



# AGENDA REPORT

Finance Department

<b>DATE:</b>	May 5, 2026
<b>TO:</b>	Mayor Martinez and Members of the City Council
<b>FROM:</b>	Shasa Curl, City Manager Nickie Mastay, Deputy City Manager – Internal Services LaShonda White, Deputy City Manager – Community Services Emily Combs, Director of Finance Mubeen Qader, Deputy Director of Finance Patrick Seals, Administrative Chief Jerry Gurule, Accounting Manager Antonio Banuelos, Accounting Manager
<b>Subject:</b>	Draft Fiscal Year (FY) 2026-27 Annual Operating Budget and FY 2026-31 Five-Year Capital Improvement Plan
<b>FINANCIAL IMPACT:</b>	There is no financial impact for receiving this agenda item.
<b>PREVIOUS COUNCIL ACTION:</b>	None.
<b>STATEMENT OF THE ISSUE:</b>	In accordance with Richmond Municipal Code Section 2.61.010, the City Manager is submitting the first draft of the Fiscal Year 2026-27 Annual Operating Budget and the draft Fiscal Year 2026-31 Five-Year Capital Improvement Plan (CIP) for City Council review.

<b>RECOMMENDED ACTION:</b>	ACKNOWLEDGE receipt of the draft Fiscal Year 2026-27 Annual Operating Budget and Fiscal Year 2026-31 Five-Year Capital Improvement Plan; REVIEW the budget adoption schedule; and RECEIVE an update on departmental operations, with discussions upon completion of all departmental presentations – City Manager’s Office/Finance Department (Shasa Curl/Emily Combs/Mubeen Qader 510-412-2077).
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**DISCUSSION:**

This report provides an opportunity for City staff to present a preliminary overview of the draft Fiscal Year (FY) 2026-27 Operating and FY 2026-31 Capital Improvement Plan budgets prior to final adoption. City staff will receive and incorporate City Council direction into subsequent iterations and will continue refining the draft budgets to ensure alignment with the adopted City Council Strategic Goals and Objectives. The final budgets are expected to be presented to the City Council for approval on June 23, 2026. The proposed draft operating budget does not include new or expanded programs; such initiatives and their associated costs would require the identification and allocation of additional resources.

**Executive Summary**

The Draft FY 2026-27 Operating Budget and FY 2026-31 Capital Improvement Plan are presented for City Council review ahead of final adoption on June 23, 2026. The proposed operating budget is balanced based on current assumptions and maintains existing service levels. This balance relies heavily on an estimated \$16.4 million in vacancy savings, based on a City-wide vacancy rate of approximately 12 percent. This approach supports short-term stability but does not resolve the City’s underlying structural imbalance, as expenditures continue to outpace revenues.

The City continues to face several ongoing fiscal pressures, including rising California Public Employees’ Retirement System (CalPERS) pension obligations, increased healthcare and Other Post Employment Benefits (OPEB) costs, inflation, volatility in energy markets, and significant unfunded capital and infrastructure needs. Limited-term revenues should be treated strictly as one-time resources and not used to support ongoing operations. Per City Council direction, the use of these funds must also include a community engagement process to help identify priorities and ensure alignment with long-term community goals.

Departmental capacity remains constrained as service demands increase. This results in operational tradeoffs and limits the ability to expand programs or implement new initiatives. These constraints also affect the pace and scope of progress on key priorities. A status update on City Council Strategic Goals and departmental priorities is included as Attachment 7 to help guide resource allocation as the budget is refined.

## Budget Development Process

The FY 2026-27 budget development process began on January 28, 2026, with a City-wide budget kick-off led by the City Manager's Office and Finance Department. Departments were provided with detailed instructions, timelines, and budget tools, with submissions completed during the budget entry period from January 28 through February 20, 2026.

Community and stakeholder engagement is a key component of the budget process. The Finance Department hosted three community budget meetings in April 2026, including outreach to the Richmond Neighborhood Coordinating Council (RNCC). Based on those meetings, community members expressed concerns and interest in several areas, including the purpose of the Debt Service Fund, progress of homelessness initiatives, questions about the Capital Improvement Program (CIP) online report and the backlog of CIP projects, and questions about General Fund totals and the City's unfunded liabilities. Additional community feedback highlighted the need for street repairs, revitalization of downtown businesses along Macdonald Avenue, collaboration with developers on housing production, and updates to job classifications to align with other cities. In addition, City staff held meetings with labor groups in March 2026, with additional discussions planned in June 2026.

Based on departmental submissions and updated revenue projections, Finance developed a preliminary budget framework. The City Manager's Office then worked collaboratively with departments to refine the draft budget, ensuring alignment with the City Council Strategic Goals and Priorities and available resources. Consistent with the City Charter, the City Manager and Mayor work together to prepare the draft annual budget for City Council review and input.

### Proposed FY 2026-27 Budget Schedule

City staff proposes the following schedule for City Council review and adoption of the FY 2026-27 Annual Operating Budget and FY 2026-31 Five-Year Capital Improvement Plan.

Table 1: Key Budget Development Dates

Action/Activity	Date
Receive Draft FY 2026-27 Operating Budget and FY 2026-31 Five-Year Capital Improvement Plan; Department Presentations (Community Development, Police, Public Works)	May 5, 2026
Master Fee Schedule; Department Presentations	May 19, 2026
Budget Study Session on Proposed FY 2026-27 Operating Budget, FY 2026-31 Five-Year Capital Improvement Plan and Five-Year Forecast; Department Presentations and Develop Budget Checklist	May 26, 2026
Budget Checklist Follow-up	June 16, 2026
City Council to Adopt FY 2026-27 Operating Budget, FY 2026-31 Five-Year Capital Improvement Plan, and GANN Limit	June 23, 2026

## **Current State of the City's Finances**

The City is operating in a constrained fiscal environment in which expenditure growth continues to outpace underlying revenue growth. Personnel-related costs, including salaries, pension obligations, and OPEB, remain the primary drivers of increased spending and have grown at a faster rate than key revenue sources such as property tax and sales tax.

The proposed FY 2026-27 budget is balanced based on current assumptions; however, this balance relies significantly on the use of vacancy savings, calculated using an assumed City-wide vacancy rate of approximately 12 percent. While this strategy provides near-term budgetary flexibility and allows the City to maintain current service levels, it introduces ongoing risk as staffing levels change and operational demands continue to increase.

Concurrently, broader economic conditions continue to introduce uncertainty into the City's financial outlook. Inflation, volatility in energy markets, increasing insurance costs, and rising CalPERS obligations are expected to place additional pressure on both expenditures and revenues. These factors, combined with evolving labor costs and other external drivers, require a cautious and disciplined approach to budget development and ongoing financial management.

## **Fiscal Year 2026-27 Fiscal Considerations**

The FY 2026-27 budget is being developed amid continued economic volatility and uncertainty. Several structural cost drivers are placing sustained upward pressure on expenditures, many of which are influenced by external factors outside of the City's direct control.

### Personnel Cost Drivers

Personnel-related costs continue to increase due to several major cost drivers, including rising CalPERS pension obligations, escalating retiree healthcare (OPEB) costs, and higher healthcare premiums for active employees. For FY 2026-27, CalPERS health premiums are projected to total \$20.8 million City-wide, reflecting an 8.21 percent increase over the prior year. Retiree healthcare contributions are also increasing significantly, with the City's annual required contribution rising to approximately \$3 million, which includes \$2.5 million for the City OPEB plan and \$537,000 for the RPOA OPEB plan. This represents an increase of roughly \$2.8 million. These cost pressures add to both the City's annual operating costs and its long-term liabilities.

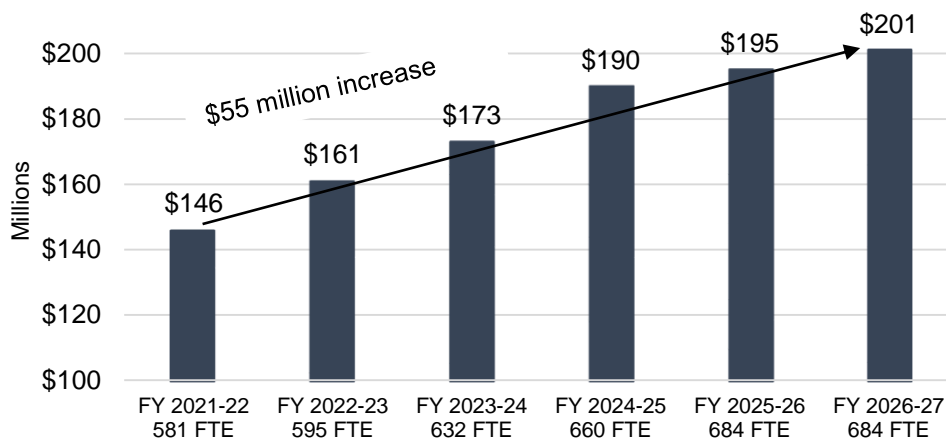
As a service-based organization, the City relies on personnel to deliver essential programs and maintain daily operations, and the cost of staffing reflects the resources required to operate the City every day. These pressures are further influenced by negotiated labor agreements, including cost of living adjustments and benefit changes, as well as classification updates and market competitiveness across departments.

The City’s staffing levels have also grown to meet operational and service delivery needs. In FY 2020-21, the City had 581 FTE, increasing to an estimated 684 FTE in FY 2025-26, which reflects the workforce required to meet expanding community needs and mandated responsibilities.

Retiree healthcare costs are driven by actuarial valuations, healthcare inflation, and the amortization of unfunded liabilities. Employee healthcare costs are primarily influenced by annual premium increases and CalPERS health plan cost adjustments. Together, these factors contribute to sustained growth in personnel-related expenditures and increase both current and long-term financial obligations.

Personnel costs have grown significantly over the past several fiscal years. As shown in Figure 1, total personnel expenditures increased from \$146 million in FY 2021-22 to \$201 million in FY 2026-27. This represents an increase of \$55 million, or 38 percent. These rising costs reflect the combined impact of higher pension obligations, increasing healthcare and OPEB costs, expanded staffing levels, and negotiated labor agreements over this period.

Figure 1: Total Personnel Costs Escalation



### Assembly Bill 1383 – Pension Reform

Assembly Bill (AB) 1383 is a proposed statewide pension reform that would increase the salary cap used to calculate pension benefits and modify retirement formulas for certain public safety employees. Under current law, new public safety employees earn pension benefits based on an assumed retirement age of 57. AB 1383 would lower this age factor to 55, allowing employees to retire earlier while receiving the same percentage of benefits, and would increase the portion of salary eligible for pension calculations.

These changes would increase pension costs by accelerating benefit payouts and expanding pensionable earnings, potentially resulting in higher long-term liabilities for the City. City staff estimates that the annual fiscal impact could be approximately \$1.0

million as early as FY 2026-27, although the full long-term impact remains uncertain and will need to be incorporated into future financial planning.

### Other Post Employment Benefits (OPEB)

The City has received updated actuarial valuations for its retiree healthcare plans, which reflect significant increases in required annual contributions beginning in FY 2026-27.

- City-wide OPEB Plan: The Actuarially Determined Employer Contribution (ADEC) increases from \$0 in FY 2025-26 to \$2,463,990 in FY 2026-27, driven by higher unfunded liability amortization and updated healthcare cost assumptions.
- RPOA OPEB Plan: The ADEC increases from \$191,444 in FY 2025–26 to \$535,682 in FY 2026-27 due to updated actuarial assumptions and experience losses.

The combined OPEB contribution requirement totals approximately \$3.0 million in FY 2026-27, representing a substantial increase in annual retiree healthcare funding obligations.

### Capital Project Cost Escalation

Over the past decade, the City has experienced steady increases in construction and capital project costs, driven by inflation in labor and materials. These increases compound over time, significantly raising the long-term cost of infrastructure delivery and requiring more conservative planning assumptions.

At a 5 percent annual growth rate, construction costs increase on a compounded basis rather than linearly. For example, a project estimated at \$10 million today would grow as follows:

Table 2: Construction Cost Escalation Scenario

Time Period	Calculation	Result
1 YEAR	$\$10M \times 1.05$	\$10.50M
5 YEARS	$\$10M \times (1.05)^5$	\$12.76M
10 YEARS	$\$10M \times (1.05)^{10}$	\$16.29M

This represents an approximate 63 percent increase over ten years, demonstrating how compounding significantly increases project costs over time. As a result, multi-year capital planning must incorporate realistic escalation assumptions to ensure projects remain financially viable when they are delivered.

### Insurance Cost Increases

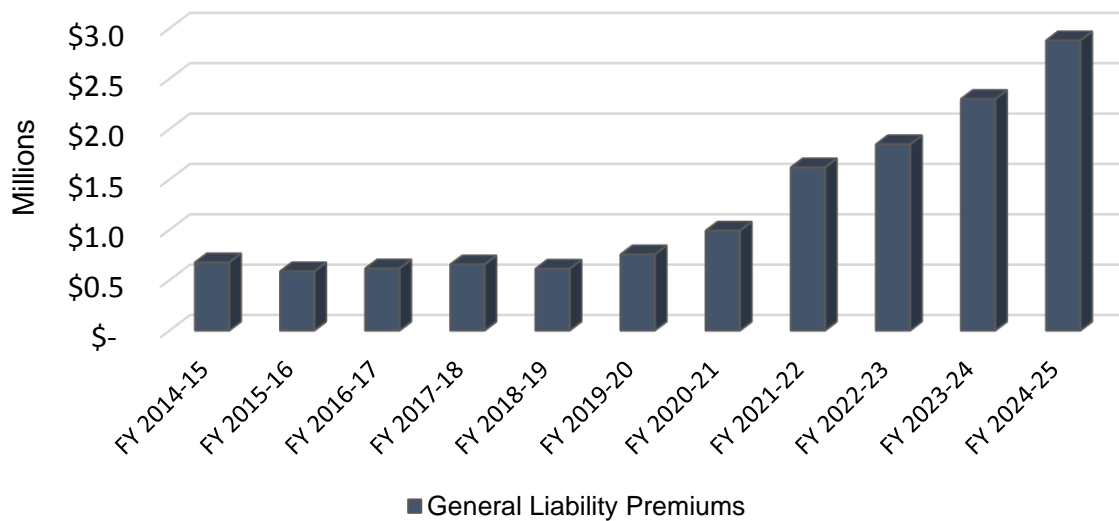
The City of Richmond is self-insured up to \$750,000 per claim. Costs above this amount are covered by excess insurance. The California Joint Powers Risk Management Authority (CJPRMA) provides excess coverage for general liability, property liability, and

auto liability. The Public Risk Innovation, Solutions, and Management program (PRISM), formerly known as the California State Association of Counties Excess Insurance Authority, provides excess coverage for workers' compensation.

CJPRMA has reported significant losses among member jurisdictions, which has affected the excess insurance market. The excess general liability premium for FY 2025-26 is \$3,150,577. Based on current conditions and recent loss experience, CJPRMA is estimating a 25 percent increase in general liability insurance rates for FY 2026-27. A 25 percent increase would add approximately \$787,645 to annual cost for a total of \$3,938,222 for FY 2026-27.

The chart below shows historical general liability premium trends from FY 2014-15 through FY 2024-25.

Figure 2: General Liability Cost of Premiums FY 2014-15 through FY 2024-25



### Global Economic and Energy Market Impacts

Global geopolitical conditions continue to influence the City of Richmond's fiscal outlook. Ongoing instability in the Strait of Hormuz, a critical global shipping corridor through which approximately one-fifth of the world's oil supply passes, has contributed to volatility in energy markets and broader economic uncertainty.

Recent disruptions and geopolitical tensions in the region have driven sharp fluctuations in oil prices, with rapid increases followed by continued volatility. These conditions are expected to place upward pressure on municipal operating costs, particularly for fuel-dependent services, transportation, and petroleum-based materials used in capital and maintenance activities.

Although geographically distant, Richmond's local economy is directly affected by these global dynamics. Increased fuel and logistics costs can impact City operations, local businesses, and household spending, with potential downstream effects on revenues such as sales tax and economic activity tied to port operations.

Given the uncertainty surrounding global energy markets, the FY 2026-27 budget incorporates fuel price volatility as an ongoing fiscal risk and maintains a cautious approach to expenditure planning and revenue assumptions.

### **Emerging Fiscal Pressures Not Included in the FY 2026-27 Budget**

The projects outlined below highlight key fiscal pressures not currently reflected in the FY 2026–27 budget, illustrating significant capital needs and cost drivers facing the City. While not exhaustive, these examples underscore the scale and complexity of the City's unmet and future needs, and the importance of developing long-term funding strategies.

#### Capital Improvement Plan – Unfunded Needs

Richmond continues to face substantial long-term infrastructure demands that exceed available funding. While the FY 2026-27 Capital Improvement Plan totals \$143.3 million and advances several high-priority projects, the City has identified approximately \$1.15 billion in additional unfunded capital needs over the next decade. These include but are not limited to aging facilities, parks and open space improvements, street and transportation upgrades, stormwater and wastewater system investments, and critical resilience and safety projects. Without dedicated and sustainable funding sources, these unfunded needs will continue to grow, requiring ongoing prioritization, phased implementation, and pursuit of grants, partnerships, and alternative financing strategies to ensure the City's infrastructure remains safe, reliable, and aligned with community expectations. A few key projects and programs are highlighted below.

#### Miraflores Historic Structures

The Miraflores project includes several historic nursery structures that were evaluated during environmental cleanup but were not incorporated into the obligations of the Disposition, Development, and Loan Agreement (DDLA) for the senior housing development. As a result, the City retains full responsibility for the preservation, stabilization, and potential relocation of these historic buildings. This creates an emerging fiscal pressure, as the City must identify funding for ongoing stewardship, compliance with historic preservation requirements, and any future capital work unless the City Council takes separate action to transfer these responsibilities to another entity. Without such action, these costs will remain an unfunded liability within the City's budget.

#### Point Molate Site Remediation Responsibilities

As part of the Point Molate redevelopment, the City must complete comprehensive environmental cleanup, including contaminated soils, underground storage tanks, drum

lots, capped landfill areas, former treatment ponds, and long-term groundwater monitoring, as required under the Early Transfer Cooperative Agreement with the Navy and mandated cleanup orders from the Regional Water Quality Control Board. While grant funding, escrow accounts, and assistance from East Bay Regional Park District and State Coastal Conservancy are in place, site work remains in flux and subject to regulatory oversight and remediation plan adjustment. Without dedicated, City Council-approved funding strategies, ongoing cleanup obligations, as well as interim maintenance, security, and monthly regulatory reporting, represent emerging fiscal pressures that will fall to the General Fund during the transition to a public park.

### Civic Center Apartments (Homekey) Project

The Civic Center Apartments (Homekey) Project, which will convert the former Motel 6 into 48 studio units plus one manager's unit, has become an emerging fiscal pressure on the City's budget. The project was originally budgeted with an \$8.3 million City loan in addition to \$14.5 million in State Homekey funds. During demolition, the construction team identified extensive water damage, mold, asbestos, and sewer line failures, which significantly increased the project's renovation costs. As a result, the developer has requested an additional \$2 million in City financing, raising the City's total loan commitment to \$10.3 million. The project also depends on approximately \$1 million in CDBG funds from Contra Costa County, and any delay or shortfall in this County funding could shift additional financial responsibility to Richmond's General Fund. Once all available project funds are expended, the City assumes full financial responsibility for ongoing operations, including approximately \$1,059,472 in annual costs beginning in year seven, creating a substantial long-term General Fund obligation.

### Contra Costa County Funding Impacts

Contra Costa County funding plays a critical role in supporting the City's housing, homelessness, and community development initiatives, and variability in the timing or availability of these resources can create meaningful fiscal impacts for Richmond. When Contra Costa County allocations are delayed, reduced, or oversubscribed, the City may need to cover temporary funding gaps to keep projects on schedule, maintain compliance with grant requirements, or ensure continuity of services for vulnerable populations. These uncertainties increase the City's financial exposure and can place unplanned pressure on limited local funding sources, including Housing Funds or the General Fund.

### Advanced Life Support (ALS) First Responder Services and Fire Station Needs

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The Advanced Life Support (ALS) First Responder Services initiative will be costly to operate and will require significant fire station upgrades to support ALS deployment, as well as broader capital improvements needed across the Fire Department. To reduce long-term pressure on the General Fund, the City is developing a revenue-enhancement strategy in coordination with SCI Consulting Group, including

fee-based cost-recovery options and evaluation of a potential revenue-generating tax measure. This work also includes planned polling efforts to assess the feasibility of a voter-approved funding measure. Without a dedicated revenue stream, ALS operating costs and fire station capital needs will fall to the General Fund.

### **Limited-Term Revenue and Its Reduced Value Over Time**

In August 2024, the City approved a settlement agreement providing \$550 million over ten years beginning in FY 2025-26. These are limited-term revenues and must be treated as one-time resources for planning purposes. Per City Council direction on April 28, 2026, the City will conduct a separate community engagement process, led by a qualified consultant, to gather input and develop recommendations on how these funds should be prioritized and used.

Although the agreement totals \$550 million, the payments are received over time, reducing their present value. Based on reasonable assumptions, the total stream is estimated to be worth approximately \$380 million to \$466 million in today's dollars. This reinforces the need to focus these limited-term funds on one-time investments that maximize long-term community benefit. As such, these limited-term funds are not included in the proposed budget.

### **Proposed General Fund Budget Overview**

The proposed FY 2026–27 General Fund budget is balanced based on current assumptions and maintains existing service levels while addressing ongoing fiscal pressures. This balance is achieved within a constrained fiscal environment and relies on key assumptions, including vacancy savings and current revenue projections.

Total General Fund revenues are projected at \$323.8 million, which includes limited-term funds, representing a 4.5 percent increase over the FY 2025-26 revised budget. Total expenditures are projected at \$275.3 million (Attachments 1 and 2), reflecting a 0.3 percent increase compared to the prior year.

Revenue growth is primarily driven by increases in key categories, including Property Tax, Utility Users Tax and Sales and Use Tax. While revenues are projected to increase modestly, expenditure growth continues to be driven by personnel-related costs, including salaries, benefits, pension obligations, and retiree health contributions. Additional cost pressures include increases in workers' compensation, insurance, and other operating expenses.

Expenditure growth continues to outpace underlying revenue growth, placing ongoing pressure on the General Fund and limiting long-term financial flexibility. As a result, maintaining balance in the current fiscal year requires continued reliance on management strategies and careful monitoring of both revenues and expenditures.

Table 3 below summarizes the proposed FY 2026-27 General Fund revenues and expenditures compared to the FY 2025-26 revised budget.

Table 3: Proposed General Fund Draft Budget

General Fund	FY 2025-26 Revised Budget	FY 2026-27 Draft Budget	Percent Change
<b>Total Revenue</b>	(309,961,114)	(323,836,742)	4.5%
<b>Total Expenditures</b>	274,589,413	275,336,742	0.3%
<b>Net (-Surplus)/+Deficit</b>	(35,371,700)	(48,500,000)	
<b>Use Of Fund Balance (One-Time)</b>	13,128,300		
<b>Remaining Fund Balance</b>	(48,500,000)	(48,500,000)	

### Key Initiatives Included in the Budget

Despite ongoing fiscal pressures, the proposed FY 2026-27 budget continues to prioritize investments that align with City Council Strategic Goals and community priorities. These initiatives represent a significant and ongoing commitment of General Fund resources and contribute to the overall expenditure base that must be supported within a constrained revenue environment. The ability to sustain these programs in the current fiscal year reflects the City’s efforts to balance competing priorities while maintaining core services. Key initiatives are outlined below.

Table 4: Re-Imagine Public Safety Budget Historic Information

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27 (Proposed)
Unhoused Intervention	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000
YouthWORKS	1,980,000	1,980,000	1,980,000	2,015,000	1,980,000	1,980,000
Office of Neighborhood Safety	1,600,000	2,316,175	2,050,525	2,108,854	2,346,666	2,590,108
Reach Out with Compassion and Kindness (ROCK)	1,000,000	1,000,000	1,000,000	2,905,751	3,004,198	2,979,596
<b>Total Budget</b>	<b>6,380,000</b>	<b>7,096,175</b>	<b>6,830,525</b>	<b>8,829,605</b>	<b>9,130,864</b>	<b>9,349,704</b>

Table 5: Unhoused Intervention Funding

Sources	Total Funding	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26 Estimated	FY 2026-27 (Balance)
Emergency Housing Assistance (GF & CD)	255,706		57,438	161,032	37,236		
Housing First (GF & CD)	868,166		244,114	423,190	87,258	113,604	
Project Homekey (City Contribution)	10,300,000						10,300,000
Reimagining Public Safety Annual Allocation \$1.32M - Unhoused Intervention	5,550,257	714,390	732,154	808,934	1,320,000	654,779	1,320,000
Reimagining Public Safety Housing in-lieu \$480K - Unhoused Intervention	480,000				170,054		309,946
Unhoused Emergency Services (GF)	50,000						50,000
<b>Total Cash Funding</b>	<b>17,504,129</b>	<b>714,390</b>	<b>1,033,706</b>	<b>1,393,156</b>	<b>1,614,548</b>	<b>768,383</b>	<b>11,979,946</b>
American Rescue Plan Act (ARPA) Unhoused Flex Funding	50,000		50,000				
Environmental and Community Investment Agreement (ECIA)	106,000	49,500	23,500	0	25,000	8,000	0

Encampment Resolution Fund Round 1- Grant	4,881,272	6,755	2,547,093	2,327,424			
Encampment Resolution Fund Round 2- Grant	8,602,587			2,006,596	2,475,791	1,254,324	2,865,876
Encampment Resolution Fund Round 3- Grant	9,336,746					4,361,850	4,974,896
Kids First Initiative	1,525,000	0	70,000	155,000	300,000	500,000	500,000
Project Homekey Grant	14,512,660				6,252,500		8,260,160
Rapid Response (ARPA)	838,572	357,094	342,906		54,267	84,304	
Tenant Protection and Rental Assistance (ARPA)	1,984,233			420,877	925,135	411,528	226,693
<b>Total Grant Funding</b>	<b>41,837,070</b>	<b>413,349</b>	<b>3,033,499</b>	<b>4,909,897</b>	<b>10,032,693</b>	<b>6,620,006</b>	<b>16,827,625</b>
<b>Grand Total</b>	<b>\$59,341,199</b>	<b>\$1,127,739</b>	<b>\$4,067,205</b>	<b>\$6,303,053</b>	<b>\$11,647,241</b>	<b>\$7,388,389</b>	<b>\$28,807,571</b>

The initiatives listed below are not exhaustive and are being implemented in addition to core City services, within existing staffing capacity constraints. As a result, project timelines may be extended, and additional program requests would require clear prioritization and potential trade-offs.

Table 6: Key Initiatives in the FY 2026-27 Draft Budget

Initiative	Amount	Budget Status	Program Status
Arts Corridor	185,000	Roll forward	City staff are concluding Phase 1 which includes community engagement and development of strategic plan; Phase 2 has not started and would require an RFP
Black Resiliency	1,500,000	Roll forward	Recruiting members for the Community Advisory Board and RFP for consultant to conduct study is in final review; Plan to release RFP in May
Gender-Based Violence Programs	100,000	Roll forward	RFP is drafted and being peer-reviewed; Plan to release RFP in late May/June
Immigration Services	700,000	Re-budgeted; originally \$1.0 million across FY 2025–26 and FY 2026–27. Can evaluate increasing at mid-year.	Services are being rendered through contracts with multiple vendors
Kids First Initiative	9,091,262	Allocation	Annual allocation to support program
Limited-Term Revenue - Community Engagement	300,000	New	City Council authorized City Manager to negotiate and execute contract with selected consultant on May 28, 2026
Mental Health Assessment	150,000	Roll forward	RFP was released and City staff are negotiating contract with selected consultant before bringing contract for approval in late May
Point Molate Annual Maintenance	250,000	New ongoing cost; future cleanup funding to be determined	Required maintenance of City owned property is ongoing. Remediation of all properties is required.
Reparations, Equity, and Inclusion	146,675	Balance re-budgeted; original \$250,000	Human Resources is developing and planning training for staff. There is currently no city staff person leading this work
Revenue Enhancement / ALS	150,000	New	City Council authorized polling to determine revenue options for ALS; ALS program components are being developed and discussed
Unhoused Emergency Services	50,000	Roll forward	City staff are considering the feasibility of adding these funds to the CORE contract to support delivery of services/support (i.e. CORE)

## Assumptions

General Fund revenue and expenditure estimates are based on a comprehensive review of all revenue categories, funding sources, current-year performance, and historical trends. These assumptions form the foundation of the FY 2026-27 proposed budget and provide the framework for developing revenue projections amid a high degree of economic uncertainty. While estimates incorporate known variables, several external and local factors continue to introduce variability into the City's revenue outlook. Overall, City staff is projecting a \$13.9 million, or 4.5 percent, increase in General Fund revenues compared to the FY 2025-26 adopted budget. The increase is primarily driven by growth in a few key revenue categories, including Property Tax, Utility Users Tax (UUT) and Sales and Use Tax.

- **Property Taxes (+\$1.8 million; +3.1 percent):** Assessed valuation is projected to grow by approximately 3.2 percent. Most properties will increase based on the State Consumer Price Index (CPI), capped at 2 percent, while properties sold in 2025 will be reassessed at market value. The Chevron Refinery valuation is assumed to remain flat. This growth factor is applied to the major components of property tax revenues, including secured property taxes and successor agency-related revenues, while smaller components such as homeowners' exemptions and floating liens are expected to remain stable.
- **Sales & Use Tax (+\$3.3 million; +5.4 percent):** Revenue projections are based on forecasts from the City's consultant, Avenu Insights, incorporating both local and broader economic trends. Bradley-Burns sales tax is expected to increase by 9.8 percent, while the two voter-approved half-cent measures are projected to grow by 2.1 percent. Vehicle License Fees, tied to assessed valuation, are expected to increase by 3.2 percent.
- **Utility User Tax (UUT) (+\$4.1 million; +6.2 percent):** Growth is driven primarily by inflationary factors tied to energy pricing. While cable television and telecommunications revenues continue to decline due to shifts in consumer behavior, gas and electricity revenues have increased in prior years due to rate adjustments. The FY 2026–27 projection reflects updated CPI assumptions for energy, although PG&E has indicated potential rate decreases in 2026.
- **Other Taxes (Flat):** Revenues are expected to remain relatively stable overall. Documentary Transfer Tax is budgeted on long-term averages, resulting in a slight decrease, while franchise fees are expected to increase modestly. Transient Occupancy Tax is projected to be slightly lower based on recent collection trends.
- **Licenses, Permits, and Fees (+\$1.1 million; +6.3 percent):** Growth is primarily driven by Business License Tax revenue, reflecting both recent collection performance and a general 3 percent adjustment across most business categories.
- **Fines & Forfeitures (+\$560,000):** Revenues are projected to increase significantly due to improved collections following the implementation of a new parking citation

system and software platform, with current-year collections exceeding prior expectations.

- **Interest Income (+\$500,000; +16.5 percent):** The increase is driven by higher interest earnings resulting from elevated cash balances.
- **Charges for Services (+\$64,000; +1.7 percent):** Revenues are expected to remain largely stable, with minor adjustments across service-related fee categories.
- **Other Revenue (+\$20,000):** This category, which includes donations and reimbursements, is expected to remain relatively flat.
- **Rental Income (-\$24,500; -3.1 percent):** A slight decrease is projected, primarily due to reduced recreation facility rental activity.
- **Intergovernmental Revenues (+\$50,000):** State taxes and certain grants are expected to remain flat, while State-mandated reimbursements are projected to increase modestly.
- **Other Financing Sources (+\$2.4 million):** Proceeds from the sale of property and bond proceeds remain unchanged. Operating transfers-in are projected to increase by \$2,420,717 (11.6 percent), primarily from the Pension Tax Override Fund due to improved fund performance.

The proposed expenditure estimates for FY 2026-27 are based on the following assumptions:

- **Salaries and Wages (+\$4.6 million; +4.8 percent):** Expenditures reflect current staffing levels, position control assumptions, and negotiated labor agreements to date. Due to ongoing labor negotiations, the proposed budget does not include compensation changes for the remaining bargaining units, including Richmond Police Officer's Association (RPOA), Richmond Police Management Association (RPMA), and Richmond Fire Management Association (RFMA).

The draft budget includes 811 Full Time Equivalent (FTE) positions and assumes a City-wide vacancy rate of approximately 12 percent, resulting in estimated vacancy savings of approximately \$16.4 million. The vacancy savings are a key component of the City's balancing strategy and are necessary to maintain a balanced General Fund budget in FY 2026-27.

Sworn overtime costs are projected to decrease approximately 14 percent, reflecting continued hiring and staffing increases in public safety positions during FY 2026-27.

- **Fringe Benefits (+\$8.5 million; +11.4 percent):** The costs are driven primarily by increases in pension and healthcare obligations based on the most recent actuarial valuations and CalPERS requirements.

CalPERS Unfunded Accrued Liability (UAL): Required UAL payments for both miscellaneous and safety plans are increasing significantly from the prior year. These increases are driven by compounding salary growth, updated actuarial assumptions, and the impacts of the approved Classification and Compensation Study and prior labor agreements. The miscellaneous UAL is projected to increase by approximately \$2.4 million (19.8 percent), while the safety UAL is projected to increase by approximately \$1.8 million (8.7 percent).

Healthcare Costs: Healthcare expenditures are projected to increase based on a CalPERS-approved premium adjustment of approximately 8.2 percent for the 2026 calendar year, for a total expenditure of \$20.8 million.

- Professional and Other Expenditures (-\$3.0 million; -4.3 percent):**  
 These expenditures are budgeted at baseline levels, with select cost categories adjusted for inflation and known contractual obligations. The decrease is due to reduction in various categories including a decrease of \$1.5 million in vehicle replacement cost as the program prioritizes outfitting vehicles, a decrease of \$601,000 in debt service, as loans and bonds have been paid off for various streetlight improvements, and the removal of one-time contracts and expenditures included in the prior year, which are not carried forward into the FY 2026-27 budget.
- Operating Transfers Out (\$21.7 million total):** The category includes debt services, annual contributions, and programmatic subsidies required to support City-wide operations and obligations.

Table 7: Operating Transfers Out Detail

Category	Program / Description	Amount
<b>Debt Service</b>	Pension Obligation Bond (2022)	2,733,341
	Civic Center Bond (2019)	2,226,081
	Fire Truck Capital Lease	326,019
<b>Annual Contributions</b>	Hilltop Landscaping & Lighting District	257,871
	Marina Bay Landscaping & Lighting District	520,476
	Personnel Subsidy (Hilltop LLMD)	383,103
	Personnel Subsidy (Marina Bay LLMD)	506,342
	IT Computer Refresh	100,000
	Grant Writing	75,000
	Climate Resiliency Contingency	75,000
	YouthWORKS	1,980,000
	Kids First Initiative	9,091,262
<b>Operational Subsidies</b>	Employment & Training (Cost Pool)	786,287
	Employment & Training	818,546
	Richmond Housing Authority	1,000,000
	KCRT	503,586
	Transportation Fund	243,360
	Hilltop District (additional support)	146,510
<b>Total General Fund</b>		<b>21,772,784</b>
<b>Operational Subsidy</b>	Richmond Rent Program (Risk Fund)	526,197

## **Proposed City-wide Priorities – FY 2026-27**

The FY 2026–27 budget reflects a focused set of proposed City-wide priorities aimed at maintaining critical infrastructure, improving service delivery, and responding to community needs. The following priorities highlight key areas of investment and operational focus that will guide resource allocation and departmental efforts in the coming fiscal year.

### **Priority #1: Wastewater System Reliability & Veolia Contract Transition**

The current Veolia wastewater contract expires in May 2027. Following a City-commissioned review of long-term options, the City is moving forward with a competitive procurement process with an owner’s advisor. This effort aims to secure a qualified operator, address past performance concerns, and prepare for an anticipated increase in operating costs under the next contract.

### **Priority #2: Parks Renovation, Maintenance, and Community Access**

Improving Richmond’s parks and open spaces remains a core City-wide priority for FY 2026-27. The City is making significant progress advancing park-related capital and maintenance needs, renovations of play structures, restroom assessments, and upgrades to lighting, fencing, and recreation facilities. In addition, major improvements are underway at Boorman Park, Wendell Park and Shields Reid Park. It is essential that as the City renovates or builds new parks, we have adequate resources available to properly maintain those assets at a high quality for the continued benefit of Richmond residents. These ongoing efforts demonstrate strong community demand for safe, modern, and accessible parks.

In FY 2026-27, the City will continue prioritizing park infrastructure upgrades, addressing deferred maintenance, advancing key capital projects, and enhancing the quality and usability of neighborhood parks across Richmond.

### **Priority #3: Innovation & City-wide Systems Modernization**

In FY 2026-27, the City will advance innovation through streamlined systems, improved processes, and data-informed, efficient service delivery.

## **Departmental Operations, Workload, and Service Delivery Impacts**

To provide greater transparency into how City resources are being utilized, City staff have developed a consistent framework to assess departmental operations, including core service delivery, operational demands, and resulting service impacts. This approach highlights not only the work performed on a day-to-day basis, but also the external pressures and capacity constraints that affect the City’s ability to deliver services.

While this analysis is being conducted across all City departments, this report highlights Community Development, Police, and Public Works due to their central role in supporting public safety, infrastructure, housing, and regulatory functions. Additional departments will be presented to the City Council as part of the May 19 and 26, 2026 budget discussions.

## Community Development

### *Core Operations*

The Community Development Department oversees a broad range of operations that support housing, development, and long-term planning. Core functions include planning and entitlement review, building permitting and inspections, code enforcement, and administration of housing and grant-funded programs. The department is responsible for implementing major initiatives such as the Transformative Climate Communities (TCC) program, Encampment Resolution Fund grants, and the Homekey project, while ensuring compliance with State and federal regulations.

### *Operational Demands*

Operational demands on the department have increased significantly due to State-mandated housing laws, a high volume of development activity, and the complexity of managing multiple large-scale grant programs. Several divisions are operating at or beyond full capacity, with planning functions exceeding available staffing resources and building and code enforcement services managing increased workloads and sustained service demand.

### *Service Delivery Impacts*

As a result, the department is operating in a largely reactive environment, prioritizing mandated activities and high-risk cases. This limits the ability to advance proactive planning initiatives, implement long-range policy updates, and address deferred programs. Service impacts may include longer permitting timelines, delayed inspections and enforcement response, and reduced capacity for strategic planning and program development.

## Police Department

### *Core Operations*

The Richmond Police Department provides essential public safety operations, including patrol response, investigations, emergency response, traffic enforcement, and community policing. In addition to core law enforcement functions, the department supports a wide range of City priorities, including homelessness response, community health, economic vitality, and neighborhood quality of life.

### *Operational Demands*

Operational demands extend beyond traditional policing and include sustained responsibilities such as unhoused response coordination, compliance with State-mandated reporting requirements, major event operations, and ongoing community

engagement efforts. These responsibilities require coordination across multiple units while maintaining baseline public safety services. The department is also managing staffing constraints, including sworn and civilian vacancies, which require prioritization of emergency response, field safety, and custody-related duties.

#### *Service Delivery Impacts*

As staffing is prioritized to maintain core operations, capacity for proactive policing, investigations, and community-based work is reduced. Additional operational demands, such as prisoner transport and event coverage, further draw on limited staffing resources. These conditions may result in reduced patrol visibility, slower case follow-up, and limited ability to sustain proactive community engagement and problem-solving efforts.

### Public Works

#### *Core Operations*

The Public Works Department is responsible for operating and maintaining the City's core infrastructure systems, including streets, parks, facilities, transportation networks, and wastewater services. Daily operations include infrastructure maintenance, permitting, capital project delivery, regulatory compliance, and emergency response, while supporting City Council priorities and community needs.

#### *Operational Demands*

The department manages a complex and expanding workload that includes a portfolio of more than 80 capital improvement projects, a high volume of service requests, and ongoing implementation of new policies and initiatives. Public Works must balance these responsibilities while coordinating with multiple departments, external agencies, contractors, and the community, in addition to responding to City Council-directed priorities and emerging operational issues.

#### *Service Delivery Impacts*

As a result of increasing demands within a resource-constrained environment, the department operates in a largely reactive mode, with limited capacity to advance proactive maintenance, long-range infrastructure planning, and process improvements. Service impacts may include deferred maintenance, slower response to service requests, and constraints in advancing capital projects and new initiatives at the desired pace.

### **Public Works Programmatic Strategic Updates and Upcoming Capital Improvement Program Review and Discussion**

The Department of Public Works is advancing a more structured, programmatic approach to managing the City's infrastructure, shifting from reactive maintenance to a defined management model. This transition ensures that existing resources are deployed with maximum impact and that long-range planning is aligned with measurable community outcomes. These updates are intended to provide the City

Council with a clear roadmap of the department's current direction and strategic next steps as we move into FY 2026-27.

The Parks and Open Spaces Program is transitioning toward a measurable Level of Service (LoS) framework while managing an extensive portfolio of active capital projects and incoming community requests. The department has developed a 5-Year Roadmap to navigate significant funding needs and operational constraints. This structured direction is imperative to ensure that the city's 54 parks and 160 acres of open space remain safe and inviting while we move toward long-term sustainability for our Landscape Maintenance Districts. Further details regarding project volume and service level goals are included in Attachment 8 – Parks Program Update.

The Neighborhood Safety and Access Program (NSAP) represents the consolidation of several transportation initiatives, including Bicycle and Pedestrian, Safe Routes to School, and Traffic Safety into one unified program. This streamlined approach focuses on enhancing safety through speed management and access by improving neighborhood connectivity for all modes of travel. The department is currently evaluating over 500 existing resident requests to build a data-driven five-year program plan. This plan will ensure future improvements are strategically positioned for grant funding and align with the City's long-range mobility goals. For a comprehensive overview of the program's structure and prioritization criteria, please refer to Attachment 9 – Traffic calming and traffic safety.

The Capital Improvement Program (CIP), including major Public Works capital needs and priorities, will be presented and discussed with the City Council on May 26, 2026, as part of the overall budget schedule. This upcoming discussion will also include the funding allocation recommendations outlined in Attachment 12 (Complete Streets Funding Allocation), which proposes \$6.27 million in project-level investments.

## **CITY COUNCIL REQUESTS**

The following table lists active City Council requests that are currently under review and have not yet been incorporated into existing work plans.

### **City-wide City Council-Directed Work Efforts**

A total of 34 City Council-directed work efforts have been identified from January 1, 2025 to the present, spanning policy development, capital projects, new program creation, and ongoing service delivery. Many of these efforts require significant staff time, interdepartmental coordination, funding identification, and long-term implementation, representing a substantial expansion beyond baseline operational responsibilities. These 34 items reflect formally documented Council actions and may not capture all ongoing requests made directly to staff.

Table 8: Summary of City Council-Directed Work Efforts (January 1, 2025 – Present)

#	Item	Topic Area
1	Tiny Home Village Support Services/Unhoused Interventions	Housing
2	Wildfire Preparedness Ad Hoc Committee & Assessment	Public Safety
3	Gender-Based Violence	Public Safety
4	Healthy Retail (HOPS) Ordinance	Policy
5	Municipal ID Program Expansion	Policy
6	Immigrant Legal Services Funding & RFP	Housing / Equity
7	Unfunded Pension & OPEB Liability Analysis	Finance
8	Tree Wells in CIP Sidewalk Projects	Infrastructure
9	Parchester Village Infrastructure Master Plan	Infrastructure
10	Increased Fireworks Fines in High Fire Zones	Public Safety
11	Ciclovia Program Design & Implementation	Parks / Transportation
12	Community-Led Bus Stop Bench Program	Transportation
13	Gender-Based Violence Program & RFP	Equity
14	Harbour 8 Park Expansion Funding & Oversight	Parks
15	Black Resiliency Project & Fund	Equity
16	Clean Richmond Pilot Program (Maintenance Crews)	Workforce
17	Historic Buildings Preservation Program	Planning
18	Unhoused Services RFP Process Reform	Housing
19	Ban Corporate Land Grabs (Presentation)	Planning
20	Hilltop Horizon Specific Plan (Draft Land Plan)	Planning
21	Police Communication & Counseling Policy (OIS incidents)	Public Safety
22	Public Lands Policy (Building Trades)	Economic Development
23	Emergency Support for School Labor Disruption	Administration
24	Arts & Culture Manager + Grant Process Reform	Community Services
25	Council Liaison Appointment Cycle Change	Administration
26	Polluters Pay Settlement – Community Input Process	Finance
27	ICE-Free Zone Ordinance & Protocol	Policy
28	Corporate Land Grab Legal Analysis	Policy
29	Safe Walk Zone Ordinance (23rd Street)	Public Safety
30	AAPI Community Celebration (City Co-Sponsorship)	Community Services
31	Blue Envelope Program (Public Safety Initiative)	Public Safety
32	Caste Equity Resolution & Ordinance Update	Policy
33	Cheese Park (La Moine) Improvements Plan	Parks
34	Pullman Neighborhood Park & Land Acquisition Feasibility	Parks / Planning

## NEXT STEPS

City staff will continue to review economic trends and update the proposed FY 2026-27 Operating Budget and FY 2026-31 Capital Improvement Plan based on City Council direction. Updated budget materials will be brought forward for consideration at the City Council meetings scheduled for May 26, June 16, and June 23, 2026.

**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 – FY 2026-31 Five-Year Capital Improvement Plan
- Attachment 6 –Capital Improvement Projects 10-Year Forecast
- Attachment 7 – City Council Strategic Goals and Priorities
- Attachment 8 – Parks Program Update
- Attachment 9 – Transportation Program Update
- Attachment 10 – Boards and Commissions Listing
- Attachment 11 – League of California Cities Legislative Update
- Attachment 12 – Complete Streets Funding Allocation