



# Proposed FY 25/26 General Fund Budget

Budget and Finance Policy Committee  
8 May 2024

# OVERVIEW AND BUDGET TIMELINE

- **May 8, 2024 Agenda:**
- Overview of FY25/26 Preliminary General Fund Budget
  - FY 25/26 Major Revenues and Assumptions
  - FY 25/26 Major Expenditures and Assumptions
  - Preliminary Budget Status
- Department Presentations
- **May 9, 2024:** Department Presentations
- **May 13, 2024:** Department Presentations, P/U1, Budget Balancing and Discussion
- **May 21, 2024:** Council Meeting
- **June 4, 2024:** Council Meeting
- **June 25, 2024:** Council Meeting and Adoption

# PURPOSE AND OVERVIEW

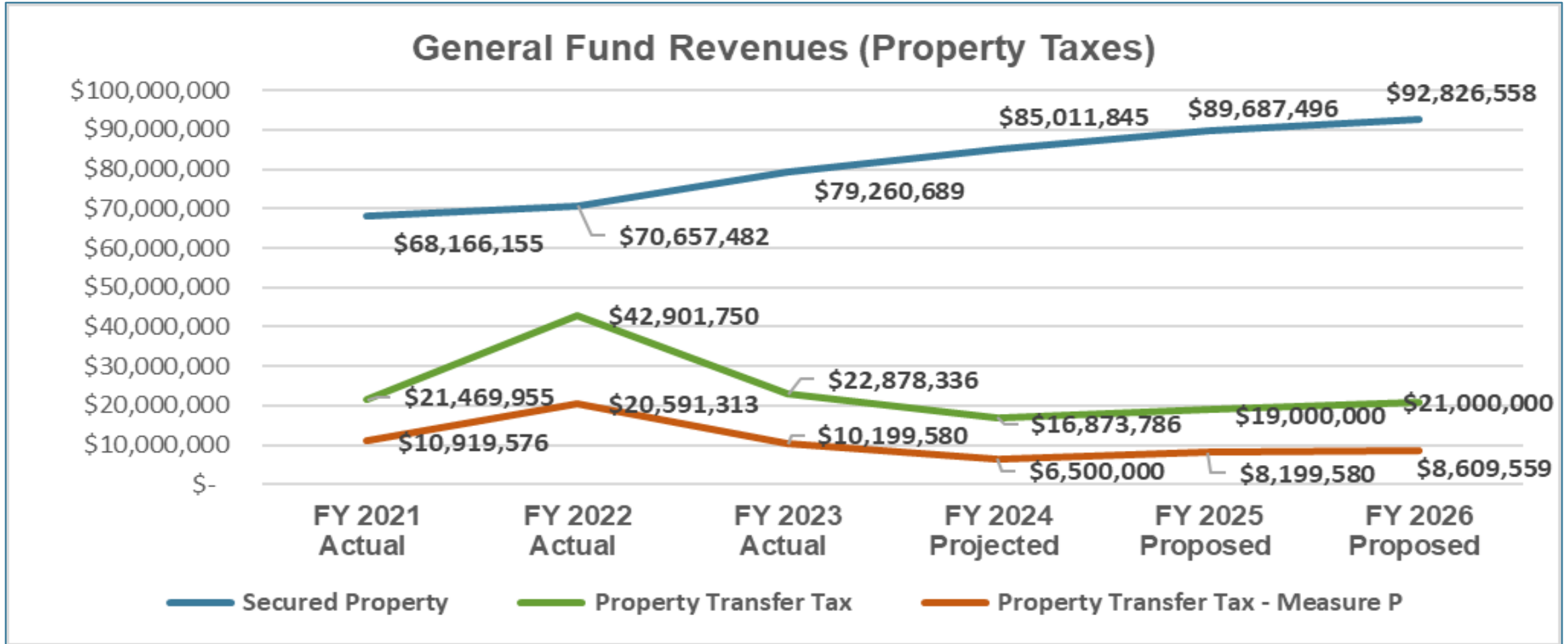
- **Purpose: Provide an overview of FY25/26 Preliminary General Fund Status**
- **FY 25 Status**
  - Modest revenue increase of 2%
  - Personnel expenditure increase of 15% primary for health and pension costs
  - Return to FY 22 baseline in non-personnel expenditures to offset costs
  - **Baseline** (i.e., with no new budget requests included) currently balanced with surplus of \$2M
- **FY 26 Status**
  - Modest revenue growth of 4% in FY26
  - Personnel expenditure increase of 3% in FY26
  - **Baseline** currently balanced with surplus of \$3M

# BUILDING THE BASELINE

# FY 25/26 REVENUE ASSUMPTIONS

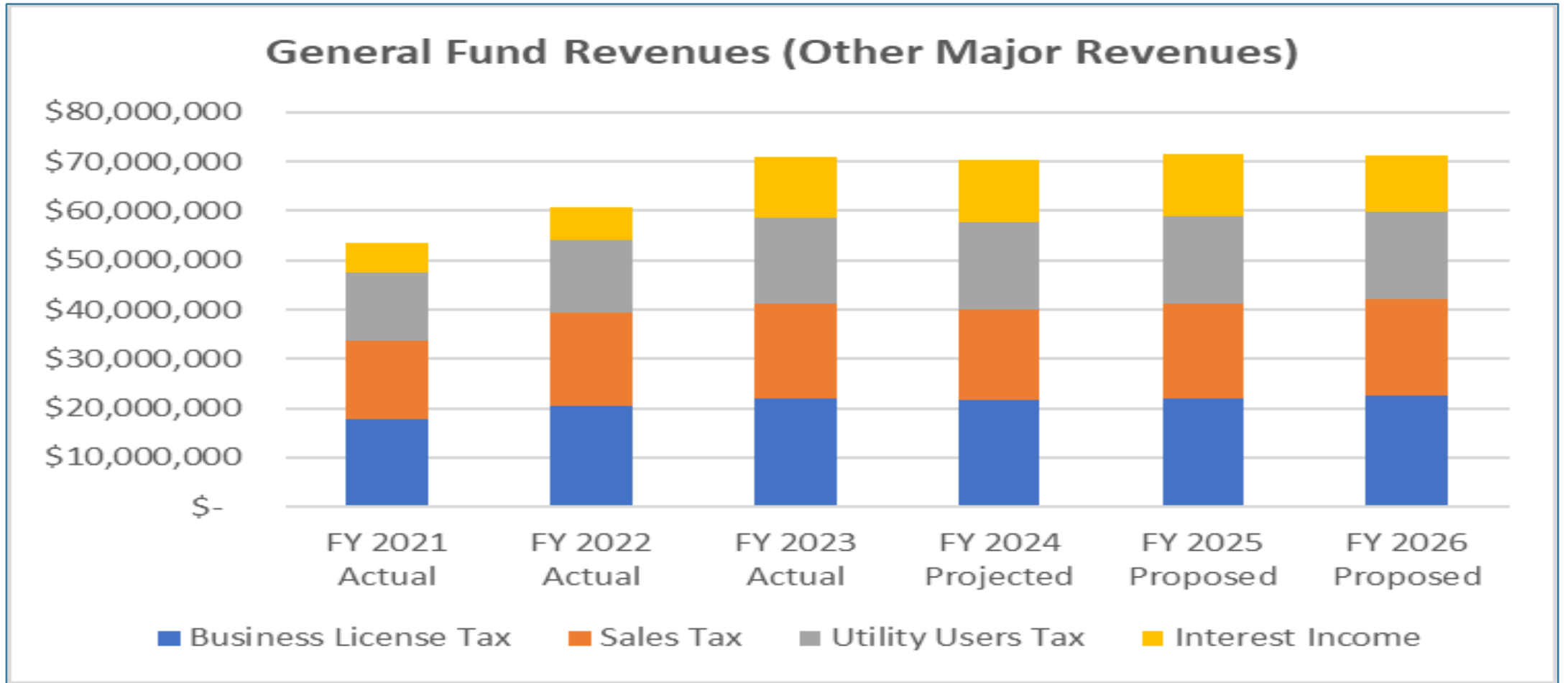
- **Overall - minimal revenue growth**
  - FY 25 growth of \$5.8M or 2.2% over FY 24 Adopted
  - FY 26 growth of \$11.5M or 4.2% over FY 25 Projected
  - New revenue Empty Homes vacancy tax of \$5M in FY 26
- **While property tax reflects growth, transfer tax is significantly down**
  - Secured property tax +5.9% in FY 25 over FY 24 Adopted; +3.5% in FY 26 over FY 25
  - PTT **down \$3.9M** (20.4%) in FY 25 to \$19M, slight rebound to \$21M in FY 26
  - Measure P continues to decline, **down \$2M** (19.5%) in FY 25, slight uptick in FY 26
  - Conversely, investment income is up due to interest rates
- **Local revenues have returned to pre-pandemic levels and holding steady**
  - Business license tax of \$22M, up 2.0% in both FY 25 and FY 26
  - Sales tax of \$19M, **down 2.4%** in FY 25, up 2% in FY 26
  - Utility tax of \$17M, up 1.4% in FY 25, no growth in FY 26

# PROPERTY-RELATED TAXES



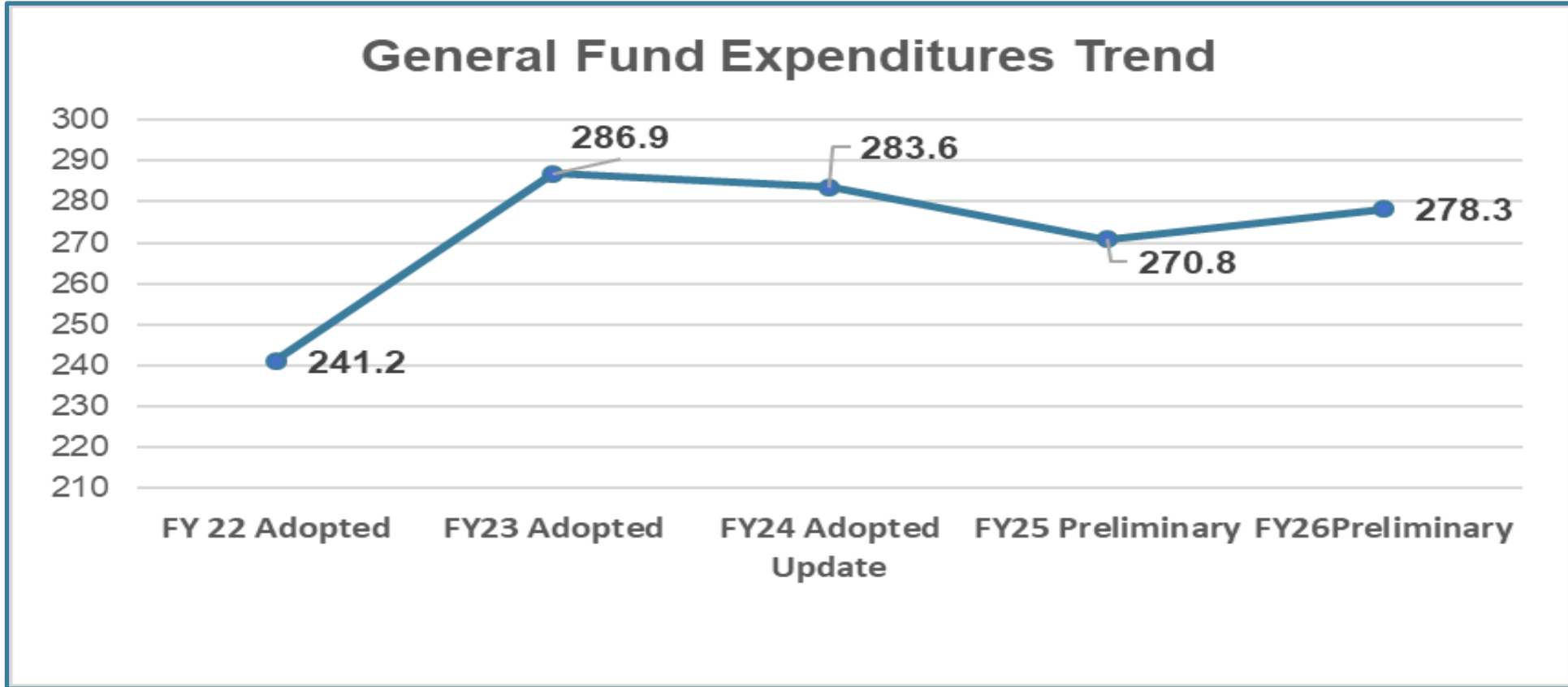
- Interest rates by the Federal Reserve Board (along with rising mortgage rates) indicate a slowing US economy, a decline in property values and in property sales activity

# MAJOR REVENUES



- Investment income offsetting some property tax loss. However, tied to interest rates. Local revenues holding steady. Unable to make up for loss of one-time ARPA.

# GENERAL FUND EXPENDITURE TREND

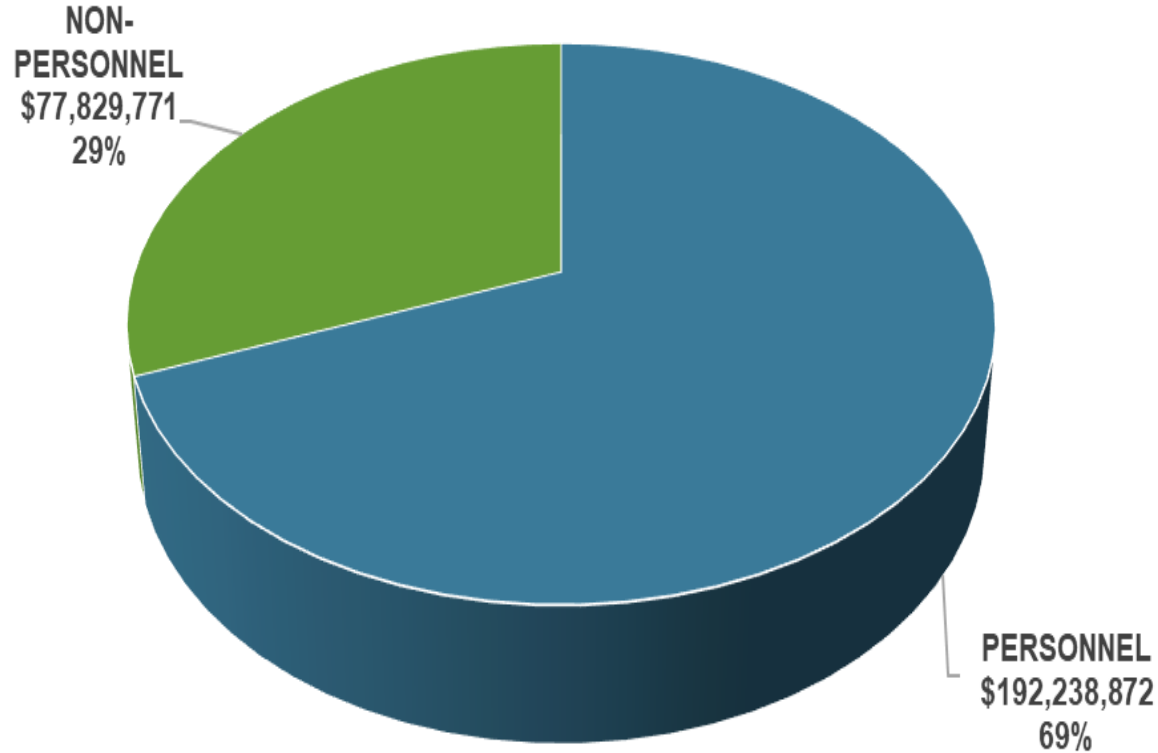


**Increases in FY 25/26 personnel-related expenditures offset by reduction in one-time funding for capital needs and other projects that occurred in FY23/24.**

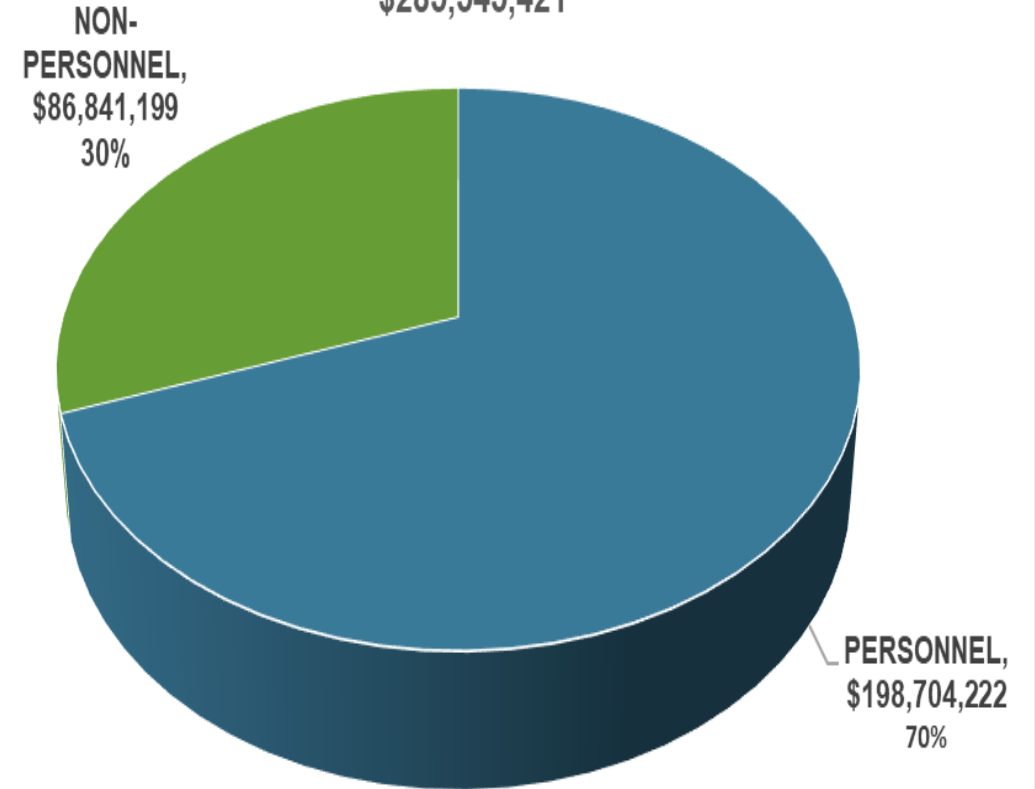


# FY 2025/26 EXPENDITURE SUMMARY

General Fund Expenditure Summary  
FY 2025 Proposed Budget  
\$278,068,643



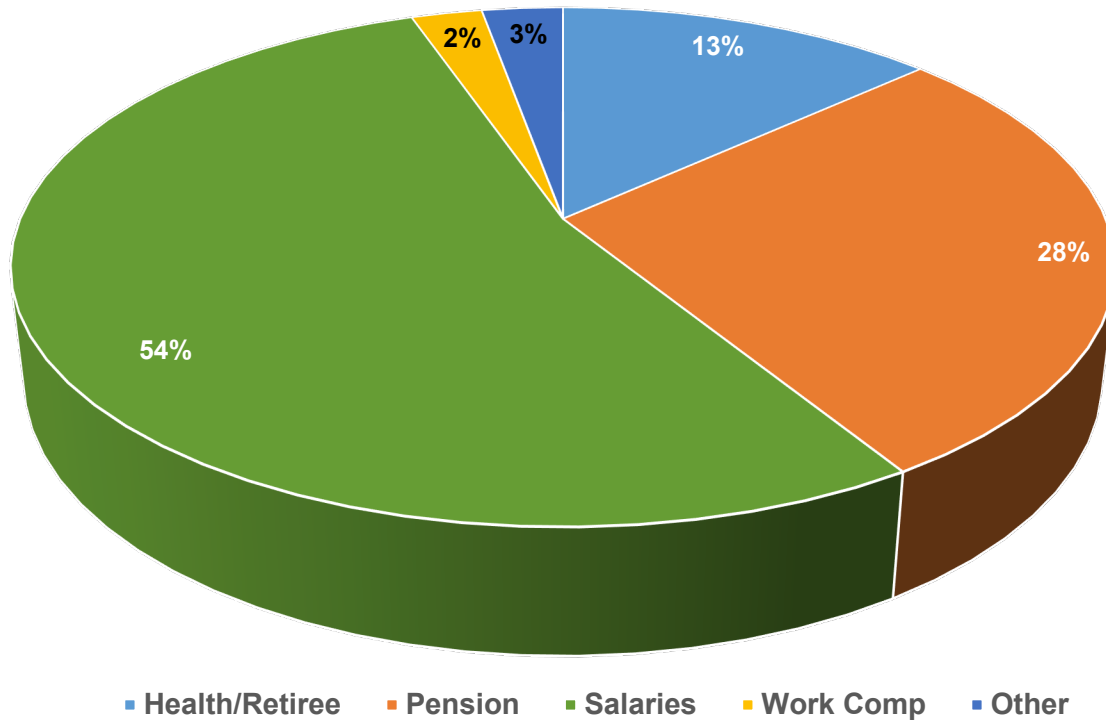
General Fund Expenditure Summary  
FY 2026 Proposed Budget  
\$285,545,421



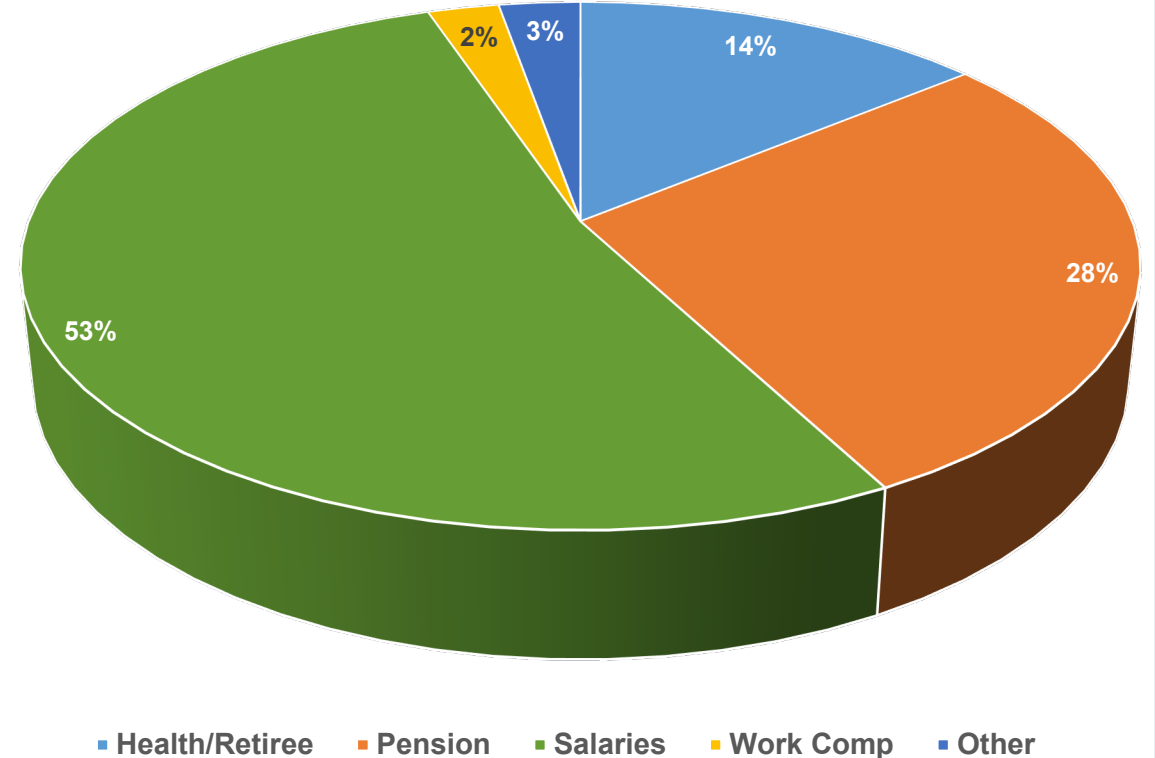
**Based on current staffing levels, personnel costs are ~71% of General Fund baseline expenditures (compared to 61% of baseline in FY24)**

# FY 25/26 PERSONNEL EXPENDITURES

FY25 Personnel Expenditures by Type



FY26 Personnel Expenditures by Type



- After salaries, leading drivers of expenditure growth are pension and health insurance.

# EXPENDITURE ASSUMPTIONS

## ■ Personnel Costs

- Includes positions added in FY 24 Mid-Biennial Update
- Reflects adopted MOUs for BPA and BFFA
- 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

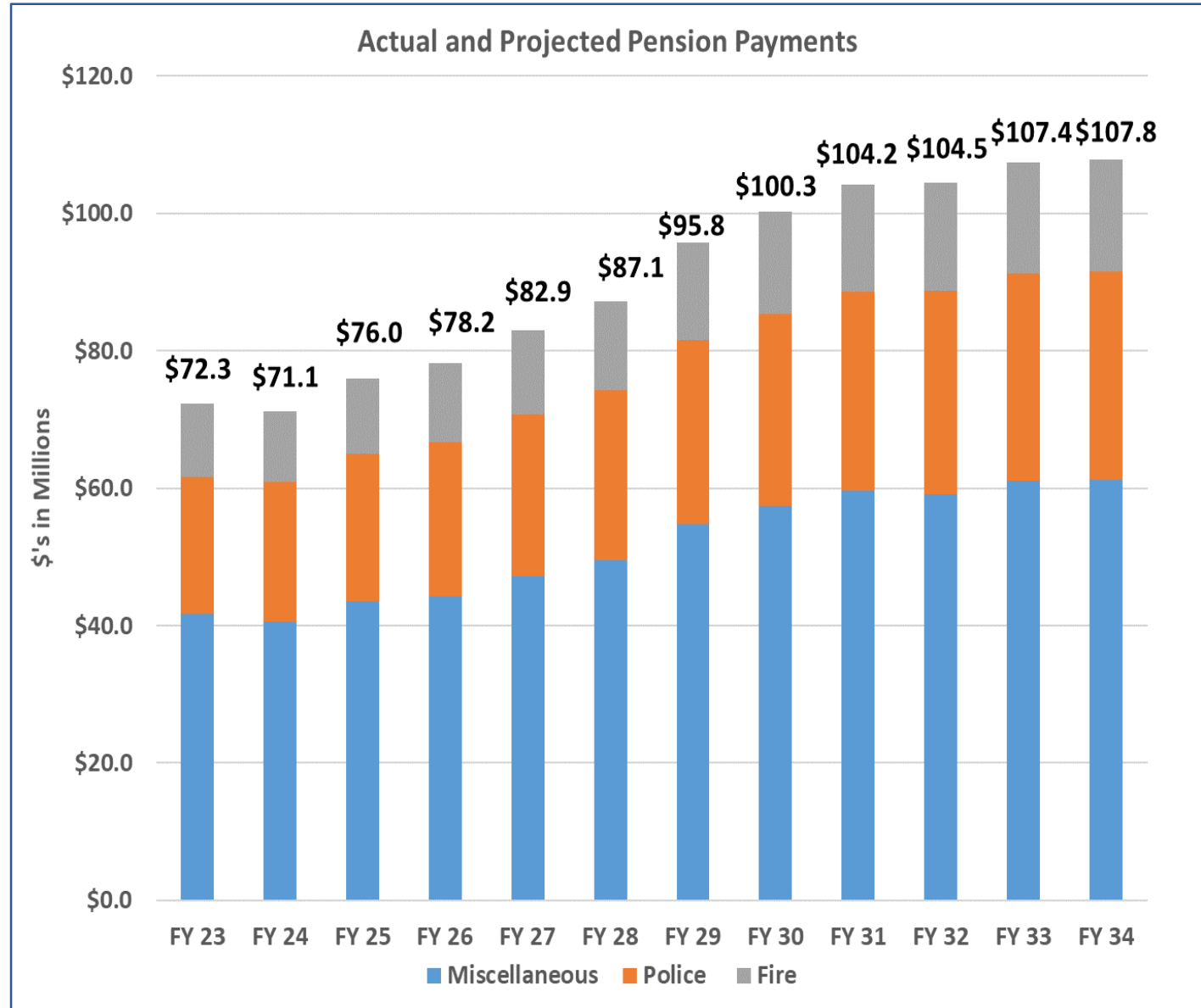
# PERSONNEL EXPENDITURE ASSUMPTIONS

	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%
<b>Total</b>	<b>167,675,497</b>	<b>192,414,748</b>	<b>24,739,251</b>	<b>15%</b>	<b>198,815,038</b>	<b>6,400,290</b>	<b>3%</b>

- 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.

# PENSION FORECAST- CITYWIDE

- Increases projected starting in FY 25 citywide due to CalPERS loss.
- Increase to grow by \$32M in 10 years (FY 25 to FY 34).
- Options to balance the FY25/26 budget will consider the amount of funding allocated to the Section 115 Trust and the possible use of the Trust to make payments in both the short and long-term.



# EXPENDITURE ASSUMPTIONS

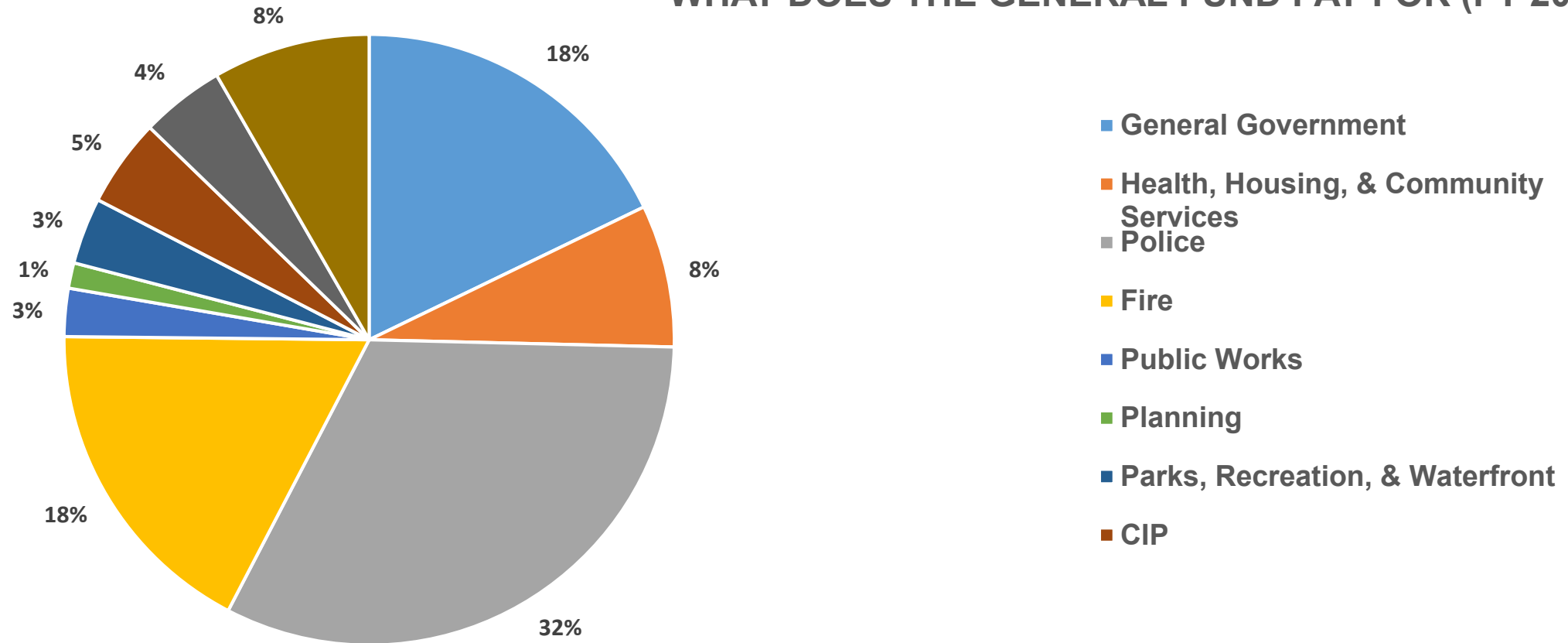
- **Non-Personnel Costs**

- Assumes FY 23/24 funding levels to community groups of \$12M or 5% of expenditures
- Includes \$4M of non-Measure P General Fund revenue to support Measure P programs
- Assumes transfer to PRW and PW for CIP of \$4.9M
  - Working on adding new streets funding policy to baseline
- Includes costs for election (\$365k) in FY 25
- Reflects minimal increases in cost of providing services such as utilities and supplies
- Reflects current baseline without continuation of one-time items funded in FY 23/24

▪ **Little room for reductions without impacting programs**

# FY 25 EXPENDITURES AT A GLANCE

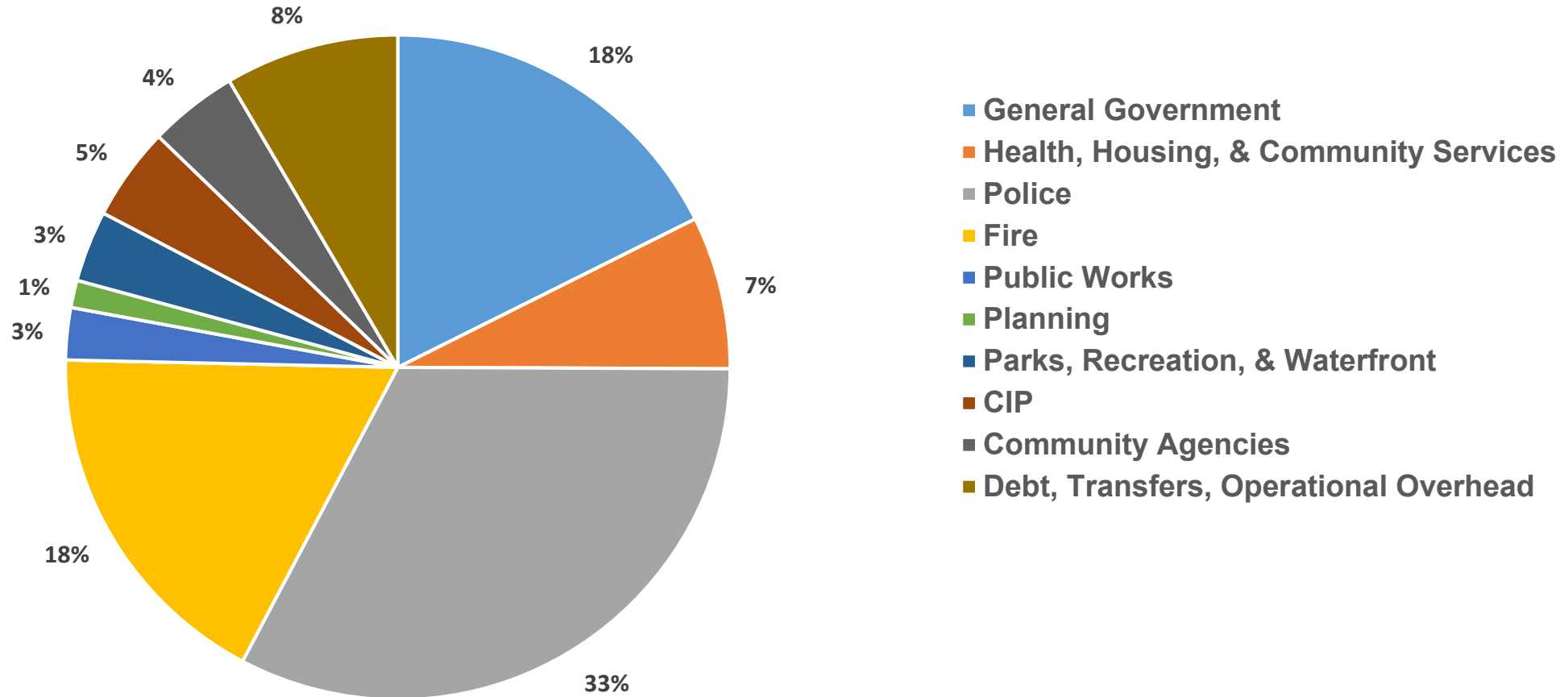
## WHAT DOES THE GENERAL FUND PAY FOR (FY 2025)?



- **\$144M or 50% of General Fund is for public safety; \$13M, or 5% for CIP with streets policy and \$12M or 4% for community agencies**

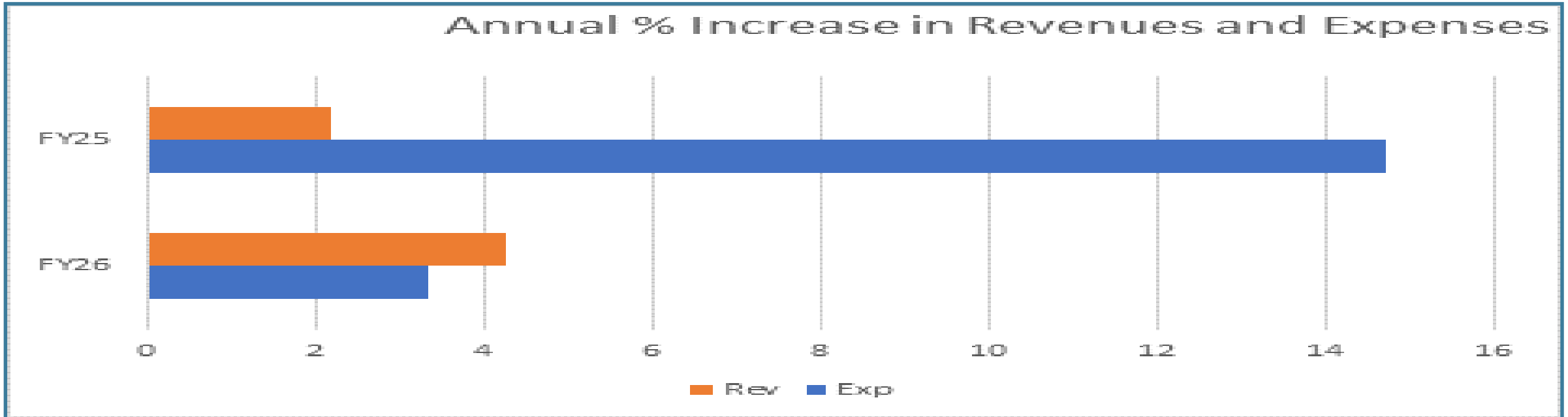
# FY 26 EXPENDITURES AT A GLANCE

## WHAT DOES THE GENERAL FUND PAY FOR (FY 2026)?





# 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.

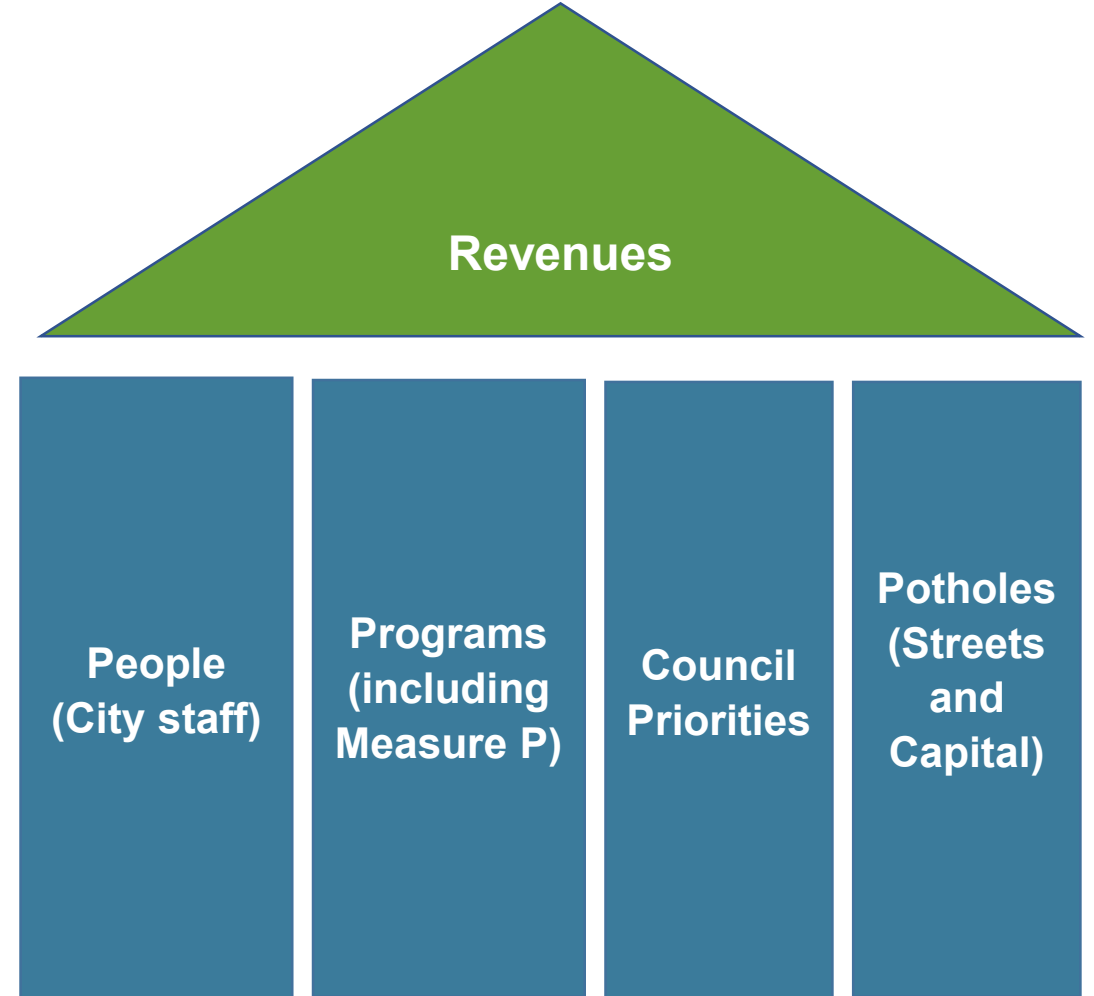
# PRELIMINARY GENERAL FUND STATUS

	FY 2024 Adopted	FY 2025 Baseline	FY 2026 Baseline
<b>All General Fund Revenues</b>	<b>266,418,342</b>	<b>271,934,526</b>	<b>283,378,891</b>
Less: Measure P	10,189,500	8,199,580	8,609,559
Less: Measure U1	5,900,000	5,900,000	5,900,000
Revised General Fund Revenues	250,328,842	257,834,946	268,869,332
<b>All General Fund Expenditures</b>	<b>276,548,969</b>	<b>270,068,643</b>	<b>280,041,877</b>
Less: Measure P	21,100,176	11,089,732	13,612,824
Less: Measure U1	5,900,000	5,900,000	5,900,000
Add: Streets Baseline	-	8,480,000	8,734,000
Revised All General Fund Expenditures		278,548,643	288,775,877
<b>Surplus/Deficit</b>	<b>(10,130,627)</b>	<b>(6,614,117)</b>	<b>(5,396,986)</b>

- **Baseline is balanced; however non-General Fund revenues are needed to support Measure P expenditures.**
- **Deficit emerges once streets policy is included, with growing deficit once additional funding needs are included.**

# IMMINENT FISCAL NEEDS

- Updated personnel costs (labor negotiations)
- Cost increases for baseline (utilities, insurance, etc.)
- Rate adjustments for internal services
- Assistance to other funds
- Reviewing Measure P program expenditures in light of declining revenue
- Continuing Council priorities like Reimagining Public Safety and new referrals
- Unanticipated/additional legal costs
- Charter officer funding requests
- City Manager recommendations for departmental funding requests
- Streets and capital needs



# BUDGET SUMMARY – GENERAL FUND

- **FY25/26 General Fund will face a projected deficit due to expenditures outpacing revenues, especially when adjusting for forthcoming funding needs**
    - **Revenue picture shows a flattening of key revenue sources for the City**
    - **Expenditures continue to grow, especially in personnel-related costs**
  - **New projects and programs will need to be closely scrutinized and deferred to extent possible**
- **Identifying effective budget balancing measures for this next budget will be key to producing a balanced budget**
  - **Further, it will be important for the City to maintain a focus on charting a fiscally sustainable path forward given the current economic context**

# GENERAL FUND CONTEXT – PRIOR FYs

- **FY 20-21 Projected General Fund deficit of \$40M**
  - Instituted hiring freeze/maintained vacant positions
  - Delayed capital expenditures
  - One-time use \$11M reserves
- **FY 22 Projected General Fund deficit of \$27M**
  - One-time use of \$23M in ARPA funds
  - \$4M in expenditure reductions
- **FY 23/24 Projected General Fund deficit of \$22M in FY23 and \$12M in FY24**
  - Salary savings target to 8.5% for most departments
  - One-time use of \$15M in ARPA
  - Use of fund balance, largely for Measure P related expenses
  - Use of excess property transfer tax for capital and one-time funding requests

**In the face of ongoing deficits over last several years, the City benefited greatly from a significant infusion of one-time funding (ARPA), along with short-term reductions.**

# QUESTIONS AND DISCUSSION