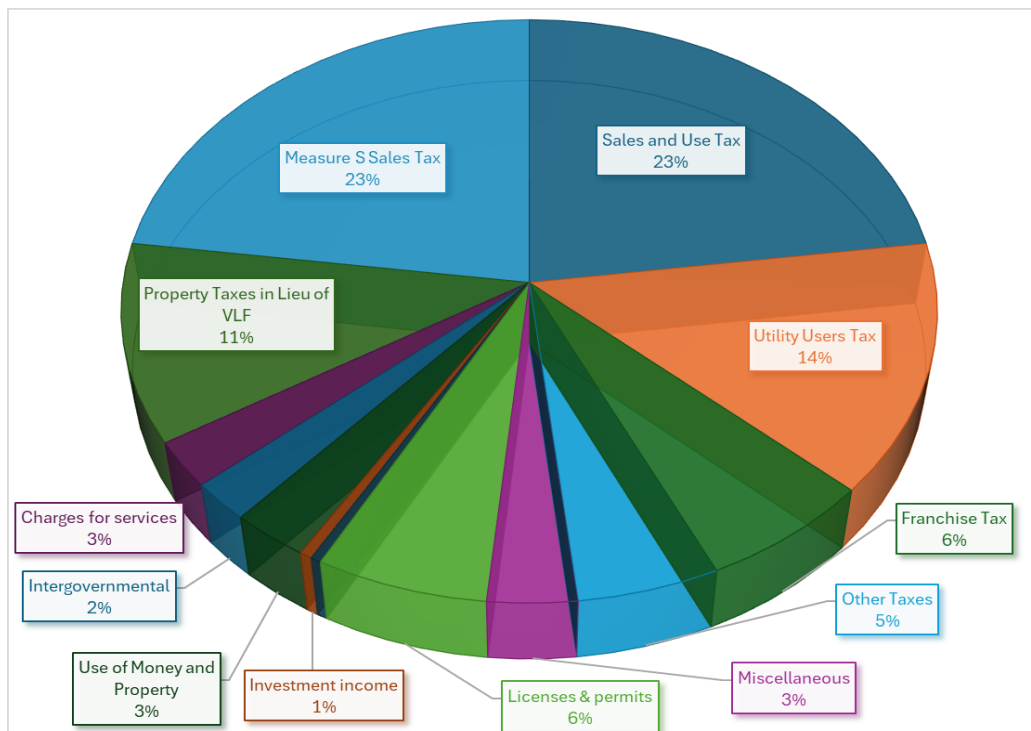
Revenue Category	FY 2022-23 Actuals	FY 2023-24 Actuals	FY 2024-25 Adopted	FY 2024-25 Projected Year-End Total	FY 2025-26 Proposed	% Change from Projected Actuals
Sales and Use Tax	\$55,651,769	\$55,612,168	\$58,623,667	\$52,796,986	\$52,058,494	-1.4%
Utility Users Tax	\$31,208,992	\$28,671,310	\$28,893,750	\$30,229,505	\$31,740,980	5.0%
Franchise Tax	\$12,692,337	\$14,328,378	\$14,939,265	\$14,402,938	\$14,560,000	1.1%
Other Taxes	\$11,173,774	\$12,414,954	\$15,060,480	\$11,259,440	\$11,780,000	4.6%
Miscellaneous	\$3,304,140	\$7,737,244	\$4,238,229	\$5,335,144	\$7,411,797	38.9%
Licenses & permits	\$15,740,360	\$16,059,891	\$16,989,168	\$14,083,412	\$14,287,000	1.4%
Fines and forfeitures	\$1,082,037	\$766,079	\$1,593,262	\$876,142	\$891,000	1.7%
Investment income	\$963,828	\$3,373,049	\$999,900	\$2,635,949	\$1,050,000	-60.2%
Use of Money and Property	\$3,158,026	\$5,273,844	\$2,640,627	\$4,887,459	\$6,383,760	30.6%
Intergovernmental	\$2,225,143	\$6,708,044	\$2,949,651	\$5,506,961	\$5,018,400	-8.9%
Charges for services	\$9,107,888	\$6,829,807	\$10,319,801	\$6,275,538	\$5,822,130	-7.2%
Property Taxes in Lieu of VLF	\$21,312,883	\$23,604,046	\$25,806,000	\$24,180,179	\$25,149,250	4.0%
Measure S Sales Tax	\$52,124,592	\$51,259,760	\$53,550,000	\$50,159,000	\$52,040,000	3.8%
General Fund Revenue Total	\$219,745,769	\$232,638,574	\$236,603,800	\$222,628,653	\$228,192,811	2.5%

Proposed Revenue Category Increases

- ❖ **Miscellaneous:** This increase of \$2.08 million is mainly due to a required accounting adjustment related to the lease of the Vanir Tower building. While this change shows about \$2.8 million more in revenue, it's important to understand that this is not new money or cash coming in, it's simply an accounting update to meet new state standards (GASB 87) that require the City to report lease proceeds differently. Additionally, other small revenue categories in this section have been revised slightly downward based on the latest economic trends to keep budgeted revenues realistic and sustainable.
- ❖ **Measure S:** Measure S revenue is projected to increase by approximately

\$1.88 million in Fiscal Year 2025/26. This growth is largely due to stable local sales activity and the structural advantage of Measure S being a full 1% local return to the City. Unlike the base sales tax, which is shared with the state, all Measure S revenue remains local, making it more resilient to state-level economic fluctuations. The increase reflects steady consumer activity within the City and shows how essential this revenue source is for public safety, homelessness response, and infrastructure projects.

- ❖ **Utility User Tax (UUT):** The City has continued to budget conservatively for UUT because fewer residents are using traditional services like cable TV and landline phones and are instead switching to streaming and internet-based services that aren't always taxed. Rising electricity and gas usage, driven by higher rates and growing demands, has helped balance revenues out. As a result, the City is projecting a modest upward adjustment of \$1.51 million to the UUT forecast for FY 2025/26.
- ❖ **Use of Money & Property:** The City expects to see about \$1.5 million more in interest next year due to updated projections based on the money it currently has in reserves. Because the City has strong savings and healthy reserve levels, it continues to earn interest even when the market slows down. The City is also in the process of hiring a professional investment advisor, which is expected to help manage these funds more actively and potentially increase returns even further once the firm is selected.



Proposed Revenue Category Decreases

- ❖ **Investment Income:** Even though the City expects to earn more interest from its savings next year, the City is also required to show temporary changes in the value of long-term investments based on how the stock market is

performing. These changes don't reflect actual losses or cash we're spending; they're just on paper and are part of standard accounting rules. The market has been unpredictable. Therefore, the City is projecting a decrease of \$1.58 million to be cautious and help anticipate market volatility. The City continues to invest responsibly and focuses on keeping funds safe and stable over time.

- ❖ **Sales and Use Tax:** Sales and Use Tax revenue is projected to decline in Fiscal Year 2025/26 due to slower consumer spending and broader economic uncertainty. Higher interest rates, inflation, and reduced discretionary spending are leading households to cut back on purchases of taxable goods such as retail items, vehicles, and dining. In addition, the continued shift toward online shopping is redirecting some sales to platforms that are taxed differently or shared with other jurisdictions, reducing the City's share. As a result, projections have been adjusted downward to reflect these trends and ensure a realistic and fiscally responsible budget.
- ❖ **Intergovernmental:** The small decrease of \$0.49 million projected for Fiscal Year 2025/26 in this category is mainly due to the unpredictable timing of state reimbursements. These payments don't follow a regular schedule, so the City plans for variations from year to year based on when the funds are received.
- ❖ **Charges for Services:** The City is projecting a slight decrease of \$0.45 million due to the economic uncertainty, which may slow down development activity throughout the City. As a result, the City revised estimates downward for development-related categories such as Plan Check Fees, Planning and Development Fees, and On-Site Plan Check services. These revenue sources are highly sensitive to construction and real estate trends. When the development pipeline slows - either due to higher interest rates, rising construction costs, or cautious private sector investment – activity in these areas tends to decline.

Proposed General Fund Operating Expenditures

The proposed FY 2025/26 General Fund budget totals \$230.1 million, representing a 6.7% increase, or \$14.6 million, over the FY 2024/25 projected year-end total of \$215.6 million. While this increase may appear substantial in contrast to the City's modest projected revenue growth and broader economic uncertainty, it is important to recognize the basis of the comparison. The FY 2024/25 year-end projections are grounded in actual expenditures incurred through the year and assume funding for currently filled full-time (FTE) and part-time (PT) positions only. In contrast, the FY 2025/26 proposed budget reflects the full cost of all authorized positions—both filled and vacant—providing a more complete and future-facing financial picture for each department.

In anticipation of a potential statewide economic slowdown, City departments took proactive steps to align proposed operational budgets with current fiscal trends. These efforts yielded approximately \$10.7 million in operational budget reductions, enabling the City to support sustainable and uninterrupted service delivery while maintaining core programs.

At the same time, the City must account for several non-discretionary cost pressures that continue to drive baseline expenditure growth:

- ❖ Step advancements for employees (\$1.5 million)
- ❖ Rising retirement contribution costs (\$0.4 million)
- ❖ Health benefit cost increases (\$2.9 million)
- ❖ Growth in unfunded accrued liability (UAL) obligations (\$4.0 million).

To further support fiscal flexibility and align staffing with organizational priorities, the City Manager is proposing a six-month hiring deferral for non-safety positions. This measure is estimated to generate approximately \$8.1 million in salary savings, contributing to a structurally balanced budget while preserving the City's General Fund reserves.

The City Manager's Office and Finance staff will continue to closely monitor emerging economic data and fiscal performance throughout the year. If revenue trends improve or key service needs arise, the City Manager may return to the Mayor and City Council with a recommendation to adjust or lift the hiring deferral. Staff will provide formal updates on the City's fiscal outlook and hiring strategy as part of the quarterly budget monitoring process, ensuring transparency and adaptability throughout the fiscal year.

Department	FY 2022-23 Actuals	FY 2023-24 Actuals	FY 2024-25 Adopted	FY 2024-25 Projected Year-End Total	FY 2025-26 Proposed	% Change from Projected Actuals
Mayor	\$306,227	\$279,481	\$298,025	\$298,025	\$328,273	10.1%
City Council	\$1,015,993	\$1,061,509	\$1,156,448	\$1,156,448	\$1,191,224	3.0%
City Clerk	\$1,300,833	\$1,391,383	\$1,942,869	\$1,571,500	\$1,928,538	22.7%
City Attorney	\$4,559,283	\$4,795,033	\$5,181,587	\$5,181,587	\$5,197,318	0.3%
General Government	\$32,886,990	\$19,370,893	\$17,967,471	\$18,227,743	\$17,170,674	-5.8%
City Manager	\$2,103,300	\$3,424,979	\$5,156,385	\$3,635,811	\$3,729,562	2.6%
Human Resource & Risk Management	\$2,055,421	\$2,390,082	\$2,784,522	\$2,772,510	\$2,881,727	3.9%
Finance & Management Services	\$5,163,873	\$5,044,637	\$6,612,496	\$5,947,838	\$7,048,011	18.5%
Economic Development	\$0	\$237,278	\$1,785,363	\$1,814,730	\$2,900,814	59.8%
Special Assessment District	\$115,996	\$114,321	\$150,000	\$120,000	\$175,000	45.8%
Capital Improvement Projects	\$89,235	\$320,505	\$0	\$3,715	\$0	
Community Development & Housing	\$9,040,721	\$9,341,981	\$15,004,584	\$10,721,947	\$14,866,073	38.7%
Police	\$103,840,116	\$114,176,196	\$132,847,479	\$124,951,642	\$134,646,578	7.8%
Parks, Recreation & Community	\$4,132,108	\$5,109,685	\$6,000,401	\$5,936,896	\$6,217,572	4.7%
Public Works	\$21,764,427	\$26,606,218	\$35,591,030	\$29,008,952	\$32,930,148	13.5%
Library	\$2,610,050	\$2,601,058	\$4,975,030	\$4,221,603	\$5,088,922	20.5%
Non-Departmental	\$0	\$0	\$0	\$0	(\$8,107,624)	
General Operating Expenditures	\$190,984,572	\$196,265,240	\$237,453,690	\$215,570,946	\$228,192,811	5.9%
Transfer Out to Fleet Fund	\$0	\$0	\$0	\$0	1,929,129	
TOTAL General Fund Operating Expenditures	\$190,984,572	\$196,265,240	\$237,453,690	\$215,570,946	\$230,121,940	6.7%

Organizational Update – Creation of Maintenance and Operations Department

Effective July 1, 2025, the City of San Bernardino will establish a new Maintenance and Operations Department, formed through a strategic division of the existing Public Works Department. This department will be led by a newly created executive-level position, the Director of Maintenance and Operations. The reorganization will not result in any changes to the City's overall position control or headcount.

This departmental restructuring is a proactive step to enhance operational efficiency, increase accountability, and improve the delivery of core city services, including street maintenance, facility repairs, and public infrastructure upkeep. Over the past several years, the scope and complexity of operational and maintenance needs across the City have grown significantly, driven by aging infrastructure, expanded facilities, increased service demand, and higher community expectations. By establishing a standalone department, the City will streamline decision-making, enable faster response times, and provide focused leadership over day-to-day maintenance activities.

Separating Maintenance and Operations from broader Public Works functions will also allow the remaining Public Works team to focus more intensively on long-range capital planning, engineering design, environmental compliance, fleet management, and development review services. This realignment reflects the City's commitment to modernizing its organizational structure in support of its Strategic Plan and aligning resources more directly with service delivery outcomes. There will be no budget increase with the creation of a new department; the budget and positions currently allocated to the Public Works department for Operations and Maintenance will be transferred to the new department and will be reflected in the Adopted Budget Book.

Strategic Staffing Alignment

To support fiscal sustainability and ensure flexibility in the face of ongoing economic uncertainty, the City Manager is proposing a six-month hiring deferral for non-safety positions in FY 2025/26. This temporary measure is expected to generate approximately \$8.1 million in salary and benefit savings, contributing significantly to the City's efforts to maintain a structurally balanced General Fund budget.

The deferral applies to all non-safety vacancies and will be reassessed mid-year based on updated revenue performance, service delivery needs, and organizational priorities. By strategically pacing recruitment efforts, the City can preserve critical services, respond to changing financial conditions, and avoid budget adjustments later in the fiscal year. The City Manager's Office will provide the Mayor and City Council with quarterly updates and recommendations regarding the status of the deferral, including whether to extend, modify, or lift the measure as economic conditions evolve.

Capital Improvement Program (CIP)

As part of the City of San Bernardino's continued commitment to infrastructure reinvestment and long-term community development, the Fiscal Year 2025/26 Capital Improvement Program (CIP) includes a comprehensive \$45.7 million investment across five key categories. This year's CIP reflects a major shift in emphasis from last year's park and recreation enhancements to a strong focus on street repaving and roadway rehabilitation—a priority consistently expressed by residents and City leadership.

A total of \$23.8 million will be funded from the General Fund's CIP reserves, which

remain healthy at \$86.7 million as of the FY 2023/24 audited financials, due to disciplined fiscal planning and Measure S allocations. The remaining \$21.9 million is supported by other restricted funding sources, such as Gas Tax, Measure I, and AB 1600 fees.

Investments in the following categories in the FY 2025/26 CIP include:

- **Buildings:** Over \$3.5 million will support critical facility improvements, including HVAC replacements, roof repairs, structural upgrades, and public facility enhancements such as the California Theater, City Hall, and local libraries.
- **Parks & Recreation:** Approximately \$4.1 million is allocated for park improvements, walking trail expansions, surfacing, and ADA accessibility across multiple community parks and facilities.
- **Storm Drains:** More than \$8.4 million will fund major drainage improvements to reduce flood risk, improve water management, and comply with state Total Maximum Daily Load (TMDL) requirements.
- **Streets:** With an investment amounting to \$28.1 million, the City will continue its efforts in street rehabilitation, safety improvements, and joint infrastructure projects in partnership with regional agencies.
- **Traffic Controls:** Approximately \$1.7 million will support the modernization of traffic signals, pedestrian safety enhancements, smart corridor planning, and traffic calming measures throughout the city.

CIP Categories	General Fund	Other Funds	TOTAL
Buildings	\$ 3,225,000	\$ 250,000	\$ 3,475,000
Parks & Recreation	\$ 2,100,000	\$ 2,000,000	\$ 4,100,000
Storm Drain	\$ 8,350,000	\$ -	\$ 8,350,000
Streets	\$ 10,100,000	\$ 18,012,080	\$ 28,112,080
Traffic Controls	\$ -	\$ 1,680,000	\$ 1,680,000
Grant Total	\$ 23,775,000	\$ 21,942,080	\$ 45,717,080

This strategic use of reserves and external funding enables the City to address both immediate and long-term infrastructure needs without incurring debt or reducing core service levels. The FY 2025/26 CIP exemplifies the City's proactive approach to managing resources responsibly while delivering visible, high-impact improvements that enhance the daily lives of San Bernardino residents.

FY 2025/26 Appropriations Limit Calculation

Article XIIIB of the California Constitution, introduced by Proposition 4 in 1979 and later amended by Proposition 111 in 1990, imposes limits on the growth rate of appropriations for cities and other local governments. This growth rate is based on changes in population and California's Per Capita Personal Income. In May 2025, the California Department of Finance provided cities with updated factors for population change and Per Capita Personal Income to use in calculating their appropriation limits. For Fiscal Year 2025/26, the change in the California Per Capita Personal Income is 6.44%, and the change in San Bernardino's population is 0.30%. Based on this data,

San Bernardino's appropriation limit for FY 2025/26 is calculated at \$519,789,307. The total appropriations subject to limitation in the City's FY 2025/26 budget is \$184,775,543. The City remains well below the legal appropriation limit by \$335,013,763.

Personnel Compensation

As changes are made to salaries or classifications, the City is required to adopt a revised salary schedule in a public meeting. The attached salary schedule meets the California Public Employees Retirement Systems (CalPERS) pay rate reporting requirements in accordance with Government Code 20636 defining "Compensation Earnable" and the California Code of Regulations (CCR) Section 570.5. Attachment 4 provides the City of San Bernardino's city-wide FY 2025/26 salary schedule.

Investment Policy

State law requires that all municipalities have an investment policy approved by its governing board and that it approves the policy on an annual basis. The investment policy serves as the foundation of a local agency's investment goals and priorities. A good investment policy encompasses the cash, treasury, and investment management functions of an agency. It serves as a guide for setting and achieving program objectives, defines rules and establishes benchmarks, and reduces exposure to liability. An approved investment policy demonstrates that the governing body is performing its fiduciary responsibilities, thereby instilling trust and confidence in the public it serves. It is also important to note that rating agencies pay close attention to an agency's investment policy and portfolio in determining its credit rating.

POLICY UPDATE / REVISION

The Finance Department is responsible for submitting the Investment Policy for adoption by the Mayor and City Council on an annual basis. The City's Investment Policy was recently updated to reflect changes to Government Code § 53601.8, pursuant to AB 2618 (2024). This change extends the portfolio concentration limit for surplus funds invested via deposit placement services from 30% to 50% through January 1, 2031. The revised policy now includes Section K.12 to acknowledge and comply with this statutory update. The updated Investment Policy continues to prioritize safety, liquidity, and yield, and is consistent with California Government Code Sections 53600 through 53683. These changes ensure the City remains in compliance with evolving state regulations while maintaining the integrity and security of its public funds.

2021-2025 Strategic Targets and Goals

The proposed budget review aligns with all key targets of the City Council's Strategic Plan: Improved Operational & Financial Capacity, Focused, Aligned Leadership and Unified Community, Improved Quality of Life, Economic Growth & Development. Funding projects and programs at every level of the organization ensures that the City can achieve the goals and priorities established by the Mayor and City Council.

Fiscal Impact

The adoption of the operating budget allocates the available resources to programs, services, and departments for the upcoming fiscal year. The total revenue allocations for FY 2025/26, across all funds is \$317,504,044: \$228,192,811 in General Fund and \$89,311,233 for all Other Funds. The total operating and CIP expenditure allocations for FY 2025/26 across all funds is \$348,660,012: \$253,896,940 in General Fund and \$94,763,072 for all Other Funds. Of these expenditure allocations, \$45,717,080 specifically pertain to CIP expenditures.

Conclusion

It is recommended that the Mayor and City Council of the City of San Bernardino:

1. Conduct the Public Hearing on the proposed Fiscal Year 2025/26 Operating Budget and 2025/26-2029/30 Capital Improvement Plan; and
2. Adopt Resolution No. 2025-298 approving the City of San Bernardino's Fiscal Year 2025/26 Operating Budget and 2025/26-2029/30 Capital Improvement Plan; and
3. Approve the reallocation of General Fund expenses to the Gas Tax fund, as reflected in the FY 2025/26 Proposed Budget; and
4. Authorize the creation of the Operations and Maintenance Department and the Director of Operations and Maintenance position; and
5. Adopt Resolution No. 2025-299 establishing the City's Appropriations Limit as required by Article XIII B of the California State Constitution; and
6. Approve the FY 2025/26 Position Summary; and
7. Adopt Resolution No. 2025-300 approving the updated Investment Policy for FY 2025/26; and
8. Formally approve any modifications made during the Public Hearing to be incorporated into the City of San Bernardino's Fiscal Year 2025/26 Operating Budget and 2025/26-2029/30 Capital Improvement Plan and included as part of the final adopted budgets.

Attachments

1. Attachment 1 - Resolution 2025-298 (Budget Adoption)
2. Attachment 2 - Resolution 2025-299 (Appropriations Limit)
3. Attachment 3 - Appropriations Limit Calculation – 2026
4. Attachment 4 - Exhibit A (2025-26 Salary Schedule)
5. Attachment 5 - City of San Bernardino SBPD Salary Table
6. Attachment 6 - Resolution No. 2025-300 (Investment Policy)
7. Attachment 7 - Exhibit A – Investment Policy FY 2025-26
8. Attachment 8 - Exhibit A – Investment Policy FY 2025-26 (Tracked Changes)
9. Attachment 9 - City Manager Proposed FY2025-26 Operating Budget and CIP 2026-2030 Book
10. Attachment 10 - FY 2025/26 Position Summary
11. Attachment 11 - General Fund Reserve Policy
12. Attachment 12 – Public Hearing Notice Publication
13. Attachment 13 – Public Hearing Notice Publication - Spanish

Ward:

All Wards

Synopsis of Previous Council Actions:

April 29, 2025 - Mayor and City Council held the 1st budget workshop for the Proposed FY 2025/26 Budget.

May 22, 2025 – Mayor and City Council held the 2nd budget workshop for the Proposed FY 2025/26 Budget.