Mid-Cycle Budget Update Fiscal Year 2024-25

City Council Workshop

May 21, 2024

Agenda

1. Executive Summary
2. Background
3. Proposed Budget Overview
4. Revenue Adjustments
5. Expenditure Adjustments
6. Departmental Funding Requests
7. Workforce Changes
8. Key Takeaways
9. Questions and Discussion

Executive Summary

- **Budget Update Overview**:
  - The Mid-Cycle Budget Update provides an overview of significant adjustments in revenue and expenditures and aims to ensure that the city remains on a stable financial path while addressing current needs and priorities.
  - The City's finances are stable with forecasted $29.34 million in residual fund balance in addition to $39 million in policy reserves.
  - The amount of General Fund reserves needed between adoption of the FY 2024-25 Baseline Budget, $6.05 million, and the Adjusted Baseline Budget **decreased** by $3.7 million resulting in an adjusted use of reserves of $2.68 million.
  - Staff is requesting an additional use of net reserves of $3.3 million to maintain existing service levels and prioritize community needs in FY 2024-25, resulting in $5.98 million use of reserves.
  - Since adoption of the budget in June 2023, economic headwinds have impacted some revenues categories.
  - The proposed Midcycle Budget has a slight structural imbalance of $2.45 million, which is equivalent to current revenue loss due to economic headwinds.

Executive Summary (cont....)

- **Proposed General Fund Midcycle Budget**:
  - The proposed General Fund midcycle budget is **$144.57 million**, an increase aimed at supporting essential city services.
  - This budget covers key areas such as public safety, public works, and recreation.
- **Proposed All Funds Budget**:
  - The total proposed midcycle budget, encompassing all funds, is **$324.43 million**.
  - This includes special revenue funds, enterprise funds, and capital improvement funds.
- **New Positions**:
  - Introduction of three new positions: an Investigator to strengthen public safety, an Administrative staff member to support increased workload, and an IT Executive Assistant to enhance IT department operations.

Background

- **Biennial Budget Adoption**:
  - The FY 2023-25 Biennial Budget was adopted in June 2023, setting the financial plan for two fiscal years.
  - Adjustments have been made throughout the current fiscal year (FY 2023-24) resulting in a FY 2024-25 Adjusted Baseline Budget, which is the starting point for the FY 2024-25 Midcycle Budget.
  - This budget focused on maintaining service levels, addressing capital needs, and ensuring fiscal sustainability.
- **Workshop Objectives**:
  - The primary objectives of this workshop are to review the overall budget factors, discuss proposed changes, and ensure alignment with the City's strategic priorities.
  - This includes evaluating the financial health of the City and making necessary adjustments to maintain fiscal discipline.

The Starting Point: General Fund Adjusted Baseline Budget

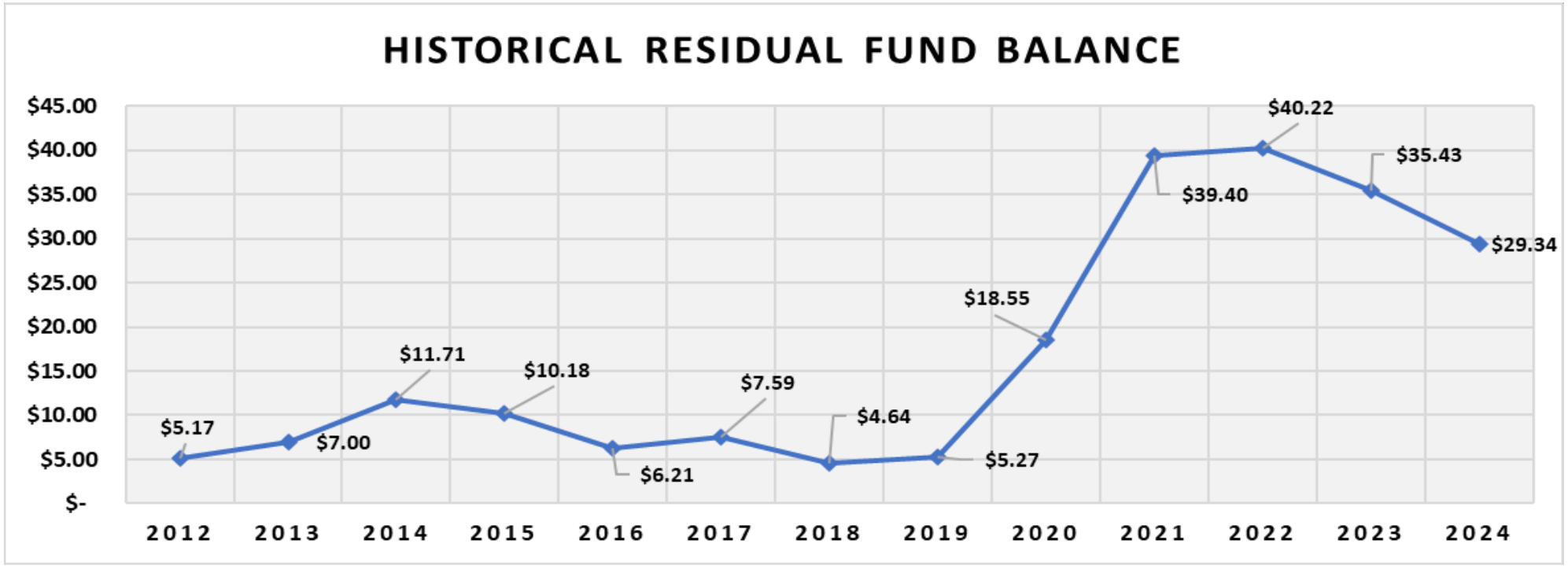
FY 2024-25 Revenues	Ongoing	One-time	Total
FY 2024-25 General Fund Baseline Revenue Budget (approved June 2023)	$ 131,409,875	$ 2,867,623	$ 134,277,498
Revenue Adjustments	$ 4,443,765	$ 1,253,101	$ 5,696,866
FY2024-25 Adjusted Revenue Baseline, starting point for Midcycle Budget	**$ 135,853,640**	**$ 4,120,724**	**$ 139,974,364**

FY 2024-25 Expenditures			
FY 2024-25 General Fund Baseline Expenditure Budget (approved June 2023)	$ 134,779,146	$ 5,551,650	$ 140,330,796
Expenditure Adjustments (FY 2023-24 Midyear Budget, personnel adjustments, technical corrections, cost allocation adjustments)	$ 1,856,689	$ 463,048	$ 2,319,737
FY2024-25 Adjusted Expenditure Baseline, starting point for Midcycle Budget	**$ 136,635,835**	**$ 6,014,698**	**$ 142,650,533**

- <u>The Adjusted Baseline Budget incorporates:</u>
  - $2.32 million of expenditure changes from amendments adopted for the FY 2023-24 Midyear Budget, as well as necessary personnel adjustments, technical corrections, and cost allocation adjustment.
  - $5.70 million of anticipated revenue adjustments that include increases for fees for services, taxes and one-time transfers into the General Fund from other funds.

Current Adopted Use of Residual Fund Balance

- The FY 2024-25 *Adopted* Budget included a planned use of $6.05 million of residual fund balance.
- The FY 2024-25 *Adjusted* Baseline Budget reduces reliance on residual fund balance to $2.68 million, reduction of $3.38 million
- The FY 2024-25 *Proposed* Midcycle is requesting an additional use of net reserves of $3.3 million to maintain existing service levels and prioritize community needs in FY 2024-25, resulting in $5.98 million use of reserves, which is still $0.07 million less than the adopted budget.



- Available residual funds can change from year-to-year depending upon local economic conditions
- The dramatic increase in FYs 2020-2022 is largely due to:
  - Historical staffing vacancies in Public Safety, and
  - Significant increases in revenues derived from property transfer taxes.
- Estimated FY 2024-25 starting residual balance of $29.34 million is net of:
  - $6.05 million use of fund balance adopted in June 2023
  - $15 million assigned for construction of the Aquatic Center
  - $39 million in reserves required by City Council policy

Proposed Midcycle Budget Overview

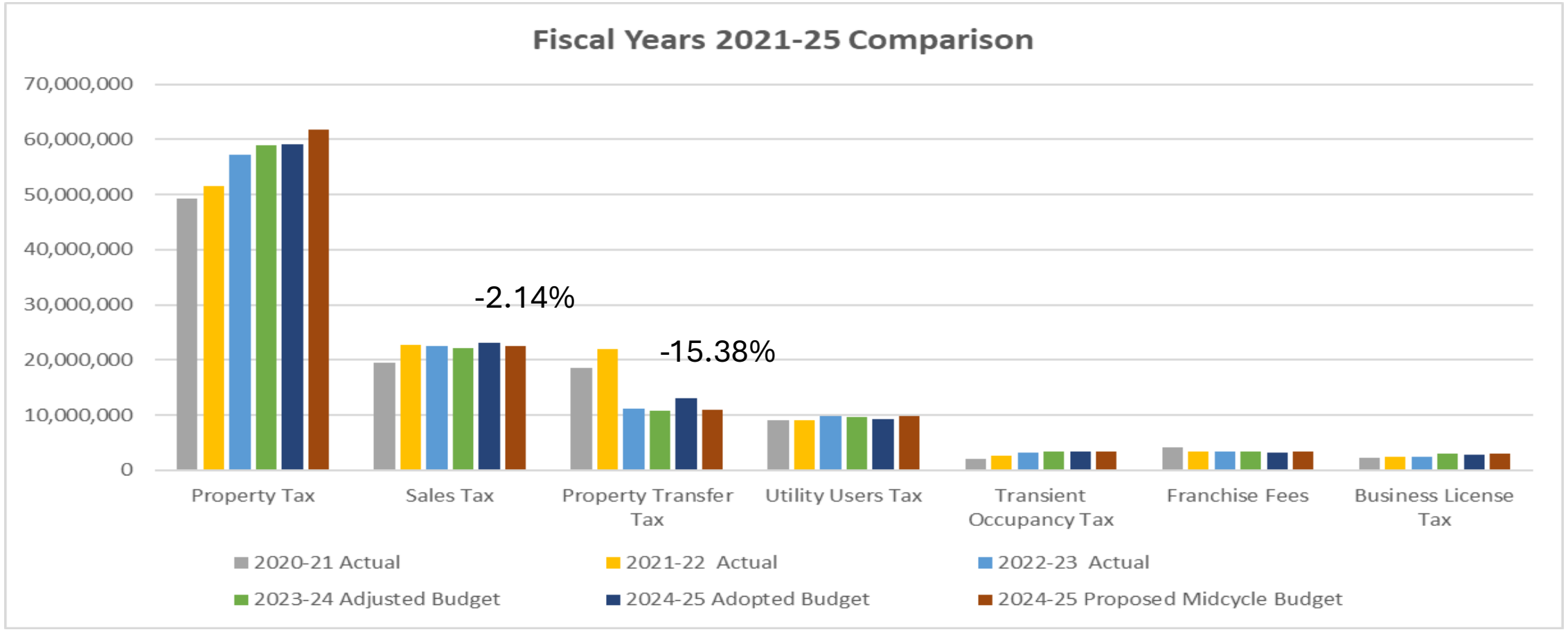
- **General Fund Budget**:
  - The proposed General Fund budget is **$144.57 million**, reflecting the city's commitment to maintaining essential services and investing in priority areas.
  - Key expenditures include personnel costs, operational expenses, and strategic investments in public safety and community services.
- **All Funds Budget**:
  - The total proposed budget for all funds is **$324.43 million**, which includes the General Fund and other funds like capital improvement and special revenue funds.
  - This comprehensive budget supports a wide range of city functions and projects, ensuring balanced growth and development.
- **Strategic Alignment**:
  - The budget aligns with the City’s Strategic Plan, emphasizing fiscally responsible governance, equity, and inclusivity.
  - This involves prioritizing resources for key initiatives, ensuring equitable service delivery, and fostering an inclusive community environment.

General Fund Revenue Adjustments

- **General Fund Revenue Increase**: An increase of **$5.70 million** in General Fund revenues.
  - **Property Tax**: 4.72% increased revenue due to higher property valuations, but slower than anticipated.
  - **Sales Tax:** Sales tax revenue remains flat and transaction and use tax revenue is forecasted to decline reflecting decrease economic activity.
  - **Real Property Transfer Tax:** Forecasted to be -$2 million less than the adopted budget.
  - **Fees and Services**:
    - Adjustments in fees for City services to better reflect the cost of providing these services, assuming Council approval of proposed fee schedule this evening.
    - These adjustments ensure that the City can continue to offer high-quality services without compromising financial stability.
  - **One-time Transfers**: Inclusion of one-time transfers from other funds or reserves.
- **Other Adjustments**: Minor adjustments in other revenue categories to reflect updated projections.

Economic Headwinds

- Since adoption of the budget in June 2023, economic headwinds have impacted some revenues categories.
- The categories below account for 82% of General Fund Revenues.
- The minimal forecasted growth in some these categories is insufficient to offset expenditure growth
- Overall revenue growth in major ongoing revenue categories was much slower (or flat!) than originally forecasted.



Proposed FY 2024-25 Midcycle Budget

- The City's finances are stable with forecasted $29.34 million in residual fund balance in addition to $39 million in policy reserves.
- The amount of General Fund reserves needed between adoption of the FY 2024-25 Baseline Budget, $6.05 million, and the Adjusted Baseline Budget decreased by $3.7 million resulting in an adjusted use of reserves of $2.68 million.
- Staff is requesting an additional use of net reserves of $3.3 million to maintain existing service levels and prioritize community needs in FY 2024-25, resulting in $5.98 million use of reserves.
- The proposed Midcycle Budget has a slight structural imbalance of $2.45 million, which is equivalent to current revenue loss due to economic headwinds.

Workforce Changes- Additions and Repurposing Existing Positions

- City Attorney (1 FTE addition, split funded)
  - New position & classification- Investigator
  - FY 2024-25 $14,000 General Fund, $94,954 all Funds
- Recreation & Parks (1 FTE addition, General Fund)
  - Upgrade one Rec Services Manager to an Assistant Recreation and Parks Director.
  - Downgrade one Recreation Specialist to TWO Recreation Assistants
  - FY 2024-25 aggregate cost including reduction in overtime budget: -$53,644
- Information Technology (1FTE addition, ISF funded)
  - Add one Executive Assistant
  - FY 2024-25 $156,441 Fund 606

Workforce Changes- Repurposing Existing Positions

- City Manager (no additional FTE)
  - Upgrade one Executive Assistant to one Principal Executive Assistant
  - Downgrade one Executive Assistant to one Office Assistant, including reclassifying partial funding from Fund 606 to General Fund
  - Aggregate FY 2024-25 impact $29,445 General Fund
- Police Department (no additional FTE)
  - Upgrade one Lieutenant to one Captain
  - Upgrade three Sergeants to Lieutenants
  - FY 2024-25 impact $178,945 General Fund, HOWEVER should offset a need for future increases in overtime
- Public Works (no additional FTE)
  - Upgrade one Administrative Services Coordinator to ADA Coordinator (new classification)
  - Upgrade one Senior Clerk to One Administrative Technician III
  - Aggregate FY 2024-25 impact $25,279 General Fund, $25,391 all Funds

City Council Adopted Strategic Priorities

Operation and Maintenance Requests will be presented in alignment with City Council adopted Strategic Priorities

Department Funding Requests

- **Overview**: Each department submitted funding requests to address specific needs and priorities.
- **Alignment with Strategic Priorities**: Ensuring that departmental requests align with the City's strategic goals and long-term planning.
  - **Workforce Changes** focus on repurposing existing positions, when ever possible, to provide enhanced service delivery and long-term cost savings

Additional Investments in:

Enhance Community Safety & Services		Ongoing	One-Time	Total
Rec & Park	Increase Part-Time Pay - Aquatics & Swim Center	$ 453,250	$ -	$ 453,250
Rec & Park	Increase Part-Time Pay - Other Recreation Programs	$ 47,380	$ -	$ 47,380
Rec & Park	Increase Utilities - Electricity, Water, Phone Service	$ 91,800	$ -	$ 91,800
Rec & Park	Increase Utilities - Payment to AUSD for Electricity - Encinal Boat Ramp	$ -	$ 17,100	$ 17,100
Rec & Park	Increase Recreation Supplies - Recreation Programs	$ 28,200	$ -	$ 28,200
Rec & Park	Increase Professional Services - Payment to AUSD for Encinal Access	$ -	$ 75,274	$ 75,274
Rec & Park	Increase Professional Services - Recreation Programs & Administrative	$ 33,000	$ -	$ 33,000
Rec & Park	Increase Other Services - Based on FY23/24 actuals projections	$ 33,750	$ -	$ 33,750
Rec & Park	Increase Ground Maintenance Supplies	$ 15,000	$ -	$ 15,000
Base Reuse & Econ Dev	Add Professional Services - Special Event Grants	$ -	$ 200,000	$ 200,000
Fire	Increase Professional Services - Analyst Application	$ 15,000	$ 10,000	$ 25,000
Fire	Increase Dispatch Services - Alameda County	$ 43,820	$ -	$ 43,820
Fire	Increase Part-Time Pay - Fire Inspections (Increase Revenue Offset)	$ 22,000	$ -	$ 22,000
Fire	Upgrades to Fire Inspection Software		$ 150,000	$ 150,000
	General Fund Total Enhance Community Safety & Services	**$ 783,200**	**$ 452,374**	**$ 1,235,574**

Additional Investments in:

Build Resilience to Climate Change & Water Level Rise

PBT	Increase Professional Development - Sustainability Update	$ 4,100	$ -	$ 4,100
PBT	Increase Professional Services - CASA Intern	$ 6,000	$ -	$ 6,000
	General Fund Total Build Resilience to Climate Change & Water Level Rise	**$ 10,100**	**$ -**	**$ 10,100**

Invest in Alameda's Transportation, Infrastructure, & Economy

Police	Increase Police Administration Building Improvements	$ -	$ 165,000	$ 165,000
	General Fund Total Invest in Alameda's Transportation, Infrastructure, &	**$ -**	**$ 165,000**	**$ 165,000**

House All Alamedans & End Homelessness

City Manager	Increase Services - Homelessness Prevention and Outreach	$ -	$ 185,000	$ 185,000
City Manager	Increase Services - Extend Days for Winter Warming Shelter	$ -	$ 50,000	$ 50,000
	General Fund Total House All Alamedans & End Homelessness	**$ -**	**$ 235,000**	**$ 235,000**

Additional Investments in:

Practice Fiscally Responsible, Equitable & Inclusive Governance

Public Works	Increase Cost Allo - Fleet Maintenance Collision Repair for Uninsured	$ -	$ 74,437	$ 74,437
Public Works	Reduce Cost Allocation - Rec & Park Facility Maintenance	$ (55,000)	$ -	$ (55,000)
Rec & Park	Increase Part-Time Pay & Janitorial Supplies - Facility Maintenance	$ 122,200	$ -	$ 122,200
Rec & Park	Increase Professional Development - Training	$ 10,000	$ 13,500	$ 23,500
Fire	Increase Professional Services - Mental Health and Wellness Program	$ -	$ 25,000	$ 25,000
Fire	Increase Overtime - Training	$ -	$ 240,000	$ 240,000
City Attorney	Transfer to Golf Fund for litigation expenses	$ -	$ 200,000	$ 200,000
City Attorney	Increase Cost Allo - Wrks' Comp and Gnrl Lia due to additional expenses	$ 185,700	$ -	$ 185,700
City Attorney	Increase Part-Time Pay	$ -	$ 47,563	$ 47,563
	General Fund Practice Fiscally Responsible, Equitable & Inclusive Governance	**$ 262,900**	**$ 600,500**	**$ 863,400**

Aggregate Strategic Priority Investments in Other Funds

- Many strategic investments in Other Funds are offset by additional revenues or transfers in.
- A detail listing of both revenues and expenditures can be found in the staff report and Exhibit 1 to the staff report.
- Highlights from other funds:
  - Updating the 5-year Information Technology Master Plan
  - Additional funding for Day Center and Safe Parking Relocation Project
  - Additional funding for pavement rehabilitation

Additional Use of Residual Fund Balance?

Starting Forecasted Residual Fund Balance *(in millions)*		**$29.34**
Considered Use of Residual Fund Balance		
Housing	Day Center and Safe Parking Relocation	$0.75
Transportation	Street Safety CIP	$0.25
Safety & Service	McKinley & Washington Park Playground Repair	$0.12
Governance	Additional CalPERS Unfunded Liability Payment	$3.00
Safety & Service	Sweeney Railroad Depot Repair	$0.19
Safety & Service	New Turn-Out Gear for Fire Fighters	$0.25
Transportation	Sidewalk Repairs	$2.00
	Subtotal Use of Residual Fund Balance	$6.56
	Remaining Forecasted Residual Fund Balance	**$22.78**

- The City continues to maintain $39 million in Policy Reserves.
- Additionally, in FY 2023-24 Friends of the Alameda Animal Shelter is requesting one-time funding of $185,554 to close a developing budget gap.

Key Takeaways

- **General Fund Revenue and Expenditure Summary**:
  - Overview of the major revenue increases and expenditure adjustments.
  - Necessary increases to service charges to ensure high level services.
  - This includes detailed analysis of revenue sources and expenditure categories to highlight key changes.
  - Decreases or lack of growth in key revenues categories, including transfer taxes and sales/use taxes.
  - A slight structural imbalance of which is equivalent to current revenue loss due to economic headwinds.
  - Proposed comparable use of Residual Fund balance to maintain and enhance existing services

- **Financial Resilience**:
  - The City's finances are very stable with forecasted $29.34 million in residual fund balance in addition to $39 million in policy reserves.
  - This ensures that the city can weather economic fluctuations and continue to provide essential services.
- **Strategic Priorities**:
  - Ensuring that all budget changes support the City's strategic goals and priorities, focusing on long-term benefits and community impact.
  - This includes investments in capital needs, public safety, and community services to enhance quality of life for residents.

Questions and Discussion

- **Discussion Points**:
  - Clarifications or questions on specific budget adjustments
  - Implications of proposed changes on City services and operations
  - Direction on any additional adjustments and/or use of fund balance, as well as any other considerations for final budget adoption

Expenditure Adjustments at Adjusted Baseline

- **Total Expenditure Changes**:
  - **$2.32 million** in expenditure adjustments to reflect updated needs and priorities.
  - These changes include increases in personnel costs, operational expenses, and strategic investments.
- **Personnel Adjustments**:
  - Changes in staffing costs, including new hires, promotions, and salary adjustments, to attract and retain qualified personnel.
  - This ensures that the City has the necessary human resources to deliver essential services effectively.
- **Technical Corrections**:
  - Updates and corrections to previously adopted budget figures to ensure accuracy and transparency.
  - This includes adjustments for accounting changes, updated cost estimates, and reallocation of funds.
- **Cost Allocation Adjustments**:
  - Reallocation of costs across departments to better reflect actual service usage and improve budget efficiency.
  - This involves distributing shared costs, such as administrative support and facilities maintenance, based on usage.

Workforce Changes

- **New Positions**:
  - **Investigator**: To strengthen the city's investigative capabilities and City Attorney's Prosecution Unit's efforts.
  - **Administrative Staff**: To handle increased administrative workload and improve operational efficiency.
  - **IT Executive Assistant**: To assist with technology and administrative tasks in the IT department, supporting digital transformation initiatives.
- **Position Downgrades/Deletions**:
  - Downgrade or elimination of two positions to reallocate resources more effectively and align with current needs.
  - This includes evaluating roles that are no longer critical and reallocating funds to higher-priority areas.
- **Position Conversions/Upgrades**:
  - Conversion and upgrade of six positions to improve efficiency and meet evolving service demands.
  - This involves reclassifying positions to better reflect their responsibilities and provide opportunities for career advancement.