

**CITY OF ALBANY
CITY COUNCIL AGENDA
STAFF REPORT**

Agenda Date: June 5, 2023
Reviewed by: NA

SUBJECT: Biennial Budget for Fiscal Years 2023-24 and 2024-25

REPORT BY: Heather Rowden, Finance Director
Nicole Almaguer, City Manager

SUMMARY

This report presents the final proposed operating budget for fiscal years 2023-24 and 2024-25.

STAFF RECOMMENDATION

That the Council review the Fiscal Year 2023-24 and 2024-25 Biennial Budget package and adopt the following Resolutions:

1. Resolution 2023-30 Updating the City's Fiscal Policies;
2. Resolution 2023-31 Establishing the Appropriations Limit for the 2023-24 Fiscal Year;
3. Resolution 2023-32 To Establish the City of Albany's Master Fee Schedule;
4. Resolution 2023-33 Adopting the Salary Schedule;
5. Resolution 2023-34 To Adopt the Fiscal Year 2023-24 Tax Rate for the Pension Override Tax;
6. Resolution 2023-35 Establishing Fiscal Year 2023-24 Parcel Tax Rates;
7. Resolution 2023-36 Appropriating Reserve Fund Amounts; and
8. Resolution 2023-37 Adopting the Biennial Budget for Fiscal Years 2023-24 and 2024-25.

BACKGROUND

On May 15, 2023 the Albany City Council held a work session on the Fiscal Years 2023-24 and 2024-25 Biennial Budget. At the work session, Council, members of the Financial Advisory Committee, and public made comments on the proposed budget. Changes made since the work session are detailed in the following section. The Staff Report presented at the work session is attached to provide additional detail on the changes being proposed for the upcoming biennial budget.

DISCUSSION AND ANALYSIS

In addition to various clerical updates, the following changes and analysis have been completed since the May 15, 2023 work session:

Section 1, Introduction

Several technical changes were made to the proposed Investment Policy as well as the Master Fee Schedule. The City’s Fiscal Year 2023-24 Appropriations Limit, sometimes referred to as the Gann Limit, was added to the booklet. Detail on the proposed calculation can be found in Section 1.2 of the attached booklet.

Section 2, Staffing

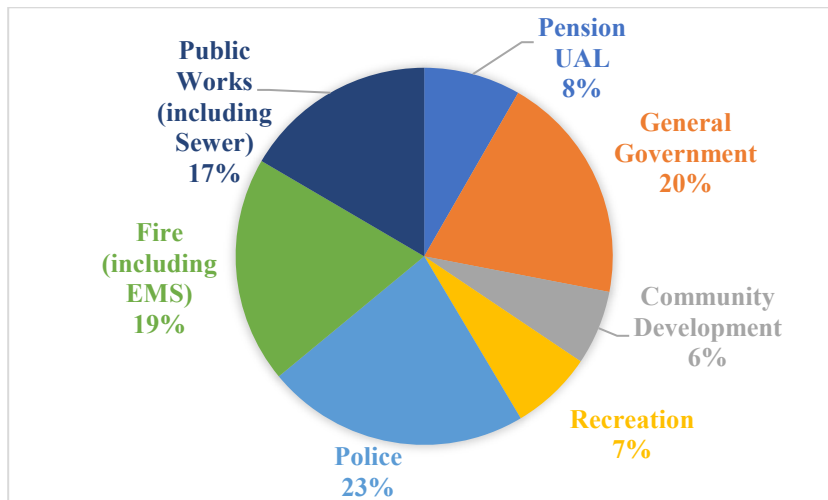
No substantive changes were made in this section.

Section 3, Biennial Operating Budget

Updates were made to the proposed Public Works Operating budget, detailed in Section 3.3.8. After additional review, it was noted that the Storm Drain division, previously accounted for in a separate fund as an Enterprise, or Business Type, Fund, was not included in the operating budget. In addition, a previously appropriated amount for the Program Manager position approved by Council in early 2022 was not included in fiscal year 2022-23 budget column, making the Public Works salaries appear to increase more than actually being proposed. These two items have been corrected and all applicable summaries have been amended.

Based on comments from Council at the work session, \$5,000 for two Community Emergency Response Team (CERT) disaster preparedness trainings per fiscal year has been added to the Risk Management Budget, located in Section 3.3.2 City Manager/Administration, page 105 of the attached booklet.

Overall numbers have been adjusted and the following information and charts reflect the above changes, as well as technical correction. City operating expenses are expected to increase \$3,468,616 in the General Fund, \$444,996 in the EMS fund, and \$157,976 in the Sewer Operations Fund. The overall operational expenditure breakdown by functional area is as follows:

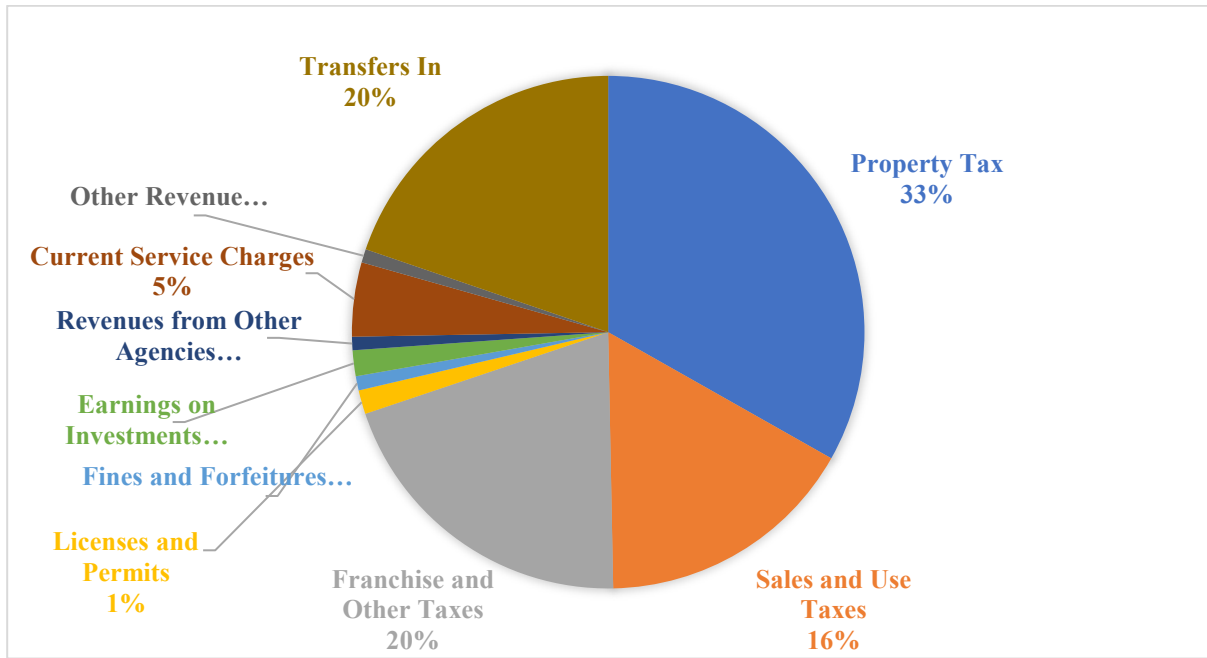


Since the work session there has been interest in the City’s Recreation and Community Services Department resuming certain evening events. To accomplish this, an additional appropriation of \$38,400 would be required. Should the Council elect to increase the budget to incorporate evening music in the park events, staff would aim to transition one of the two currently budgeted music in

the park events into an evening event in September 2023. Lighting would be necessary for this event for both the performance of the band and safety needs. In addition to funding needs, ample time would be needed to reincorporate this program expansion back into the overall work program for the department. Should the Council elect to increase the budget to incorporate evening music in the park events, staff would also aim to organize two events in FY 2024-2025.

General Fund revenues are anticipated to increase just over \$4.8 million, of which just under \$1.3 million is transfers in from special revenues.

The overall revenue collections are broken down as follows:



Section 4, Special Revenue and Enterprise Funds

Budget amounts for Special Revenue Funds have been added in this Section. The previous biennial budget package included anticipated Capital Improvement Plan (CIP) expenses for illustrative purposes. As no changes to CIP appropriations are being requested at this time, and staff plan on bringing an updated CIP in fall of 2023, these lines have been removed and applicable pages will be presented again with the updated CIP to ensure Council has the whole picture of how operational and capital spending work together and effect specific fund balances.

The City’s enterprise fund (the sewer fund), while also mentioned in Section 3 of this report in the discussion of operating expenses, is included in Section 4 as well to show the effect on fund balances, as well as the transfer to the Sewer Debt Service fund.

In addition, tax rates for parcel taxes and select fees that are assessed on the property tax bills were calculated and included in Section 4.14. The applicable change in the Consumer Price Index was higher than the max increase for all taxes and fees so the max rate is being suggested for all taxes

except the two library parcel taxes. Additional information on the tax rate calculations can be found throughout Section 4.

Section 5, Debt Service Funds

No change.

Section 6, Albany Police and Fire Pension Fund

No change.

Section 7, Reserve Funds

No change.

Section 8, Future Funding Needs

No change.

SUSTAINABILITY CONSIDERATIONS

The budget includes funding for several projects and programs that further the principles of sustainability and environmental services.

SOCIAL EQUITY AND INCLUSIVITY CONSIDERATIONS

The budget includes funding for several programs and human services for the community.

CITY COUNCIL STRATEGIC PLAN INITIATIVES

The biennial budget is drafted with the City Council’s strategic plan initiatives in mind for each department. All resources are allocated to providing City services, as well as achieving goals and implementing policies as set forth by the Council.

FINANCIAL CONSIDERATIONS

While the biennial budget proposes a budgeted deficit, as seen in Section 7.2 of the booklet, staff do not anticipate realizing a deficit for the next several years. Council has expressed interest in maintaining the current service level and seeking additional revenue sources over the next several years. Budget reviews come to Council on a quarterly basis and amendments are generally proposed at the mid-year and new fiscal year presentations, if necessary. Additional discussion on the City’s finances happen at these meetings, as well as being monitored in detail by the City’s Financial Advisory Committee.

Attachments:

1. May 15, 2023 Work Session Staff Report
2. Resolution No. 2023-37 Adopting the Biennial Budget for Fiscal Years 2023-24 and 2024-25
3. Exhibit A to Resolution No. 2023-37 – Biennial Budget Booklet for Fiscal Years 2023-24 and 2024-25

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Agenda Date: May 15, 2023
Reviewed by: NA

SUBJECT: Biennial Budget for Fiscal Years 2023-24 and 2024-25

REPORT BY: Heather Rowden, Finance Director
Nicole Almaguer, City Manager

SUMMARY

This report details the City Manager’s proposed operating budget for fiscal years 2023-24 and 2024-25.

STAFF RECOMMENDATION

That the Council review the draft Fiscal Year 2023-24 and 2024-25 Biennial Budget package and provide staff direction on preparation for adoption in June, 2023.

BACKGROUND

In odd numbered years the City Council adopts a biennial operating budget, appropriating funds for the next two fiscal years. Staff have prepared a proposed budget for fiscal years 2023-24 and 2024-25, beginning July 1, 2023. The proposed budget was prepared based on what staff consider the appropriate staffing and supply levels to maintain services deemed essential core city services, or additional services directed by Council policy.

DISCUSSION

The attached budget package provides the following detail:

Section 1, Introduction: General items associated with the budget process and creation including the resolution appropriating funds, Council policies, discussion of the Appropriations (GANN) Limit, and the Master Fee Schedule.

Section 2, Staffing: Discussion of the City’s organization, a summary of staffing levels for the last five years, and a summary of upcoming bargaining unit changes, including any changes to the salary schedule required by these changes or requested by staff.

Section 3, Biennial Operating Budget: Comprehensive discussion of the City's biennial operating budget including a breakdown by department. A listing of each department's accomplishments from the previous biennial budget years and goals for the upcoming two fiscal years is included.

Section 4, Special Revenue and Enterprise Funds: Comprehensive discussion of the City's special revenue and enterprise (business type) funds, including historical information and updates to the tax rates. This section includes funds associated with both Albany special taxes and any ongoing revenue received from other agencies.

Section 5, Debt Service: Discussion of the City's outstanding debt issuances.

Section 6, Police and Fire Pension Fund: Discussion of the City's closed Police and Fire Pension Fund including beneficiary information and future considerations.

Section 7, Reserve Funds: Discussion of the use, future needs, and requested appropriations for several of the City's reserve funds.

Section 8, Future Funding Needs: Discussion of upcoming fiscal issues for consideration by the Council and a long-term projection. No action is being requested, this information is for planning purposes only.

ANALYSIS

Each section referenced above contains detail helpful in understanding the City's finances. This staff report identifies specific items to assist Council in understanding the budget as a whole and how each section relates to the City's overall financial position.

Section 1, Introduction

Several steps go into preparing the biennial operating budget. An important analysis is reviewing fiscal policies adopted by Council. Two policies specific to the budgeting process are the General Fund Reserve Policy and the Capital Reserve Fund Policy. The General Fund Reserve Policy, adopted to ensure the City has sufficient resources in case of emergencies, limits the amount of fund balance that can be used from the general fund to offset operational deficits or allocated to other City obligations. Additional analysis of the General Fund Reserve Policy is included in Section 1.3.1.

The second policy that is important to review is the Capital Reserve Fund Policy. While the Capital Reserve Fund Policy does not currently have a direct impact on the biennial operating budget, a plan for funding these reserves must be addressed. In the future, it will become increasingly important to program reserve funding into the operating budget to save for larger purchases or projects. In many cases, the City may borrow (through loans, notes, or bonds) to fund large scale projects; however, a balance between borrowing and saving is

important for financial stability over the long term. Reserves are discussed in more detail in Section 7 of the budget package. Staff plan on bringing a Debt Service Policy in the fall in coordination with an updated Capital Improvement Plan.

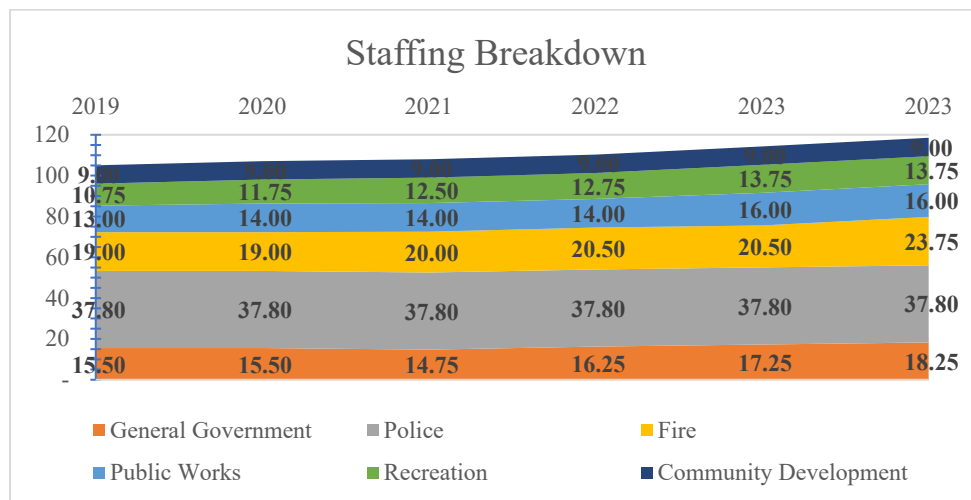
The City’s Appropriation Limit, also known as the Gann Limit is approved by Council, and reviewed by the City’s auditor, each year. State law restricts the amount that local governments may appropriate from proceeds of tax. This amount is increased each year based on a specific formula detailed in state law. Detail on the appropriations limit, including new State law changes, proposed for fiscal year 2023-24 will be presented in Section 1.4 of the budget package. For the purposes of this study session, the appropriations limit is not included, however it will be in the budget package before Council for both the first and second reading of the biennial budget. Due to the nature of the calculations, amendments to the appropriations limit must come each year so the limit for fiscal year 2024-25 will be presented in June 2024.

As the Master Fee Schedule raises revenue to reimburse certain costs directly related to services provided by the City, it is important to include any updated revenue projections in the biennial budget. The proposed Master Fee Schedule is detailed in Section 1.5 of the budget package. Minimal changes are being proposed for the upcoming fiscal year, none of which significantly effect the amount of revenue the City will collect.

Section 2, Staffing

The staffing section of this booklet provides five years’ worth of staffing levels, summarizes the changes outlined in the City’s various union contracts, and provides the updated salary schedule that would be effective July 10, 2023, should all budget proposals be approved.

As seen in section 2.2, authorized staffing levels city-wide have ranged from 107.05 full time equivalents (FTEs) to 114.3 FTEs. A breakdown of authorized FTEs by category from fiscal year 2019-20 through 2022-23, as well as proposed staffing levels for fiscal year 2023-24 is as follows:



Additional detail is found in Section 2 of the booklet, as well as noted within each department’s narratives in the various subsections of Section 3.3 Detail by Department.

Section 3, Biennial Operating Budget

Section 3 of the budget package includes both summary and detail for all operating expenses. Operating expenses are included in three funds:

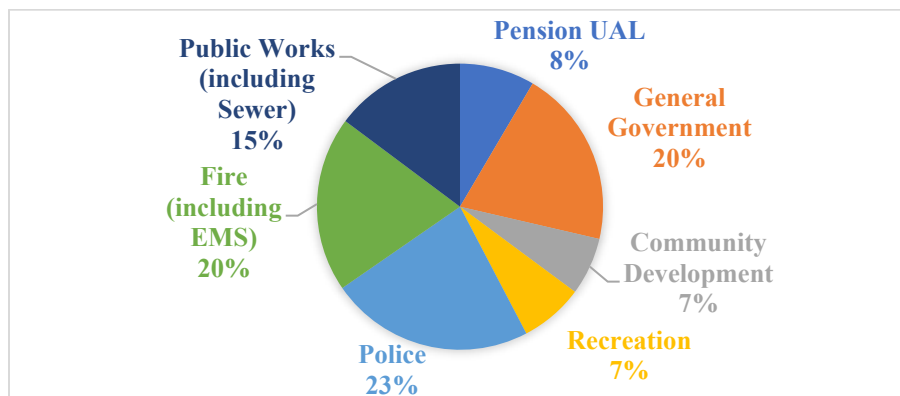
General Fund (0001): The City’s general fund records all general fund revenues (general taxes, most fees, and other miscellaneous revenues). General city operating expense are also recorded in the general fund. This includes all expenses that cover core City services and are not directly related to special revenue sources. This includes most reoccurring programs that the City would continue, regardless of funding source.

EMS Fund (1002): The Emergency Medical Services (EMS) Fund, while identified as a special revenue fund as it records revenues from two parcel taxes specifically for EMS and Advanced Life Saving services support, includes operating expenses associated with providing ambulance response and transport services. Operational expenses are detailed in Section 3.3.7 while the fund’s history, fund balance, and tax rates are discussed in Section 4.8.

Sewer Operating Fund (4001): The City’s sewer operations are considered enterprise, or business type, operations. This causes them to be treated differently for accounting purposes than most other funds. As described above, the sewer operations are being detailed in Section 3.3.8, while fund balance and anticipated CIP spending is discussed in Section 4.13.

In the previous biennial budget the Storm Drain Fund (1601) was treated as an enterprise fund, however it has been determined that since the fund is not currently self-funded by direct revenues and relies partially on General Fund revenue, it should not be treated like the Sewer Operating Fund and should be wrapped into the General Fund Operating budget. This may change in future years after a fee study is completed and if the fund can run completely on revenue generated by fees.

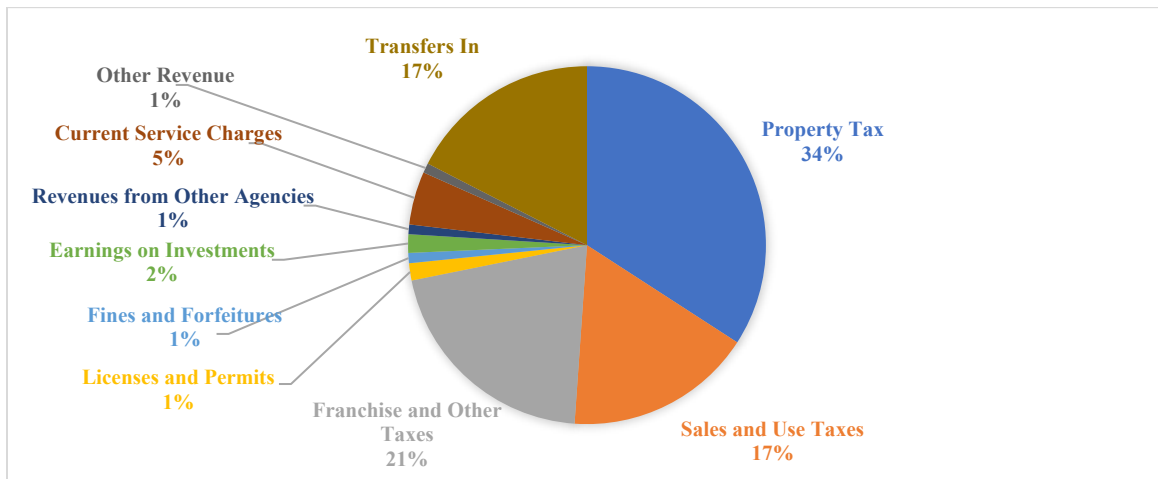
Overall, City operating expenses are expected to increase \$3,220,327 in the General Fund, \$444,996 in the EMS fund, and \$152,976 in the Sewer Operations Fund. The overall operational expenditure breakdown by functional area is as follows:



General Fund revenues are anticipated to increase just over \$4.4 million.

A new section has been added to the biennial budget that details General Fund revenue sources, including where they are located in the Albany Municipal Code, as well as any relevant ballot history.

Overall revenue collections are broken down as follows:



Section 4, Special Revenue and Enterprise Funds

Special revenue funds support City operations and capital improvements in specific ways. Section 4 of the budget package provides historical detail for all special revenues, as well as identifying what each revenue source can be used for, and has been used for historically. This section details any expenses coded directly to the funds. These are non-operating expenses, generally either one-time projects, or projects/services that would not continue if the funding source were removed. Anticipated Capital Improvement Plan (CIP) expenses, appropriated in November 2020 with the CIP budget, are provided for illustrative purposes. No changes to CIP appropriations are being requested at this time. Staff plan on bringing an updated CIP in fall of 2023.

The City's enterprise fund (the sewer fund), while also mentioned in Section 3 of this report in the discussion of operating expenses, is included in Section 4 as well to show the effect on fund balances and anticipated CIP expenses.

As the sewer rates use the increase/decrease in the Consumer Price Index for April, these rates are not available yet and therefore staff will present this section of the budget booklet in June as part of the final budget package.

Section 5, Debt Service Funds

Debt service is accounted for in separate funds than operating and capital expenses. The City's debt issues, including history on what the debt funded and how it is paid, is described in Section 5 of the budget package.

Section 6, Albany Police and Fire Pension Fund

The City acts as trustee for the closed Police and Fire Pension Plan (the plan). The plan has been closed to new participants since 1971, when all active employees were switched to CalPERS (California Public Employees' Retirement System). While the plan's operations are generally directed by the City Charter, updates on the plan should be provided to the Council on an ongoing basis. Most importantly, Council should discuss future funding of the plan.

As of the most recent actuarial valuation, dated June 30, 2022, the plan's total pension liability is estimated at \$9,782,207, down from \$14,218,991 two years ago. At the time of the valuation, the plan had investments worth \$4,078,344, meaning the plan was 29.42% funded, up from 26.04%. The unfunded actuarial liability (UAL) for the plan was determined to be \$1,038,051.

More plan details, including future funding strategies, are provided in Section 6 of the budget package and the proposed UAL payment is discussed in Section 4.1.

Section 7, Reserve Funds

Reserve funds, established to fund asset repair and replacement, and larger projects that happen cyclically, but not on an annual basis, are discussed in Section 7. While staff have not suggested funding the reserves as part of the operating budget at this time, it is something that the City will need to do in the near future. This section requests appropriation of small amounts for normal equipment repair and replacement of assets that are not part of the City's operating budget.

Section 8, Future Funding Needs

Section 8 is for discussion purposes only; no appropriations are being requested. As seen in section 8.1, the City's CalPERS UAL, separate from the closed Police and Fire Pension Plan UAL, is anticipated to increase to \$5.36 million in 2032, an increase of \$2.3 million annually over current levels. The City is currently using the max value of the pension tax override to fund applicable annual pension costs (both active participate contributions based on payroll and UAL payments) so no additional funding can be derived from this tax.

While this tax can increase annually based on the increase in assessed value, there are two things to note. First, the tax cannot be used to fund 100% of the City's pension obligations (restrictions detailed in Section 4.1). Second, while Albany has historically seen a yearly increase in taxable property values, the amount of the change is highly variable, and in no way keeps up with the anticipated cost in pension obligations.

Section 8.2 is new for this biennial budget package and includes a long term general fund projection of cash flows. This shows that while the City has been budgeting a deficit but not realizing that deficit due to staffing vacancies and unanticipated revenue increases, the City will begin to recognize a deficit within the next biennium.

Conclusion

As previously expressed, the City has budgeted deficits for the last three fiscal years, relying on fund balance to cover any proposed deficit. With a combination of staff diligence in keeping expenses low, understaffing in various departments, and seeing unanticipated but one time revenue increases, the City has recognized year end surpluses even while budgeting deficits. These savings cannot be relied upon for much longer.

In addition to budgeted programs and services reaching optimum capacity, other expenses are increasing year over year. As mentioned in this staff report, pension payments, both for active employees and the City's UALs, are projected to increase through the mid-2030's when the unfunded liability annual payment will exceed \$5 million. In addition, other annual expenses such as insurance, software and other IT related costs, and equipment repairs continue to increase.

Staff continue to pursue additional revenue streams; however, funding cuts may be necessary in future years if additional revenue is not realized. The Financial Advisory Committee has formed a Revenue Subcommittee that diligently researches various revenue opportunities, and staff have researched and presented several tax increases to attempt to address this issue. Staff will continue to search for additional revenue opportunities and bring options to Council as they arise.

While this staff report summarizes the overall effects of the proposed budget, and items to think about in the City's fiscal future, additional detail to assist in understanding the City's overall budget can be found throughout the budget package.

SUSTAINABILITY CONSIDERATIONS

The City strives to ensure sustainable purchasing habits are followed, whenever possible.

SOCIAL EQUITY AND INCLUSIVITY CONSIDERATIONS

City services are provided to all residents in a socially equitable and inclusive manner. Programs and services are administered with Council priorities, including social equity and inclusivity, in mind.

CITY COUNCIL STRATEGIC PLAN INITIATIVES

The biennial budget is drafted with the City Council's strategic plan initiatives in mind for each department. All resources are allocated to providing essential City services, as well as achieving goals and implementing policies as set forth by the Council.

FINANCIAL CONSIDERATIONS

This budget sets spending priorities for the next two fiscal years. While amendments are generally made prior to the second fiscal year, these are smaller changes with specific programing changes in mind, not large, sweeping changes.

NEXT STEPS

After the study session, staff will take Council direction and make any necessary updates to the information presented. A first reading of the budget and all associated documents will be presented on June 5, 2023, with a second reading and adoption scheduled for June 19, 2023. Once adopted, changes can be made at any time by Resolution of the City Council.

RESOLUTION NO. 2023-37

**A RESOLUTION OF THE ALBANY CITY COUNCIL ADOPTING
THE TWO-YEAR CITY OF ALBANY OPERATING BUDGET
FOR FISCAL YEARS 2023-2024 AND 2024-2025**

WHEREAS, the City Fiscal Year concludes on June 30th of each year; and

WHEREAS, the City Council desires to adopt a two-year operating budget authorizing appropriations for Fiscal Year 2023-2024 beginning July 1, 2023 and Fiscal Year 2024-2025 beginning July 1, 2024: and

WHEREAS, the Operating Budget is a financial plan that accounts for all funds used for City operations including the General Fund; and

WHEREAS, the proposed budget was reviewed by the City Council at a public meeting held by the Albany City Council on June 5, 2023, at which time all interested persons were afforded an opportunity to be heard on matters pertaining to the proposed budget.

NOW, THEREFORE, BE IT RESOLVED by the Albany City Council that the Two-Year Operating Budget for Fiscal Years 2023-24 and 2024-25 shall be approved for the following funds:

| Fund | Fiscal Year 2023-24 | Fiscal Year 2024-25 |
|--|------------------------|------------------------|
| 0001 – General Fund | \$31,452,850 | \$33,014,490 |
| 1001 – Pension Property Tax | \$3,330,917 | \$3,400,000 |
| 1002 – Emergency Medical Services Fund | \$3,259,667 | \$3,409,293 |
| 1101 – Measure B Streets and Roads | \$6,500 | \$6,500 |
| 1105 – HUTA Gas Taxes | \$469,000 | \$469,000 |

| | | | |
|----|---|-------------|-------------|
| 1 | 1201 – Measure BB Streets and Roads | \$6,500 | \$6,500 |
| 2 | 1203 – Measure BB Paratransit | \$102,392 | \$105,224 |
| 3 | 1301 – LLD 1996-1 Open Space | \$31,456 | \$23,656 |
| 4 | 1302 – LLD 1996-1 Recreation & Playfield | \$3,200 | \$0 |
| 5 | 1303 – LLD 1996-1 Creek Maintenance | \$70,000 | \$70,000 |
| 6 | 1304 – LLD 1988-1 Lighting and Landscaping | \$464,500 | \$464,500 |
| 7 | 1305 – Sidewalk Parcel Tax | \$25,045 | \$25,045 |
| 8 | 1306 – Parks and Open Space Parcel Tax | \$448,556 | \$448,556 |
| 9 | 1401 – Library Operations | \$878,600 | \$878,600 |
| 10 | 1402 – PEG Funds | \$22,000 | \$22,000 |
| 11 | 1601 – Storm Drain / NPDES | \$711,798 | \$735,958 |
| 12 | 2006 – Street and Storm Drain Parcel Tax | \$275,100 | \$275,100 |
| 13 | 3005 – 2016 General Obligation Refunding Bond | \$985,267 | \$986,112 |
| 14 | 4001 – Sewer Operations | \$2,133,282 | \$1,807,766 |
| 15 | 4003 – Sewer Debt Service | \$592,612 | \$330,026 |
| 16 | | | |

17
18 **BE IT FURTHER RESOLVED** that, except for Fund 0001 – General Fund, these
19 appropriations are in addition to any appropriations previously allocated for specific projects
20 or programs; and

21
22 **BE IT FURTHER RESOLVED** that the City Manager shall be authorized to
23 administratively do the following without further action by the City Council the City Manager
24 shall be authorized to transfer budgeted amounts between line items, provided that the transfer
25 is within the same department activity and fund.

26
27 
28 AARON TIEDEMANN, MAYOR
29



City of Albany

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RESOLUTION NO. 2023-37

PASSED AND APPROVED BY THE COUNCIL OF THE CITY OF ALBANY,

The 5th day of June, 2023, by the following votes:

AYES: Council Members Hansen-Romero, Jordan, López, Miki and Mayor Tiedemann

NOES: none

ABSENT: none

ABSTAINED: none

RECUSED: none

WITNESS MY HAND AND THE SEAL OF THE CITY OF ALBANY, this 6th
day of June, 2023.

Anne Hsu
CITY CLERK

*Albany is committed to providing a healthy, safe, and accessible city,
and strives to lift every voice in our community.*

Approved by Council June 5, 2023