

CITY OF CHINO
MEMORANDUM

**ADMINISTRATION
DEPARTMENT**

DATE: May 22, 2025

TO: Honorable Mayor and Members of the City Council

FROM: Linda Reich, City Manager
Kim Sao, Director of Finance

SUBJECT: FY 2025-26 Proposed Budget & 5-Year Capital Improvement Program (CIP) Budget

We are pleased to present the FY 2025-26 Proposed Operating and Capital Improvement Project Budget. Included with the budget is a 5-Year Capital Improvement Plan. This document is the product of many staff working collaboratively to align resources that are consistent with the City Council’s priorities, while continuing to maintain fiscal responsibility. In the development of the City Council’s budget, our team incorporated our organizational values, teamwork, and collaboration on tough decisions while focusing on the improvement of the community we serve.

At tonight’s budget workshop, staff will present an overview of the FY 2025-26 Proposed Budget, including a breakdown of revenues, expenditures, and detailed presentations from each department. The City Council will have the opportunity to review and discuss the proposed budget, ask questions, and consider public input. This workshop will guide any necessary modifications to the Proposed Budget in preparation for its formal adoption, scheduled for the regular City Council meeting on June 17, 2025.

GENERAL FUND BUDGET OVERVIEW

For Fiscal Year 2025-26, the proposed General Fund budget totals \$127,724,081 comprising \$99,977,861 for operating expenditures, \$287,000 for capital projects, and \$27,746,220 in transfers to other funds.

On the revenue side, the General Fund is projected to receive \$134,083,136 in operating revenues, along with \$1,841,662 in transfers in, bringing total available resources to \$135,924,798. As a result, the budget anticipates a surplus of \$8,200,717, reflecting the City’s continued financial stability and responsible fiscal management

	Estimated	FY 2025-26 Budget			Estimated
	Fund Balance 7/1/2025	Revenues & Transfers In	Expenditures Transfers Out/CIP	Net Surplus/ (Deficit)	Fund Balance 6/30/2026
General Fund					
Unassigned Fund Balance	35,389,344	135,924,798	127,724,081	8,200,717	43,590,061
Non-Spendable Fund Balance	2,305,413	-	-	-	2,305,413
Ending Fund Balance	\$ 37,694,757	\$ 135,924,798	\$ 127,724,081	\$ 8,200,717	\$ 45,895,474

The surplus of \$8.2 million is primarily driven by new revenue from the Measure V sales tax, which took effect on July 1, 2024. This additional funding has allowed revenues to exceed expenditures, increasing the estimated ending fund balance from \$37,694,757 to \$45,895,474 by June 30, 2026.

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During the budget process, staff conducted a comprehensive review of expenditures to identify potential cost savings and mitigate the risk of overspending. This approach reinforces the City's commitment to conservative budgeting, ensuring financial resources are allocated efficiently while maintaining long-term fiscal sustainability.

Additionally, City staff carefully examined operating expenditures to sustain existing services while preventing unnecessary budget growth. The City remains focused on avoiding reliance on one-time revenues, recognizing that long-term financial stability depends on aligning expenditures with ongoing revenue sources to preserve fiscal resilience in the years ahead.

Transfers In/Out

Interfund transfers represent the movement of financial resources between funds. In FY 2025-26, of the \$27.7 million transfers out from the General Fund to other funds, \$24.1 million reflects ongoing allocations to support funds with operating revenue shortfalls, and the remaining \$3.6 million is for capital projects. For example, the Community Services Department has historically been categorized as a Special Revenue Fund, requiring annual General Fund transfers to offset funding gaps.

As part of the FY 2025-26 budget process, staff will evaluate fund structures and implement adjustments to minimize reliance on interfund transfers. Beginning in FY 2025-26, the Community Services program will transition to the General Fund, aligning it with standard budgeting practices applied to other General Fund departments. This change enhances transparency by presenting the full cost of General Fund operations more clearly, while also improving accounting efficiency by maintaining distinct and accountable financial sources and uses.

Fund Balance Summary

On June 21, 2011, the City Council adopted a fund balance policy establishing a 15% operating reserve and an Emergency Contingency Reserve of up to \$10 million. While the policy allows for a higher emergency reserve, the City has maintained it at 2.5%, resulting in total reserves of 17.5%. This aligns with the Government Finance Officers Association's (GFOA) best practice of maintaining at least two months' worth of operating expenditure (16.7%) to address economic uncertainties. In accordance with the City's current policy, these reserves are classified as Unassigned Fund Balance in the Annual Comprehensive Financial Report (ACFR).

The table below summarizes the General Fund balance for the fiscal year ending June 30, 2024, along with projected estimates for 2025 and 2026. As of June 30, 2024, the audited unassigned fund balance is \$30.1 million, which includes an operating reserve of \$14.7 million and an emergency reserve of \$2.3 million, bringing the total reserves to \$17 million.

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	6/30/2024	6/30/2025	6/30/2026
	FY2023-24	FY2024-25	FY2024-25
General Fund Balance	Audited	Estimated	Estimated
Unassigned	30,151,505	35,389,344	43,590,061
Non-Spendable	2,305,413	2,305,413	2,305,413
Ending Fund Balance	\$ 32,456,918	\$ 37,694,757	\$ 45,895,474

Staff plans to evaluate potential revisions to the fund balance policy, including the reclassification of reserves and the establishment of new target levels, should the City Council opt to pursue changes. These adjustments would aim to enhance financial flexibility while maintaining prudent fiscal safeguards.

Employee Position Updates

For Fiscal Year 2025-26, the Proposed Budget includes several position adjustments for City Council consideration, with an associated fiscal impact of \$135,566 in salaries and benefits. These changes reflect necessary staffing modifications to ensure operational efficiency while maintaining financial oversight.

Dept	Proposed Position Changes	Action Taken	Major Funding Source	Salary & Benefits Cost
Position Changes				
Police	Crime Analyst	PT to FT	General Fund	129,700
Police	Projected Part-Time Salary Savings	Remove PT	General Fund	(86,086)
				43,614
New Part-Time Positions (Due to addition of new park)				
PW	PT Grounds Maintenance Worker	Add PT	General Fund	58,826
Reclassification				
PW	Management Aide to Management Assistant	FT to FT	Enterprise Fund	20,707
	Facilities Maintenance Technician to Facilities		Building Mgmt.	
CSPR	Maintenance Lead Technician	FT to FT	Fund	12,419
				33,126
Retitle				
Admin	Management Assistant to Community Liaison	No Change	General Fund	-
Admin	Management Analyst to Economic Development Analyst	No Change	General Fund	-
Finance	Billing Manager to Revenue Manager	No Change	Enterprise Fund	-
Net Cost to City				\$ 135,566

OTHER FUNDS

Special Revenue Funds

Special Revenue Funds are designated to account for revenues that are legally restricted or committed to specific purposes. Unlike the General Fund, which supports a broad range of municipal functions, Special Revenue Funds are used exclusively for defined programs or services, ensuring that financial resources are allocated appropriately and transparently. These

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funds often rely on dedicated revenue sources such as grants, taxes, or fees that must be used for their intended purpose.

The City allocates a substantial portion of General Fund dollars to subsidize essential programs within Special Revenue Funds, including Community Services Parks & Recreation, Transportation, and Landscape Maintenance.

- **Community Services Parks & Recreation** has a wide variety of programs encompassing youth sports, senior, teens, camps, counseling services, and special programs that provide support to individuals facing mental health challenges or substance abuse issues.
- **Transportation Programs** focus on maintaining city streets and enhancing traffic flow to improve mobility and infrastructure efficiency.
- **Landscape Maintenance** ensures thoroughfares and neighborhood streets are well-maintained and aesthetically enhanced through proper landscaping efforts.

For Fiscal Year 2025-26, total Special Revenue expenditures, including transfers out and capital projects, amount to \$78,399,497, while total revenue and transfers in total \$107,081,969. Transfers In of \$24.1 come from the City's General Fund to support these services. This financial commitment reflects the City's ongoing effort to sustain critical public services while balancing funding needs across various programs.

Enterprise Funds

For Fiscal Year 2025-26, the total Enterprise Fund budget includes expenditures, capital projects, and transfers out totaling \$72,953,961, while operating revenues and transfers in total \$85,798,199, resulting in a net surplus of \$12,844,238. The City's Enterprise Funds support essential utility services, including water, sewer, storm drain, and sanitation, ensuring reliable service for residents and businesses. These services are funded through monthly utility rates charged to customers to cover both operational costs and capital improvements, while sanitation utility rates are designed to cover operational costs only.

To maintain the long-term financial sustainability of these utility services, the City will conduct a comprehensive rate study during FY 2025-26. This analysis is critical to ensure that utility rates remain sufficient to cover rising operational expenses, infrastructure maintenance, and future capital investment needs. By evaluating revenue adequacy, cost recovery, and rate structures, the study will provide a transparent and equitable framework for setting rates that support high-quality service while minimizing financial strain on ratepayers.

Additionally, the City is committed to maintaining and improving the infrastructure necessary to deliver utility services efficiently. As of FY 2024-25, \$31 million has been appropriated for water capital improvements to enhance system reliability, address aging infrastructure, and support long-term sustainability. For FY 2025-26, an additional \$201,000 has been requested to further these efforts and ensure continued investment in critical water infrastructure.

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Internal Service Funds

The City's Internal Service Funds are used to allocate costs for centralized services across various departments, ensuring that each department contributes proportionally based on the services it receives. The City's Internal Service Funds include Central Services, Liability Insurance, Employee Benefits, Building Management, and the Equipment Management Fund. These funds are replenished annually to cover operational expenses and provide financial stability for unexpected costs.

As of June 30, 2026, the Internal Service Funds are projected to have a combined total fund balance of \$21.4 million. City staff will continue to evaluate these funds to ensure they maintain an adequate balance to meet long-term financial needs while supporting essential municipal operations.

Conclusion

The FY 2025-26 Proposed Budget reflects the City's commitment to fiscal responsibility, sustainable financial planning, and continued investment in essential services. Through prudent budgeting practices, strategic resource allocation, and a focus on long-term financial stability, the City ensures the efficient delivery of services while maintaining accountability and transparency.

Staff will incorporate any revisions directed by the City Council and finalize the budget for adoption at the regular City Council meeting on June 17, 2025.