



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: June 6, 2023

TO: Paul Buddenhagen, City Manager

FROM: Lawrence Chiu, Finance Director

SUBJECT: **Resolution Of The City Council Of The City Of Emeryville Adopting The Operating Budget For Fiscal Years 2024 And 2025 (“Operating Budget”), And Appropriating Funds For Fiscal Years 2024 And 2025**

RECOMMENDATION

Staff recommends that the City Council review and adopt the above-entitled Resolution approving the proposed Operating Budget for the City of Emeryville, and appropriating funds, for Fiscal Years 2024 and 2025.

BACKGROUND

Throughout the pandemic, the City of Emeryville was able to manage the COVID-19 pandemic economic declines without using any of the General Fund Reserve and without laying off any City staff. This was the result of prudent and careful budgeting, important federal Covid relief funding and a resilient community. As we continue to emerge from the deepest Covid impacts, some sectors of the economy have rebounded well, and others continue to lag. The City’s primary revenue streams (sales tax, hotel tax, business license tax and cardroom tax), were significantly negatively affected by the pandemic. All have begun to rebound, with sales tax and business license tax nearly back to pre-pandemic levels, while hotel tax and card room tax remain significantly lower.

Despite some economic recovery, a gap between revenues and expenditures still exists for the current fiscal year Fiscal Year (FY) 2022-2023, as well as a projected deficit for FY 2023-24 and 2024-25. This gap is due in large part to expenses increasing at a rate that exceeds revenue growth. Thus, the proposed Budget relies on \$1.3 million in one-time funding for FY 2023-24 and \$2.7 million in FY 2024-25 in general fund ending balance accrued from previous years. It is possible we will see additional unforeseen revenues that would reduce the deficit. However, the City must remain vigilant, and budget prudently given the uncertainty of other revenue and the potential for recessionary pressures or a Covid resurgence which could dampen expected revenue.

Citywide Operational Budget

The annual budget is the single most important policy that the City Council reviews and approves, as it represents the City's priorities for making resource investments, both for the upcoming year and the long-term future. As such, the budget process must include effective participation from the Mayor and City Council, our community, key stakeholders, and City staff. Working together, the City strives for progressive investment in the community's future, as well as in the City's organization and staff, so that the City can operate efficiently and effectively.

Revenues for the City are projected to be \$152.3 million in FY 2023-24, including \$29.3 million or 19.3 percent of Successor Agency revenues. For FY 2024-25, revenues are projected to be \$135.7 million, including \$27.2 million or 20.1 percent of Successor Agency revenues. FY 2023-24 revenues are \$16.6 million higher than FY 2024-25 which is mainly due to increases in the Disaster Reserve Fund of \$1.8 million, Measure O Critical Needs Fund of \$1.0 million, Federal, State and County grants of \$8.6 million, impact fees of \$2.9 million and the Urban Forestry Program of \$1.0 million.

The General Fund is the City's main source of unrestricted funds. The City's General Fund revenues total \$50.6 million or 33.2% and \$50.7 million or 37.4% of the City's total revenues in FY 2023-24 and FY 2024-25 respectively. The City's General Fund expenditures total \$51.9 million or 21.0% and \$53.4 million or 32.5% of the total City's expenses for FY 2023-24 and FY 2024-25 respectively. In addition to the FY 2023-24 General Fund expenditures of \$51.9 million, the following transfers of \$3.9 million from the General Fund ending Fund Balance are included in the budget, bringing the General Fund expenditures budget to a total of \$55.8 million.

- a) Transfer of \$1.8 million to the Disaster Reserve Fund to meet the reserve target of \$5 million;
- b) Transfer of \$1.0 million to the Measure O Critical Needs Fund to meet the reserve target of \$1.0 million;
- c) Transfer of \$1.0 million to the Urban Tree Program; and
- d) Transfer of \$0.1 million of Small Business Incentives to Economic Development Fund.

This Budget follows the reserve requirements, which set a minimum reserve for the General Fund at 50% of Operational Costs.

The proposed budget funds 173 full-time equivalent (FTE) employees, including 137 FTEs in General Fund and 36 FTEs in other funds. The FY 2023-24 and FY 2024-25

budget includes Measure F funding for one Engineer position in the Public Works Department and one Code Enforcement Officer.

Overview of the General Fund Proposed Operating Budget for FYs 2023-24 and 2024-25

In FY 2023-24 and FY 2024-25, General Fund revenues are projected to be \$50.6 million and \$50.7 million respectively, with expenditures of \$51.9 million and \$53.4 million resulting in projected deficits of \$1.3 million and \$2.7 million. The proposed General Fund Operating Budget for FY 2023-24 and FY 2024-25 also included Real Property Transfer Tax of \$0.6 million annually from the General Capital Fund, which is subject to the Council approval of the Real Property Transfer Tax Policy on June 6, 2023.

The projected deficits are planned to be addressed using ending general fund balance, but they are not sustainable and either new revenue will be needed, or expenditures will need to be reduced.

Adopted Budget (6/6/2023)	YE Estimate FY 2023	Proposed FY 2024	% change from Prior Year	Proposed FY 2025	% change from Prior Year
Revenues	51,922,140	50,585,622	-2.6%	50,667,016	0.2%
Expenses	52,862,960	51,904,720	-1.8%	53,387,086	2.9%
Projected Use of GF ending Fund Balance	(940,820)	(1,319,098)		(2,720,070)	

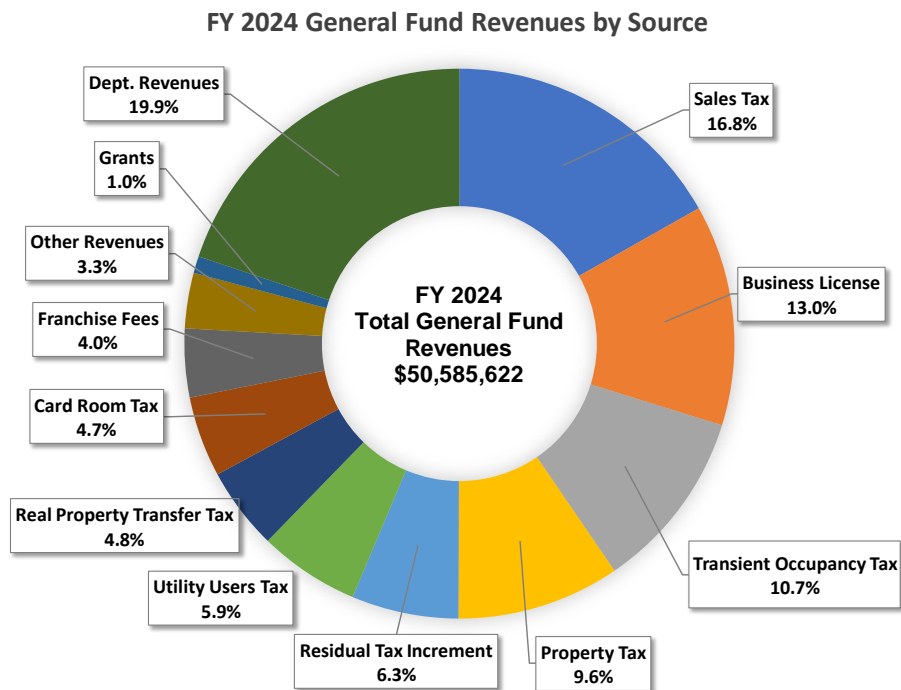
Transfer to		
a Disasters Reserve Fund	(1,825,000)	
b Measure O Critical Needs Fund	(1,000,000)	
c Urban Tree Program	(1,000,000)	
d Economic Development Fund	(100,000)	
Total Transfers	(3,925,000)	
Projected GF ending Fund Balance		
	15,282,142	10,038,044
		7,317,974

	<u>FY 2024</u>	<u>FY 2025</u>
Projected ending General Fund Balance	\$10,038,044	\$7,317,974
Projected ending Reserve for Economic Uncertainty	\$24,397,686	\$24,747,686

Revenues

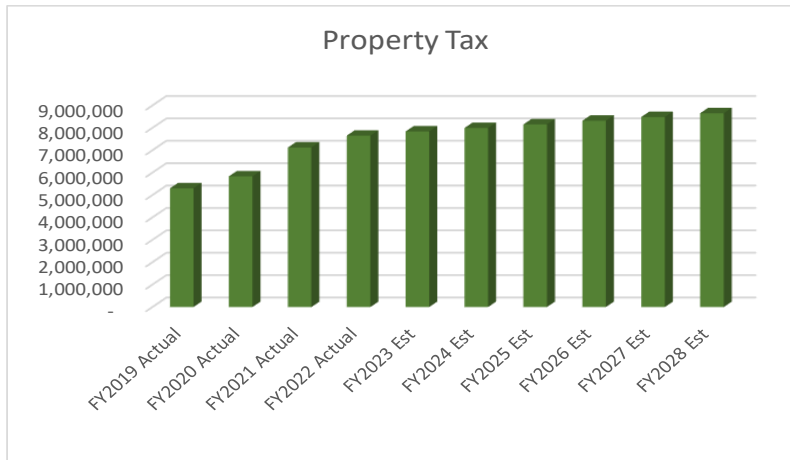
As the world and region slowly recover from the COVID-19 pandemic, the City's revenues are projected to grow conservatively in FY 2023-24 and then moderately in the next few years through FY 2027-28. Changes in the economy of the San Francisco Bay Area will impact the City's revenues, particularly the General Fund major revenue sources of business licenses, sales tax, departmental revenues and transient occupancy taxes (TOT).

Total General Fund revenue projections for FY 2023-24 are approximately \$1.3 million less than FY 2022-23 year-end estimates, with the FY 2024-25 revenues essentially flat. Following is a chart showing FY 2023-24 budgeted General Fund revenues by source with a total budget of \$50.6 million.



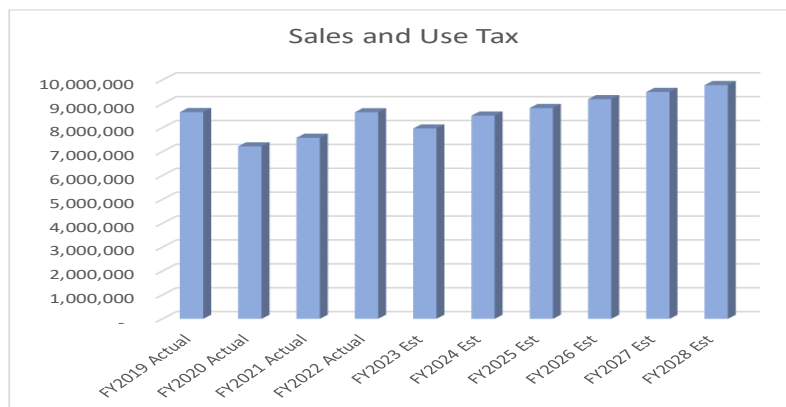
Property Tax

As illustrated in the chart below, based on the Property Assessment Value (AV) report from Alameda County, the City anticipates property tax revenues to increase by 2% annually.



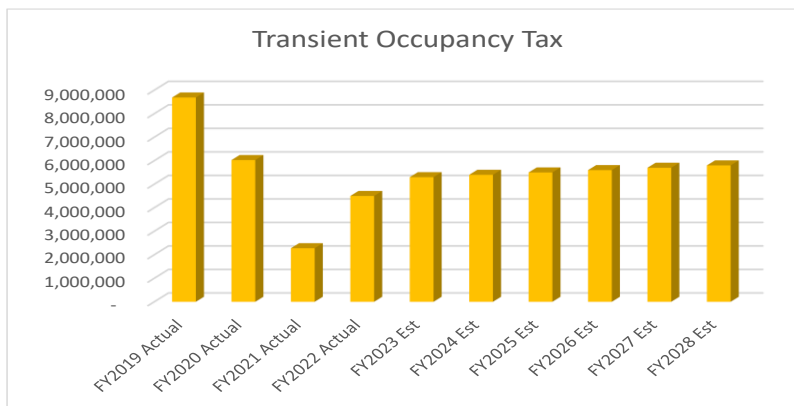
Sales and Use Tax

The Sales and Use Tax received by the City is dependent upon consumer confidence and the local economy. As illustrated in the chart below, FY 2020 saw a 17% reduction due to COVID-19. As the local economy slowly recovers from the pandemic, we are assuming a conservative growth of 1.5% in FY 2024 and then a moderate growth of 3.5% in the next few years.



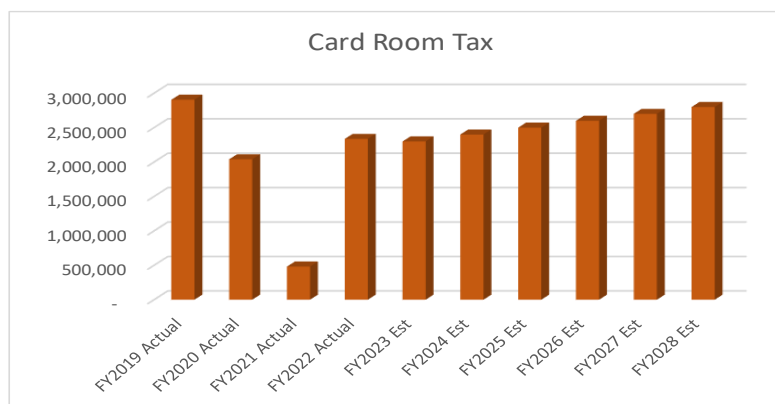
Transient Occupancy Tax (TOT)

Revenues from the hotel industry, referred to as Transient Occupancy Tax (TOT), have been and continue to be the most significantly negatively impacted revenue source for the City. Even after the pandemic restrictions were lifted, both business and personal travel remain considerably lower than previous years in Emeryville. The City's TOT revenues saw a 31% reduction in FY 2020, followed by a 62% reduction in FY 2021 compared to the prior years. While travel is picking up, revenues in FY 2023 are projected to be 40% below the TOT in FY 2019. TOT revenue loss of more than \$2 million annually compared to pre-pandemic years continues to hamper the city. Only conservative growth of 1.8% is projected for future years, as shown in the graph below.



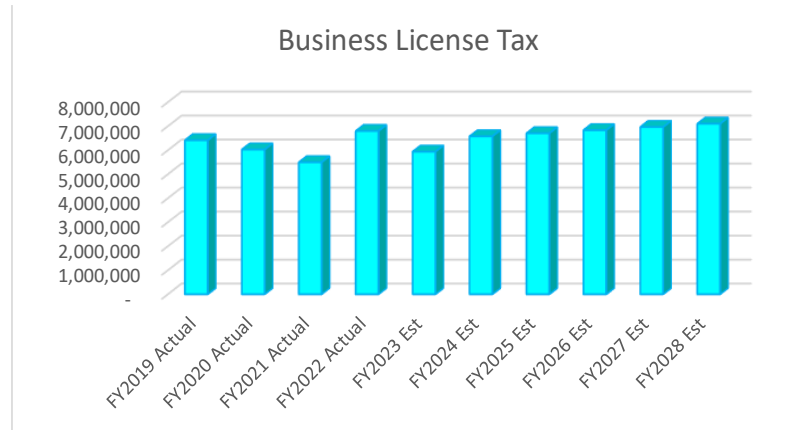
Card Room Tax

As illustrated in the chart below, the revenue collected through the Card Room Tax declined significantly by 30% in FY 2020, and 76% in FY 2021 due to closure of the Card Room during COVID-19. With the lifting of restrictions in Alameda County, the Card Room Tax has rebounded in FY 2022. We are assuming a moderate growth factor of 4% in the next few years.



Business License Tax

The Business License Taxes collected reflect the health of the business community in Emeryville. As shown in the chart below, FY 2020 saw a reduction of 7% in business license revenue followed by a 9% reduction in FY 2021. Good growth in FY 2022 is encouraging and with the recovery under way, we are assuming a growth factor of 2% in the next few years.



Measure F - ¼ cent Sales Tax

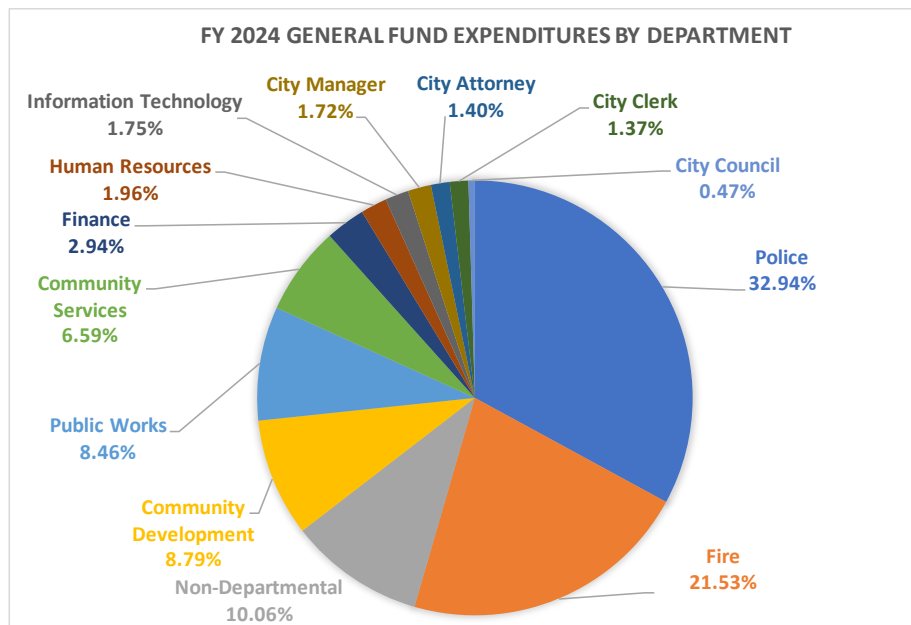
In March of 2020 Emeryville voters approved a local ¼ cent sales tax measure that can be used to support a limited list of City expenditures. The projected revenue for FY 2023-24 and 2024-25 is \$2.7 million and \$2.8 million respectively, and the proposed budgets allocate \$1.5 million and \$1.6 million of Measure F revenue to support a new Code Enforcement Officer, a new engineer and the Emeryville Child Development Center, all authorized uses under the ballot measure. The City Council will make an annual determination about how to allocate proceeds as part of the budget process.

Expenditures

General Fund expenditures are projected to decrease by \$1.0 million in FY 2023-24 compared to FY 2022-23 year-end estimates and increase by \$1.5 million in FY 2024-25.

At the beginning of the budget process, Department Heads were asked to maintain costs as close to the FY 2022-23 level as possible, to minimize the budget shortfall we face. In addition to those cost containment approaches, the following strategies were implemented in the proposed budget: (1) Reviewing vacant positions in the proposed budget before filling; and (2) using \$1.3 million and \$2.7 million from the General Fund ending fund balance to balance the FYs 2023-24 and 2024-25 budget shortfall.

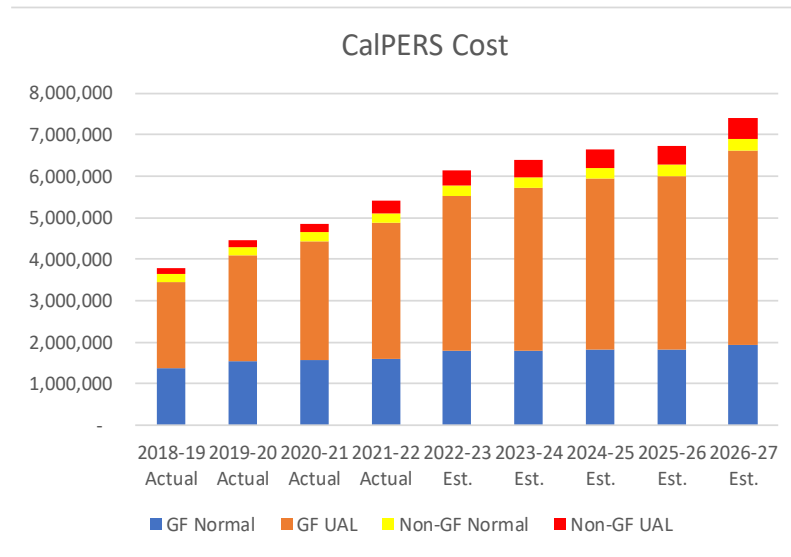
Following is a chart showing FY 2023-24 budgeted General Fund expenditures by department with a total budget of \$51.9 million.



The FY 2023-24 and 2024-25 budget includes a carryforward of the previous year's labor cost increase of 3% as placeholder while negotiations with the bargaining units progress. The final labor costs will be determined by the outcome of the labor negotiations.

Reserve Policy – The City continues to develop the annual budget under the guidelines of the City's Reserve Policy. The Reserve Fund's projected balance at the end of FY 2023-24 and FY 2024-25 is over fifty percent of the General Fund operating expenditures as required by the policy.

Pension - One of the benefits offered to MESA/City employees is participation in the CalPERS pension program. Following significant losses during the great recession and lower than projected returns on assets held for the past several years, CalPERS changed the assumptions it applied to the funding requirements of the program. These assumptions changed the term of recovery from 30 years to 15 years, lowering the discount rate (projected annual earnings rate) from 7.0 percent to 6.8 percent in July 2021 and shortening the amortization period from 30 years to 20 years for future years. The resulting financial impacts of these changes will significantly increase future pension obligations, possibly resulting in reduced service levels throughout the City in the future. The following is the actual and projected costs of the CalPERS through FY 2026-27 based upon current information available.



The City established a Section 115 Trust Fund to accumulate funds that can only be used towards future pension costs in addition to paying the required CalPERS annual pension payments. The Section 115 Trust Fund is projected to have a balance of \$13.6 million and \$13.9 million at the end of FY 2023-24 and 2024-25 respectively.

Long Range Financial Planning

The City uses a five-year financial forecasting model as a key budget planning tool to ensure accountability of the service provided and to plan for future challenges. The long-range financial planning enables the City to foresee potential budget challenges, giving the City sufficient time to analyze the long-term fiscal impact, and to take appropriate action.

The City has implemented a multi-pronged approach to ensure sustainability and prudent management of the City's finances:

- 1) Maintain a strong General Fund reserve, including an Economic Uncertainty Reserve, Disasters Reserve and an unassigned fund balance.
- 2) Establish Section 115 Pension Trust Program to pre-fund pension unfunded liability. Assets in the Trust Program can be transferred to CalPERS at the City's discretion, which could reduce large fluctuations in employer contributions to CalPERS.
- 3) Passed voter-approved taxes or assessments (Measure C – Affordable Housing Bond, Measure F – Sales & Use Tax, and Measure O – Real Property Transfer Tax), and

annually update the Master Fee Schedule of City departments to ensure cost recovery of services provided.

4) Promote economic development and diversify economic base to ensure business vitality and long-term fiscal sustainability. The City's economic development work supports business growth, development, entrepreneurship, and innovation. Emeryville is home to both small and large businesses and prides itself on supporting a business-friendly culture. From retail stores to technology firms, businesses in Emeryville benefit from a small and personal city government, an active and engaged residential community, and a thriving local business community. Additionally, the City develops marketing programs that highlight the City as a center of Art and Innovation.

Looking Forward

Staff will continue to streamline the City's organizational processes and optimize existing programs to continue to meet the needs of residents and businesses throughout the City. Staff will also work with the City Council to identify new revenue streams to offset some of the losses experienced from the pandemic. By continuing to improve efficiency and focusing on the longer-term forecast for the City's General Fund, residents, business leaders and community partners will continue to invest in and strengthen the Emeryville community.

Capital Planning - Beyond 2023

For the last forty years, the City has used the Capital Improvement Program (CIP) to implement the vision, goals, and priorities of the Emeryville community. The CIP is a five-year plan that guides Emeryville's investment in its public buildings, parks, streets, sewers, and other facilities. City staff use the CIP as a roadmap to design, construct, and repair City facilities that support a livable and sustainable Emeryville. Projects included in the CIP are large-scale, long-term investments that build, replace, or improve public infrastructure. For the 2023-2028 CIP City staff have prepared a 68 million Five-year Capital Improvement Program with 46 projects, supported by a variety of funding sources.

Upon adoption of the CIP, funds are appropriated for the first two years of the plan. The remaining three years are presented for planning purposes and are reevaluated and appropriated with the respective budget cycles.

The proposed 2023-28 CIP continues to advance the goals and priorities established by the City Council in recent years. Certain projects have been added or updated to reflect the needs of the community, project timelines, and changes in funding sources.

The CIP continues to focus on the following vision and key goals:

- Direct resources to high priority projects as identified by the City Council Goals and Priorities.
- Emphasize Active Transportation in project design and implementation.
- Ensure streamlined delivery of Capital Projects.
- Overall, create and maintain infrastructure to support a livable, vibrant City.

Consideration of the City's financial policies is an integral part of the capital improvement program development. The five-year plan reflects applicable financial policies approved by the City Council to ensure fiscal discipline. The plan is developed in conjunction with the City's biennial budget, taking into consideration funding needs for general operations and other city programs. The 2023-28 CIP includes proposals for revenue allocations committed to capital projects, and the use of infrastructure and implementation fund balance reserves as further described below.

The new 2023-2028 Capital Improvement Program will build on the prior CIP as well as other long-term planning source documents that set specific plans and priorities for the city. Examples of source documents that connect to the CIP include the General Plan, Public Art Master Plan, Affordable Housing Bond Administration and Expenditure Plan, and the draft Active Transportation Plan.

In addition, for the new 2023-2028 CIP, staff are seeking an intuitive approach to make the CIP more legible and accessible to the public. As such, staff have proposed updated CIP project values and categories.

The new CIP will label funded projects with values that identify and connect with community and council priorities. The 6 values that projects will be labeled with are: Climate Action, Connectivity, Equity, Maintenance, Safety, and Quality of Life.

Furthermore, CIP categories will be consolidated from eleven to six to make the CIP more relatable and intuitive.

- The previous categories were:
Community Facilities, Facilities Maintenance, Housing, Information Technology, Pedestrian Bicycle, Public Art, Sanitary Sewer, Streetscape System, Transportation, and Vehicles.
- The new categories are:
Community Facilities, Essential Infrastructure, Housing, Information Technology, Sustainable Transportation, and Urban Greening.

Overall the intention is to provide a CIP where more of the projects are active and delivered in a streamlined manner.

City Council Goals - The City Council has identified the following Goals and Priority Projects for the next fiscal year:

- Begin design and construction on bicycle and pedestrian focused projects: 40th Street Redesign and Ashby Interchange.
- Revitalize and advance the Art Center Project.
- Develop a new City of Emeryville public facing website.
- Develop and implement an Urban Tree Planting program.
- Close out the Quiet Zone Project's construction phase and establish a Quiet Zone with Federal Railroad Administration.
- Begin construction on bicycle and pedestrian focused project for San Pablo Avenue Corridor.
- Develop a Federal Grant making / staffing plan.
- Electrify the City police fleet.
- Develop affordable and transitional housing at 4300 San Pablo Avenue.
- Create a Black, Indigenous, People of Color (BIPOC) Small Business support program.

CONCLUSION

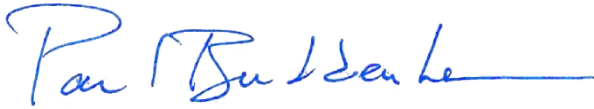
The City must plan with care and make prudent fiscal decisions about how to best use its resources to build on Emeryville's reputation as the City of art and innovation. Sustaining services and continuing to create an environment that enhances resiliency and equity and brings joy to our residents and visitors is at the core of the budget. The City Council's thoughtful fiscal policies and committed work has situated us in a strong fiscal position, allowing us to continue on this path.

The proposed Budget for FY 2023-24 and 2024-25 represents the thoughtful work of the City Council, Budget & Governance and Budget Advisory Committees over the last year, as well as staff throughout City Departments who prepared reasonable expenditure budgets that maintain services while respecting resource constraints.

Staff thanks the City Council, the Budget and Governance Committee and the Budget Advisory Committee for their guidance and support throughout the development of the budget. In addition, thank you to the staff in all City Departments that contributed to the Fiscal Year 2023-24 and 2024-25 budget. Finally, special thanks to the Finance Department for their diligent work and expertise throughout this year's budget process.

PREPARED BY: Lawrence Chiu, Finance Director

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



Paul Buddenhagen, City Manager

ATTACHMENTS

- Attachment A - Proposed Budget for Fiscal Years 2024 and 2025
- Draft Resolution