

AGENDA REPORT



Finance Department

DATE:	May 28, 2024
TO:	Mayor Martinez and Members of the City Council
FROM:	Shasa Curl, City Manager Nickie Mastay, Deputy City Manager, Internal Services Andrea Miller, Director of Finance Mubeen Qader, Deputy Director of Finance Antonio Banuelos, Accounting Manager Jerry Gurule, Accounting Manager
Subject:	Budget Study Session on Proposed Fiscal Year 2024-25 Operating Budget and Fiscal Year 2024-29 Five-Year Capital Improvement Plan
FINANCIAL IMPACT:	There is no financial impact to receiving this report.
PREVIOUS COUNCIL ACTION:	May 7, 2024
STATEMENT OF THE ISSUE:	On May 7, 2024, the City Council received a draft of the balanced FY 2024-25 operating budget and FY 2024-29 Capital Improvement Plan budget. Currently, the draft General Fund budget is balanced with revenue and expenditures at \$252,509,054. The purpose of this item is to provide the City Council with an in-depth overview of the budget documents, discuss potential future revenue and expenditure adjustments, and receive direction from the City Council prior to final budget adoption.
RECOMMENDED ACTION:	RECEIVE the draft Fiscal Year 2024-25 Annual Operating Budget and Fiscal Year 2024-29 Five-Year Capital Improvement Plan Budget presentation; and PROVIDE DIRECTION to staff prior to final budget adoption – City Manager’s Office/Finance Department (Shasa Curl 510-620-6512/ Nickie Mastay 510-620-6609/ Andrea Miller 510-620-6790/ Mubeen Qader 510-412-2077).

DISCUSSION:

FY 2024-25 DRAFT BUDGET

In accordance with Richmond Municipal Code Section 2.61.010, on May 7, 2024, the City Manager submitted the first draft of the Fiscal Year (FY) 2024-25 Operating budget, and the draft FY 2024-29 Five-Year Capital Improvement Plan budget. The General Fund operating budget was balanced with the revenues and expenditures at \$252,509,054. However, this draft budget didn't include all departmental requests.

City staff will provide a FY 2024-25 budget presentation and with an opportunity for City Council to give direction on additional modifications to the draft budget prior to final approval before June 30, 2024. It is proposed that the City Council adopt the budget on June 18, 2024, to allow City staff to incorporate the approved budget into the City's Financial system by July 1, 2024, the first day of the next Fiscal Year.

Table 1: General Fund Budget

GENERAL FUND	FY2023-24 REVISED BUDGET	FY2024-25 DRAFT BUDGET May 7, 2024	FY2024-25 PROPOSED BUDGET May 28, 2024	CHANGE FY2023-24 vs. FY2024-25 May 28, 2024
TOTAL REVENUES	(234,380,287)	(252,509,054)	(252,509,054)	7.70%
TOTAL EXPENDITURES	246,295,113*	252,509,054	252,509,054	2.52%
NET (-SURPLUS)/+DEFICIT	11,914,826*	-	-	-

*Includes \$11.9 Million One-Time Transfer Out for Several Capital Projects. Fiscal Year 2023-24 Revised Budget includes onetime appropriations from prior fiscal year unspent fund balance approved on September 26, 2023, and March 5, 2024.

SUMMARY

The proposed FY 2024-25 Operating and Capital expenditure budgets total \$571,973,764 of which \$252,509,054 is from the General Fund and \$319,464,710 is from non-General Funds.

- General Fund: The draft FY 2024-25 is balanced with revenue and expenditures estimated at \$252,509,054. These estimates are an increase from the FY 2023-24 Revised Budget revenue and expenditure by 7.7 percent and 2.52 percent respectively.
- Revenue: The proposed FY 2024-25 revenue is estimated at \$252,509,054 which is an additional \$18.1 million in General Fund revenue in comparison to the current FY 2023-24 revised General Fund budget. Utility Users Tax and Licenses Permits & Fees are estimated with the highest increases. The General Fund Revenue Summary is available in Attachment 4 – Summary of Revenues, by Fund, by Type:

- Property Taxes (\$55.9 million)
 - Sales & Use Tax (\$61.4 million)
 - Utility Users Tax (\$62.1 million)
 - Other Taxes (\$27.8 million)
 - Licenses Permits & Fees (\$16.3 million)
 - Operating Transfer-Ins (\$22.4 million)
 - Other Revenues (\$6.6 million)
- Expenditures: Estimated expenditures for FY 2024-25 are \$252,509,054. Major expenditure categories are listed below, and additional information can be found in Attachment 5 – Summary of Expenditures, by Fund, by Type:
 - Salary/Wages and Fringe Benefits (\$165.9 million)
 - Cost Pool (\$24.7 million)
 - Professional Admin (\$21.3 million)
 - Transfers Out (\$22.0 million)
 - Other (\$18.6 million)
 - Multi-Year Position Listing: Is in draft form and will be further refined for the June 4th City Council meeting. Please note that the balanced budget contains a vacancy saving factor of six percent (6 percent) which is approximately \$10.5 million. The City-wide Multi-Year Comparative Position Listing is available in Attachment 10.
 - Non-General Fund: The total non-General Fund budget is estimated at \$319,464,710 and primarily includes funds dedicated to housing, debt service, enterprise funds, and other city operations. The Non-General Fund by Category summary is included in Attachment 5 – Summary of Expenditures, by Fund, by Type
 - Capital Improvement Plan (CIP): The CIP includes essential capital projects and has a total budget of \$123,784,233 spread across several funds (Attachment 11 – Capital Improvement Projects FY 2024-25 Summaries Proposed). The CIP lists many projects spread over a five-year planning period some of which are unfunded. The first year of the five-year capital improvement plan is the proposed budget; funded projects are budgeted on an annual basis. Several community members expressed the need for traffic calming opportunities in various neighborhoods of the city during the Community Budget meetings and the City Council meeting on May 7, 2024. City staff members are working with the Finance department to identify resources to support additional traffic calming projects and paving maintenance.
 - Reimagine Public Safety: City staff members continue to request funding to support the implementation of the four intervention areas recommended by the Reimagining Public Safety Task Force and approved by City Council. The total proposed budget totals \$8,794,605. The programs and the corresponding budget allocations include:
 - Youthworks (\$1,980,000)

- Office of Neighborhood Safety (\$2,108,854)
- Unhoused Intervention (\$1,800,000)
- Community Crises Response Program (\$2,905,751)

GENERAL FUND

Proposed FY 2024-25 budget is balanced with revenue and expenditures equal at \$252,509,054.

Table 2: General Fund FY 2024-25 Proposed Revenue & Expenditures

GENERAL FUND	FY2024-25 PROPOSED BUDGET
TOTAL REVENUE	252,509,054
TOTAL EXPENDITURES	252,509,054
Net (-Gap)/+Surplus	-

Revenues

The total proposed General Fund revenue for the FY 2024-25 budget is approximately \$252,509,054. City staff are projecting an additional \$18.1 million in General Fund revenue above the current FY 2023-24 Revised General Fund Budget. Detailed information regarding revenue changes can be found in Attachment 4 – Summary of Revenues, by Fund, by Type.

Property Tax – Increase of \$3,685,590: In preparing the FY 2024-25 budget, City staff forecasted Assessed Valuation (AV) growth of 3.8 percent. This was based on the combination of the valuation change of properties sold during the last calendar year, the Chevron Refinery AV remaining flat, and all other properties increasing by two percent. Actual changes in AV will not be known until the Equalized Roll is published by the Contra Costa County Assessor during the first week of July 2024. This roll will list every property in Richmond, including the updated valuations. The AV change impacts the Secure Property Taxes stream within the larger Property Tax category. Additionally, the budgeted amount for the Successor Agency Surplus is estimated to increase by approximately \$1.7 million or 25 percent. The proposed amount is based on the amount received in June 2023, for this revenue stream, plus a growth factor of 3 percent. The City will not receive the FY 2023-24 amount until June 2024.

Sales Tax – Increase of \$3,468,909: This increase is based on updated estimates provided by the City’s sales tax consultants, Avenu Insights & Analytics. This increase is in part due to the local economy, bolstered by the big-box stores including Costco, Target, Home Depot, and Wal-Mart. In particular, the Bradley Burns one percent sales tax is projected to increase by 9.7 percent, while the two voter-approved half cent measures are expected to increase by an average of 3.8 percent in the coming year compared to the current FY 2023-24 revised budgeted amounts. Within the Sales Tax category, there is also the Vehicle License Fee Backfill Swap which is tied to Assessed

Valuation. Like Secured Property Taxes, the projected growth is 3.1 percent. The projected overall growth for the Sales Tax category is 6.0 percent.

Utility Users Tax (UUT) – Increase of \$4,154,348: UUT is an “excise” or usage tax imposed on a person or entity using utility services (i.e., electricity, gas, or communications). An increase of \$4.2 million is budgeted stemming from a forecasted increase in the UUT Cap Provision. The cap amount, paid by Chevron, is tied the Consumer Price Index (CPI) for energy services in the San Francisco metropolitan area. This CPI through the May 2024 postings by the United States Bureau of Labor Statistics corresponds to an increase of over 11 percent. The actual amount will not be known until mid-June 2024. Other UUT streams, such as those for cable and telecommunications, will either remain flat or decrease. The projected growth for the UUT category is 7.2 percent.

Other Taxes – Increase of \$3,655,505: This revenue category includes the Documentary Transfer Tax, which corresponds to the average Transfer Tax collected since the tiered structure approved by voters in 2018 went into effect, in accordance with the Guiding Fiscal Policies. Using that formula yields an estimated \$13.0 million, which is \$254,474 less than the amount in the revised FY 2023-24 budget. The bulk of the increase stems from the Electricity and Gas Franchise Fees, updated last year and will nearly double in FY 2024-25 compared to the FY 2023-24 revised budget. The projected growth for the Other Taxes category is 15.1 percent.

Licenses, Permits & Fees – Net Increase of \$473,635: The increase is tied to Measure U Business Tax. In FY 2024-25 total Business Tax is estimated at \$13.8 million, a \$769,660 increase from the revised FY 2023-24 budgeted amount. This corresponds to an increase of 5.9 percent and stems from amounts collected year to date plus a conservative growth factor of 2 percent for some classes while more significant increases for those classes where higher amounts were received than expected. As additional years of data accumulate, the forecast will be further refined. All other revenue streams that roll up to this category, i.e., Photocopy Fee and Two Truck Permits, are estimated to have a net decrease of \$269,761 compared to the current year's revised budget. Much of the decrease, \$230,000, is from Recreation fees. The projected growth for the Licenses, Permits, & Fees category is 3.0 percent.

Other Revenues (Includes Fines & Forfeitures, Use of Money and Property, Charges for Services, Other Revenues, Rental Income, Intergovernmental State Taxes & Grants, Proceeds from Sale of Property, and Loan & Bond Proceeds) – Net increase of \$769,660. Most of these adjustments are generated from revenues received year-to-date that were neither originally budgeted, nor expected in the current fiscal year. In some cases, these are one-time revenue that cannot be anticipated, or the amount received year-to-year varies significantly.

- Increase to Fines & Forfeitures of \$25,000 or 16.5 percent: Revised amounts are on par with current year trends.

- No change to Use of Money & Property: This revenue stream is estimated to remain flat.
- Increase to Charges for Services of \$718,711 or 28.3 percent. This is an increase to the budgeted amount but is flat compared to estimated amounts collected. The main items are revenues that total \$900,000 for Public Works related to Street Paving Management.
- Decrease to Other Revenue of \$95,650 or 40.1 percent. Other revenue is unpredictable. Budgeted amounts are the department's best estimates of what might be received.
- Increase in Rental Income of \$450 or 0.1 percent. Although various leases and rental agreements are changing, the net result is basically flat for the General Fund properties. Most of the rental income is related to facility rental for the Recreation Department in Community Development.
- No change to Intergovernmental Taxes. This revenue stream is expected to remain flat next fiscal year.
- Decrease of \$53,911 or 29.3 percent in Intergovernmental State Grants. This revenue is tied to the State of California's State Mandated Claims, Reimbursements. The amount may increase if the State budget includes additional reimbursements for cities.
- Decrease of \$30,000 in Intergovernmental Other Grants. Staff is budgeting only the known grants, which thus far is the Supplemental Law Enforcement Revenue from Contra Costa County.
- Increase of \$15,000 or 100 percent in Proceeds from Sale of Property. The price of surplus property sales is unknown currently.
- No change to Loan/Bond Proceeds. This revenue stream is expected to remain flat next fiscal year.

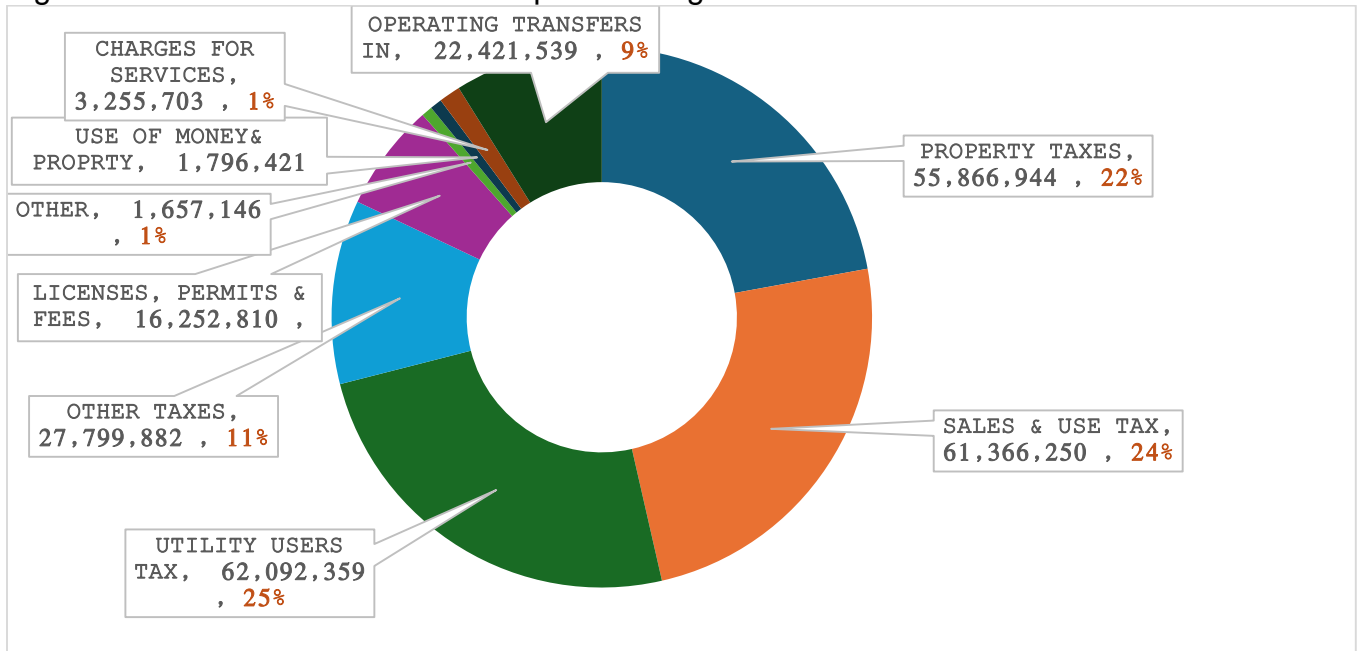
Operating Transfers In – Increase of \$2,111,181 or 10.4 percent in Operating Transfers-In from the Tax Override Pension Fund. The revenue that flows into the Tax Override Pension Fund is expected to increase at the same rate as Secured Property Taxes. While the expenses in the fund will be paid in accordance with the 2022 Pension Obligation Bond Payment Schedule, payment directly out of this fund will be less than in previous years, while the revenue generated will increase, which will result in higher transfers to the General Fund. This underscores the leadership of the City Council in sunsetting the SWAPS and the diligence of the City Manager and Finance staff working swiftly before significant increases in interest rates occurred.

Proposed General Fund revenue budget is listed below and in Attachment 4 – Summary of Revenues, by Fund, by Type.

Table 3: General Fund Revenue Budget

GENERAL FUND	FY2023-24 REVISED BUDGET	FY2024-25 PROPOSED BUDGET	FY2023-24 vs FY2024-25	% Change
PROPERTY TAXES	(52,181,354)	(55,866,944)	(3,685,590)	7.1%
SALES & USE TAX	(57,897,341)	(61,366,250)	(3,468,909)	6.0%
UTILITY USERS TAX	(57,938,011)	(62,092,359)	(4,154,347)	7.2%
OTHER TAXES	(24,144,377)	(27,799,882)	(3,655,504)	15.1%
LICENSES, PERMITS & FEES	(15,779,175)	(16,252,810)	(473,635)	3.0%
FINES & FORFEITURES	(151,438)	(176,438)	(25,000)	16.5%
USE OF MONEY&PROPRTY	(1,796,421)	(1,796,421)	-	0.0%
CHARGES FOR SERVICES	(2,536,992)	(3,255,703)	(718,711)	28.3%
OTHER REVENUE	(238,480)	(142,830)	95,650	-40.1%
RENTAL INCOME	(777,028)	(777,478)	(450)	0.1%
INTERGOV STATE TAXES	(125,000)	(125,000)	-	0.0%
INTERGOV STATE GRANT	(183,911)	(130,000)	53,911	-29.3%
INTERGOV OTHER GRANT	(280,000)	(250,000)	30,000	-10.7%
PROC FR SLE PROP	-	(15,000)	(15,000)	100.0%
LOAN/BOND PROCEEDS	(40,400)	(40,400)	-	0.0%
OPER XFRS IN	(20,310,358)	(22,421,539)	(2,111,181)	10.4%
TOTAL REVENUES	(234,380,287)	(252,509,054)	(18,128,767)	7.7%

Figure 1: General Fund Revenue Proposed Budget FY2024-25



Expenditures

FY 2024-25 total proposed expenditures are \$252,509,054. Overall, total expenditures have increased by 2.5 percent from the FY 2023-24 revised budget. Table 4 outlines proposed Operating Transfers Out in the budget, and below are some of the assumptions used to develop the draft budget:

Salaries and Wages – An increase of \$9,389,097 – The budget is based on the approved MOUs with bargaining units of Executives, Mid-Management, General Employees, Fire and Police Officers, and Police and Fire Management bargaining units.

The proposed budget includes salaries and wages of 770 Full-Time Equivalent (FTE) positions. Additional position requests will be incorporated before the budget adoption.

Vacancy Saving -- The proposed budget assumes approximately \$10.5 million in vacancy savings, which is an approximate six percent vacancy rate. The vacancy saving rate is consistent with the current year FY 2023-24 budget.

Payroll/Fringe Benefits -An increase of \$5,127,965 – The budget includes the current benefits rates for health care costs, Worker Compensation, and actuarially determined contribution for Other Post Employment Benefits. Retirement costs are based on the rates for the normal cost and Unfunded Actuarial Liability (UAL) annual payment that is provided by CalPERS.

Professional & Administrative —A decrease of \$386,916. The budget includes baseline recurring line items for all departments plus approximately five percent of the inflation factor where needed, with one-time appropriations removed.

Other Operating, Utilities, Equipment, and Contract Services – A decreased by \$1,927,254. This provides a baseline budget with appropriate inflationary increases where needed.

Cost Pool – An increase of \$3,106,864 – The vehicle replacement budget is based on the prioritized list from the Fleet Services Division, and the General Liability budget is based on the new allocation methodology from Matrix Consulting. Civic Center rent is allocated based on the debt payment and the square footage. Below are the amounts in each of the Cost Pool Categories:

- Vehicle Replacement -- \$6,722,245
- General Liability – \$13,096,940
- Civic Center Rent -- \$4,881,412

Asset Capital Outlay – A decrease of \$315,129. The budget includes information technology equipment replacement project costs and several other small projects.

Debt Service - An increase of \$9,552. Debt service payments are based on the following repayments: Recovery Zone Economic Development Series 2010, California Energy Commission Loan, and Bank of America Merrill Lynch - Street Light Lease.

A87 Cost Plan Reimbursement, no change – The budget is unchanged from FY 2023-24, pending a new cost plan by NBS Consulting.

Grant Expenditures – A decrease of \$49,710. Budget for the Love Your Block Mini Grants program. Only remaining balances of a grant are budgeted in the beginning of a fiscal year, additional budget is appropriated as new grants are received.

Operating Transfers Out – A decrease of \$8,740,529. The draft budget includes recurring subsidies for the Hilltop and Marina districts that are increased by three percent. Department of Children and Youth at three percent of the General Fund revenue, Richmond Housing Authority, and Employment and Training subsidies are placeholders pending final budgets in the respective departments. The budget also includes Reimagining Public Safety contributions to Unhoused Intervention and Youthworks programs. The budget also includes a 100 percent subsidy for the Rent Program in lieu of their Cost Pool and Worker’s Compensation charges by the City. The Transfers Out budget includes \$4,732,224 for Paving. Transfers out are listed below in Table 4 and in Attachment 7 – FY 2024-25 Transfer In-Out Schedule.

Table 4: General Fund Operating Transfers Out Proposed Budget FY2024-25

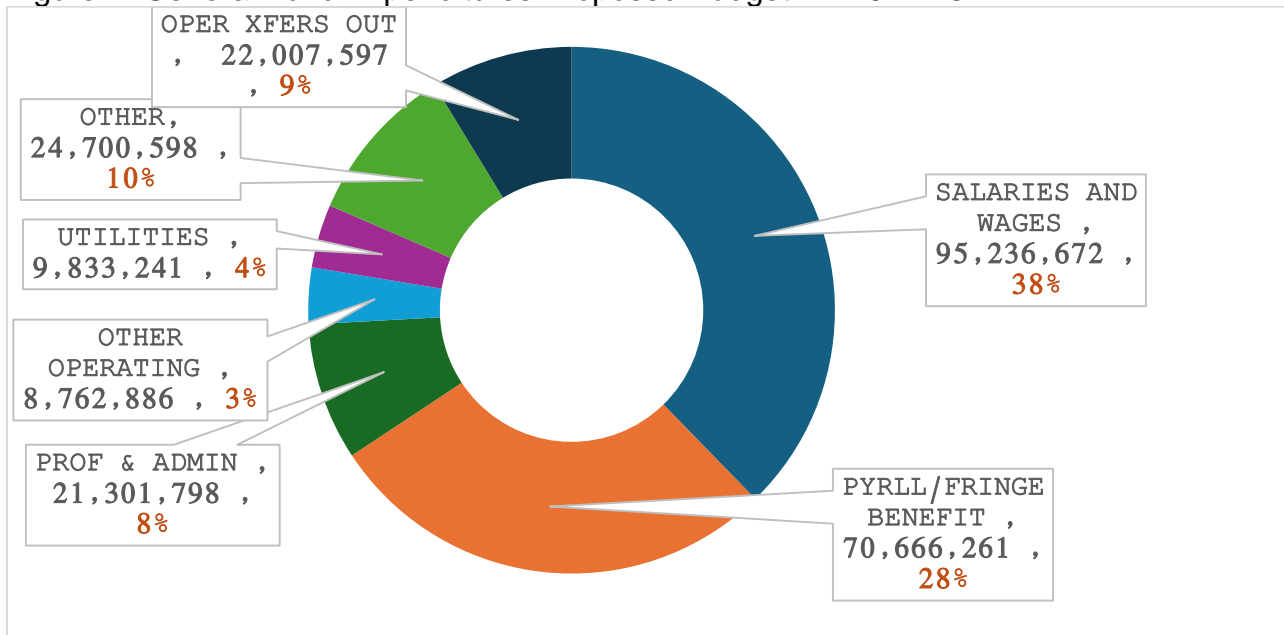
Operating Transfers Out	Proposed Budget FY2024-25
Debt Service	4,072,339
Hilltop Lighting and Landscaping District	243,068
Marina Bay Lighting and Landscaping District	490,599
Employment and Training	776,777
Information Technology Equipment Replacement	100,000
Department of Children and Youth	7,575,272
Richmond Housing Authority	351,927
Reimagining Public Safety -Unhoused Intervention	1,320,000
Reimagining Public Safety -Youthworks	1,980,000
Rent Program Subsidy	290,391
Climate Resiliency Contingency	75,000

Paving	4,732,224
Total	22,007,597

Table 5: General Fund Expenditures Budget

GENERAL FUND	FY2023-24 REVISED BUDGET	FY2024-25 PROPOSED BUDGET	PCT CHANGE
SALARIES AND WAGES	85,847,575	95,236,672	10.9%
PYROLLFRINGE BENEFIT	65,538,296	70,666,261	7.8%
PROF & ADMIN	21,688,714	21,301,798	-1.8%
OTHER OPERATING	8,963,844	8,762,886	-2.2%
UTILITIES	5,690,630	5,594,204	-1.7%
EQPT & CONTRACT SVCS	5,946,835	4,315,665	-27.4%
PROVISN FOR INS LOSS	34,200	35,500	3.8%
COST POOL	21,593,734	24,700,598	14.4%
ASSET/CAPITAL OUTLAY	2,817,457	2,502,328	-11.2%
DEBT SVC EXPENDITURE	841,353	850,905	1.1%
A87 COST PLAN REIMBS	(3,514,373)	(3,514,373)	0.0%
GRANT EXPENDITURES	98,723	49,013	-50.4%
*OPER XFERS OUT	30,748,126	22,007,597	-28.4%
TOTAL EXPENDITURES	246,295,113	252,509,054	2.5%

Figure 2: General Fund Expenditures Proposed Budget FY 2024-25



General Fund Additional Appropriations

The proposed draft budget only includes proposed additional appropriations in the amount of \$4,732,224 for Paving. On May 7, 2024, the FY 2024-25 Draft Budget presentation referenced \$33.7 million in new funding requests. During the annual budget development process, departments submit additional requests that are often beyond the recurring programs and services. These additional requests are not included in the proposed budget; hence, the Proposed FY 2024-25 Operating budget is balanced.

Reimagining Public Safety

In June 2021, the City Council approved the recommendations of the Reimagining Public Safety Community Task Force, which included an original allocation of \$6.38 million for the four (4) interventions YouthWORKS, Office of Neighborhood Safety, Community Crises Response Program (CCRP), and Unhoused Intervention. For FY 2024-25. The proposed budget for all these four interventions has grown to \$8,794,605. This increase is due to the planned launch of CCRP in August 2024. The program had a recurring allocation of \$1 million from FY 2021-22. In FY 2023-24, the City Council approved an expansion to the program by adding 10 positions on March 5, 2024, as part of the Mid-year Budget. FY 2024-25 proposed budget includes total program costs of \$2,905,751, which includes personnel costs of \$1,905,751 and other operating costs of \$1,000,000. This program will be launched as quickly as feasible by the program lead that started last week.

The proposed budget for each intervention area is shown below:

- YouthWORKS: \$1,980,000
- Office of Neighborhood Safety: \$2,108,854
- Unhoused Interventions: \$1,800,000
- Community Crisis Response Program: \$2,905,751

Fleet Analysis

FY 2024-25 proposed budget includes \$7,285,000 for vehicles and large equipment. The budget includes a \$487,755 carry forward from FY 2023-24. \$6,797,245 is currently proposed for FY 2024-25. Staff will continue to review this request and may make recommendations to reallocate these funds where appropriate to fund CIP shortfalls.

Paving Index

Based on a 2023 study by NCE Engineering & Environmental Services, the City's average Pavement Condition Index (PCI) was fair (61), and the City needed \$15 million annually to maintain the PCI at 61. With an average annual investment of about \$6 million, the City's PCI is expected to drop nine points by 2029. As such, the proposed budget includes an additional General Fund Allocation of about \$4,732,224 to the paving program, which brings the total appropriation for the paving program to \$8,332,691. City staff will continue to work collaboratively with the City Council to refine the budget and allocate funding to improve the PCI as funds become available.

NEXT STEPS

City staff will continue to explore funding options as there are several high-priority built environment needs citywide that remain unfunded; some of those include:

- Main Library Project - \$4 million
- Point Molate Operating Costs - \$1.2 million
- Point Molate Bay Trail Erosion Control Project - \$1.5 million
- Project Homekey - \$4.9 million

The next steps in the budget process include City staff reviewing and adjusting the draft budget for accuracy and incorporating additional adjustments based on direction received from the Mayor and City Council. City staff will provide a balanced FY 2024-25 budget for adoption on June 18, 2024.

DOCUMENTS ATTACHED:

- Attachment 1 – Draft Citywide Organizational Chart
- Attachment 2 – Draft Budgeted Funds – Sources and Uses
- Attachment 3 – Draft Budget Summaries
- Attachment 4 – Draft Summary of Revenues, by Fund, by Type
- Attachment 5 – Draft Summary of Expenditures, by Fund, by Type
- Attachment 6 – Draft Summary of Expenditures, by Fund, by Department
- Attachment 7 – Draft FY 2024-25 Transfer In-Out Schedule
- Attachment 8 – Draft General Fund Financial Forecast
- Attachment 9 – Draft Citywide Grants Listing
- Attachment 10 – Draft Multi-Year Comparative Position Listing
- Attachment 11 – Draft Capital Improvement Projects FY 2024-25 Summaries Proposed
- Attachment 12 – Draft Department Presentations FY 2024-25 Budget
- Attachment 13 – Draft FY 2024-25 Budget Presentation