



CITY COUNCIL AGENDA REPORT

Meeting Date: May 30, 2024

From: Carolina Yuen

Subject: Overview of Proposed Budget for Fiscal Year 2024/25

Community Goal/Result

Fiscally Prudent – Brisbane’s fiscal vitality will reflect sound decisions which also speak to the values of the community

Purpose

To provide a fiscal plan which provides flexibility to City Council and the Community to provide for services during the time of unknown economic circumstances while planning for the long-term recovery.

Recommendation

It is recommended that the City Council receive a general overview and department presentations of the proposed Budget for Fiscal Year (FY) 2024/25 and consider for approval at the next City Council meeting scheduled for June 6, 2024.

Background

For several years, the City has adopted two-year budgets. Most recently the FY2020-22 biennial budget was approved on June 4th, 2020, adopting Resolution 2020-23. Subsequently, the City and local economy were in the midst of the impact of COVID-19, other volatile economic conditions, and City staff were implementing a new Priority Based Budgeting software program for the next year. The City Manager therefore proposed a one-year budget covering the period of July 1, 2022, through June 30, 2023 (FY2022/23) which was adopted on June 16, 2022, and covering the period of July 1, 2023, through June 30, 2024 (FY2023/24) which was adopted on June 29, 2023. The City Manager announced his retirement for the end of 2023 and is therefore proposing another one-year budget covering the period of July 1, 2024 through June 30, 2025 (FY2024/25) with the recommendation of returning to a biennial budget schedule starting the subsequent fiscal year.

Discussion

The City’s budget document contains revenues, appropriations, and other financial information pertaining to all City operating budgets. The Capital Improvement Plan is not included, as it is usually reviewed during the off years of the biennial budget cycle and will therefore be revisited at a later period. The City’s budget goal is to achieve a balanced budget with revenues, including reimbursements or transfer from other funds for services provided, equal to or greater than expenditures. At times, the City can plan for revenues to be less than expenses, and therefore the budget is balanced by using its available resources or Fund Balance.

Budgetary control is maintained at the Department/Program level. The City Manager may approve transfer of appropriation from one program, activity, or line item within or across departments. Total appropriation within a fund may be increased by the City Manager up to \$200,000. Anything exceeding this threshold can only be increased with Council approval. Departments monitor and control budgets using the City's financial system, through reports of revenue and expenditure accounts. The financial system monitors expenditures down to the line-item level. The Council is provided with a mid-year financial status report that reflects year-to-date expenditures and revenues compared to budget.

The presentation tonight will focus on the General Fund which supports the City's main operations, funded by a variety of taxes, program fees and service charges. Information will also be presented for two proprietary funds (business-type activities) that are funded primarily through user charges -- the Utility Fund and the Marina Fund.

General Fund Revenues:

For FY2024/25, staff is projecting that revenues will decrease from the current year by approximately \$251,000 from current year's expected results, although increasing from the FY2023/24 budget by \$1.9 million. The City expects Sales Taxes and Transient Occupancy Tax (TOT) to grow over the current year, but setting conservative targets for Property Taxes, Business Licenses, and Fees and Charges.

Property Taxes: Sierra Point construction continues to positively impact our property taxes which remain strong overall, but we're projecting a decrease due to the offset from the reductions in ERAF and other miscellaneous county related tax distributions for a total decrease of \$441,000 or 6% from mid-year FY24 projections. Budgeted Property Taxes of \$6.4 million is 15% over the FY24 Budget.

Sales Taxes are expected to continue to increase from current year to a target of \$5.9 million and \$1.8 million for Bradley Burns and Transaction and Use Sales Tax, respectively. The City has now collected a full year of the Transaction and Use Sales Tax that went into effect in 2023, and although the results are below the original expectation of \$2 million, it is still contributing strong revenues. Budgeted Sales Taxes of \$7.8 million is 2% less than the FY24 Budget.

Transient Occupancy Tax (TOT): Although we are projecting an increase in (TOT) by \$117,000 to \$1.9 million, this revenue source is still projected to be well below our pre-COVID-19 average of \$3 million which appears to be the new normal. Short Term Rentals are providing additional TOT, but difficult to project. Budgeted TOT of \$1.9 million remains flat with FY24 Budget.

Business License revenue is expected to decrease from mid-year projections by \$158,000 starting with a known reduction in liquid storage revenues and conservative target for overall business licenses. However, the City has now collected a full year of the business license tax on hotels, raising our Business License revenue to \$5.4 million which is 3% above the FY24 budget.

Fees & Charges: We've seen growth in Park and Recreation charges due to expanded programming, but our Building and Planning fees are historically kept rather flat for budgeting purposes. Therefore, we are budgeting an increase of \$355,000 from mid-year 2024 projections to \$2,061,000 which is an increase of 1% over prior year's budget.

Following is a comparison of the proposed FY25 Budget of our major revenue sources in comparison to previous years coming out of COVID:

Major Revenue Source	Actual FY2021/22 Recovery	Actual FY2022/23 Recovery	Projected FY2023/24	Budget FY2024/25
Property Tax	\$5,002,000	\$6,186,000	\$6,858,000	\$6,418,000
Sales Tax	\$5,238,000	\$6,908,000	\$7,605,000	\$7,767,000
TOT	\$1,299,000	\$2,151,000	\$1,784,000	\$1,902,000
Business License	\$4,666,000	\$5,778,000	\$5,599,000	\$5,441,000

Budgeted Revenue for FY2024/25 does not include bond funding for the City Hall Annex which is expected to be received and used in FY24. Budgeted Revenue also does not include any reimbursements from federal and/or state grants in response to the 2022/23 New Year's Atmospheric River Storms. Staff is actively working with FEMA and CalOES but timing of receipt is unknown. A portion of the granted funds have been issued and received in the current fiscal year. Staff is expecting to receive at least \$1.9 million in reimbursements.

General Fund Expenses:

Considering the revenues are not budgeted to outpace expenses in FY2024/25, staff is making the following recommendations and comments regarding expenses:

- We recommend the City continue to provide necessary services for FY2024/25
- Open positions should continue to be actively filled. There are no requests for additional staffing except for an IT position that was discussed and approved in FY23 as part of the Technology plan. Staff recommends resuming plans to recruit for this position in FY25.
- The City Hall expansion project and tenant improvements at the leased property located at 25 Park Place is expected to be completed by the start of FY2024/25. Bonds were issued in the amount of \$5.4 million to cover improvements and furnishings for the property. Costs related to occupying the space and maintenance after the move are incorporated into the FY25 budget.

- The City updated its labor agreements with the various bargaining groups in 2022. The agreements included agreed-upon rate increases of 6% effective July 2025, which are driving the majority of the increase to the Salaries and Benefits line of each department.
- With this budget, staff has implemented labor costing software to better predict and measure the impact of the 2022 labor agreements. Also, this software allowed us to include costs associated with our part-time labor force that was challenging to measure in the past. We believe the FY25 Budget has provided a better picture of the City's labor costs.
- Increases in insurance coverage has also impacted salaries and benefits. Each department is absorbing an increase to the City's General Liability and Workers Comp coverage of 7%.
- In previous years, staff was given guidance to update their budgets to incorporate a low cost of living adjustment for various expenses. Due to the rising costs of fuel, shipping and other services, we recommended that staff take a deeper dive and apply actual rate adjustments to their proposed FY25 budgets. This resulted in some catch up for the costs of supplies and services. We believe the FY25 Budget has provided a better picture of ongoing and routine expenses.
- We recommend the City delay funding pension reserves until mid-year results are projected, except for savings as a result of paying the required Unfunded Liability amount as charged by CalPERS in lump sum instead of monthly payments

With these considerations, overall Expenses from the General Fund are expected to total \$31,339,000. Therefore, staff recommends the use of available resources as required to meet the established programs and initiatives.

Fund Balance:

The net use of Fund Balance for FY2024/25 is therefore anticipated to be \$2,509,000 (difference between revenues and expenditures). As part of the Mid-Year Budget Review, staff identified the ending fund balance for FY2023/24 is expected to be \$16,448,000, where a portion is restricted for existing debt, contract commitments, and encumbrances, leaving an unrestricted and available amount of \$1,099,000 which we recommend be used in FY2024/25.

Over the past decade the City has built up its reserves to be able to continue to provide necessary services during times of economic stress. The City Council has looked at a three-pronged reserve policy:

- Recession Reserve – To be used during times of national economic downturns, set at \$2.5 million.
- Emergency Reserve for Unanticipated Events – To be used during times of local events which increases the City's need to spend or decreases the City's ability to collect anticipated revenues, set at \$3.5 million.

- Annual Fluctuation Reserve – To be used for one-time events which either increase expenditures or decreases revenues, set at 5% of Budgeted Revenues plus 5% of Budgeted Expenses.

The City’s reserve policy has resulted in a healthy fund balance and the City fared well through the COVID-19 event, increase in fuel costs, supply-chain shortages, and recent volatile markets. However, building activity within the City continues to grow and programs have not slowed down. Although historically the City has earned more than projected and spent less than budgeted, Staff recommends tapping into the Annual Fluctuation Reserve to meet the objectives outlined above if necessary.

Based on the recent actual results and budgeted projects, staff anticipates the available reserves as shown below if these reserves are used:

Reserve	Actual 6/30/2022	Actual 6/30/2023	Projected 6/30/2024	Projected 6/30/2025
Recession Reserve	\$164,000	\$2,500,000	\$2,500,000	\$2,500,000
Emergency Reserve	\$3,500,000	\$3,500,000	\$3,500,000	\$3,500,000
Annual Reserve	\$2,438,000	\$2,834,000	\$2,848,000	\$300,000

The above projections are based on conservative estimates due to uncertainties in the local, national and global economy and markets.

American Rescue Plan Act (ARPA) – the federal government enacted a federal stimulus bill known as ARPA to aid state and local jurisdictions for economic recovery from the COVID-19 pandemic. The City received a program-to-date total of \$1,117,402 and deposited these monies funds into a separate fund until use of the funds could be determined. The City has until 12/31/24 to determine how to use any remaining funds. After issuing small business grants to businesses impacted by COVID, there is a remaining balance of \$897,402 as of this date. These funds are reflected as part of Other Revenue in the General Fund FY25 Budget.

The City initially reported its intent to use these funds under the Revenue Replacement category which was a standard allowance for any revenue loss in 2020 and 2021. This allowed a local government to undertake a less restrictive array of potential one-time expenditures including capital improvement projects; funding of infrastructure, including roads; modernization of cybersecurity, including hardware, software and protection of critical infrastructure; provision of police, fire and other public safety services (e.g., purchasing of safety vehicles, other equipment, salaries and fringe benefits of public safety personnel); park improvement projects; purchase of equipment and supplies for local government, improvements to utilities infrastructure and renovating public buildings.

We recommend the Council consider the following options in using these funds: to replenish the Vehicle Replacement Fund for the additional safety vehicles ordered ahead of schedule due to supply chain concerns; revisit the Capital Improvement Plan for any items deemed critical; cover a portion of the LIRA transfer; or determine a one-time project the Council deems appropriate within the guidelines.

Other Considerations and Budget Threats:

As the City continues to fully financially recover from local economy slowdowns, there are some long-term financial implications to consider:

- A new City Manager is expected to start in June of this year. A change in management and delay in hiring an Assistant City Manager may have unforeseen transitional costs.
- PERS rates – in July 2021, CalPERS announced their investment return for FY2020-21 was 21.3% which triggered a reduction in their discount rate from 7% to 6.8%. In November 2021, the CalPERS Board voted to maintain the 6.8% discount rate target for its investment portfolio. This discount rate is the long-term interest rate used to fund future pension benefits. The less earned by the CalPERS investment portfolio, the more the City must cover to fund the pension liability, also known as the unfunded liability.
- Pension Trust Fund Reserves – Staff recommended resuming funding the reserves as part of the FY2023/24 Mid-Year review. The goal was to reach \$5M which would cover two years' worth of our unfunded liability payment. With the anticipated growth in our Unfunded Liability payment, staff will recommend this Trust Fund grow accordingly as well. At a minimum any savings from a prepayment of the annual cost versus monthly payments should be considered for transfer to the Pension Trust. Resuming annual funding would be at \$500,000 for the next ten years.
- Healthcare, Liability Insurance and Workers' Compensation costs have been rising in recent years. Any additional increases will need to immediately be implemented.
- Staff would like to research available business license tax opportunities for the Life Science segment of the local business community within the coming year.

Any one or combination of these items will continue to have impacts on our ability to begin new programs going forward and add stress to our bottom line.

Financial stability remains a high priority for the City of Brisbane. Staff looks forward to working with the Council and the community to address the financial challenges that lay ahead. Staff will continue to seek ways as efficiently as possible to provide services to the community. The City will continue to consider appropriate economic development and tax revenue generation projects that are viable for our City.

Fiscal Impact

There are no fiscal implications to receive this report. Recommendations related to the FY2024/25 Budget will be presented at a future City Council meeting.

Measure of Success

Council will accept proposed budget for additional review and consider for approval at future meeting.

Attachments

Attachment 1 Budget Overview Summary

Attachment 2 Proposed Department Expenses

Carolina Yuen

Carolina Yuen, Finance Director

Clay Holstine

Clay Holstine, City Manager