City of Arts & Innovation

City Council Memorandum

TO: **HONORABLE MAYOR AND CITY COUNCIL** **DATE: MAY 13, 2025**

FROM: **FINANCE DEPARTMENT** **WARDS: ALL**

SUBJECT: **PROPOSED AMENDMENT OF FISCAL YEAR 2025/26 OF THE PREVIOUSLY ADOPTED FISCAL YEAR 2024-2026 BIENNIAL BUDGET – SET PUBLIC HEARING**

ISSUES:

Receive and provide input on the proposed amendment of Fiscal Year 2025/26 of the previously adopted Fiscal Year 2024-2026 Biennial Budget and set a public hearing for the adoption of the proposed amended Fiscal Year 2025/26 Budget.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on the proposed amendment of Fiscal Year 2025/26 of the previously adopted Fiscal Year 2024-2026 Biennial Budget; and

2. Set a public hearing for the adoption of the Amended Fiscal Year 2025/26 Budget on June 17, 2025.

COMMISSION RECOMMENDATION:

The Budget Engagement Commission is scheduled to receive this item on May 8, 2025, after the publication of this report. The Commission's recommendation will be conveyed to the City Council during the verbal presentation of this item.

BOARD RECOMMENDATION:

On April 28, 2025, the Board of Public Utilities reviewed and discussed the Public Utility Department's proposed FY 2025/26 budget amendment. Following discussion, the Board voted unanimously to recommend that the City Council:

1. Approve increasing the Electric 510 Fund proposed Fiscal Year 2025-26 budget amendments comprising of an increase in expenditures of $15,246,212; and
2. Approve increasing the Water 520 Fund proposed Fiscal Year 2025-26 budget amendments comprising of an increase in expenditures of $1,130,569.

BACKGROUND:

On June 25, 2024, the City Council adopted Resolution No. 24131 approving the Fiscal Year (FY) 2024-2026 Biennial Budget and FY 2024-2029 Capital Improvement Plan (CIP). Since budget adoption, the City Council has approved actions with fiscal impact that need to be incorporated into the FY 2025/26 budget. Additionally, City departments perform analysis of financial performance during the fiscal year and identify financial and operational needs that are not accommodated by the current adopted budget. Finally, City departments and the Budget Office monitor and analyze all City funds for potential issues that require attention and mitigating action.

DISCUSSION:

An update to the second year of an adopted biennial budget is necessary to ensure the City's responsiveness to financial and operational changes. Because the City is on a biennial budget, amendments to the second fiscal year are typically minor, and focus on the following:

- Reviewing and adjusting forecasts of major revenue sources.
- Incorporating the financial impact of City Council actions taken during the fiscal year, including the impacts of new employee Memorandums of Understanding (MOUs).
- Addressing new and significant changes in the operating needs of City departments, including rising costs in certain sectors (e.g. chemicals).
- Reviewing and re-prioritizing capital project funding.
- Addressing any potential budget deficits as a result of lower projected revenue and/or higher spending needs.

This budget update proposes a more cautious approach for the General Fund and Measure Z due to slowing sales tax revenue performance in late FY 2024/25, continued uncertainty regarding the national economy, and the consequentially necessary need to reassess City spending priorities. Revenue projections for the 2024–2026 Biennial Budget were based on performance data from early spring 2024. However, FY 2023/24 year-end results and FY 2024/25 performance to date indicate a slowdown compared to prior years, particularly in sales tax revenue for the General Fund and Measure Z Fund. The City's sales tax consultant, HdL, has revised the growth forecast to negative 1.5% for FY 2024/25 and downgraded growth for FY 2025/26. Additionally, national economic uncertainty and the direction of the economy, including the effects of rapidly changing federal policies, could impact the City's financial outlook in FY 2025/26 and beyond. This uncertainty may result in reduced consumer and business spending, and have made forecasting and planning for next fiscal year more challenging than in recent years.

Other factors influencing the FY 2025/26 Budget include recently approved MOUs with various City bargaining units, increased pension unfunded liability costs, and potential decreases in other revenue sources, which have increased financial pressures and are reflected in this budget update.

Given these uncertainties and financial pressures, City staff recommend reductions in various planned expenditures included in the FY 2024-2026 Biennial Budget and generally advise against using reserves at this point. While significant reserve balances are available to help offset any revenue downturn, reserve balances should generally be used when experiencing a more severe economic downturn, in order to protect core city services. Relatively minor

adjustments to expenditures are sufficient to balance the General Fund budget and guard against possible budget shortfalls next fiscal year.

Budget Overview – Citywide

The adopted FY 2025/26 Budget totals approximately $1.48 billion, including the City's operating budget and planned capital projects. Across all City funds, proposed net budget adjustments of approximately $30.1 million are recommended for FY 2025/26, including revenue increases of approximately $1.2 million and supplemental appropriations of approximately $31.3 million. With the recommended adjustments, the Proposed FY 2025/26 Amended Budget (Attachment 1) across all City funds will total $1.51 billion in appropriations. The proposed budget adjustments are detailed in Attachment 2.

CITYWIDE BUDGET SUMMARY - OPERATING
Proposed FY 2025/26 Budget Adjustments

	Adopted	Proposed Adjustment	Amended
Revenues & Transfers In			
Taxes	$ 351,782,743	$ (6,280,539)	$ 345,502,204
Licenses & Permits	22,507,171	(1,394,512)	21,112,659
Intergovernmental	45,809,562	(171,160)	45,638,402
Charges for Services	765,756,765	(5,862,328)	759,894,437
Fines & Forfeitures	6,127,203	294,000	6,421,203
Special Assessments	11,936,193	781,146	12,717,339
Miscellaneous	44,150,678	165,907	44,316,585
Rents	2,983,600	-	2,983,600
Other Financing Sources	2,309,375	(1,650,000)	659,375
Debt Transfers In	41,804,977	1,488,255	43,293,232
Operating Transfers In	114,946,265	6,139,444	121,085,709
Use of Section 115 Trust Set-Aside	4,351,712	7,651,773	12,003,485
Use of Infrastructure Reserves	194,312	73,188	267,500
Total Revenues & Transfers In	**$ 1,414,660,556**	**$ 1,235,174**	**$ 1,415,895,730**
Expenditures & Transfers Out			
Personnel Services	$ 426,732,673	$ 9,861,155	$ 436,593,828
CalPERS UAL	23,163,176	5,983,508	29,146,684
Non-personnel Expenses	488,609,980	8,383,581	496,993,561
Special Projects	76,276,262	(1,795,410)	74,480,852
Equipment Outlay	6,375,495	(1,000,000)	5,375,495
Debt Service/Debt Transfers Out	228,664,456	4,788,692	233,453,148
Minor Capital	142,218,006	(1,000,000)	141,218,006
Charges from Others	101,079,231	423,298	101,502,529
Charges to Others	(137,778,997)	(449,875)	(138,228,872)
Operating Transfers Out	114,946,265	6,139,444	121,085,709
Water General Fund Transfer(Escrow)	9,183,200	-	9,183,200
Total Expenditures & Transfers Out	**$ 1,479,469,747**	**$ 31,334,393**	**$ 1,510,804,140**
Net Operating Budget	**$ (64,809,191)**	**$ (30,099,219)**	**$ (94,908,410)**

Capital projects are funded through available operating revenues, bond proceeds, grants, fund reserves, and other funding sources. Bond and grant revenues are not typically included in the proposed budget but are budgeted when the bond is issued or when a grant is awarded and approved by City Council for use on a capital project. Internal controls exist to ensure that capital projects do not commence until funding is received or assured to become available.

CITYWIDE BUDGET SUMMARY - CAPITAL
Proposed FY 2025/26 Budget Adjustments

	Adopted	Proposed Adjustment*	Amended
Funding Sources*			
Electric Utility	$ 68,722,302	$ -	$ 68,722,302
Water Utility	34,573,077	-	34,573,077
Transportation Funds	15,725,876	-	15,725,876
Measure Z Capital	16,975,000	(1,000,000)	15,975,000
Sewer	3,800,000	-	3,800,000
Other	1,000,000	-	1,000,000
Total Funding Sources*	**$ 140,796,255**	**$ (1,000,000)**	**$ 139,796,255**
Funding Uses			
Electric	$ 68,722,302	$ -	$ 68,722,302
Municipal Buildings and Facilities	2,000,000	-	2,000,000
Parks, Recreation, & Community Services	3,500,000	(1,000,000)	2,500,000
Public Parking	900,000	-	900,000
Railroad-Related	1,000,000	-	1,000,000
Sewer	3,800,000	-	3,800,000
Storm Drain	100,000	-	100,000
Transportation	26,200,876	-	26,200,876
Water	34,573,077	-	34,573,077
Total Funding Uses	**$ 140,796,255**	**$ (1,000,000)**	**$ 139,796,255**

**Funding Sources are included in the Citywide Budget Summary - Operating table and are displayed in this table for informational purposes only.*

Economic Outlook & Cost Pressures

Staff recommend adopting a more conservative approach to the FY 2025/26 budget due to the continued uncertainty resulting from rapidly changing federal policies, including proposed tariffs, immigration policies, and federal funding reductions, which may present additional future challenges. The implementation and potential impact of these policies on the local economy remains unclear.

- Inflationary Pressures with Slow Moderate Growth: The COVID-19 economy drove rapid expansion of the sales tax base (approximately 35% from FY 2019/20 to FY 2023/24), but the current outlook remains highly uncertain. The City's sales tax consultant, HdL,

estimates a slight decline in revenue for the current year (-0.5% from the prior year), followed by modest growth in FY 2025/26 (+2.5%) based on revised current-year estimates. Lower revenue growth rates are expected to coincide with rising inflationary costs, driven by lingering pandemic-related spending and increased labor costs. Inflation, currently at 2.8% (CPI as of April 10, 2025), exceeds the Federal Reserve's 2% target and continues to hinder consumer and business spending. Additionally, potential global tariffs could further increase inflationary pressures and slow economic growth, particularly if implemented at the moderate to high levels currently proposed. This situation remains fluid, and staff will monitor its impact on the local economy, providing updates to the City Council as needed.

- Home Sales and Property Tax Revenue: The City has experienced substantial property tax revenue growth over the past few years, but this growth has slowed due to higher interest rates, refinancing costs, and overall higher housing costs, which have reduced consumer demand for housing. While property prices have not declined and are not expected to drop significantly, the high growth rates of recent years are unlikely to return, with growth expected to revert to pre-pandemic averages. Although not a significant concern for FY 2025/26, persistently high interest rates continue to slow growth in this category.

- Water General Fund Transfer (GFT): A legal challenge to the Water GFT, which generates approximately $9.18 million annually, renders the availability of these funds uncertain pending a potential appeal and the City has chosen to voluntarily set aside these funds in a restricted account pending resolution of an appeal.

This budget update follows several years of City and economic expansion and currently reflects a temporary pause in growth. Although the Federal Reserve has not signaled an imminent recession, in March 2025 they indicated growing concern about combined high inflation, low economic growth, and rising unemployment, and its potential economic impacts.

Much of this report relies on rapidly evolving information due to the timing of budget development and current economic uncertainties at the federal level. Given the numerous potential outcomes affecting revenue and expenditure assumptions, a cautious approach is the most prudent short-term strategy to preserve the City's financial resources in the event of a further economic downturn.

General Fund & Measure Z

Reserves:

The City is in a strong financial position with record level policy and discretionary reserves. Below is a recap of the City's General Fund and Measure Z Reserve Balances as of April 2025, which align with the City's reserve policies:

General Fund		
Policy Reserves		**Balance (in millions)**
Emergency Reserve (15%)	$	54.18
Contingency Reserve (5%)		18.06
Total	**$**	**72.24**
Other Reserves		
Reserved for Section 115 Trust Contributions	$	30.24
Infrastructure Reserve		9.38
Technology Reserve		5.00
Water GFT Escrow		16.63
Section 115 Trust		77.19
Total	**$**	**138.44**
Total Reserves	**$**	**210.68**

Measure Z		
		Balance (in millions)
Fund Balance*	$	35.89
Policy Reserve		5.00
Total	**$**	**40.89**

* Reflects projected fund balance as of FY 2024/25 Budget Adjustments approved through April 8, 2025.
* Measure Z fund balance is anticipated to be drawn down over the adopted five-year plan.

Budget Summary:

The adopted FY 2025/26 General Fund budget totaled $371.81 million with a balanced budget. The adopted FY 2025/26 Measure Z budget totaled $101.8 million and included a strategic fund balance drawdown of $14.6 million. The proposed revised FY 2025/26 budget includes $381.6 million General Fund and $107.8 million Measure Z expenditures. Recommended adjustments include those approved by Council during the 2024/25 fiscal year, rising personnel and other costs, and additional spending priorities, which are offset by several cost savings measures.

Summary of FY 2025/26 Proposed Adjustments

Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
General Fund				
Revenues and Other Resources	$ 371,805,699	$ 9,838,482	$ 381,644,181	2.6%
Expenditures and Transfers	371,805,699	9,838,482	381,644,181	2.6%
Surplus/(Deficit)	**$ -**	**$ -**	**$ -**	
Measure Z				
Revenues and Other Resources	**$ 86,997,000**	**$ (2,901,000)**	**$ 84,096,000**	**-3.3%**
Expenditures and Transfers Out	101,594,532	6,194,636	107,789,168	6.1%
Surplus/(Deficit)	**$ (14,597,532)**	**$ (9,095,636)**	**$ (23,693,168)**	**62.3%**

Revenue:

A net 1.4% decrease in General Fund and 3.3% decrease in Measure Z revenues are projected in FY 2025/26 as compared to the adopted budget, primarily due to weaker than expected performance of revenues in various categories, particularly in Sales Tax, Business License Tax, and Non-Developer Permits categories. Details are below:

- *Sales Tax:* The revised sales tax projection reflects a 2.6% ($2.5 million) reduction in General Fund and 3.3% ($2.9 million) reduction in Measure Z from the adopted revenue projections. The City's sales tax consultant, HdL, has lowered forecasts due to reduced consumer and business spending, declining oil and gas prices, and overall economic uncertainty. As a precautionary measure, projections have been adjusted downward to align with updated estimates and uncertain economic conditions.

- *Property Tax:* Projections have been revised downward by 0.8% ($0.75 million). Despite this category's relative stability, persistently high interest rates have slowed growth, particularly in home sales, which impacts the Property Transfer Tax subcategory within the overall property tax revenue.

- *Licenses & Non-Developer Permits:* Projections for this category have been revised downward by 14.5% ($1.9 million). This adjustment is primarily associated with lower projected business tax license revenue.

- *Developer Fees & Charges for Services:* This category has been revised upward by 12.0% ($1.04 million). The increase reflects recently adopted developer fees and charges adjustments approved by the City Council in April 2025. However, much of this revision depends on the volume of development and remains subject to the same economic uncertainties affecting other City revenue categories.

- *Other Financing Sources:* This category has been revised downward by $1.65 million due to timing uncertainties related to one-time revenue from land sales by the March JPA. Although this category is still expected to generate revenue for the City over the next several years, the timing of these sales remains uncertain and challenging to predict.

- *Other Revenue:* The remaining revenue projections have been revised upward by approximately $0.45 million due to minor adjustments in the Fines and Forfeitures, Special Assessments, and Intergovernmental Revenue categories. These adjustments, part of the standard revenue reevaluation process, are not expected to significantly impact the overall budget.

Expenditures:

The Budget Office updates the budget for routine adjustments resulting from the personnel refresh, MOU impacts, pension liabilities, updates in debt service obligations; and updated charges to/from departments (often related to shared personnel). City Departments also submit funding requests to address critical needs.

The adjusted FY 2025/26 budget includes additional expenditures of $10.9 million in the General Fund and $1.7 million in Measure Z associated with routine adjustments and critical need augmentations. All budget adjustments are detailed in Attachment 2. The most notable budget adjustments are as follows:

Personnel: The adjusted fiscal year 2025/26 budget includes an additional $6.8 million in General Fund and $340,677 in Measure Z personnel-related expenditures. Approximately $5.1 million is associated with routine adjustments resulting from the personnel refresh and impacts from approved MOUs negotiated with Police unions.

The budget also includes an additional $2 million for anticipated Fire Department overtime costs. Fire Department overtime costs are incurred to meet contractual MOU Employee Agreements for constant staffing. These costs arise from employee vacancies, sick leave, and vacation/holiday use. Additionally, overtime is required for both anticipated and unanticipated special incidents and events. This adjustment brings the Fire Department's overtime budget to similar levels realized over the last two years.

The City is still in the process of negotiating MOUs with additional bargaining groups, which may result in an additional budgetary impact during the 2025/26 fiscal year.

- **Vacancy Savings:** Based on the current vacancy rate (11%), recruitment and hiring challenges, and resulting fiscal year-end personnel savings during the last two fiscal years, a $15.9 million (6%) General Fund vacancy savings factor continues to be included in the amended budget, freeing funds for allocation to City priorities.

- **CalPERS Unfunded Accrued Liability (UAL):** The adopted budget reflects UAL payments based on the July 2023 CalPERS actuarial report, which assumed 6.8% investment earnings. However, CalPERS later reported actual returns of 5.8% for FY 2022/23. Due to these lower-than-projected earnings, the July 2024 report increased the required UAL payment for FY 2025/26. Consequently, the CalPERS UAL budget for FY 2025/26 totals $19.6 million, which is a $3 million increase compared to the adopted 2024-2026 biennial budget.

- **Marketing:** The Budget Amendment includes an additional $802,000 in the General Fund to continue various activities that were provided with one-time funding in the 2024-2026 biennial budget including:
    - Visit Riverside Campaign: $309,000 – Supports Visit Riverside consultant services, website management, social media, development of digital marketing strategy, billboards, online advertising, and print advertising. This is the same amount allocated to the Visit Riverside Campaign in FY 2024/25. No increase is proposed.
    - Riverside TV Content Curation: $154,500 – Supports video editing, script writing, and consulting services necessary to expand the use of Riverside TV and provide more robust, regular local programming relevant to residents and local businesses.
    - Economic Development Marketing: $309,000— – activities to attract businesses, investors, and a talented workforce. Advertising, print collateral, billboards, magazine ads, and other channels to promote the City's economic growth and development. This is the same amount allocated to Economic Development Marketing in the FY 2024/25 budget. No increase is proposed.
    - Promotional City Merchandise: $30,000 – Supports City branded promotional items for City events and conferences. This is the same amount allocated to promotional materials in the FY 2024/25 budget. No increase is proposed.

- **Community & Economic Development (CEDD):** The Budget includes an additional $200,000 in ongoing General Fund appropriations for a building and safety consultant to support permitting, plan check, and inspections allowing for more streamlined and speedy processing of permit applications.

- **City Manager's Office (CMO):** The budget includes an additional $100,000 in General Fund support comprised of: $50,000 for ZenCity's platform for data-driven insights to help officials make more informed decisions; $25,000 for costs associated with the City accepting a one-

year posting of a United States State Department diplomat in the CMO to assist with international economic development and the International Relations Program, with all other costs including the diplomat's salary and housing cost paid by the State Department; and $25,000 for costs associated with the City accepting a two-year post-graduate Harvard University Fellow in the CMO to assist with data collection and creation of data dashboards to enable data driven decision making, with all other costs including the Fellow's salary paid by the Bloomberg Foundation.

Recommended Cost Savings Measures:

To address softening revenues and increased costs, staff recommend deferring several planned expenditures in the FY 2024-2026 Biennial Budget until further clarity is gained from future economic data. Most of the affected programs still reflect funding levels above those in the FY 2023/24 budget. A total of $15.9 million in cost savings adjustments are proposed as follows:

General Fund

- Forestry and Landscape Equipment (-$950,000 General Fund): The FY 2023/24 budget allocated zero for this line item; the FY 2024/25 budget allocated a record $1,200,000 for this line item. Proposed is a temporary reduction of this line item to $250,000 in FY 2025/26 budget.

- ASL Interpretive Services (-$45,000 General Fund): This reduction aligns funding with anticipated service levels and expected savings in this program in FY 2024/25. A total of $50,000 was allocated for this service in FY 2024/25; however, to date only $482 has been expended. A total of $50,000 was adopted for FY 2025/26 in the 2024-2026 biennial budget. This reduction leaves $5,000 for this service next fiscal year, which is believed to be adequate to provide this service.

- Talent Management System (-$250,000 General Fund): This reduction reflects a delay in planning to avoid potential redundancy of the program, as its functions are being considered within the City's broader Enterprise Resource Planning (ERP) system efforts.

- Section 115 Set-Aside ($7.65M General Fund): The 2024-2026 Biennial Budget assumed the use of $4.35 million from the Section 115 set-aside in FY 2025/26 to partially offset Section 115 Trust contributions. Approximately $18 million in set-aside funds remained unprogrammed in the adopted biennial budget and five-year plan. Staff recommend allocating an additional $7.65 million of unprogrammed funds in FY 2025/26 to fully offset the City's contribution to the Section 115 Trust and help address rising UAL costs. This proposed use, consistent with the intended purpose of the set-aside, would result in a total use of $12 million in FY 2025/26 while preserving a remaining balance for future needs.

Measure Z

- Citywide Deferred Maintenance (-$1.5M Measure Z): The FY 2023/24 budget allocated $1,500,000 for this line item; the FY 2024/25 budget allocated a record $4,000,000 for this line item. Proposed is a temporary reduction of this line item to $2,500,000 in the FY 2025/26 budget, which is still $1,000,000 higher than the baseline allocation in the

FY 2023/24 budget, enabling the City to continue prioritizing critical deferred maintenance projects.

- Citywide Fleet (-$1.0M Measure Z): This reduction adjusts the new $1.6 million allocated in each year of the FY 2024–2026 biennial budget for non-safety vehicles. The remaining $600,000 allocation in FY 2025/26 sustains funding at higher levels than previously allocated for citywide fleet replacements.

- Parks Capital Improvements (-$1.0M Measure Z): The FY 2023/24 budget allocated zero for this line item; the FY 2024/25 budget allocated a record $4,057,500 for this line item; and the projected FY 2025/26 budget proposed $3,500,000 for this line item. Proposed is a temporary reduction in this line item to $2,500,000 in the FY 2025/26 budget, preserving a significant allocation of funding for critical Parks capital improvement efforts.

- PSET Urban (-$383,413 Measure Z): This reduction reflects savings from currently vacant positions within the PSET Urban team. There are four PSET Urban teams with five personnel each and two PSET Wildland teams with five personnel each. Additionally, the city operates with two Community Behavioral Health Assessment Teams (CBAT) responding to those in a mental health crisis, two street medicine teams, and six outreach workers operating from the City's Access Center. Two of the PSET Urban teams, however, have never been staffed due to recruiting issues. The four fully staffed PSET teams (two Urban and two Wildland teams) often work together and along with CBAT, the street medicine teams, and the Access Center outreach workers provide robust response to those in need. Pausing the so-far-unsuccessful recruitment of the two additional Urban PSET teams until a more predictable revenue picture emerges will not diminish the City's currently robust efforts to serve those in need.

- Public Safety Support ($7.2M Measure Z): The budget proposes a one-time transfer of $7.2 million from Measure Z to the General Fund to support increased General Fund public safety costs, including, but not limited to, increases related to recent Police MOU agreements and rising Fire Department overtime costs. This one-time transfer is made possible by the proposed Measure Z reductions listed above and supplemented by the additional use of Measure Z fund balance, as described below.

- Measure Z Fund Balance ($3.1 million): The budget proposes using an additional $3.1 million of the Measure Z fund balance to support the above one-time transfer to the General Fund for Public Safety costs.

<u>Electric Fund</u>

The adopted FY 2025/26 budget for the Electric Fund projected a net surplus of approximately $6.1 million when including capital expenditures. Budget adjustments totaling $15.2 million are recommended. There are sufficient reserves to accommodate the additional appropriations.

The proposed FY 2025/26 budget includes an additional $3.1 million in personnel costs, primarily due to City Council-approved MOU agreements with the International Brotherhood of Electric Workers (IBEW) for Field and Supervisory Groups. The MOU includes, but is not limited to, merit increases, health and dental plan increases, and salary adjustments, which are refreshed each year and result in increased costs.

RPU has a 7.617% share of the Intermountain Power Project (IPP). The IPP Draft Final Operating Budget for FY 25/26 provides $144.2 million in debt service to finance the Gas Repowering. RPU's share of the net debt service is approximately $12.0 million for FY 2025/26, which is included in the revised budget.

Water Fund

The adopted FY 2025/26 budget for the Water Fund projected a net surplus of approximately $8.5 million when including capital expenditures. Budget adjustments totaling $1.13 million are recommended. There are sufficient reserves to accommodate the additional appropriations.

The proposed FY 2025/26 budget includes an additional $1.12 million in personnel costs, primarily due to City Council-approved MOU agreements with IBEW for Field and Supervisory Groups. The MOU includes, but is not limited to, merit increases, health and dental plan increases and salary adjustments, which are refreshed each year and result in increased costs.

Refuse Fund

The adopted FY 2025/26 budget for the Refuse Fund projected a net draw on the fund balance of approximately $221,909 when including capital expenditures. Budget adjustments totaling $2.05 million are recommended. There are sufficient reserves to accommodate the additional appropriations.

The proposed FY 2025/26 budget includes an additional $974,000 in anticipated increased contract costs including:

- $515,000 for anticipated increased residential solid waste services costs associated with recent audit findings that identified additional homes that should be billed to the contract.
- $382,000 for residential solid waste disposal costs due to continued trends of higher tonnages of waste.
- $77,000 for additional commercial roll-off services needed for illegal dumping collection and bulky item disposal.

On September 17, 2024, the City Council approved a $2.87 million loan from the General Fund Infrastructure Reserves to fund additional solid waste collection vehicles, with repayment scheduled through FY 2028. The proposed FY 2025/26 budget includes $786,100 for the first year of repayment to the General Fund Infrastructure Reserve.

Sewer Fund

The adopted FY 2025/26 budget for the Sewer Fund projected a total draw on fund reserves of approximately $0.52 million when including capital expenditures. Budget adjustments totaling $2.36 million are recommended. There are sufficient reserves to accommodate the additional appropriations.

The proposed FY 2025/26 budget includes an additional $1.35 million to support additional chemical purchases to address critical treatment needs. The budget also includes an additional $350,000 for contract costs to divert wastewater from the Orangecrest service area.

Public Parking

The adopted FY 2025/26 budget for the Parking Fund projected a net surplus of approximately $567,928 when including capital expenditures. Budget adjustments totaling $347,946 are recommended; there are sufficient reserves to accommodate the additional appropriations.

The proposed FY 2025/26 budget includes an additional $246,582 for the second year of repayment to the General Fund for an interfund loan approved by the City Council in 2023.

STRATEGIC PLAN ALIGNMENT:

The topics included in this report align with **Strategic Priority 5: High Performing Government and Goal 5.4**: Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

The report aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – The update of the FY 2025/26 budget is an inclusive and transparent process that incorporates community engagement, involvement of City Boards & Commissions, and timely and reliable information.

2. **Equity** – The proposed budget is available to all members of the public via the City website, and the presentation of the proposed budget in a public forum accommodates community engagement from all members of the public.

3. **Fiscal Responsibility** – The thoughtful and deliberate nature of the City's budget update process and alignment of City resources with the strategic plan demonstrates the City's commitment to responsible management of the City's financial resources while providing quality public services to all.

4. **Innovation** – Priority Based Budgeting (PBB) and the methodologies applied to vet and present budget requests represent an innovative approach to decision-making that uses a collaborative process to allocate resources based City priorities.

5. **Sustainability & Resiliency –** The budget update process, along with the application of PBB principles, balances current and future needs, thereby supporting the City's long-term fiscal stability.

FISCAL IMPACT:

The City's Proposed FY 2025/26 Amended Budget totals $1.51 billion, an increase of approximately $31.3 million as compared to the budget adopted by City Council on June 25, 2024. The Citywide additional appropriations are partially offset by revenue increases of $1.2 million across all City funds.

Funds with non-routine budget adjustments are listed separately in the following table; the adjustments for all other funds are grouped under "Other City Funds". Routine budget adjustments include personnel budget adjustments resulting from the personnel refresh and MOU impacts; updates in debt service obligations; adjustments required per accounting rules; and updated charges to/from departments (often related to shared personnel).

Summary of FY 2025/26 Proposed Expenditure Adjustments				
Fund	**Adopted Budget**	**Proposed Adjustments**	**Amended Budget**	**% Amended**
101 - General Fund	$ 371,805,699	$ 9,838,482	$ 381,644,181	2.6%
110 - Measure Z Operating Fund	101,844,532	6,194,636	108,039,168	6.1%
390 - General Debt Service Fund	40,424,217	1,488,255	41,912,472	3.7%
420 - Measure Z Capital Fund	16,975,000	(1,000,000)	15,975,000	-5.9%
510 - Electric Fund	525,531,025	15,246,212	540,777,237	2.9%
520 - Water Fund	128,235,985	1,130,569	129,366,554	0.9%
530 - Airport Fund	1,971,686	271,448	2,243,134	13.8%
540 - Refuse Fund	37,267,501	2,049,995	39,317,496	5.5%
550 - Sewer Fund	78,855,389	2,359,521	81,214,910	3.0%
570 - Public Parking	10,613,870	347,946	10,961,816	3.3%
640 - Central Stores Fund	1,244,490	238,245	1,482,735	19.1%
765 - CFD 2021-2 Riverpoint Park Place	-	254,250	254,250	-%
Other City Funds	164,700,353	(7,085,166)	157,615,187	-4.3%
Total	**$ 1,479,469,747**	**$ 31,334,393**	**$ 1,510,804,140**	**2.1%**

Prepared by: Peter Kakos, Interim Budget Manager
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Certified as to availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Edward Enriquez, Assistant City Manager/Chief Financial Officer/ City Treasurer
Approved as to form: Rebecca McKee-Reimbold, Interim City Attorney

Attachments:

1. Proposed Amended FY 2025/26 Budget
2. Presentation