



AGENDA REPORT

Finance Department

DATE:	May 7, 2024
TO:	Mayor Martinez and Members of the City Council
FROM:	Shasa Curl, City Manager Nickie Mastay, Deputy City Manager – Internal Services LaShonda White, Deputy City Manager – Community Services Andrea Miller, Director of Finance Mubeen Qader, Deputy Director of Finance
Subject:	Acknowledge Receipt of the Draft Fiscal Year (FY) 2024-25 Operating, FY 2024-29 Five-Year Capital Improvement Plan Budgets, and Five-Year Forecast
FINANCIAL IMPACT:	There is no financial impact as a result of this agenda item. The proposed General Fund budget is balanced.
PREVIOUS COUNCIL ACTION:	None
STATEMENT OF THE ISSUE:	In accordance with Richmond Municipal Code Section 2.61.010, the City Manager is submitting the first draft of the Fiscal Year 2024-25 Annual Operating Budget and Five-Year Capital Improvement Plan for City Council review.
RECOMMENDED ACTION:	ACKNOWLEDGE receipt of the draft Fiscal Year 2024-25 Annual Operating Budget and Fiscal Year 2024-29 Five-Year Capital Improvement Plan; and REVIEW the budget adoption schedule – City Manager’s Office/Finance Department (Shasa Curl/Nickie Mastay/LaShonda White/Andrea Miller/Mubeen Qader 510-412-2077).

DISCUSSION:

At this juncture, this first budget item is not intended to be a substantive review of the draft Fiscal Year (“FY”) 2024-25 Annual Operating Budget or the Five-Year Capital Improvement Plan (CIP). Rather, it is an opportunity for City staff members to provide a preliminary high-level overview. City staff members will receive and incorporate City Council direction into various iterations of both budgets and will continue to review the draft budgets to ensure alignment with City Council goals and objectives. It is anticipated that the final budget will be presented to City Council for approval on June 18, 2024.

Budget Development Process

The City Manager and Finance Department initiated the FY 2024-25 budget development process on January 30, 2024, with a budget kick-off meeting. Finance staff members provided City departments with budget instructions and timelines for document submission related to the budget entry window (January 30, 2024, through February 16, 2024).

Following the submission of the departmental budget requests and preparation of the revenue estimate, the City Manager and Finance staff members held budget hearings with department heads and respective staff members. Budget hearings allowed City staff members to clarify budget requests, review proposed departmental organization charts, discuss performance measures, and understand the anticipated level of cost recovery, as appropriate. Finance staff members also held three (3) community budget meetings in April 2024, which included a meeting with the Richmond Neighborhood Coordinating Council. In addition, a budget meeting with the City’s labor unions was held in March 2024.

At the conclusion of the budget hearings, the Finance Department compiled a preliminary draft budget based on initial revenue estimates and the departmental operating budgets. From this preliminary draft, the City Manager’s Office and Finance staff members worked collectively with departments to prepare a draft budget to begin the review process at the City Council level.

Proposed FY 2024-25 Budget Schedule

City staff members are proposing the following schedule outlined in Table 1 for the City Council’s review and adoption of the FY 2024-25 Annual Operating Budget and FY 2024-29 Five-Year Capital Improvement Plan Budget:

Table 1: Key Budget Development Dates

Action/Activity	Date
Receive the Draft FY 2024-25 Operating Budget and FY 2024-29 Five-Year Capital Improvement Plan Budget	May 7, 2024
Budget Study Session on Proposed FY 2024-25 Operating Budget and FY 2024-29 Five-Year Capital Improvement Plan Department Presentations and Develop Budget Checklist	May 28, 2024
Review and Direction on Budget Checklist and changes to Proposed Budget	June 4, 2024
City Council to Adopt FY 2024-25 Operating Budget, FY 2024-29 Five-Year Capital Improvement Plan, and Gann Limit	June 18, 2024

Proposed General Fund Budget Overview

In keeping with newly established best practices by the City Manager and current City Council, the proposed draft General Fund budget is balanced with revenues and expenditures being equal at \$252,509,054 (Attachments 1 and 2). This represents an estimated 7.7 percent increase in revenue and a 0.9 percent increase in expenditures compared to the FY 2023-24 budget.

Table 2: Proposed General Fund Draft Budget

	FY2023-24	FY2024-25	PCT
GENERAL FUND	REVISED BUDGET	DRAFT BUDGET	CHANGE
TOTAL REVENUES	(234,380,287)	(252,509,054)	7.70%
TOTAL EXPENDITURES	246,295,113*	252,509,054	0.90%
NET (-SURPLUS)/+DEFICIT	11,914,826*	-	100.00%

*FY 2023-24 Revised Budget includes \$11.9 Million for several City Council approved Capital Projects on September 26, 2023 and March 5, 2024 (appropriations from prior year unspent fund balance).

Assumptions

The General Fund revenue and expenditures estimates are based on a detailed review of all revenue and expenditure categories and streams. Budget assumptions are a crucial component in the development of a local government budget, as they provide the framework and foundation upon which the budget is developed. Below is a high-level overview of assumptions used when developing the draft budget.

The FY 2024-25 proposed revenue budget assumptions are developed using current year’s revenues and estimated growth factors based on historical trends.

- Property Taxes: Assessed Value (AV) Growth stems from a combination of factors such as 2 percent consumer price index (CPI) growth for most properties and new valuation for properties that were sold during 2023.

- Sales & Use Tax: A 5.1 percent growth is included per Avenue Insights and Analytics; Vehicle License Fee is tied to AV growth as well as Secured Property Taxes.
- Utility User Tax (UUT): The analysis was in part provided by Avenue Insights and Analytics. Historically, growth rates applied to individual revenue streams within the UUT category, such as Cable and Telecom, continue to decrease due to industry changes. In addition, the Settlement Amount is due to expire in FY 2024-25, and the cap amount paid by Chevron is based on Energy Services CPI for the Bay Area.
- Other Taxes: Each revenue stream within Other Taxes changes year-to-year based on independent influences. Garbage fees are up by 4 percent based on historical changes, and Hotel Taxes are up 3 percent based on a rebounding sector. The Transfer Tax budgeted amount is based on the formula provided in the City's Guiding Fiscal Policy that mandates the use of the mean since implementation of the voter approved tiered structure. Gas and electricity franchise changes stem from a combination of recently updated franchise fee agreements with PG&E coupled with the growth factor used for UUT.
- Licenses, Permits, and Fees: The primary revenue stream is Business Tax and a growth factor of 2 percent is used as a CPI going forward.

FY 2024-25 proposed expenditure estimates are based on the following assumptions:

- Salary and Benefits
 - The draft budget includes approved salary increases per each bargaining units' approved Memorandum of Understanding and annual step increases for staff, where applicable.
 - The draft budget includes a 6 percent position control vacancy rate City-wide, which is approximately \$10.4 million. This assumption was in the adopted FY 2023-24 budget to achieve a balanced budget, while City staff members continue to focus on retention, recruiting, and hiring based on the policy direction of the City Council.
 - Benefits, Retirement, and Healthcare costs are based on the most recent CalPERS valuation report and current Kaiser rates, respectively, and will adjust as new information becomes available.
- Professional and Other Expenditures
 - Professional and other expenditures are budgeted at baseline with some inflationary increases.

Additional Funding Requests by Fund

Currently, General Fund Departments have unfunded additional budget requests that are not included in the proposed budget. The additional budget requests in Non-General Funds will be covered by existing fund balances and anticipated revenues. Table 3 below illustrates the additional requests by fund, with the General Fund requests totaling over \$33 million. Of note, an unfunded minimum request totaling \$6 million for

the paving program is included in the \$33 million General Fund requests. Staff will continue to refine the revenue projections and review expenditure requests as the budget development process continues in May and June 2024.

Table 3: Additional Funding Requests by Fund

Fund	Amount	Funding Source
General Fund	33,774,274	Unfunded
Planning and Building	971,681	Fund Balance
Port of Richmond	288,551	Fund Balance
Encroachment	167,629	Fund Balance
Wastewater	279,644	Fund Balance
Transportation	300,000	To Be Determined
Kids First	195,489	Fund Balance
Total Budget Requests	35,977,268	

The draft FY 2024-25 Annual Operating budget includes General Fund revenue and expenditures (Attachment 2), Non-General Fund revenue and expenditures (Attachment 3), and Multi-Year Comparative Position Listing (Attachment 4) for consideration and review. All documents are drafts and include the budget estimates available at this time based on current projections.

Financial Headwinds

Presently, the US economy remains strong with unemployment near record lows and robust job creation. Despite positive economic indicators, public sentiments are shaped by experiences and concerns, leading to a less optimistic view of the economy.

According to the Public Policy Institute of California, *“On the whole, these are indicators of a resilient economy. However, two out of three Californians expect bad economic times ahead for the state, and only one in five expect their personal finances to be better in the next six months. Similarly, nationwide, small business owners are pessimistic about conditions going forward, citing concerns about inflation and the availability of workers.*

*This pessimism makes more sense when we look closely at wages and inflation. Most Californians are falling behind: since February 2020, wages have increased 15% on average, but prices have increased 19%.”*¹

¹ (Public Policy Institute of California, Sarah Bohn, Blog Post, January 10, 2024).

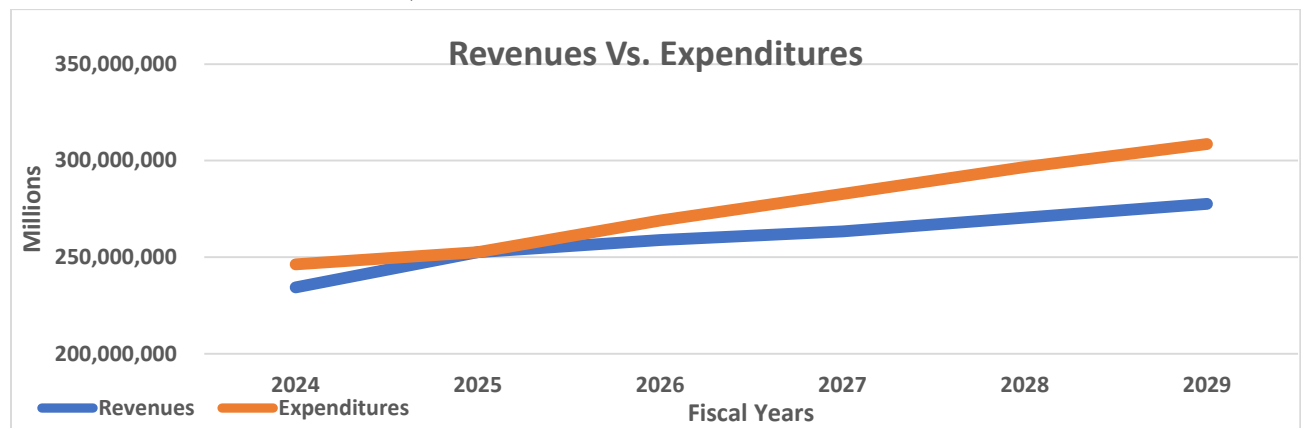
General Fund Five-Year Forecast

Finance staff members prepared General Fund Five-Year Forecast with three revenue and expenditures scenarios: A) Middle of the Road, B) Pessimistic, and C) Optimistic. Table 4 and Table 5 below show Scenario A of the forecast.

Table 4: Five-Year Forecast, Middle of the Road Scenario A

	FY2023-24	FY2024-25	FY2025-26	FY2026-27	FY2027-28	FY2028-29
Revenues	234,380,287	252,509,054	258,768,166	263,390,666	270,439,947	277,655,295
Expenditures	246,295,113	252,509,054	268,890,495	282,679,629	296,698,997	308,571,964
Surplus/(Deficit)	(11,914,826)	-	(10,122,329)	(19,288,963)	(26,259,050)	(30,916,669)

Table 5: Five-Year Forecast, Middle of the Road Scenario



NEXT STEPS

City staff members will continue to work with departments to refine budget requests. The Budget Study Session scheduled for May 28, 2024, will include department presentations and development of a budget checklist.

Staff will incorporate City Council direction into the proposed FY 2024-25 Operating Budget and FY 2024-29 Five-Year Capital Improvement Plan Budget for the May 28, 2024, June 4, 2024, and June 18, 2024, City Council meetings.

DOCUMENTS ATTACHED:

- Attachment 1 – Draft General Fund Revenue and Expenditure Summary
- Attachment 2 – Draft General Fund Revenue and Expenditures by Department
- Attachment 3 – Draft Non-General Fund Revenue and Expenditures by Fund
- Attachment 4 – Draft Multi-Year Comparative Position Listing
- Attachment 5 – Draft Five-Year Capital Improvement Plan