



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: November 19, 2024

TO: Adam Politzer, Interim City Manager

FROM: Lilybell Nakamura, Acting Finance Director
Brian Moura, Regional Government Services (Finance Consultant)

SUBJECT: 2024-25 Fiscal Year Budget Update & Proposed Budget Strategies

RECOMMENDATION

Staff recommends that the City Council review and discuss this update and provide direction to staff to implement the proposed budget strategies from the Budget and Governance Committee for fiscal year 2024-2025.

BACKGROUND

The City of Emeryville has a 2-Year Budget process that includes adopting the City's Operating Budget which covers day-to-day City operations. The 2-Year Budget is updated midway through the 2-year period. It is made up of General Fund and Non-General Fund revenues. On June 6, 2023, the City Council approved the 2 Year City Budget covering the 2023-24 fiscal year (ending June 30, 2024) and the 2024-25 fiscal year (that will end on June 30, 2025).

DISCUSSION

2023-24 Fiscal Year Budget – General Fund Preliminary Results

The General Fund is the general operating fund for the City. The General Fund supports the City's vital services and programs including police, fire, public works, development services (economic development, housing, planning, and building), community services, and general administrative services. The analysis below provides information on the major General Fund revenue and expenditure categories.

The preliminary results for the recent 2023-24 fiscal year that ended on June 30, 2024, show that General Fund expenses will exceed revenues by \$7.7 Million. The shortfall was due to a reduction in several key revenues compared to the prior fiscal year including Sales Tax (\$542,206), Business License Tax (\$353,668), Transient Occupancy Tax (\$449,126), Cardroom Tax (\$175,679), Other Revenues [Federal Covid Funds in prior year] (\$1,126,543) and Licenses and Permits (\$6,136,318). The revenue shortfall in the General Fund was offset somewhat by salary savings in several City departments due to vacant positions.

2024-25 Fiscal Year Budget Analysis

At the beginning of the 2025 fiscal year, all departments reviewed their budgets to determine if any budget adjustments were needed. This process involved a detailed review and analysis of projected City revenues and expenses for the 2024-25 fiscal year that started on July 1, 2024. It was based on the actual revenues received and expenditures incurred during the prior 2023-24 fiscal year (described earlier) as well as additional information currently available.

2024-25 General Fund Budget

For the current 2024-25 fiscal year, the adopted General Fund budget included budgeted revenues of \$50.7 million and budgeted expenditures of \$53.4 million with the difference of \$2.7 million from the City's unassigned General Fund reserve funds.

Revised 2024-25 General Fund Revenue Estimate

The revised budget estimates are that General Fund revenues are projected to decrease from \$50.7 million to \$45.2 million during the 2024-25 fiscal year. This is a result of lower-than-expected revenue from sales taxes, business license taxes, property transfer taxes (both residential and commercial), and a continued sharp downturn in building, plan check and inspection permits and fees. High interest rates and a slowdown in construction activities have negatively impacted permit issuance of large development projects and transfer taxes in the City of Emeryville, mirroring a trend in other cities in California.

Revised 2024-25 General Fund Expenditure Estimate

The revised expenditure estimates project an increase from \$53.4 million to \$59.3 million. The increase is due to a \$2.9 million increase in salaries and benefits (which include labor contract increases), CalPERS Retirement rates (due to changes in the market value of assets at CalPERS), and the 6.2% employer contribution to Social Security. Additionally, there is a one-time \$3 million projected Social Security settlement anticipated in the 2024-25 fiscal year. The timing and amount are subject to the IRS' response to the City's appeal of this determination.

These revised budget estimates of a General Fund revenue shortfall of \$5.5 million and expenditures increase of \$5.9 million results in a budget deficit of \$11.4 million in the current 2024-25 fiscal year.

Non-General Funds

Non-General Funds in the City Budget include the Capital Improvement Program, Debt Services Fund, Enterprise Fund, Internal Service Fund, and the Successor Agency to the Former Redevelopment Agency Fund. The Non-General Funds represent restricted revenues and expenditures for special purposes in most cases.

Non-General Fund revenues are projected to increase by \$400,000 due to an increase in grant activities, and an interfund transfer from the General Fund to the Property Based Improvement District (PBID) to cover the City's share of the Emery Go Round shuttle.

Non-General Fund expenditures are projected to decrease by \$13.3 million. This is due to Measure C net loan disbursements related to the Christie sites of \$16.3 million being moved to the 2025-26 fiscal year to conform with the bond disbursement schedule. It is offset by a \$3 million increase in various housing projects, Public Art program, Capital Improvement Program which includes the Powell Street remediation, and an increase in salaries and benefits due to new labor contracts.

BUDGET COMMITTEE REVIEW, BUDGET BALANCING STRATEGIES & OPTIONS

At its meeting on August 13, 2024, the Budget & Governance Committee (Council Member John Bauters and Mayor Courtney Welch) reviewed the Updated 2024-25 General Fund Budget Estimates and requested that staff research budget balancing options and present them at the next Committee meeting on October 1st for consideration and recommendation to the City Council in November.

Given the current budget challenges, the City will need to implement a multi-pronged approach to address the budget shortfall and to ensure the sustainability of the City's finances. The budget balancing strategies that are being analyzed fall into three categories: Long Range Planning & Revenue Enhancement, Expenditure Control, and Use of Reserves.

Some of the proposed options can be implemented during the current 2024-25 fiscal year while others will require voter approval at the next General Election to be held in November 2026 if advanced by the City Council. If the Council considers any of the tax measure options, this option will require voter approval.

Long Range Planning & Revenue Enhancement

(a) Long-Range Financial Plan

The Long-Range Financial Plan (LRFP) is part of the City's biannual budget process. It serves as a key planning tool for future budgets and decision-making. The plan provides a 5-year projection on revenues and expenses in the current and future City budgets. This assists the City in aligning its financial capacity with long-term objectives, developing budget balancing strategies, evaluating revenue opportunities, and providing a road map to sustaining City services.

Revenue options are divided into revenues that could be raised by Council action (short term) and revenues requiring voter approval (which can be considered at the next General Election in November 2026). Each revenue option is evaluated based on the amount of revenue generated, timing to receive revenue, and the impact on City residents and businesses. In addition, the LRFP can be presented to the budget committees and the City Council for consideration. The LRFP can be prepared by City staff or by contract with an estimated total cost of \$50,000.

(b) Updating the City’s Cost Allocation Plan and Master Fee Schedule

The last City of Emeryville Cost Allocation Plan and Master Fee Schedule study was completed in 2014. The purpose of updating the Cost Allocation Plan and Master Fee Schedule is to ensure the cost recovery of services provided by the General Fund to other City Funds and to keep pace with increasing operating expenses. The scope of services for this project would include the development of an updated Cost Allocation Plan and Master Fee Schedule.

In addition, the consultant will present the recommendations to the budget committees and the City Council for consideration and approval. The estimated cost of the study is \$60,000 to \$80,000.

(c) Reviewing the Reserve Policy on the Use of Residual Property Tax Revenue and considering allocating more funds to the General Fund to bridge the budget gap

On June 4, 2019, the City Council approved Resolution 19-63, revising the allocation of Residual Property Tax. This refers to the funds collected from property taxes that remain after all obligations and expenses are met. The table below shows the current allocation of Residual Property Tax (RPT) Revenues and the projected fund balance as of June 30, 2024.

<u>Balance</u>	<u>Current</u>	<u>FY 2024</u>	<u>Projected Fund</u>
	<u>Allocation</u>	<u>RPT Revenues</u>	<u>as of 6/30/2024</u>
General Fund	50.0%	\$3.4 million	\$12.5 million
General Capital Improvement Fund	22.5%	1.5 million	17.5 million
Affordable Housing Fund	20.0%	1.3 million	4.9 million
Economic Development Fund	5.0%	0.3 million	3.5 million
Public Art Fund	2.5%	0.2 million	2.0 million
Total	100.0%	\$6.7 million	

Below are the percentage of positions and the amount being charged to the General Capital Improvement Fund and Economic Development Fund in FY 2025. Based on the projected fund balance as of June 30, 2024, sufficient funds are available in the General Capital Improvement Fund and Economic Development Fund to cover the salaries & benefits of the positions in the 2024-25 fiscal year.

<u>General Capital Improvement Fund</u>	<u>% of Position</u>	<u>Amount</u>
Community & Econ. Development Coordinator II	33%	\$70,000
Director of Public Works	55%	191,000
Management Analyst	70%	144,000
Facility/Operation Manager	20%	49,000
Senior Civil Engineer	100%	244,000
Senior Civil Engineer	50%	122,000
		\$820,000

Affordable Housing Fund

Community & Econ. Development Coordinator II 33% \$56,000

In the current fiscal year, total Residual Property Tax Revenue is budgeted at \$6.4 million, of which 50% or \$3.2 million of the total revenues are allocated to the General Fund. If the General Fund allocation was increased from 50% to 100%, this would bring an additional \$3.2 million to the General Fund to help bridge the budget shortfall.

(d) Exploring Tax Measures to Increase Revenues (Voter Approval Required in November 2026)

Ballot Measure Costs

The estimated cost of placing a revenue measure on the November 2026 General Election ballot would be \$30,000. Plus, the cost of polling (\$30,000) and a \$7,500 monthly retainer fee for outreach and education services over a 10-to-12-month period (\$75,000 to \$90,000) for a total cost of up to \$150,000.

Local Transactions & Use (Sales) Tax of 0.25%

The City of Emeryville’s sales tax rate is 10.50%, and the cap for Alameda County is 10.75%. The City has remaining capacity of 0.25%. If Emeryville voters approve a 0.25% sales tax measure, it could generate \$2.4 million of additional sales tax revenue annually.

Other Taxes (TOT, UUT, Business License, Parcel Tax)

The City Council could also consider modernization of the Transient Occupancy Tax (adopted in 1972, 12% rate set in 2001, last updated in 2003 with a Temporary Airline Exemption that expired in 2006), Utility Users Tax (adopted in 2007) and Business License Tax (established in 1984, last updated in 2011) or a Parcel Tax. Depending on the updated provisions of these tax options, each of these revenue sources could raise between \$500,000 to \$900,000 per year or more.

While the amount of increased revenue from a Transient Occupancy Tax (approximately \$450,000 to \$900,000 per year) could be easily estimated, the other revenues in this category would require further research and discussion of multiple options (rates, number of categories, tax cap, base, and others)

Expenditure Control Options

(a) Evaluating Vacant Positions

There are currently an estimated six unfilled positions in the budget, which is expected to generate savings of \$1.1 million. The vacant positions listed below will be evaluated prior to filling.

<u>Department</u>	<u>Position</u>	<u>Costs</u>
City Manager	Management Analyst	\$220,000
Building	Senior Inspector	240,000
Building	Senior Inspector	240,000
Planning	Associate Planner	150,000

Community Services	Recreation Assistant	130,000
Information Technology	Systems Analyst II*	<u>135,000</u>
	Total	\$1,115,000

* Projection for the Systems Analyst II position is based on 9 months from October 2024 to June 2025.

(b) Evaluating a 2.5% reduction in the budget of non-essential operating expenses

General Fund Expenditures in 2024-25 are projected to increase by \$5.9 million or 11% from \$53.4 million to \$59.3 million. Finance will work with departments to evaluate the impact of a 2.5% or \$1.5 million reduction to the non-essential operating expenses.

General Fund Reserves Options

(a) Transferring \$3 million from Economic Uncertainty Reserve and replenishing the reserve within three fiscal years

On September 3, 2024, the City Council approved Resolution 24-122, adopting the amended Expenditure and Reserve Policies for Measure F Funds. The Reserve Policies also identifies the purpose, target funding level and eligible uses of the Economic Uncertainty Reserve.

The purpose of the Economic Uncertainty Reserve is to provide the fiscal capacity to absorb one-time problems without disrupting day-to-day operations and services and for more systemic and ongoing problems, to take time needed to fully identify the impacts and develop and implement a thoughtful longer-term strategy.

The Economic Uncertainty Reserve establishes a target funding level of 50% of the General Fund operating budget. In the current fiscal year, the projected General Fund balance is \$25.5 million.

Staff recommends using the Economic Uncertainty Reserve to pay for the one-time \$3 million projected Social Security settlement anticipated during the 2024-25 fiscal year. (The settlement amount could be reduced if the Internal Revenue Service offers a comparable settlement of 7.44%).

Appropriations are to be reserved for emergency situations and limited to one-time or short-term (one or two fiscal years) use. Examples of such emergencies include:

- (1) Unplanned, major event such as a catastrophic disaster requiring expenditures over 5% of the General Fund adopted budget.
- (2) Economic uncertainties, local disasters and other hardships or downturns in the local economy.
- (3) Budgeted revenue taken by another government entity.
- (4) Drop in projected/actual revenue of more than 5% of the General Fund adopted revenue budget.

In addition, should the Economic Uncertainty Reserve be used and its level falls below the target amount of 50%, the goal is to replenish the reserve within three fiscal years.

(b) Using \$3 million from Unassigned Fund Balance to bridge the budget shortfall

Based on the FY 2024 preliminary year-end closing results, the General Fund Unassigned Fund Balance is projected at \$12.5 million. Instead of depleting the Unassigned Fund Balance to bridge the budget shortfall, staff recommends using 25% or \$3 million in the current fiscal year and the remaining 75% or \$9 million could be used in the future years.

RECOMMENDATION

The Budget and Governance Committee reviewed the options described above and recommends that the City Council consider and approve the following strategies to bridge the 2024-25 budget shortfall estimated at \$11.5 million:

1. Increasing the General Fund allocation of Residual Property Tax Revenue from 50% to 100%, which would bring an additional revenue of \$3.2 million to the General Fund.
2. Evaluating vacant positions and contracts for services with a projected savings of \$1 million.
3. Evaluating a 2.5% reduction in the budget of non-essential operating expenses with a projected savings of \$1.5 million.
4. Transferring an amount from the Economic Uncertainty Reserve to pay the Social Security settlement (estimated at \$3 Million) and replenishing the Economic Uncertainty Reserve within three fiscal years.
5. Using \$3 million from the Unassigned Fund Balance to bridge the 2024-25 fiscal year budget shortfall. If the Social Security settlement is less than \$3 Million, the balance of the needed funds to eliminate the budget shortfall would come from the unassigned fund balance.

The Budget and Governance Committee also plans to discuss revenue options (Item d on page 5 of this report) in more detail at their December meeting.

After some further analysis by staff after the Committee's recommendation, we have identified adjustments in vacant positions, such as underfilling the Management Analyst role in the City Manager's Office and recruiting for a Senior Inspector in the Building Division. These changes are expected to result in cost savings for City contracts and professional services related to operational needs. Therefore, we recommend increasing the Unassigned Fund Balance from \$3 million to \$3.5 million. This amount will remain flexible, and in future updates and the mid-year amendments, staff will provide an updated totals needed.

**APPROVED AND FORWARDED TO THE
CITY COUNCIL OF THE CITY OF EMERYVILLE:**



Adam Politzer, Interim City Manager