



AGENDA REPORT

Finance Department

DATE:	May 6, 2025
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 Patrick Seals, Administrative Chief Jerry Gurule, Accounting Manager Antonio Banuelos, Accounting Manager
Subject:	Acknowledge Receipt of the Draft Fiscal Year (FY) 2025-26 Operating, and FY 2025-30 Five-Year Capital Improvement Plan Budgets
FINANCIAL IMPACT:	There is no financial impact for receiving this agenda item.
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 2025-26 Annual Operating Budget and Capital Improvement Plan for City Council review.
RECOMMENDED ACTION:	ACKNOWLEDGE receipt of the draft Fiscal Year 2025-26 Annual Operating Budget and Fiscal Year 2025-30 Five-Year Capital Improvement Plan – City Manager's Office/Finance Department (Shasa Curl/Andrea Miller/Mubeen Qader 510-412-2077).

DISCUSSION:

This budget item is not intended to be a detailed review of the draft Fiscal Year (“FY”) 2025-26 Annual Operating Budget or the Five-Year Capital Improvement Plan; rather, it is an opportunity for City staff to provide a preliminary overview of the budgets prior to final adoption. 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 the adopted City Council Strategic Goals and Objectives. The final budget is anticipated to be provided to the City Council for approval on June 24, 2025. The proposed draft budget does not include any additional programs. Any new programs and associated costs will require additional resource allocation.

Budget Development Process

The City Manager and Finance Department initiated the FY 2025-26 budget development process on January 23, 2025, with a budget kick-off meeting. Finance staff provided City departments with budget instructions and timelines for document submission related to the budget entry window (January 23, 2025, through February 16, 2025).

Following the submission of the departmental budget requests and the preparation of the revenue estimate, the City Manager and the Finance staff held budget hearings with department heads and their respective staff. Budget hearings allowed City staff to clarify budget requests, discuss performance measures, and understand the anticipated level of cost recovery, as appropriate. The Finance Department also held three (3) community budget meetings in April 2025, which included a meeting with the Richmond Neighborhood Coordinating Council. In addition, a budget meeting with the labor unions was held in March 2025, and another meeting will occur in June 2025.

After the budget hearings, the Finance Department compiled a preliminary draft budget based on initial revenue estimates and the departmental operating budgets as submitted. From this preliminary draft, the City Manager’s Office and Finance staff worked collectively with departments to prepare a draft budget to begin the review process at the City Council level. In addition, as described below in Article IV of the City Charter, the City Manager worked with the Mayor to prepare this draft budget.

“(b) Policy, Program and Budget. The Mayor may make recommendations to the City Council on matters of policy and program which require Council decision and may propose ordinances and resolutions for Council consideration. The Mayor shall work with the City Manager in preparing an annual budget for submission to the City Council. The Mayor shall make an annual report to the City Council as to the conditions and affairs of the City.” (City Charter -- ARTICLE IV – Duties of Officers).

Proposed FY 2025-26 Budget Schedule

City staff propose the following schedule outlined in Table 1 for the City Council's review and adoption of the FY 2025-26 Annual Operating Budget and FY 2025-30 Five-Year Capital Improvement Plan Budget.

Table 1: Key Budget Development Dates

Action/Activity	Date
Receive the Draft FY 2025-26 Operating Budget and FY 2025-30 Five-Year Capital Improvement Plan Budget. Receive FY 2024-25 Quarter 3 Budget Update.	May 6, 2025
Recreation and Comprehensive Fee Study	May 20, 2025
Budget Study Session on Proposed FY 2025-26 Operating Budget and FY 2025-30 Five-Year Capital Improvement Plan. Department Presentations and Develop Budget Checklist.	June 3, 2025
Budget Checklist Follow-up	June 17, 2025
City Council to Adopt FY 2025-26 Operating Budget, FY 2025-30 Five-Year Capital Improvement Plan, and GANN Limit.	June 24, 2025

Financial Headwinds

The Fiscal Year 2025-26 budget is being developed amid significant economic volatility and uncertainty, primarily influenced by the Federal Administration's policies, including tariffs and the Executive Order targeting Sanctuary Jurisdictions. In the first quarter of 2025, the U.S. economy experienced a contraction in Gross Domestic Product, marking the first decline in three years. The markets are experiencing unprecedented disruptions, and economists are finding it challenging to accurately measure the impacts of these developments.

"The potential risks here are unprecedented and world-changing," stated [Scott] Chan, the chief investment officer at the California State Teachers' Retirement System (CALSTRS)."¹

According to CalMatters, Scott Chan, CALSTRS' investment chief, has warned of unparalleled risks and a possible 20 percent market decline resulting from uncertainties associated with the Trump administration's policies. Subsequently, tariffs imposed by the Trump administration triggered global financial disruption, leading to notable market declines and significant losses for California's pension funds, including CalPERS and CALSTRS. CalPERS experienced a \$15 billion loss over two days, while CALSTRS likely encountered similar financial setbacks. Although pension checks remain secure, new government employers may need to increase contributions to mitigate these losses. Experts have compared the situation to previous market crashes, and uncertainty persists regarding future market reactions. Should this volatility continue, California's underfunded pension systems could face greater financial challenges, potentially necessitating difficult budgetary decisions at both state and local levels.

¹ <https://calmatters.org/economy/2025/04/tariff-stock-market-calpers-calstrs/>

Meanwhile, President Trump characterizes the tariffs as short-term pain for long-term economic benefits, leaving investors uncertain whether stability will return, or further disruptions await.

Proposed General Fund Budget Overview

The proposed General Fund budget has revenue at \$306,211,175, which includes limited term funds, and expenditures at \$257,711,175 (Attachments 1 and 2). This represents an estimated 22.3 percent increase in revenue from the FY 2024-25 revised budget and a 3.4 percent decrease in expenditures from the FY 2024-25 revised budget. Table 2 below shows the revenue and expenditures draft budget.

Table 2: Proposed General Fund Draft Budget

GENERAL FUND	FY 2024-25 REVISED BUDGET	FY 2025-26 DRAFT BUDGET	PCT CHANGE
TOTAL REVENUES	(250,327,835)	(306,211,175)	22.3%
TOTAL EXPENDITURES	266,672,389*	257,711,175	-3.4%
NET (-SURPLUS)/+DEFICIT	16,344,554*	48,500,000	-

*Include \$16.3 Million One-Time Transfer Out for Several Capital Projects and Legal Costs. Fiscal Year 2024-25 Revised Budget includes one-time appropriations from prior fiscal year unspent fund balance approved on October 1, 2024, and March 25, 2025.

Assumptions

The General Fund revenue and expenditure estimates are determined through a comprehensive review of all revenue and expenditure categories and streams. Budget assumptions are essential in creating a local government budget as they establish its framework and foundation.

The FY 2025-26 proposed budget includes revenue estimates based on current fiscal year revenues and projected growth factors from historical trends and known variables; however, the challenge at this time is the volume of uncertainties. Below is a summary of some key assumptions used in developing the draft budget.

- Property Taxes: The Assessed Valuation (AV) is projected to grow by 4.0 percent, based on the following factors:
 - Most properties will increase in value according to the State-posted Consumer Price Index (CPI) with a maximum of 2 percent.
 - For properties sold in 2024, the new valuation will be calculated as the difference between the new and previous valuations.
 - The valuation of the Chevron Refinery remains constant, assuming a 4.0 percent AV growth for the Secured Property Tax component.

City staff proposes a 12 percent decrease for the Successor Agency Surplus account due to actual receipts in FY 2023-24 and year-to-date data. Consequently, this results in a growth factor of 1.37 percent for the Property Tax revenue category.

- Sales & Use Tax: Decrease of 5.1 percent per Avenu, the City's consultant, compared to the FY 2024-25 budget. In addition, the Vehicle License Fee is tied to AV growth, similar to Secured Property Taxes.
- Utility User Tax (UUT): An increase of 4.6 percent is estimated based on the analysis provided by Avenu. Historically, growth rates for individual revenue streams within the UUT category, such as Cable and Telecommunications, have decreased due to industry changes. In contrast, others such as Gas and Electricity have increased due to rate increases.
- Other Taxes: Revenue streams in this category vary yearly due to different influences, but most are expected to remain stable. The Documentary Transfer Tax is budgeted using the Guiding Fiscal Policy formula, based on the average since the tiered structure was approved by voters.
- Licenses, Permits, and Fees: The primary source of revenue is Business Taxes. Based on actual amounts received in the last full fiscal year, FY 2023-24, an 8.5 percent growth factor is applied. Additionally, a 3.0 percent growth factor is utilized. The net change for this category is 5.6 percent.

The proposed expenditure estimates for FY 2025-26 are based on the following assumptions:

- Salary and Benefits:
 - Currently, the draft budget includes position control of 800 Full Time Equivalent (FTE), and an approximate 11 percent vacancy rate city-wide, (approximately \$17.6 million), which certainly will be adjusted if significant economic uncertainty declines.
 - Due to ongoing labor negotiations, the proposed budget does not include any cost-of-living increases for any of the bargaining units.
 - Benefits and retirements are based on the most recent CalPERS valuation report, which may increase.
 - Healthcare rates are expected to increase by approximately 11 percent from FY 2024-25, according to CalPERS.

- Professional and Other Expenditures:
 - Professional and other expenditures are budgeted at baseline, with some costs adjusted for inflation.
- Operating Transfers Out (Total of \$17,481,779):
 - Debt Service: 2022 Pension Obligation Bond (\$2,677,193), 2019 Civic Center Bond (\$1,494,653), and Capital Lease for Fire Trucks (\$326,019)
 - Annual Contributions: Hilltop & Maintenance District (\$250,360), Marina Bay Landscape and Lighting District (\$505,317), IT Computer Refresh (\$100,000), Grant Writing (\$75,000), Climate Resiliency Contingency (\$75,000), Reimagining Public Safety – Youthworks (\$1,980,000), and Kids First Initiative (\$8,546,616)
 - Operational Subsidies: Employment and Training (\$701,777), Richmond Housing Authority (\$1,086,418), Rent Program (\$210,000), additional subsidy needed for Hilltop & Maintenance District (\$215,922), KCRT Fund (\$315,555), and Transportation Fund (\$211,338)
 - Capital Projects: Booker T. Anderson Phase III (\$500,000)
 - Environmental Emergency Contingency (\$61,391)

Figure 1 below illustrates the distribution of ~\$17.5 million in Operating Transfers Out by category, amount, and percentage. As shown, transfers to support the Kids First Initiative, Debt Service, and YouthWORKS represent over 75 percent of the transfers.

Figure 1: Draft Budget FY 2025-26 Proposed Transfers Out



Options:

There is a general fund surplus of approximately \$48.5 million. To effectively utilize these revenues, City staff propose that the City Council consider the options, including but not limited to the those listed below to help the City meet the Council's Strategic Goals and Priorities approved on September 27, 2023, in a fiscally responsible manner and to maintain essential City programs and services during times of economic and political uncertainty (Attachment 7).

Option A – Hold and Wait (~6-18 months given economic uncertainties):

- \$48.5 million – Wait until after the City Council recess for economic uncertainties to settle and fully analyze the overall impact on the City. City staff will evaluate various options for investing the principal of new limited-term general funds to optimize interest earnings.

Option B – To Be Determined (TBD) by Mayor and City Council:

- \$48.5 million – May include CIP unfunded needs (Attachment 6). Table 3 below lists the projects that are identified with immediate funding needs in FY 2025-26.

Table 3: Capital Improvement Projects Funding Need in FY 2025-26

Project Name	Sub-Program	FY2025-26
Carlson Blvd Crosstown Phase III	Bicycle and Pedestrian	45,000
ADA Transition Plan	Sidewalk and ADA Curb Ramp	200,000
As-Needed Space Remodeling	Building & Facility Improvement	400,000
Automated Transit Network Feasibility Study	ZEV and Infrastructure Transition	150,000
Building & Facility Improvement Program	Building & Facility Improvement	1,000,000

City Fiber Repair and Upgrade	Building & Facility Improvement	400,000
City Hall Conference Room Upgrades	Building & Facility Improvement	200,000
Document Management	Building & Facility Improvement	500,000
Encampment Abatement Program	Encampment Abatement	1,000,000
Locker Room Building Replacement	Building & Facility Improvement	2,000,000
Median Beautification Program	Median Beautification	1,000,000
Neighborhood Traffic Calming Program	Neighborhood Traffic Calming	307,000
Parks and Open Spaces Program	Parks and Open Spaces	500,000
Pavement Management Program	Pavement Management	18,375,000
Replace Playground Surfacing with Fiber	Parks and Open Spaces	500,000
Santa Fe Ave Soldier Pile Wall	Traffic Safety	80,000
Sidewalk and ADA Curb Ramp Program	Sidewalk and ADA Curb Ramp	6,125,000
Solar Installation on City Buildings	Building & Facility Improvement	12,000,000
Storm Drainage and Watershed Program	Storm Drainage and Watershed Program	3,675,000
Street Light Master Plan	Streetlights	155,000
Streetlights Program	Streetlights	3,000,000
Traffic Safety Program	Traffic Safety	1,500,000
Traffic Signal Program	Traffic Signals	1,500,000
Transportation Infrastructure Planning Study	ZEV and Infrastructure Transition	300,000
Urban Forestry Program	Parks and Open Spaces	1,000,000
Various Location No. 2 Full Trash Capture Devices	Storm Drainage and Watershed Program	2,285,700
ZEV and Infrastructure Transition Program	ZEV and Infrastructure Transition	500,000
Martin Luther King Jr. Community Center & Park Upgrades	Building and Facility Improvement	40,000,000
Porchester Area Infrastructure Plan	Storm Drainage and Watershed	1,000,000
Corp Yard Fence - Crime Prevention Through Environmental Design (CPTED)	Building and Facility Improvement	400,000
Dornan Tunnel Lighting	Streetlights	500,000
Harbour 8 Park Expansion	Parks and Open Spaces Improvements	3,000,000
E-Bike Lending Library	Building and Facility Improvement	1,310,000
	Total	104,907,700

Option C – TBD Mayor and Council

May include Federal Contingency, CIP, Unfunded Actuarial Liability (UAL):

- \$19.5 million – Contingency for federal funding uncertainty. On April 28, 2025, President Trump issued an executive order with the objective of identifying and potentially withholding federal funds from sanctuary cities. The order instructs the Department of Justice and the Department of Homeland Security to identify and compile a list of jurisdictions that impede the enforcement of federal immigration laws. Jurisdictions designated as sanctuary areas on this list may face repercussions, including the suspension or termination of federal grants and contracts. The City of Richmond has several federal grants and two major programs, Employment and Training, and Richmond Housing Authority, relying mainly on federal funds. Richmond residents are well deserving of these programs and all the grant-funded projects. City staff recommend creating a contingency to preserve these programs if Federal Funds are taken away.
- \$19.5 million – Strategic Goal Area No. 3 - Improve the Quality of Life and Community Health/Improve Social Determinants of Health Built Environment. City staff recommend appropriating this amount towards the City Council Goal 3.1 - Improve maintenance of the built environment, parks, and new recreation

infrastructure and 3.2 - Create new infrastructure. Currently, Public Works is facilitating a process to select a vendor to complete a Facilities Needs Assessment.

- \$9.5 million – Strategic Goal Area No. 5 - Strengthen the City's internal infrastructure and processes. The City has \$396 million in unfunded actuarial liabilities for pensions and \$63 million in Other Post Employment Benefits unfunded actuarial liabilities. These liabilities are forecasted to significantly increase over the next few years, given the worsening stock market performance. City staff recommend transferring \$9.5 million into the Pension and Other Post Employment Benefits section 115 Trust accounts to proactively mitigate the budgetary pressures. This recommendation aligns with the Council Goal No. 5.2 – Improve fiscal responsibility.

NEXT STEPS

City staff will continue to monitor the impacts of the Executive Order regarding Sanctuary Jurisdiction and incorporate City Council direction into the proposed FY 2025-26 Operating Budget and FY 2025-30 Five-Year Capital Improvement Plan Budget for June 3, 2025, June 17, 2025, and June 24, 2025, City Council meetings.

DOCUMENTS ATTACHED:

Attachment 1 – General Fund Revenue and Expenditure Summary
Attachment 2 – General Fund Revenue and Expenditures by Department
Attachment 3 – Non-General Fund Revenue and Expenditures by Fund
Attachment 4 – Multi-Year Comparative Position Listing
Attachment 5 – Five-Year Capital Improvement Plan
Attachment 6 – Capital Improvement Projects by Program 10-Year Forecast
Attachment 7 – City Council Strategic Goals and Priorities