

Proposed FY 25/26 Biennial Budget

City Council
May 21, 2024

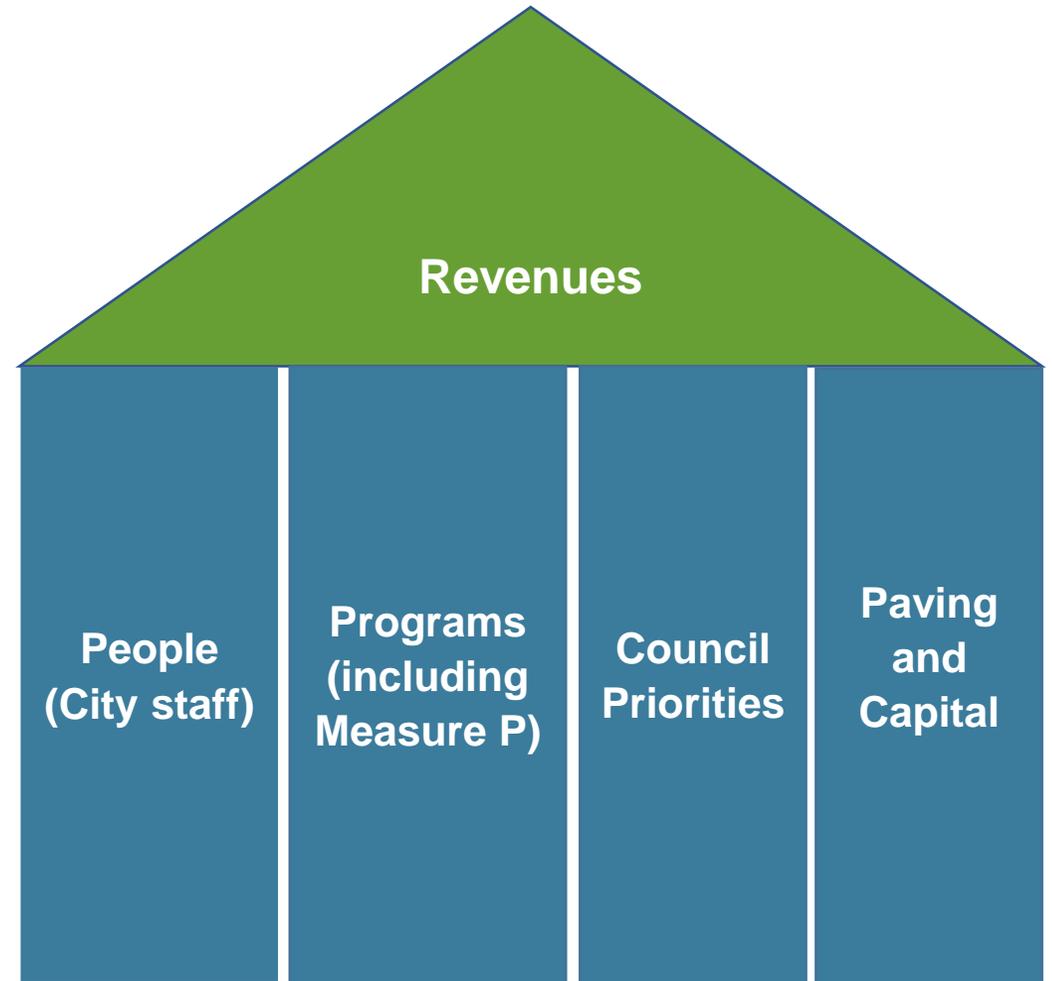
PURPOSE AND OVERVIEW

Purpose:

- Receive a presentation on the FY25/26 Biennial Budget
- Overview of revenue and expenditure assumptions
- Identification of fiscal needs on the horizon
- Identification of preliminary strategies regarding balancing the budget
- Ability to ask questions and provide comments
- **No action required** as funding recommendations and strategies are being developed in consultation with Budget and Finance Policy Committee and will be brought to Council in June

FY25/26 BIENNIAL BUDGET THEME

- **Theme is stabilization**
 - **Workforce**
 - Progress on filling vacant positions
 - Challenges with vacancies in public safety and other specialized fields
 - Increase in pension costs
 - **Operations**
 - Increases in cost of providing services
 - General Fund assistance to other funds as revenues continue to rebound post-pandemic and cost recovery for internal services
 - Allow time for implementation and evaluation of key initiatives



- **Revenue growth is not keeping up with known costs requiring prioritization of funding needs to support City operations while maintaining a balanced budget.**

FY25/26 BIENNIAL BUDGET THEME

- **A Number of “Moving Parts” in this Moment**

- Labor costs increasing
- Several potential Ballot Measures for November ballot with potential impacts to both revenues and expenditures
- State budget deficit
- Year-End results pending

- **Timing**

- Consideration of a pause on new expenditures, beyond mandated items, is an option for Council consideration
- To hold with the baseline budget plus minimal, mandatory additions until there is a clearer fiscal picture

▪ **Consideration of steps that can be taken to create a stable and sustainable budget.**

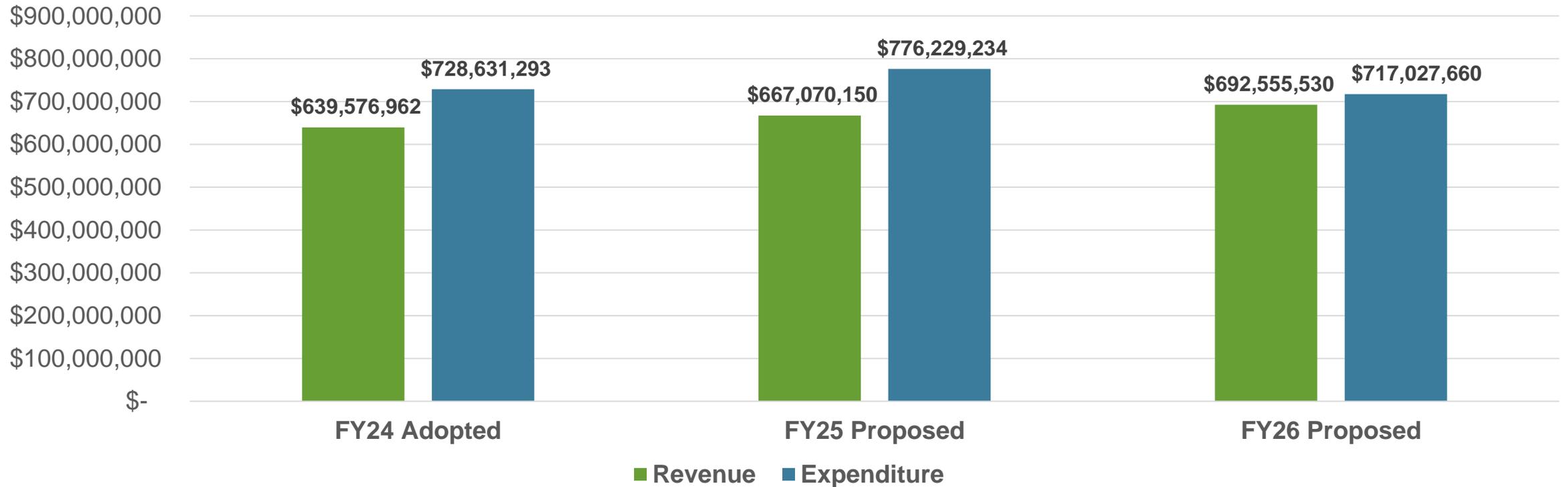
FY25/26 CITYWIDE EXPENDITURE SUMMARY

Expenditures (in millions)	FY22 Adopted	FY23 Adopted	FY24 Adopted	FY25 Proposed	FY26 Proposed
General Fund	\$241.2	\$286.9	\$283.6	\$277.9	\$288.0
Other Funds	432.4	467.3	445.0	498.3	483.0
Total	673.6	754.2	728.6	776.2	771.0

- **The FY25 budget is \$776.2 million, decreasing by \$5.2M, or less than 1%, in FY26.**
- **The General Fund makes up ~63% of the budgeted expenditures in both fiscal years.**
- **Total budget decreases in FY26, but General Fund increases by \$10.1M, or 3.6%, in FY26.**
- **Council has the most flexibility regarding expenses that may be paid by the General Fund.**

FY25/26 CITYWIDE BUDGET SUMMARY

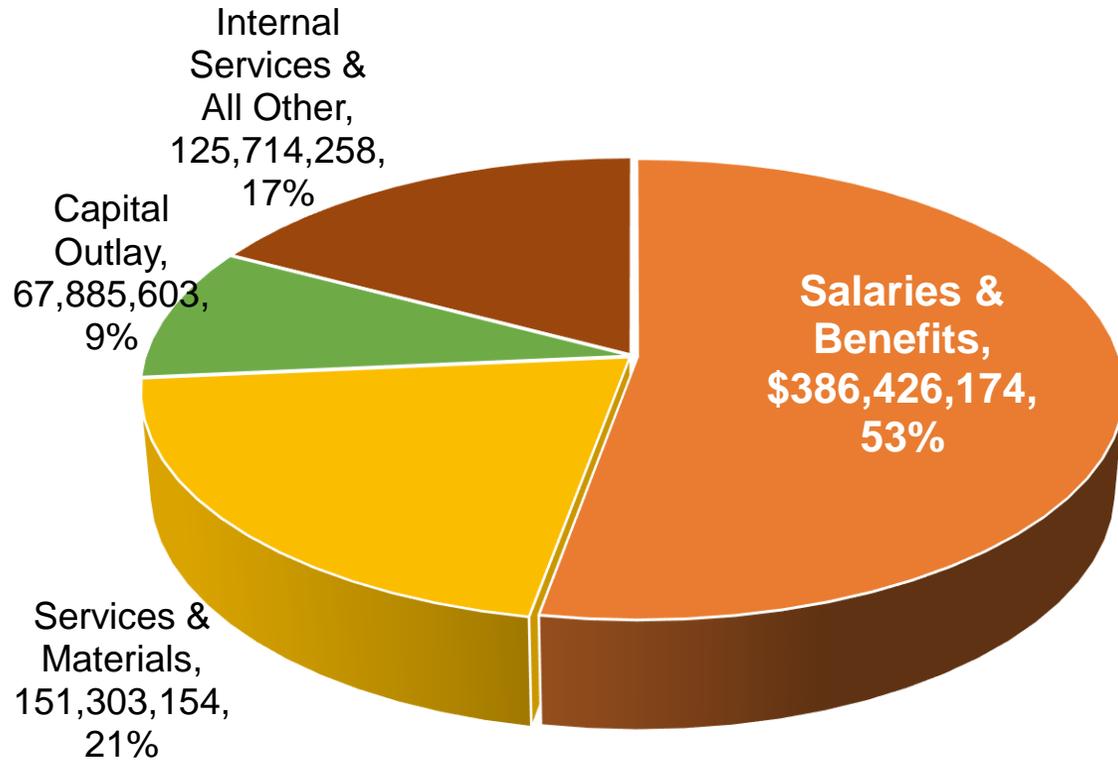
All Funds Budget at a Glance



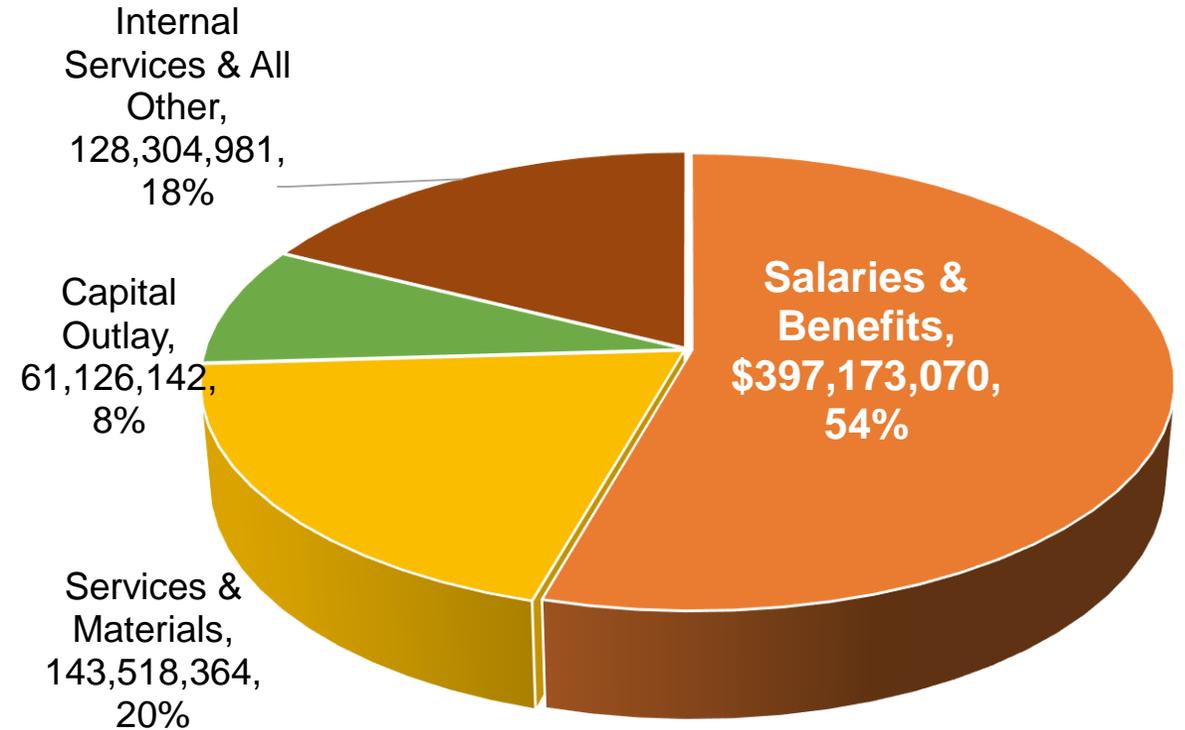
- Revenue growth is projected at 4% each fiscal year; however, expenditures increase by 7% in FY25 over the FY24 Adopted and then decrease by 8% in FY26 compared to FY25.
- Fund balance (prior years' savings) will be used by most funds to offset expenses.

FY25/26 CITYWIDE EXPENDITURES BY EXPENDITURE TYPE

All Funds - FY 2025 Total \$776.2M



All Funds - FY 2026 Total \$771M



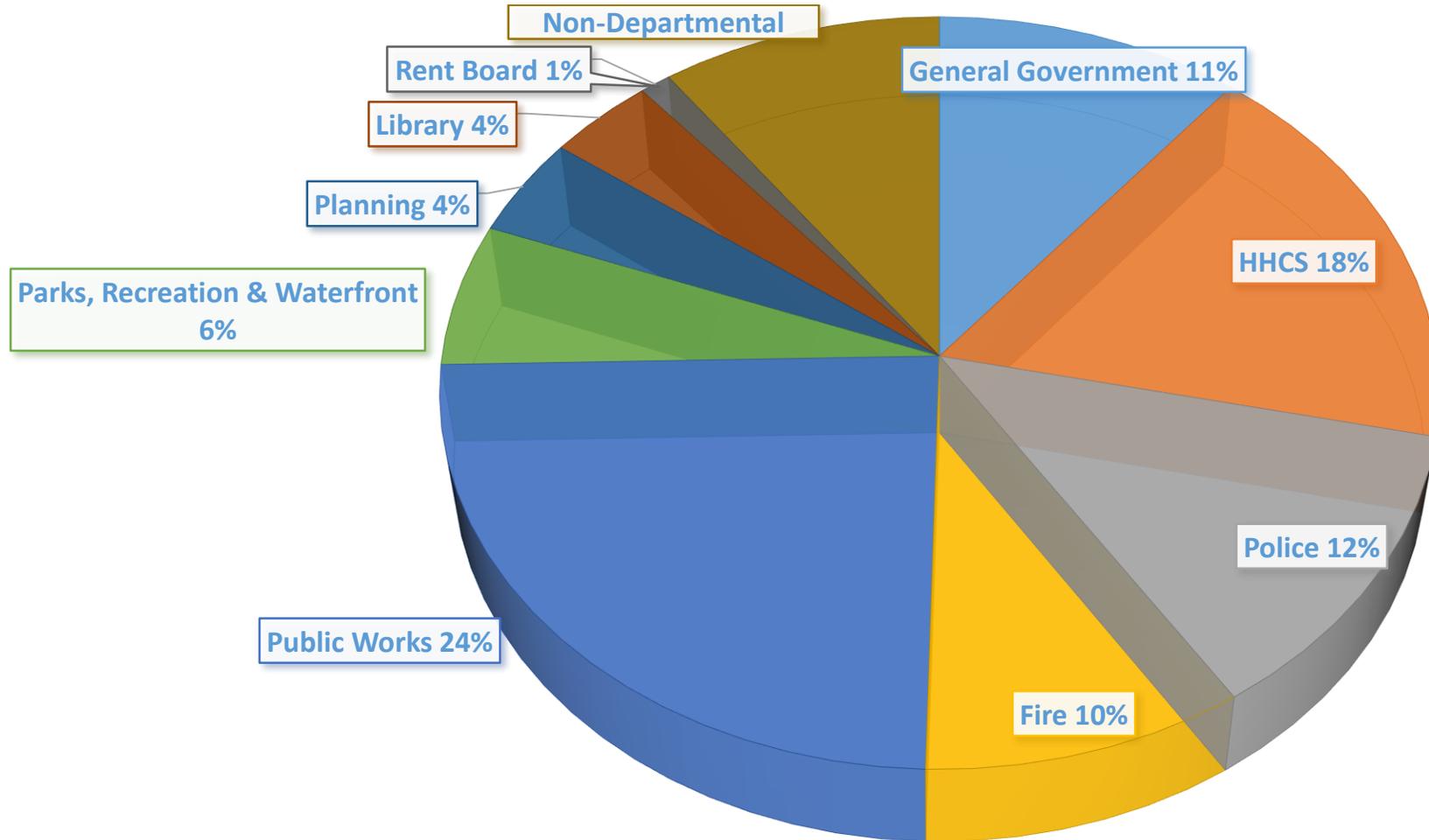
- Personnel expenditures represent a little more than half of citywide expenditures.

FY25/26 PROPOSED STAFFING

DEPARTMENT	Total FTE Count		
	FY 2025	General Fund	All Other Funds
City Attorney	17	17	0
City Auditor	16	15	1
City Clerk	10	9	1
City Manager	56	54	2
Finance	56	47	9
Fire Department	200	161	39
Health, Housing & Community Services	247	80	167
Human Resources	26	17	9
Information Technology	51	0	51
<i>Library</i>	133	0	133
Mayor and Council	23	23	0
Office of the Director of Police Accountability	6	6	0
Parks, Recreation & Waterfront	113	26	87
Planning & Development	109	17	92
Police Department	303	282	21
Public Works	350	26	324
<i>Rent Board</i>	26	0	26
Grand Total	1742	781	961

- Full-time equivalent (FTE) of 1,742. Public Works, Police, HHCS and Fire are the largest.
- Requests for additional positions are being reviewed with the goal of balancing operational needs, including filling vacant positions, with fiscal sustainability.

FY25/26 CITYWIDE EXPENDITURES BY DEPARTMENT



- The largest expenditures are housed in Public Works, followed by HHCS and Police.

FY25/26 CITYWIDE EXPENDITURES BY DEPARTMENT

	FY 2021 Actual	FY 2022 Actual	FY 2023 Actuals	FY 2024 Adopted	FY 2025 Proposed	FY 2026 Proposed
Mayor & Council	2,708,844	3,334,707	3,943,449	4,772,190	5,923,941	5,975,687
Auditor	2,526,081	2,691,657	2,711,754	3,231,099	3,759,532	3,838,168
Police Review Commission ^(a)	744,950					
Office of the Director of Police Accountability		808,594	909,307	1,363,509	1,484,847	1,524,120
City Manager	13,399,097	18,410,347	19,826,928	17,019,184	17,759,454	17,981,506
Information Technology	16,552,132	16,446,316	15,454,604	22,291,720	23,471,574	23,651,297
City Attorney	6,214,367	6,200,455	7,880,613	8,173,384	9,290,707	9,425,304
City Clerk	3,194,204	2,402,277	2,876,231	3,159,486	3,518,483	3,576,397
Finance	8,146,012	8,738,588	8,872,348	11,057,143	12,206,713	12,346,935
Human Resources	4,078,091	3,574,288	4,588,217	5,442,688	5,993,013	6,198,864
Health, Housing & Community Services	81,811,330	91,780,016	102,103,272	100,318,536	136,190,249	135,264,450
Police	79,395,632	82,753,749	89,672,154	88,566,557	94,604,991	98,233,808
Fire	49,891,701	58,014,192	62,872,371	62,316,809	72,896,781	74,740,324
Public Works	125,907,423	140,757,036	133,049,554	188,946,163	192,342,980	182,649,726
Parks, Recreation & Waterfront	60,795,051	63,541,966	45,597,367	53,914,604	47,637,758	47,373,715
Planning	21,687,691	22,433,636	24,148,378	31,267,162	33,307,718	33,268,669
Library	20,255,244	18,476,577	19,956,135	25,024,425	29,196,379	29,606,294
Rent Board	5,517,190	5,803,127	6,784,837	8,056,460	8,489,208	8,597,595
Non-Departmental ^(b)	95,581,042	112,969,200	119,779,633	93,710,173	78,154,903	76,774,801
Total All Funds	598,406,081	659,136,728	671,027,152	728,631,293	776,229,232	771,027,661

BUILDING THE GENERAL FUND BASELINE

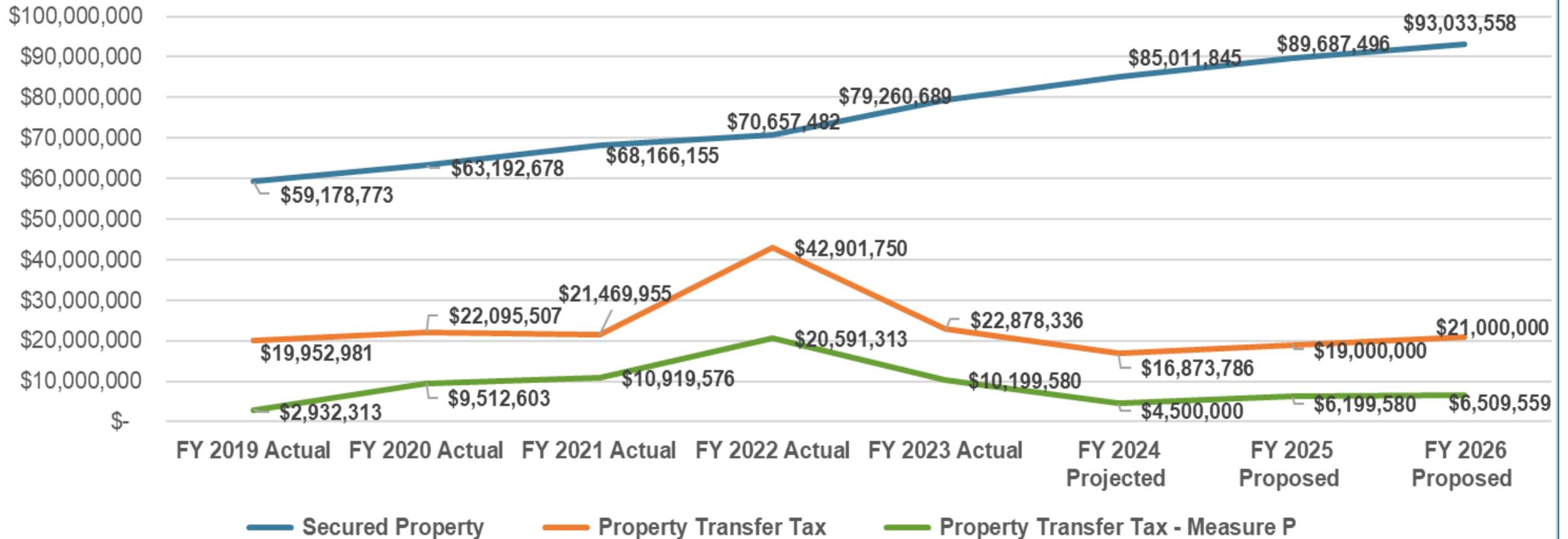
FY 25/26 REVENUE ASSUMPTIONS

UPDATED REVENUE PROJECTIONS

- **Overall - minimal revenue growth**
 - FY 25 growth **up \$7M or 3%** over FY24 Adopted (Mid-Biennial Update)
 - FY 26 growth **up \$10.6M or 4%** over FY25 Projected
 - **New** revenue Empty Homes vacancy tax of **\$5M** in FY26
- **While property tax reflects growth, transfer tax is significantly down**
 - Secured property tax **up 6%** in FY25 over FY24 Adopted; **up 3%** in FY26 over FY25
 - PTT **down \$3.9M (-17%)** in FY25 to \$19M; **up \$2M (11%)** to \$21M in FY26
 - Measure P **down \$4.0M (-39%)** in FY25, **up \$310k (5%)** in FY26
 - Conversely, investment income **up \$4.7M (53%)** in FY25 due to interest rates
- **Local revenues have returned to pre-pandemic levels and holding steady**
 - Business license tax of \$24M, **up \$2M (10%)** in FY25
 - Sales tax of \$19M, **down \$770k (-4%)** in FY25

PROPERTY-RELATED TAXES

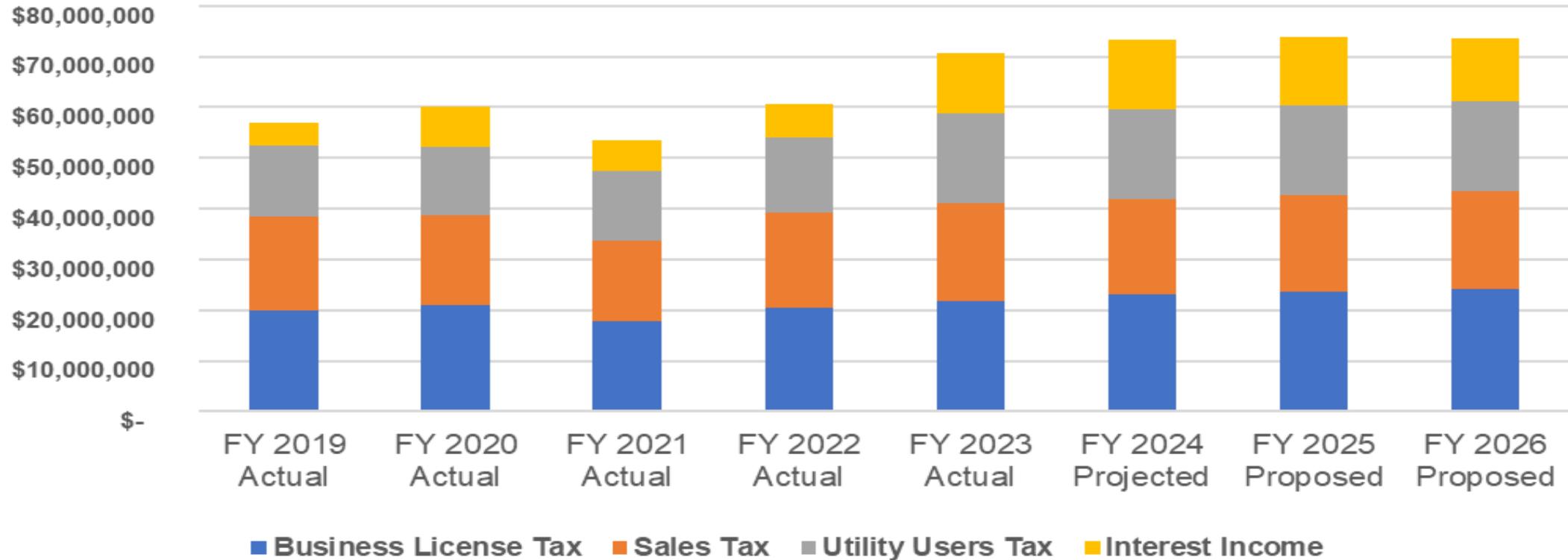
General Fund Revenues (Property Taxes)



- These three revenues make up 42% of projected General Fund revenues in FY25 & FY26.
- Interest rates by the Federal Reserve Board (along with rising mortgage rates) indicate a slowing US economy, a decline in property values and in property sales activity.

OTHER MAJOR REVENUES

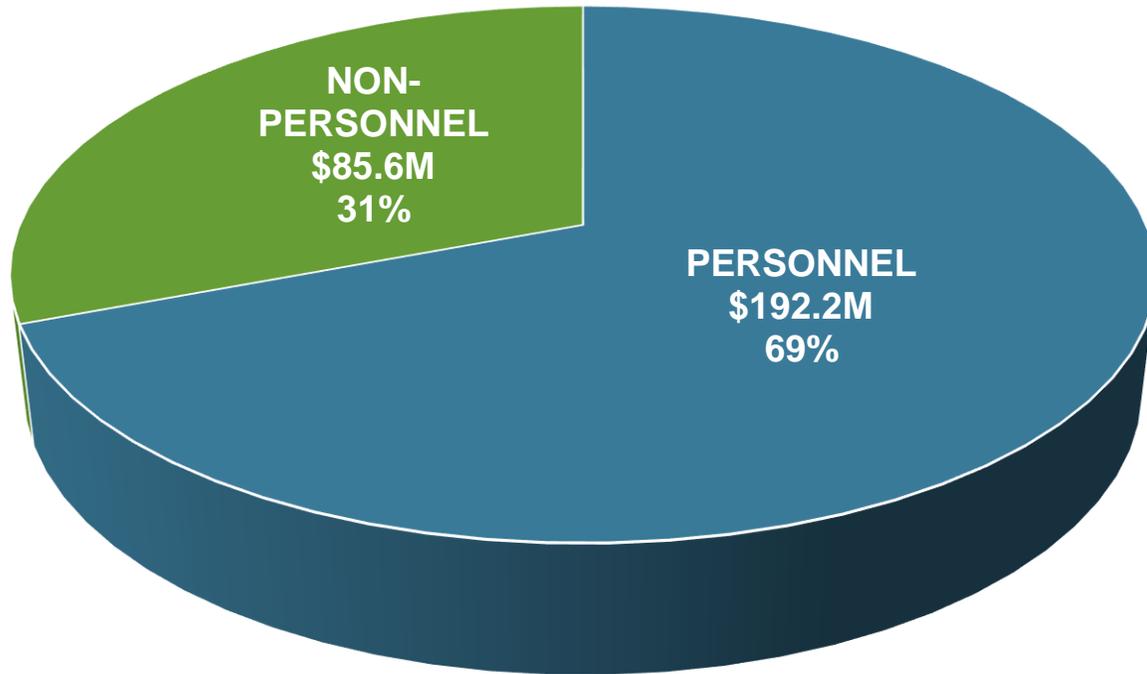
General Fund Revenues (Other Major Revenues)



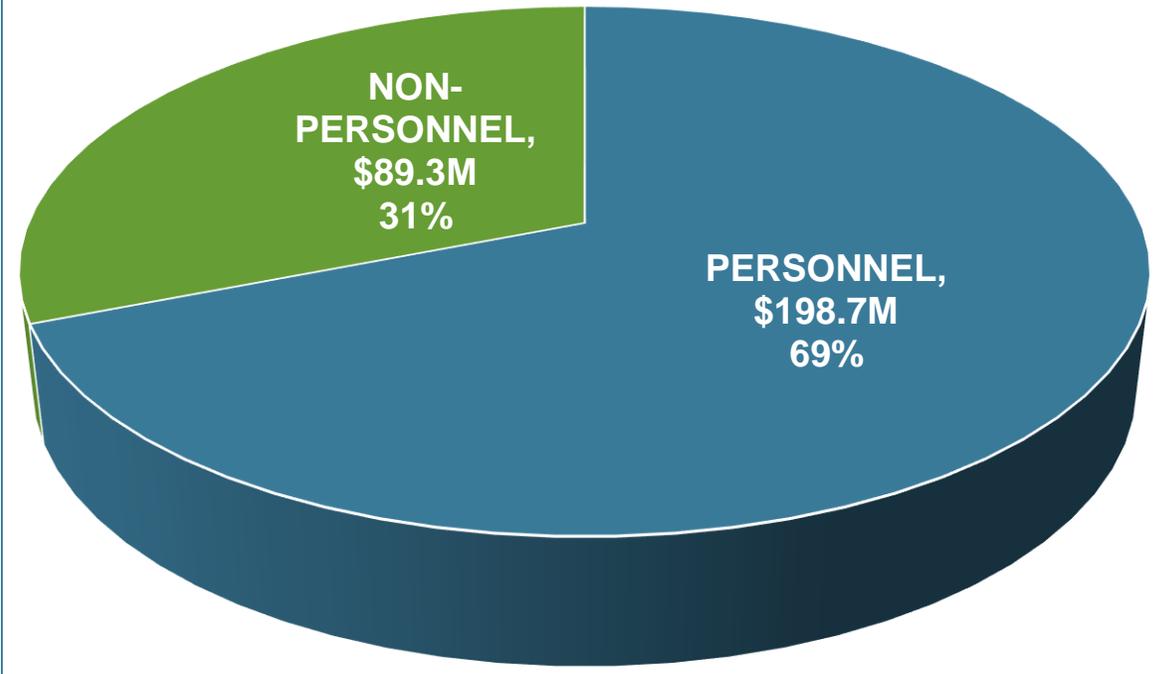
- These four sources are ~27% of projected revenue in FY25 & FY26.
- Investment income, tied to interest rates, offsetting some property tax loss.
- Local revenues holding steady. Loss of \$66M in one-time ARPA funds.

FY25/26 GF EXPENDITURE SUMMARY

General Fund Expenditure Summary
FY 2025 Proposed Budget
\$277.9M



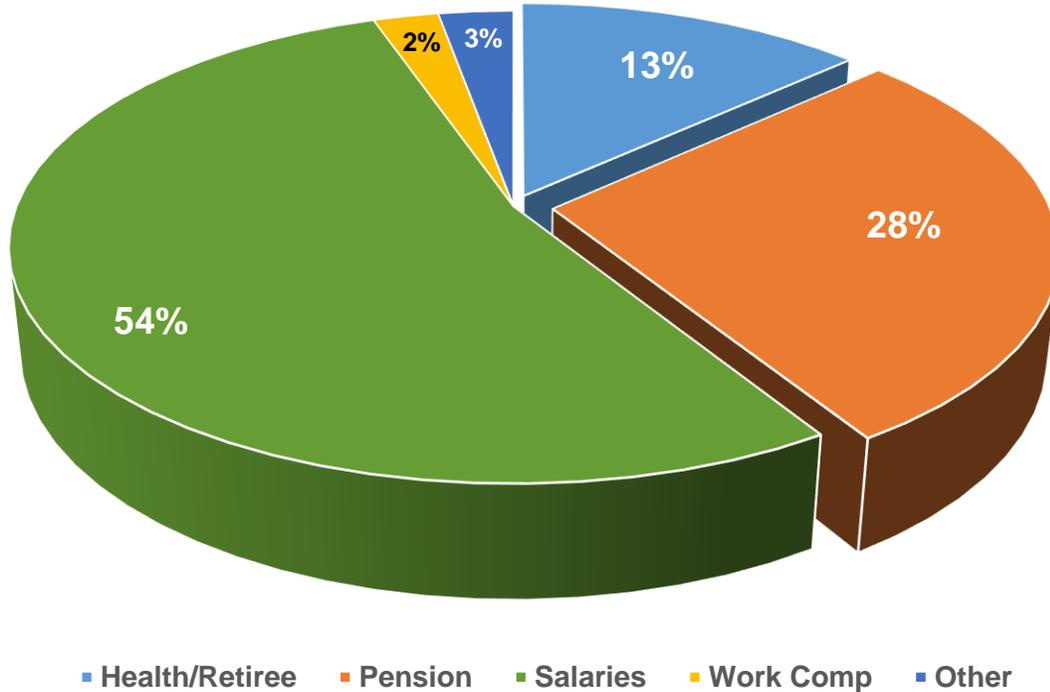
General Fund Expenditure Summary
FY 2026 Proposed Budget
\$288.0M



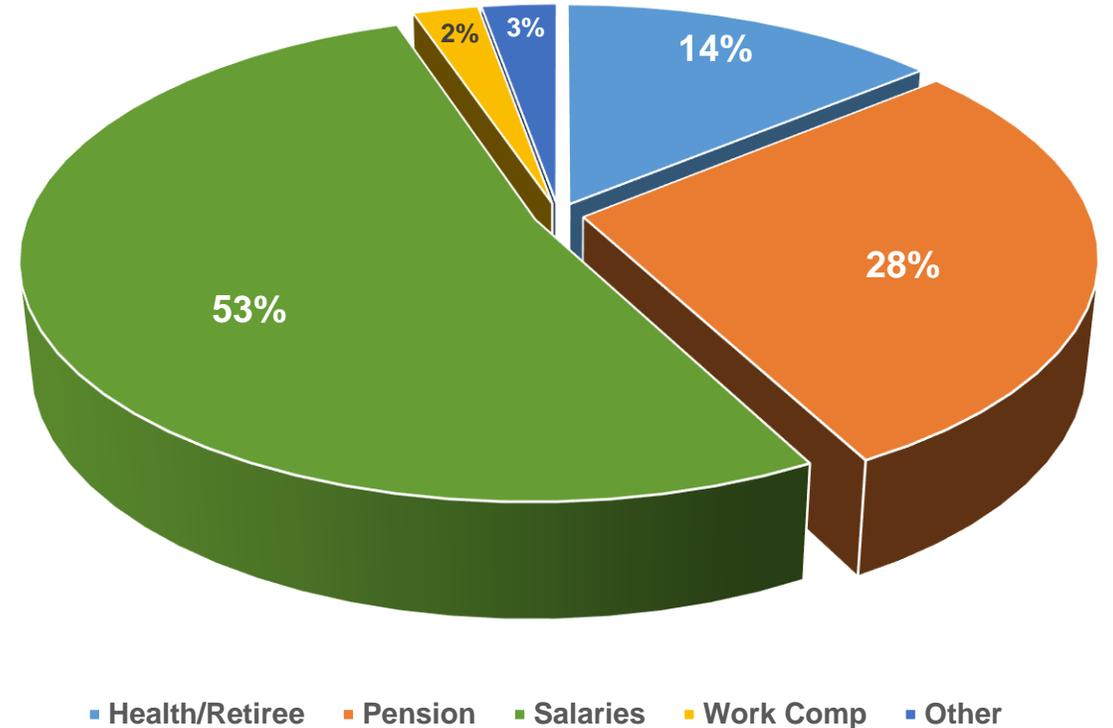
- Based on current staffing levels, personnel costs are ~70% of General Fund baseline expenditures (compared to 61% of baseline in FY24).

FY 25/26 GF PERSONNEL EXPENDITURES

FY25 Personnel Expenditures by Type



FY26 Personnel Expenditures by Type



- After salaries, leading drivers of growth are pension (almost 1/3 of the budget) and health insurance.

GENERAL FUND EXPENDITURE ASSUMPTIONS

■ Personnel Costs

- Includes positions added in FY 24 Mid-Biennial Update
- Reflects adopted MOUs for BPA and BFFA and add pays
- Assumes no COLA for miscellaneous employees (currently in labor negotiations)
- Includes \$10M in salary savings targets each fiscal year (8% for most departments)
- Reflects increase in health insurance based on updated insurance rates
- Reflects increase in pension costs for employer normal cost (City share of retirement cost for current employees) and unfunded actuarial liability (for prior employees) using information from CalPERS

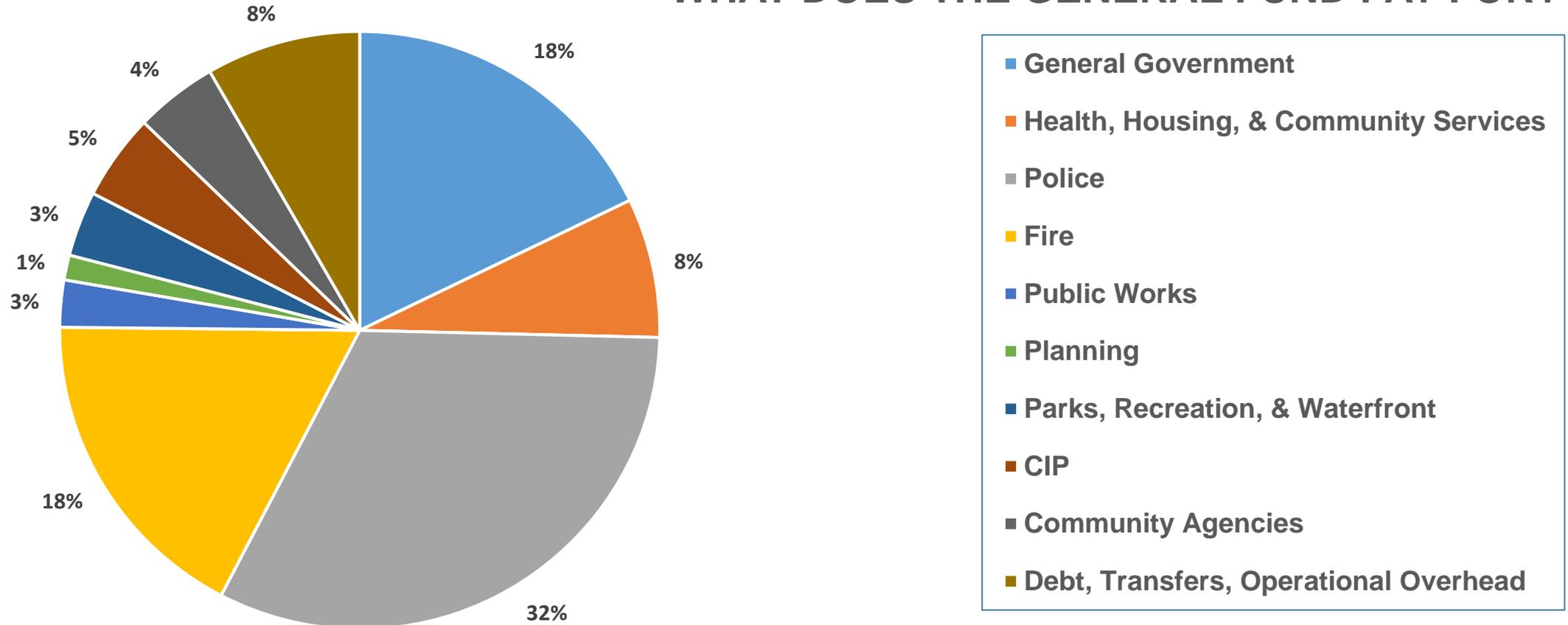
GF PERSONNEL EXPENDITURE PROJECTIONS

	FY2024 Adopted	FY2025 Preliminary	Variance	Percent Change	FY2026 Preliminary	Variance	Percent Change
Health Insurance	16,670,962	20,841,670	4,170,708	25%	23,095,786	2,254,116	11%
Pension	43,772,369	53,670,946	9,898,577	23%	56,045,515	2,383,569	4%
Other Benefits	4,758,590	5,461,150	702,560	15%	5,511,326	324,457	6%
Salaries/Wages	93,580,641	102,989,920	9,409,279	9%	104,534,917	1,544,997	1%
Retiree Medical	4,524,636	4,690,368	165,732	4%	4,813,772	149,896	3%
Worker Comp.	4,368,299	4,760,694	392,395	9%	4,813,722	113,592	2%
Total	167,675,497	192,414,748	24,739,251	15%	198,815,038	6,400,290	3%

- Many benefits are tied to payroll costs so these costs will also increase based on wage adjustments and/or the number of filled staff positions.
- Pension is also increasing due to CalPERS investment losses in 2022.

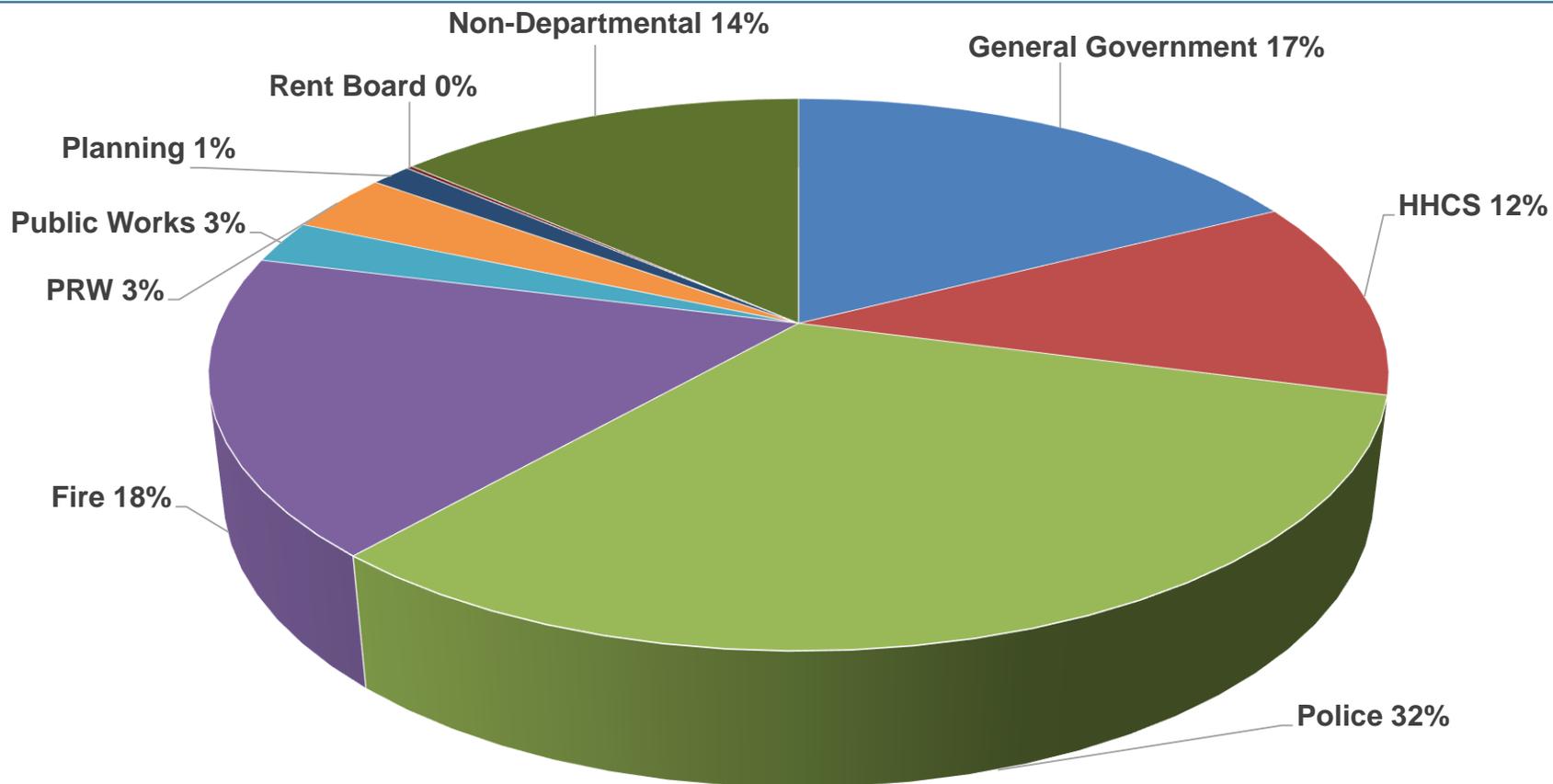
FY25/26 GF EXPENDITURES AT A GLANCE

WHAT DOES THE GENERAL FUND PAY FOR?



- **\$144M (50%) of General Fund is for public safety; \$13M (5%) for Capital (CIP) and \$12M (4%) for community agencies**

FY25/26 GF EXPENDITURES BY DEPARTMENT

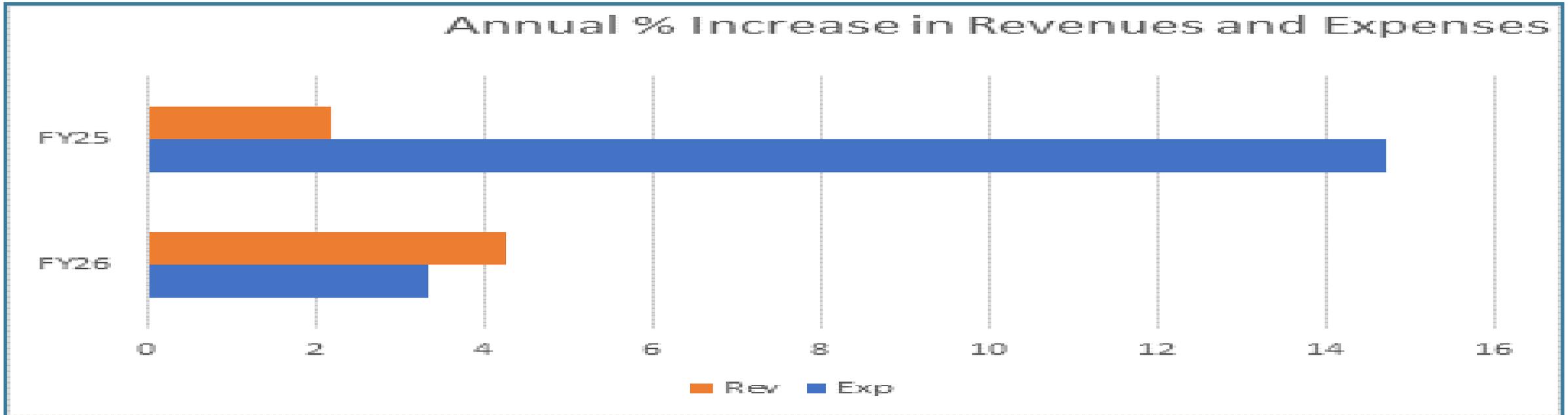


- The General Fund largest expenditures are Police, HHSC and General Government.
- Public Works, the largest expenditure across all funds at 24%, drops to just 3% of GF.

FY25/26 GF EXPENDITURES BY DEPARTMENT

	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Adopted	FY 2025 Proposed	FY 2026 Proposed
Mayor & Council	2,701,344	3,334,707	3,939,049	4,772,190	5,923,941	5,975,687
Auditor	2,467,028	2,627,179	2,633,228	3,136,323	3,657,880	3,734,615
Police Review Commission	744,950					
Office of the Director of Police Accountability		808,594	909,307	1,363,509	1,484,847	1,524,120
City Manager	10,360,937	12,050,089	13,385,434	13,280,234	14,309,804	14,527,224
Information Technology	1,330,730	1,446,932	882,432	1,580,760	1,580,760	1,580,760
City Attorney	2,760,048	2,648,007	3,701,943	4,370,439	5,612,249	5,662,266
City Clerk	2,832,552	2,235,191	2,550,698	2,547,276	2,867,551	2,918,529
Finance	6,682,935	6,827,435	7,075,972	8,179,370	9,685,628	9,798,626
Human Resources	2,318,029	2,052,892	2,971,640	3,467,541	3,928,242	4,073,809
Health, Housing & Community Services	25,566,360	32,619,368	28,154,026	32,064,102	32,884,252	33,150,340
Police	77,270,053	77,916,629	84,895,064	83,984,966	89,720,763	93,285,424
Fire	38,988,843	43,574,467	40,874,526	39,546,063	48,724,616	50,307,565
Public Works	5,499,277	6,859,823	7,102,952	7,178,529	7,068,389	7,231,647
Parks, Recreation & Waterfront	7,304,226	8,755,061	9,694,847	9,534,709	9,785,501	9,880,201
Planning	2,567,473	2,629,757	2,924,669	3,277,246	3,745,097	3,802,943
Rent Board	-	-	568,412	550,000	550,000	550,000
Non-Departmental	46,390,565	43,112,577	52,800,630	57,715,711	36,345,562	39,956,968
Total General Fund	\$ 235,785,349	\$ 249,498,708	\$ 265,064,829	\$ 276,548,969	\$ 277,875,083	\$ 287,960,725

REVENUE / EXPENDITURE TREND



- Annual growth rate of Revenue increase is approximately 3%.
- Annual growth rate of personnel-related expenditure increase is approximately 15%, requiring reductions in non-personnel expenditures. Even then, overall expenditures need to be less than 3% to equal revenue projections.

PRELIMINARY GENERAL FUND STATUS

	FY 2024 Adopted	FY 2025 Baseline	FY 2026 Baseline
Measure P	10,189,500	6,199,580	6,509,559
Measure U1	5,900,000	6,500,000	6,200,000
Other Revenues	250,328,842	260,704,520	271,338,157
All General Fund Revenues	266,418,342	273,404,100	284,047,716
Measure P	21,100,176	11,160,280	14,197,490
Measure U1	5,900,000	6,500,000	6,200,000
Other Expenditures	240,548,793	252,214,803	259,563,235
Streets Baseline	9,000,000	8,000,000	8,000,000
Revised All General Fund Expenditures	276,548,969	277,875,083	287,960,725
Surplus/(Deficit)	(10,130,627)	(4,470,983)	(3,913,009)
Worker Compensation Holiday		4,760,694	4,869,832
Revised Surplus/(Deficit)		289,711	956,823

- **Baseline updated with personnel costs, Measure P programs and streets policy.**
- **Option to close the deficit with holiday to the worker compensation fund.**
- **However, this option leaves little room for funding new requests at this time.**
- **Time to pause given other funding needs on the horizon.**
- **Future years will continue to be a challenge as expenditures grow.**

IMMINENT FISCAL NEEDS & EXTERNAL FACTORS

- Updated personnel costs (labor negotiations)
- Cost increases for baseline (utilities, insurance, etc.)
- Rate adjustments for internal services and assistance to other funds
- Continuing Council priorities like Reimagining Public Safety and other referrals
- City Manager recommendations for departmental funding requests
- Charter officer funding requests
- New Council referrals
- Streets and capital needs
- State budget deficit
- Elections and possible ballot measures

BUDGET BALANCING STRATEGIES

- **FY25/26 General Fund will face a projected deficit due to expenditures outpacing revenues, especially when adjusting for forthcoming funding needs**
- **New projects and programs will need to be evaluated and deferred to the extent possible, especially in light of other expenditure increases**
- **Department requests prioritized for public health and safety, mandates and timing**
- **Possible balancing strategies are largely one-time and include holiday to the workers compensation fund, the use of the Section 115 Trust and/or Reserves**

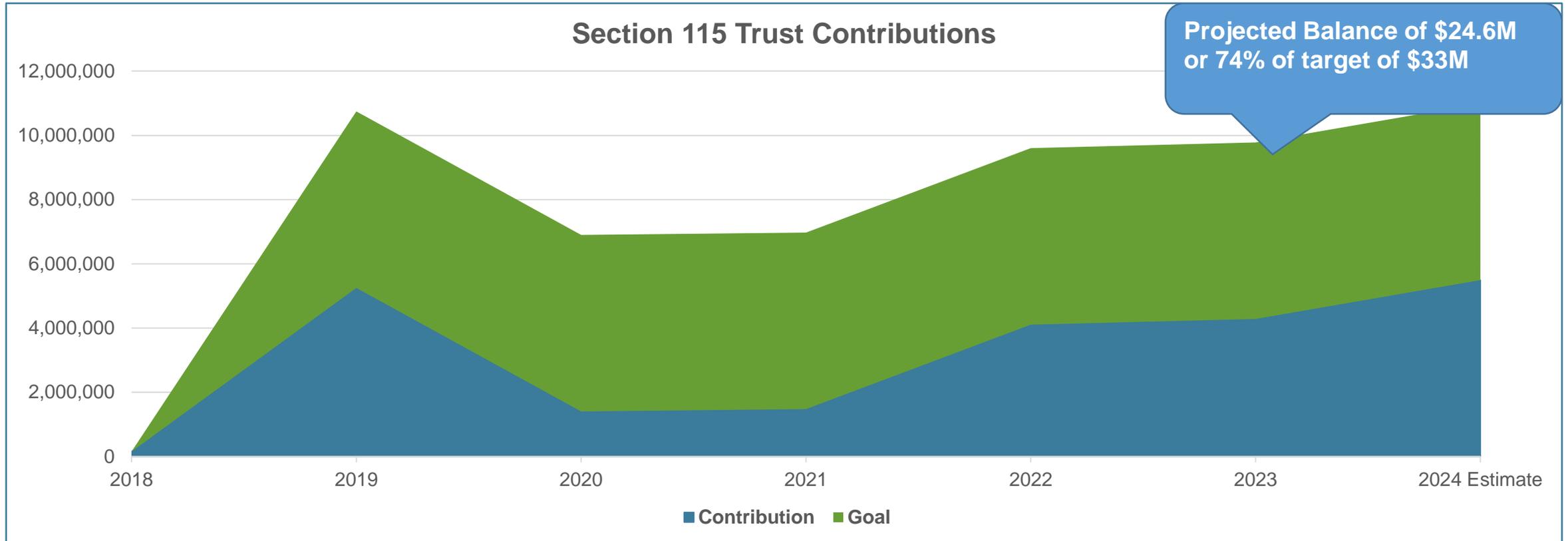
TIER CRITERIA

Tier	Criteria for Evaluation	Timing of Funding
1	<ul style="list-style-type: none"> ▪ Needed to maintain public health and safety ▪ Needed to implement a federal, state or local mandate ▪ Will generate or enhance revenue or has grant matching funds ▪ Needed to maintain existing programs, services and Council referrals ▪ Timing as funds are needed (or funding decision determined) by July 1 	Funding needed on July 1 or first quarter of fiscal year
2	<ul style="list-style-type: none"> ▪ Supports Council strategic plan goals ▪ Promotes efficiencies and process improvements in service delivery ▪ Enhances community and economic vitality ▪ Not necessary to maintain delivery of core services and programs 	Could be funded during AAO1 if funding is available or, depending on timing of implementation, could be considered during FY26 Mid-Biennial Update
3	<ul style="list-style-type: none"> ▪ Similar to Tier 2 however funding may be considered later due to the timing/feasibility for implementation of the funding request ▪ Related to policy and/or proposed reallocation of resources that require more analysis to determine the impacts to General Fund revenues and programs. Projects and services currently funded by these revenues 	Funding decision may be postponed to FY26 Mid-Biennial Update

WORKERS COMPENSATION FUND

- The recent actuarial study by Bickmore Actuarial showed the City's estimated outstanding liabilities, as of June 30, 2023, at an 80% confidence level to be at \$46.3M million for the workers' compensation program.
- Estimated ending balance for FY24 is \$46.4M.
- Remaining payment to worker compensation for University Avenue building purchase paid off in FY24.
- However, new loan of \$5.5M to Marina Fund that requires repayment (payment initially projected to occur in FY25 using \$1M of TOT revenue; however currently not included in the FY25 baseline budget).
- Worker compensation holiday in FY24 and proposed in FY25 and FY26.
- Updated actuarial study to be completed in Summer/Autumn of 2024.

SECTION 115 TRUST STATUS



- **Trust established in 6/2018. Ending balance of 6/30/23 of \$19.1M.**
- **Estimated FY24 contribution of ~\$5.0M, nearly reaching goal of \$5.5M annually. Trust balance estimated at \$24.6M, or 74%, of goal.**
- **No pre-funding of Trust (\$2M) in either FY25 or FY26 to help balance budget.**

GF RESERVES STATUS

General Fund Reserves	Stability Reserve	Catastrophic Reserve	Reserve %
Beginning Cash Balance -	\$ 23.10	\$ 17.58	
FY 2024 Allocation to Reserves	\$ 7.49	\$ 6.13	
% Allocation	55%	45%	
Ending Cash Balance - Reserves	\$ 30.59	\$ 23.71	20.38%

- Council has replenished the \$11M borrowed from reserves for the pandemic by pre-funding reserves, excess equity calculation (in Reserves Policy) and investment policy in FY23 and FY24.
- The goal is 30% of revenues by 2027. Based on current revenues, it is 20%.
- No pre-funding of Reserves (\$3.5M) in FY25 or FY26 to help balance the budget.

BUDGET ENGAGEMENT AND TIMELINE

- **May 8, 9 and 13: Budget and Finance Policy Committee meetings**
 - Department Presentations
 - Measure P and U1
 - Preliminary Discussion on Balancing the Budget
- **May 22, 2024: Budget and Finance Policy Committee**
 - Funding Requests and Council Budget Referrals
 - Budget Balancing Discussion and Recommendations
- **June 4, 2024: Council Meeting**
- **June 25, 2024: Council Meeting and Adoption**

QUESTIONS AND DISCUSSION