

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

Agenda Date: June 2, 2025

Reviewed by: NA

SUBJECT: Proposed Biennial Budget for Fiscal Years 2025/26 and 2026/27, AB 2561 Discussion on Status of Employee Vacancies and Recruitment and Retention Efforts, Tax Rate for the Pension Property Tax Override, Adjusting the Rates to be Applied to the Special Taxes and Fees Collected on the Annual Property Tax Bill, Setting the Appropriations Limit, Appropriating Revenue Funds, and Adoption of Investment

REPORT BY: Reina Schwartz, Finance Director
Cassandra Murphy, Finance Manager

SUMMARY

This report transmits the City Manager's Proposed Budgets for fiscal years 2025/26 and 2026/27 for City Council adoption.

STAFF RECOMMENDATION

That the City Council hold a public hearing on the Fiscal Year 2025/26 and Fiscal Year 2026/27 Operating Budget and discussion on status of employee vacancies and recruitment and retention efforts and adopt the following Resolutions:

1. Resolution No. 2025-35, adopting the Two-Year City of Albany Operating Budget for Fiscal Years 2025/26 and 2026/27;
2. Resolution No. 2025-36, adopting the Fiscal Year 2025/26 Tax Rate for the Pension Property Tax Override;
3. Resolution No. 2025-37, adjusting the Fiscal Year 2025/26 rates to be applied to City of Albany Special Taxes and Fees Collected on the annual property tax bill;
4. Resolution No. 2025-38, establishing the City of Albany Appropriations Limit for Fiscal Year 2025/26;
5. Resolution No. 2025-39, appropriating Reserve Funds for smaller programmatic purchases in Fiscal Years 2025/26 and 2026/27;
6. Resolution No. 2025-40, adopting the City of Albany Investment Policy

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 2025/26 and 2026/27, beginning July 1, 2025. The proposed budget was prepared based on balancing revenues and expenditures and maximizing services within existing resources. The City Council received a presentation on the proposed budget on May 19, 2025.

DISCUSSION

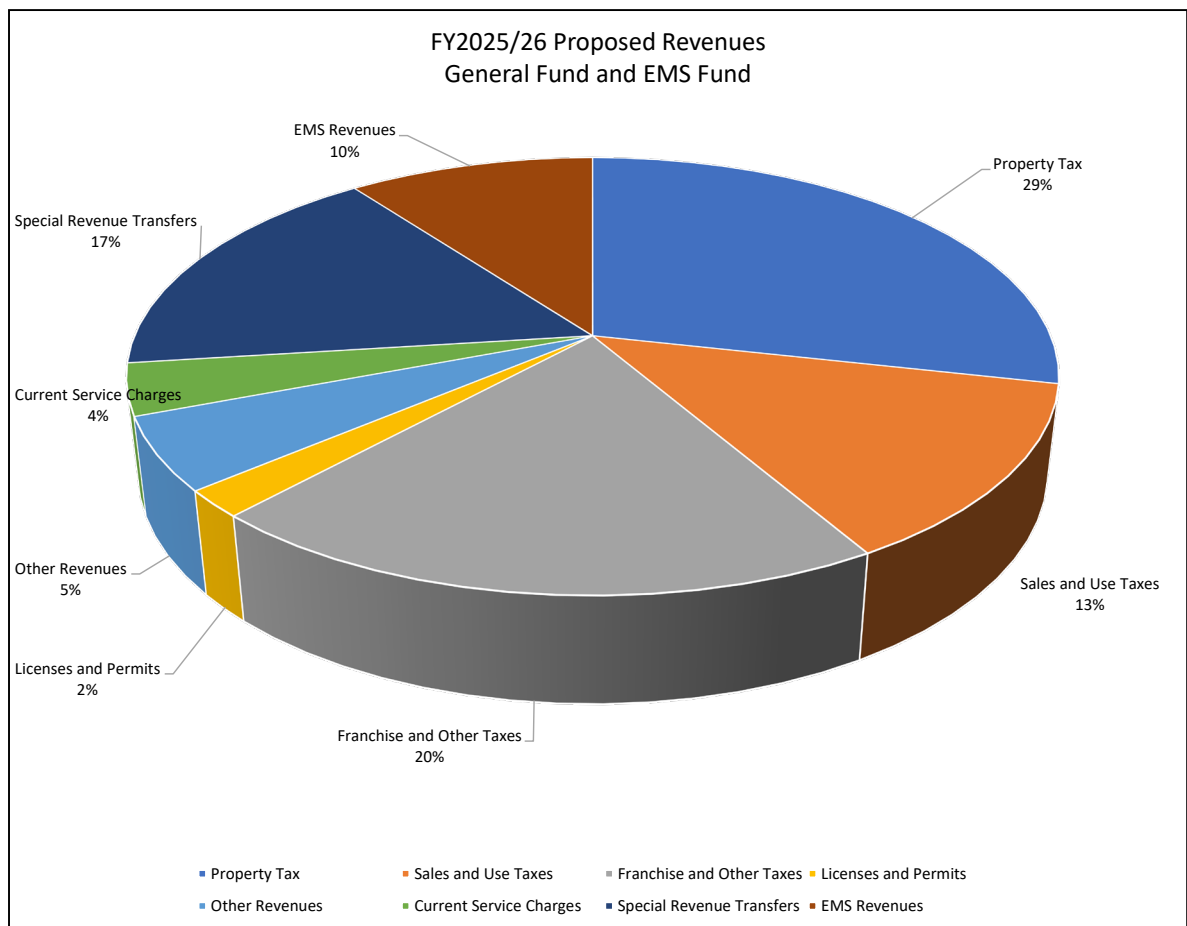
Since the City Council budget presentation on May 19, 2025, a number of minor changes have been incorporated into the budget including clarifications to special fund definitions and corrections to reserve fund financials. There were no material changes made to the proposed budget.

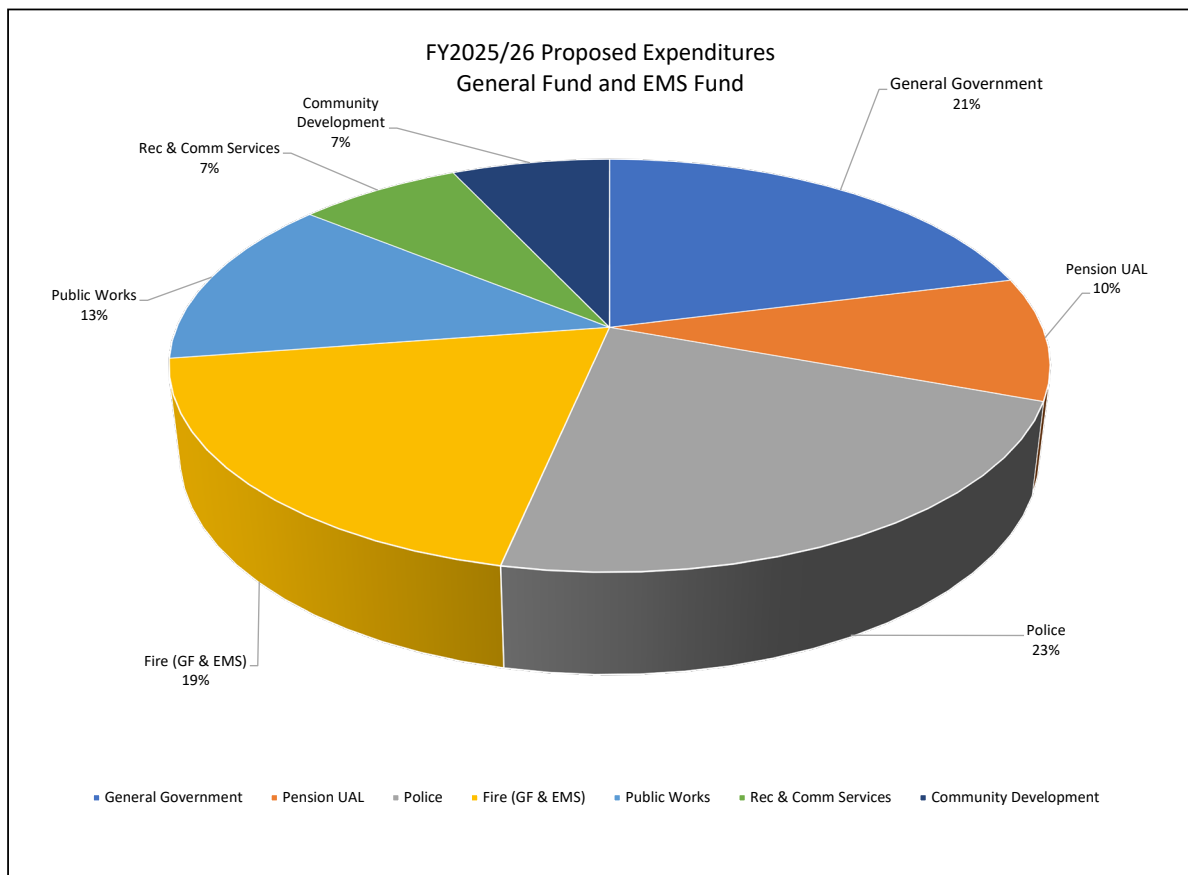
The budget packet presented this evening also includes the annual adoption of the Investment Policy as well as all of the Resolutions needed to implement the FY 2025/26 and FY 2026/27 budgets effective July 1, 2025.

Budget Overview

For the first time in many years, the proposed General Fund budget for FY2025/26 is balanced with \$33.5 million in both expenses and revenues, although there is still work to do to balance FY2026/27. This reflects a tremendous commitment on the part of all City departments to manage and reduce expenditures to keep them aligned with available resources.

The proposed budgets for FY 2025/26 and FY 2026/27 are attached. The charts below show the breakdown of revenues by category and expenditures by department proposed for FY2025/26.





General and Emergency Medical Services Funds

Revenues

Major Changes

- Align revenue budgets more closely to actual experience from the last biennial cycle.
- Recognize limited growth in sales tax revenues due to softening consumer confidence.
- Property tax revenues are anticipated to grow by about 3.7% for Albany going into FY2025/26, but the Alameda County Assessor anticipates slower growth in future years.
- Additional transfers into the General Fund from special revenue sources:
 - Sewer Fund Administration \$363,000
 - Additional Public Works Special Revenues \$196,500
 - COPS Funding - Administrative Sergeant \$184,000

Expenses

Major Changes

- Adjust and align salary and benefit costs with recent experience across programs and departments. Overall labor costs would have increased by

approximately \$1.8 million for FY2025/26 if not for proposing to unfund three vacant positions and budgeting savings from anticipated vacancies/turnover.

- Implement budgeted salary savings of 4% for all departments except the smallest ones – generating savings of nearly \$1 million.
- Maximize the use of special purpose revenues for allowable expenses including the EMS Fund and various special funds within the Public Works Department, reducing net costs in the General Fund.
- Increase in the City’s required annual payment for the pension unfunded liability, \$286,000 or 8.7%.

The General Fund budget also includes funding and support for community organizations and events:

- Recreation & Community Services
 - Mini Expos
 - Park & neighborhood events
 - 4th of July
 - Concerts in the park
 - Dinner with Albany
- Economic Development (\$38,000):
 - Holiday decorations on Solano Ave
 - Traffic control for Picnic Fair in December and associated business support events
 - Business Expo
- City Council discretionary fund (\$35,000)

Special Revenues

Special revenue funds support City operations and capital improvements in specific ways. The budget package provides historical detail for 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 generally non-operating expenses, either one-time projects, or projects/programs that would not continue if the funding source were removed. No changes to CIP appropriations are being requested at this time. Staff plan on bringing an updated CIP to the City Council in July of 2025.

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 the budget package.

Albany Police and Fire Pension Fund

The Albany Police and Fire Pension Plan (the Plan) is a fiduciary fund maintained by the City for the benefit of members of the plan. The plan closed to new participants in 1971 when active service members were transitioned to CalPERS. The plan is governed per City Charter Chapter IX and monitored by the Board of Police and Fire Pension Fund Commissioners (the Board) as laid out in said Chapter. Benefits are paid out as set forth in the City Charter and adjustments to benefits paid are made to service retirees on an annual basis, while disability retiree payments are adjusted in conjunction with current City union contracts.

Per the City Charter, the Board shall have charge of and administer the fund and report on the condition of the Plan, with a full and complete list of the beneficiaries and amounts paid to them, in June of each year. As of May 1, 2025, the plan is paying benefits to 9 retirees and 3 beneficiaries. Annual adjustments for service retirees were approved by the Board at the April 22, 2025, meeting and are effective July 1, 2025. Adjustments for disability retirees will be made throughout the year when AFFA and APOA adjustments are made and presented to the board at that time.

The Plan currently has investments in both the Local Agency Investment Fund (LAIF) administered by the State of California as well as private investments administered by CIBC. Investment updates are provided to the Board on a quarterly basis.

Reserve Funds

Reserve funds, established to fund asset repair and replacement, and larger projects that happen cyclically, but not on an annual basis. While staff have not suggested additional funding for any of the reserve funds as part of the operating budget at this time, it is something that the City Council can consider if future annual audits identify surplus funds from the prior year. With the proposed budget, a small appropriation from several of the reserves is recommended to facilitate equipment repair or replacement of assets that are one-time in nature and not part of the operating budget.

Investment Policy

Each year the City Council must review and adopt a City Investment Policy. This guides the investments made by the City's investment advisor, PFMAM and formally delegates authority to manage the investment function to the City Treasurer. The Investment Policy has been reviewed by staff and by PFMAM and no changes are recommended for FY 2025/26 and is included with the budget packet.

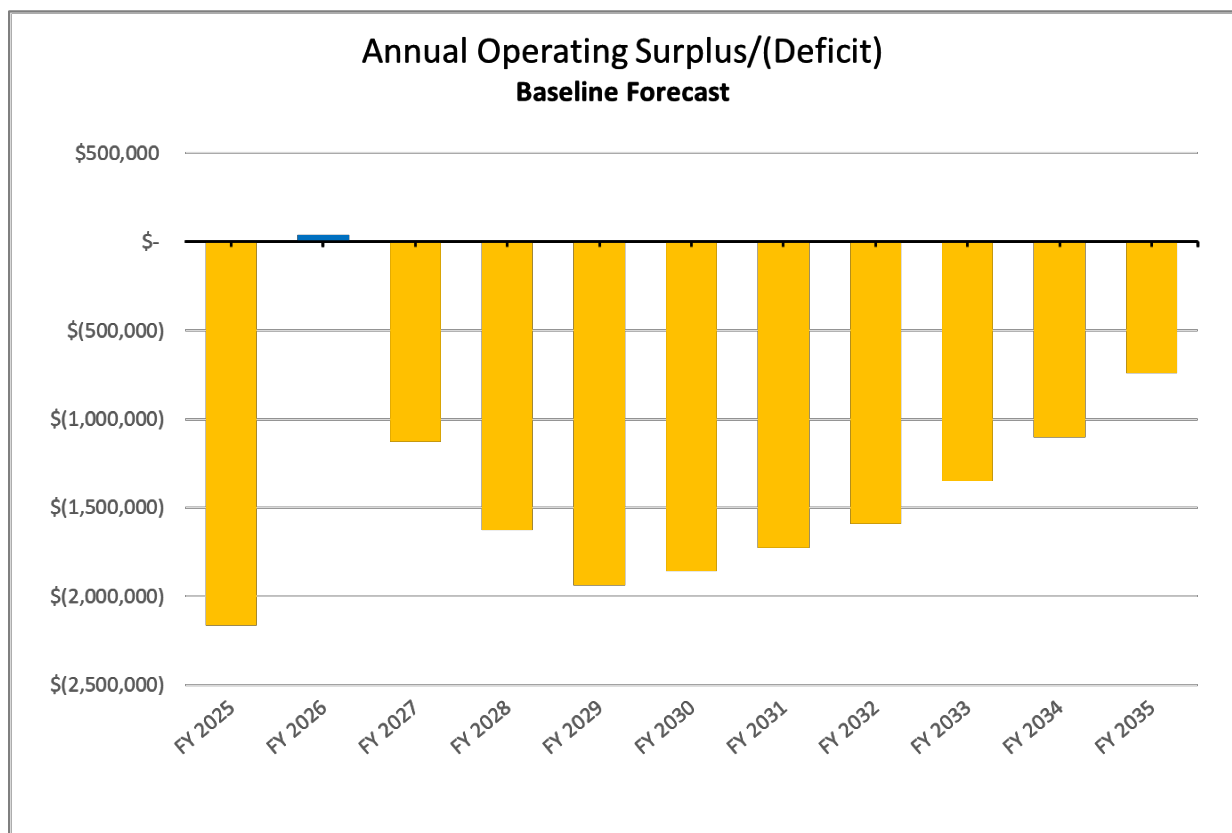
Ten-Year Forecast

As a measure of financial sustainability, it is a best practice to look forward with a projection of General Fund revenues and expenses to determine if and when corrective actions may be needed and at what level. As discussed earlier, the City has for a number of years budgeted anticipating a deficit with revenues insufficient to cover expenses. Over the last several years, the City has had some years that resulted in a surplus and some that resulted in a deficit. Overall while City revenue growth has been relatively strong and resilient, it currently does not keep pace with the growth in expenses.

In looking at a long-term forecast, there are two main components, labor costs and revenue growth, that drive whether the City is in a sustainable financial position or whether there is an ongoing structural imbalance. So, while the proposed FY2025/26 budget is balanced, that alone does not solve the City's structural budget problem, as in just the next fiscal year, expenditures are projected/proposed to exceed revenues. This is because expenditures, primarily labor and pension expenses, are anticipated to grow by more than six percent (due to COLAs and equity increases), revenues are projected to grow by about two percent. The chart below shows the impact of anticipated revenue and expenditure growth on the annual operating results for the City.

The following assumptions are reflected in the long-term scenario shown below:

- Average growth in revenues and expenditures.
- For individual revenue and expense categories, the Average Annual Growth Rate (AAGR) for prior fiscal years is based on a "centered" 3-year Moving Average that helps to smooth the fiscal data from prior fiscal years. Smoothing techniques reduce the volatility in the data.
- For total annual revenues and expenses, the Forecast Model uses the non-smoothed data series (actual values) to calculate the AAGR in order to provide the most accurate representation of actual revenue and expense growth over the entire 10-year prior period.
- The City's annual unfunded pension liability payment is based on CalPERS projections through FY2030/31 and additional data through actuarial data provided by a City consultant (TrueComp, formerly GovInvest).



In the baseline forecast shown above, the primary reason for shifts in the anticipated operating deficit are related to anticipated increases in the City's required contribution to CalPERS for its unfunded pension liability. Absent any other significant changes, once the growth in the City's UAL payment slows and ultimately reverses, expenditure growth and revenue growth are more aligned.

It should be noted however, that there are many variables that could change this outlook for the positive or negative including: identifying additional sources of revenue, additional programmatic reductions, a potential recession, investment losses that trigger additional increases in the City's UAL payments, upward pressure on salaries and benefits to remain competitive with other employers for both recruitment and retention, and other unknown events. For example, if the growth in salaries and benefits is higher than historically average, revenue growth cannot keep up and the annual operating deficit could continue to grow.

SUSTAINABILITY CONSIDERATIONS

The City strives to ensure environmentally preferable, and sustainable purchasing habits are followed, whenever possible. In addition, as will be presented during the upcoming budget presentations, the general fund is utilized for several sustainability and climate action/adaptation initiatives.

One of the revenue sources within the City's General Fund is the Utility User's Tax (UUT) – a tax on the consumption of water, telecommunications, gas and electricity utilities. In November 2020, Albany voters passed Measure DD increasing the UUT rate on the use of gas and electrical utilities and extending the tax to water use as shown in the table below:

Utility	Prior Tax Rate	New Tax Rate
Electricity	7%	9.5%
Gas	7%	9.5%
Water	None	7.5%
Telecommunications	6.5%	6.5%

Along with the changes mentioned above, Measure DD added language to the Electricity, Gas, and Water sections encouraging the City Council to spend 1/3 of the new revenue generated on sustainability projects. The language is as follows for electricity users' tax, and is similar for the other two taxes:

If this ordinance is enacted by the voters, the City Council will endeavor to expend at least one-third (1/3) of the additional revenue generated from the increase in the maximum electricity users' tax rate (above 7%) for the following spending priorities:

- 1. Those Action Items in the City's Climate Action and Adaptation Plan, approved by the City Council on December 2, 2019, and as it may be amended from time to time by the City Council.*
- 2. Additional environmental sustainability programs as may be authorized by the City Council.*

Notwithstanding anything to the contrary, this paragraph (g) shall not be construed, and it is not the Voter's intent, to convert all or any of the electricity users' tax into a "special tax", as that term is defined Article XIII C §1(d) of the California Constitution, California Government Code §§53721 and 53724, or any combination thereof. Although this paragraph expresses the Voter's desire that additional utility users' tax revenues be expended for certain priorities, this expression is non-binding on any future or subsequently constituted City Council, and the electricity users' tax shall remain a "general tax" as that term is defined in Article XIII C §1(a) or the California Constitution, the revenues from which may be budgeted by the City Council to pay for any valid expense of the City.

As mentioned in the last paragraph of the language above, this tax was passed as a general tax, not a special tax. Under California law, special taxes require a higher passage threshold (2/3) than general taxes (more than 50%). As such, tax revenues associated with Measure DD are recorded in the General Fund as they were able to be approved with the lower 50% threshold. In addition to the General Fund spending on sustainability initiatives through the Operating Budget, in FY2022/23, with an anticipated surplus in the General Fund pursuant to the annual financial audit, City Council approved the allocation of \$143,469 to the Climate Action and Adaptation Reserve Fund. In FY2023/24, there was no General Fund surplus identified in the annual financial audit, so no additional allocation has been made to the Reserve fund.

For FY 2025/26, the Measure DD rates are projected to have the following impact:

Utility	Old Rate	New Rate	Difference	One-third Amount
Electric	\$1,031,579	\$1,400,000	\$368,421	\$122,807
Gas	\$379,474	\$515,000	\$135,526	\$45,175
Water	\$0	\$450,000	\$450,000	\$150,000
TOTAL	\$1,411,053	\$2,365,000	\$953,947	\$317,982

For the proposed FY 2025/26 budget, sustainability efforts are funded through the operating budget involving at least six staff members and in total are greater than the \$317,982 amount that represents one-third of the amount of new revenue generated by the change in tax rates.

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. Further, funding within the operating budget includes human services support programs and resources as provided by the Albany CARES program and other programs/services primarily within the Recreation & Community Services Department.

CITY COUNCIL STRATEGIC PLAN INITIATIVES

The biennial budget is drafted with the City Council's strategic plan initiatives as a guideline. All resources are allocated to providing essential City core 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 amendments are typically smaller changes reflecting specific programing changes or unanticipated needs. As noted previously, additional updates to the FY 2026/27 budget will be necessary to balance the budget going forward.

Attachments

1. FY 2025/26 and FY 2026/27 Proposed Operating Budget
2. Resolution No. 2025-35: A Resolution of the Albany City Council Adopting the Two-Year City of Albany Operating Budget for Fiscal Years 2025/26 and 2026/27
- 2a. Exhibit A to Resolution No. 2025-35: Operating Budget funds
3. Resolution No. 2025-36: A Resolution of the Albany City Council Adopting the Fiscal Year 2025/26 Tax Rate for the Pension Property Tax Override
4. Resolution No. 2025-37: A Resolution of the Albany City Council Adjusting the Fiscal Year 2025/26 Rates to be Applied to City of Albany Special Taxes and Fees Collected on the Annual Property Tax Bill
5. Resolution No. 2025-38: A Resolution of the Albany City Council Establishing the City of Albany Appropriations Limit for Fiscal Year 2025/26
- 5a. Exhibit A to Resolution No. 2025-38: FY2025/26 Appropriations Limit Calculation
6. Resolution No. 2025-39: A Resolution of the Albany City Council Appropriating Reserve Funds for Smaller Programmatic Purchases in Fiscal Years 2025/26 and 2026/27
7. Resolution No. 2025-40: A Resolution of the Albany City Council Adopting the City of Albany Investment Policy
- 7a. Exhibit A to Resolution No. 2025-40: Investment Policy effective July 1, 2025