



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: May 6, 2025
TO: LaTanya Bellow, City Manager
FROM: Lilybell Nakamura, Acting Finance Director
Brian Moura, Regional Government Services (Finance Consultant)
SUBJECT: **Study Session – Discuss 5 Year General Fund Projection And Budget Strategies For 2025-27 Budget**

RECOMMENDATION

Staff recommend that the City Council hold a Budget Study Session to review and discuss the updated 5 Year General Fund Projection and Budget Strategies prepared as part of the 2025-27 Proposed Budget. This is an information item on this Council Agenda but will lead to Council direction and action at future Council meetings on the budget.

BACKGROUND

The Finance Department develops a 5 Year General Fund Revenue and Expense projection as part of the biennial 2-Year Budget process. A draft version of this projection has been completed as part of developing the upcoming 2025-27 Proposed Budget.

Considering the challenges faced in the General Fund portion of the budget, Staff is bringing this budget projection and related information to the City Council for review and discussion prior to consideration of the 2025-27 Proposed Budget scheduled for the May 20, 2025, City Council Meeting.

DISCUSSION

2023-25 General Fund Budget

The City Council adopted the current 2023-25 Budget in June 2023 which covers the 2023-24 and 2024-25 fiscal years which end on June 30, 2025.

This budget included a 5 Year General Fund projection that anticipated a structural deficit ranging from \$2.7 Million in the 2024-25 fiscal year to a \$6.4 Million structural deficit in the 2027-28 fiscal year. It also projected the Unassigned General Fund Balance dropping from 18% to -16% in the fifth year of the model in the 2027-28 fiscal year (see table below).

5 Year Budget Forecast in 2023-25 Adopted Budget

Description	2023-24 Budget	2024-25 Budget	2025-26 Projection	2026-27 Projection	2027-28 Projection
Start Balance	15,282,141	10,038,044	7,317,974	2,916,458	(2,698,352)
Revenues	(50,585,622)	(50,667,016)	(49,418,667)	(49,075,065)	(49,331,104)
Expenses	55,829,730	53,387,086	53,820,183	54,689,875	55,700,968
Net Deficit	5,244,097	2,720,070	4,401,516	5,614,800	6,369,863
Un GF Bal	10,038,044	7,317,974	2,916,458	(2,698,352)	(9,068,215)
Un GF %	18%	14%	5%	-5%	-16%

2023-25 General Fund Results

The City's FY 2023-24 General Fund concluded the fiscal year with an increased budget deficit, primarily attributable to an unanticipated \$2.1 million expenditure resulting from the IRS settlement. This settlement required the City's integration into the Social Security system, a cost that was not anticipated at the time of budget adoption."

This year, the 2024-25 General Fund Budget was projected to end with an \$8.8 Million budget deficit. The increase in this deficit was due to several factors including a \$4 Million drop in Fees for Services (primarily in development fees), a \$1.3 Million drop in Sales Tax revenues, increased costs from Social Security, higher than anticipated labor agreements and increased costs in other categories. These were offset by increases in Utility User Tax revenues and a drop in Insurance Premiums.

March 8, 2025, Action by Council

The City Council reviewed the 2024-25 Mid-Year General Fund Budget projections at their meeting on March 8, 2025, with input from the Budget Advisory Committee and the Budget and Governance Committee.

During that meeting, the Council took several actions to address the ongoing General Fund structural deficit including:

- Residual Property Tax – Allocating 100% to General Fund (\$3.2 Million/year)
- Transfer \$7 Million from Economic Uncertainty & Capital Funds
- Establish 20% Goal for General Fund Unassigned Balance (2.4 months)
- Move Disaster Reserve Funds to Economic Uncertainty Reserve
- Assign \$3.3 Million in Econ Uncertainty for Soc Security Settlement

March 24, 2025, Revenue from Sutter Health

On March 24, 2025, the City received \$11.2 Million in Commercial Property Transfer Tax revenue from Sutter Health relating to their purchase of property from BioMed. This

revenue was generated pursuant to the provisions of Measure “O” approved by the Emeryville voters in November 2022.

This one-time revenue further strengthened the General Fund balance this year. However, it is worth noting that Sutter Health is a non-profit health foundation under California law that is exempt from future taxes (including Property Taxes and Business License Taxes).

2025-27 PROPOSED BUDGET

5 Year General Fund Budget Projection in 2025-27 Proposed Budget

During the Council’s March 8, 2025, meeting, it was noted that a new 5 Year General Fund Budget projection was being prepared as part of the 2025-27 Budget development process. That projection is now available and is the subject of tonight’s Council Budget Study Session (see table below).

5 Year Budget Forecast (2025-27 Proposed Budget)

Description	2025-26 Budget	2026-27 Budget	2027-28 Projection	2028-29 Projection	2029-30 Projection
Start Un GF Bal	26,717,039	17,481,968	12,064,292	12,730,127	12,578,055
Revenues	46,026,859	47,627,313	47,649,401	48,587,838	49,547,894
Expenses	(55,681,080)	(57,512,813)	(59,899,183)	(62,240,410)	(64,101,520)
R/E (Deficit)	(9,654,221)	(9,885,500)	(12,249,782)	(13,652,572)	(14,553,626)
Expense Cuts	1,376,000	1,425,000	1,472,000	1,514,000	1,555,000
Transfers In	61,500	4,061,500	12,461,500	12,711,500	14,561,500
Transfers Out	(1,018,350)	(1,018,676)	(1,017,884)	(725,000)	(675,000)
GF Change	(9,235,071)	(5,417,676)	665,834	(152,072)	887,874
End Un GF Bal	17,481,968	12,064,292	12,730,127	12,578,055	13,465,929
Un GF %	31%	21%	21%	20%	21%

The City’s use of a 5 Year projection as part of the budget development process is considered a financial best practice. While the Proposed City Budget only covers the first two years of this period (2025-26 and 2026-27 fiscal years), use of the 5 Year projection provides the City Council with a look at the following three years and sets the stage for taking steps to address these impacts at an earlier stage.

The new 5 Year projection shows the General Fund structural budget deficit increasing to \$9.7 Million (2025-26 fiscal year) to \$14.6 Million in the fifth year (2029-30 fiscal year). It also focuses on maintaining the Unassigned General Fund Balance at or above the 20% goal set by the City Council in March.

Key factors in these increasing General Fund deficits include Fees and Sales Tax revenues at a flat to slight increase vs. higher year to year revenue increases in the prior 5 Year projection, a current year decline in Business License Tax revenue

payments which is factored into future year revenues, Social Security expenses, the third year of 5% salary and benefit increases and increased costs in other categories.

As the fiscal years in this budget progress, these projections may improve or worsen considering these factors:

Deficit could drop if:

- Revenues come in ahead of projections, one time bump(s)

Deficit could increase if:

- Tariffs and downturn in economy (local & national) continues
- Decline in consumer confidence reduces spending (Sales Tax)
- Stock market downturn could result in higher PERS rates

Budget Strategies to Address General Fund Structural Deficit

In Staff's review of the 5 Year Budget Forecast and options to address the General Fund Structural Deficit, we have defined budget strategies that could be employed by the Council.

Reserves & Fund Balances

This is the default option that has been used in past years to address the City's General Fund Budget Deficit. It involves the use of balances in the General Fund, Reserve Funds and Balances in Other Funds. Note that these are one-time resources that can only be used once to address the challenges.

During the 2025-27 Budget, there will not be the need to use these resources during the 2025-26 fiscal year due to the actions taken by the Council in March and the one-time Commercial Property Transfer Tax payment from Sutter Health.

In 2026-27, it will be necessary to transfer \$4 Million from the Economic Uncertainty Reserve to the General Fund to reach the 20% goal.

In future years (2027-28, 2028-29 and 2029-30 fiscal years), a significant amount of funds will be needed from the City's Pension Fund, Economic Uncertainty Reserve, Capital Projects Fund, Workers Compensation Fund, Vehicle Replacement Fund and Economic Development Fund to remain at the 20% Unassigned General Fund Goal.

Staff notes that due to the City's long-time practice of maintaining significant reserves and fund balances, this option can provide time for the Council to consider other options. However, at the end of this 5 Year cycle, several funds will be significantly impacted and may not be available for use to resolve the General Fund Budget Deficit beyond this time.

Revenue Measures

The City Council may consider placing one or more revenue measures on the November 2026 General Election ballot and/or future General Election ballots in 2028 and 2030.

Last August, revenue measures were estimated to have the potential of generating \$4.2 Million per year in new General Fund revenues if proposed by the City Council and approved by the voters.

Beginning in October, City staff initiated a more comprehensive analysis of potential revenue-generating options. While further evaluation is needed—particularly regarding the Business License Tax and either a Parcel Tax or Community Facilities District Tax—current projections suggest that the five revenue options previously reviewed with the Budget Committees and City Council could collectively generate up to \$20 million per year, should all measures be placed on the ballot and approved by voters."

. They include:

- Business License Tax - increase rates: \$3.9 Million to \$9.7 Million/year
- Parcel Tax or Community Facilities District - \$3.5 Million to \$5 Million/year
- Local ¼ Cent Transactions & Use (Sales) Tax - \$2.1 Million/year
- Utility Users Tax - increase by 2% & add video: \$1.9 Million/year
- Transient Occupancy (Hotel) Tax - increase by 2%: \$900,000/year

Approval of one or more of these revenue measures by the voters could significantly reduce the City's General Fund deficit. This would also reduce the need for the use of reserves, fund balances or budget cuts in future years.

Budget Cuts

The City's past practice to address the General Fund Structural Budget Deficit has been to anticipate a 5% Staff Vacancy factor. This is also being proposed as part of future year budget strategies until the structural deficit is resolved.

If the Council and the voters do not move forward with one or more revenue measures as described above, there will be a need to consider budget cuts beyond the 5% Staff Vacancy factor. These cuts could be quite significant given the size of the General Fund Structural Deficit in the next five years.

In this option, the City Manager would work with City Department Heads to identify and develop budget cut options that could be brought to the City Council for consideration. Given the City's strong level of reserves and fund balances and the potential for one or more significant revenue measures, this is an option that can be considered after the Reserves & Fund Balances and Revenue Measure options are explored.

Next Steps

The City Council will provide initial review and feedback on the General Fund Structural Deficit projections and budget strategies at tonight's Study Session.

This will be followed by a presentation to and input from the Budget Advisory Committee and then further consideration at the Council's next two 2025-27 Proposed Budget meetings on May 20, 2025 and June 3, 2025.

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



LaTanya Bellow, City Manager