



SUBJECT: 2024/25 – 2025/26 Operating Budget Adoption

DEPARTMENT: Finance and Information Systems

STAFF: Kerry Breen, Director of Finance and Information Systems
Christine Andrews, Assistant Director of Finance and Information Systems
Sonia Agostini, Accounting Manager

TITLE/RECOMMENDATION

Adopt two resolutions:

1. The City Council will consider a Resolution 1) amending the 2023/24 Operating Budget; 2) adopting the 2024/25 – 2025/26 Operating Budget; 3) amending the 2024/25 – 2028/29 Capital Improvement Program (CIP); 4) approving the addition of ten (10) new full-time positions to the City staff; 5) amending the 2023/24 Fund Balance Restrictions and Commitments in the General Fund; and
2. The Governing Board of the Successor Agency to the Redevelopment Agency of the City of Brentwood will consider a Resolution adopting the 2024/25 – 2025/26 Operating Budget for the former Brentwood Redevelopment Agency Funds.

Council/Administrative Policy No. 10-5, Budget and Fiscal Policies, (“Policy”) requires the City Council adopt a two-year operating budget for the ensuing two fiscal years no later than June 30th. This draft 2024/25 – 2025/26 Operating Budget (“Budget”) meets the criteria defined in the Policy that the City maintain a balanced General Fund budget over the two-year operating budget period and that the Budget presented maintains a 30% General Fund Unassigned Fund Balance (“30% Reserve”). Adoption of this draft Budget will ensure the City Council meets the budget adoption timeline defined in the Policy.

FISCAL IMPACT

The City Council has provided strong guidance for the preparation of this Budget by adopting sound fiscal policies and providing clear direction. Ensuring the availability and stability of the ongoing financial resources necessary to continue to provide high quality services to the citizens remains a top priority.



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Staff will continuously monitor the financial condition of the City and report to the City Council any significant differences between the assumptions used in this Budget and actual results, if they occur. Staff will provide a Mid-Year update to the Budget in January 2025 and every six months thereafter during the two-year Budget period. Should economic conditions warrant, more frequent financial updates will be provided.

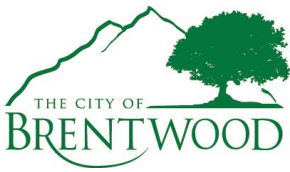
The proposed two-year Operating Budget supports ongoing operational service levels for residents and provides the resources to complete carryover Strategic Plan projects and initiatives. Additionally, the Operating Budget provides for the necessary capital funding for infrastructure projects to meet the needs of the community and upgrades and/or replacement of existing infrastructure.

A draft of the ten-year General Fund Fiscal Model ("Fiscal Model") was reviewed by the City Council at the Budget workshop in May. Including the budget direction provided by the City Council at the workshop, the updated summary of the Fiscal Model shows that revenues are about break-even with expenditures (including maintaining increased 30% requirements). The Fiscal Model projects a Budget Stabilization balance of \$13.7 million at the end of FY 2025/26, prior to any pension prefunding contributions and a \$13.2 million balance at the tenth year of the Fiscal Model.

The 2024/25 – 2025/26 Operating Budget for the former Brentwood Redevelopment Agency funds now operated by the City as Successor Agency (SA) will allow the SA to meet the debt obligations of the former Brentwood Redevelopment Agency and continue with the task of winding down the former agency.

BACKGROUND

The Finance and Information Systems Department is responsible for the preparation of the City's 2024/25 – 2025/26 Operating Budget ("Budget"). The final Budget brought for City Council consideration tonight reflects the collaborative efforts of all City departments and incorporates the policy direction and guidance received from the City Council. Additionally, the Budget includes costs to carryover certain FY 2022/23 – FY 2023/24 Strategic Plan ("Strategic Plan") initiatives and projects. Due to the change in the timing of the strategic plan cycle, a new strategic plan and accompanying initiative and project costs have not yet been considered for this Budget.



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The Budget process began in late 2023, with every City Department participating in creating the Budget draft. Another critical step in the process was staff's development of the 2024/25 – 2028/29 Capital Improvement Program (CIP). Concurrent with the development of the CIP, each City Department reviewed their individual operational and funding needs and submitted proposed budgets to the Finance Department and City Manager. The Departmental budget requests necessary to maintain established service levels were incorporated into the draft Budget, while requests for additional staff and funding were highlighted for further review.

The FY 2023/24 – 2025/26 Budget Review Committee ("Committee") held meetings with Finance Department staff to review both the draft CIP and draft Budget, including all requests for additional staff and funding, prior to their presentation to the full City Council.

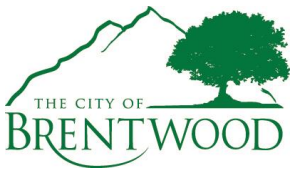
A CIP workshop was held on April 9, 2024, where the City Council reviewed the draft CIP and provided direction on the capital project plan. The CIP was adopted by the City Council on May 28, 2024, and all of the 2024/25 and 2025/26 capital project expenditures and funding from the CIP, including changes made that night, have been incorporated into this draft Budget.

Also on May 28, 2024, the draft Budget was presented for City Council consideration and discussion at an Operating Budget workshop. At that workshop, the City Council reviewed the draft Budget and provided input and direction that has been incorporated into the final Budget being considered for adoption tonight.

1. 2024/25 – 2025/26 Operating Budget Overview

The Budget presented tonight includes costs for carryover Strategic Plan initiatives and projects in addition to the ongoing costs of City operations. These projects will maintain and enhance the high standards of living for all residents and include:

- Sand Creek Sports Complex – phased construction of a sports complex located at Sand Creek Road and Fairview Avenue that will include up to six full size multi-use sports fields, parking lot, restrooms, picnic area and other park amenities
- Sand Creek Road Extension - construction of an extension of Sand Creek Road from the existing State Route 4 on/off ramp to Heidorn Ranch Road
- Innovation Center @ Brentwood Infrastructure – construction of infrastructure improvements within the Innovation Center @ Brentwood, a 373-acre project site located in the northwest corner of Brentwood and a projected focal point for jobs and mixed-use development



- Parking Garage Security and Safety Enhancements – installation of vehicle and pedestrian gate access points and provision of security enhancements to the City Hall parking structure
- Vineyards at Marsh Creek - Event Center/Amphitheater – phased construction of an open air stage and event space, with future phasing of an amphitheater and a future event center at the Vineyards at Marsh Creek development

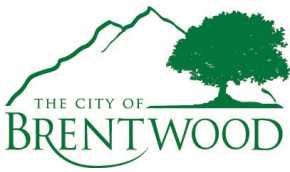
2. 2024/25 – 2025/26 General Fund Overview

In the presentation at the Budget workshop on May 28, 2024, after expected budget savings, staff projected a current year General Fund surplus of \$800,000 for FY 2023/24 and a two-year Budget surplus of about \$1.6 million. At the workshop, staff also projected that in the tenth year of the Fiscal Model, \$18.0 million would remain in the City’s Budget Stabilization Fund (BSF). After incorporating direction from the Budget workshop, the balance in the BSF is now projected to be \$13.2 million. The BSF is comprised of prior fiscal years’ General Fund budget savings and was established to offset rising Pension and Retiree Medical costs over the next decade. This fund provides flexibility for any unfavorable economic conditions and uncertainty that may occur in the coming fiscal years.

Staff incorporated the City Council’s direction from the Budget workshop into the draft Budget and updated the General Fund projection. The projected surplus for FY 2023/24 presented at the workshop was about \$800,000, after incorporating the changes from the workshop, the projection is now an approximately break-even result.

In addition, the two-year projected Budget surplus has been reduced from about \$1.6 million to \$763,000:

2024/25 – 2025/26 Estimated Surplus at Budget Workshop	\$1,630,000
<i>Basketball Court Lighting est. – Homecoming & Windsor Parks</i>	<i>(702,000)</i>
<i>New Equity Analyst position (two-year cost)</i>	<i>(395,000)</i>
<i>Equity Strategic Plan contractual services</i>	<i>(50,000)</i>
<i>Juneteenth funding increase from General Fund (two-year cost)</i>	<i>(40,000)</i>
<i>Economic Development Micro Business Launch program</i>	<i>(10,000)</i>
<i>Updates to budget savings, General Plan/30% reserves</i>	<i>330,000</i>
Updated 2024/25 – 2025/26 Estimated Surplus	<u>\$763,000</u>



Over the two-year budget period, after expected budget savings, the General Fund is projected to produce an estimated cumulative \$0.8 million surplus – about ½ of 1 percent of revenues as a surplus per year. This surplus includes setting aside funds for the 30% Reserve, which is projected to increase about \$890,000 each Budget year as expenditures grow.

3. Budget Watch

Economic Outlook

As a result of a strong labor market and consumer spending, real United States Gross Domestic Product (GDP) increased by 2.5% in 2023 and is on track for similar growth in 2024. However, the economy is expected to transition to slower growth rates in late 2024 and early 2025, as consumer demand fades and higher interest rates limit business and residential investment. Locally, the Bay Area has suffered a disproportionate number of job losses, and the unemployment rate in California is currently the highest in the nation. While economic indicators do not currently predict a recession, there remains considerable uncertainty, which may be exacerbated by rising geopolitical tensions and the upcoming election cycle.

After reaching a four-decade high of just under 8% in 2022, inflation moderated in recent months to a rate of 3.5% and is expected to decrease over time to the Federal Reserve target of 2%. While the City's Budget includes capital, supplies and services expenditure increases including a factor for inflation, persistently high long-term inflation would have a significant impact on the City, as it has very little control over revenue increases.

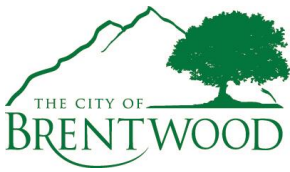
Labor Contracts

The City's contracts with all of its labor bargaining units expire on June 30, 2024, and successor contracts are currently under negotiation. The Budget includes a placeholder for cost of living increases for personnel salaries of 3% per year. If labor negotiations result in cost of living increases above the placeholder amounts, the projected General Fund surplus would likely be eliminated, or become a deficit.

CalPERS Investment Returns

The City's future pension and retiree medical costs are heavily dependent upon the investment returns earned by CalPERS. As of early mid-June, staff estimates that CalPERS annual earnings are near the target rate of 6.8%. Annual investment returns in past years have missed the 6.8% target and CalPERS has had to increase the City's contributions to make up for investment shortfalls. The variability of rates of return are another factor that adds to City's overall economic uncertainty.

To help mitigate this risk, and consistent with the prior two-year Budget, this Budget includes one-time lump sum payments totaling \$4.0 million to reduce unfunded Pension obligations, resulting in reduced costs over the long term. This would not be a new City cost or employee benefit; rather, the payment would



serve to reduce future interest costs on the unfunded obligations and free up funds in the coming years for other City services.

Taxpayer Protection and Governmental Accountability Act

The Taxpayer Protection and Government Accountability Act ballot measure secured enough signatures for inclusion on the November 2024 general election ballot. The Act would have adopted new and stricter rules for raising revenues and fees, and make it more difficult to defend these revenues in court. The Governor and Legislature filed a challenge with the California Supreme Court in the fall of 2023, and argued that the measure should be removed from the 2024 ballot. On June 20, 2024, the Court found that the changes proposed in the measure would substantially alter the basic plan of government and directed that the measure be removed from the ballot. Staff will continue to monitor this issue and provide updates in the future if necessary.

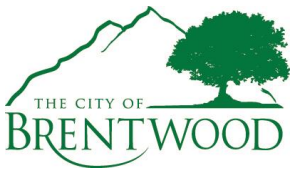
4. Operating Budget Workshop Updates

A Budget workshop was held on May 28, 2024, to receive City Council direction and public input on the draft Budget. During the workshop, the City Council provided direction to staff to update both the Budget and CIP. These updates have been incorporated into the final draft of the Budget presented tonight.

Budget Updates

The following updates have been incorporated into the Budget draft at City Council direction:

- A new General Fund position, Equity Analyst, was requested by the City Council, and would be assigned to the Human Resources Department at an ongoing salary and benefit cost of about \$196,000 per year and one-time equipment cost of \$3,000.
- Increase in the FY 2024/25 General Fund budget of \$50,000 in the Human Resources Department for one-time contractual services to develop an Equity Strategic Plan.
- Increase in annual funding for the Juneteenth celebration of \$20,000 in the FY 2024/25 and FY 2025/26 General Fund Special Events division budget.
- Increase in the FY 2024/25 General Fund Budget of \$10,000 in the Economic Development Division for one-time contractual services for a Micro Business Launch program.
- Increase in the Parks and LLAD Replacement Fund expense projection of \$25,000 in FY 2023/24 and \$15,000 in FY 2024/25 budget for basketball court resurfacing at the Homecoming and Windsor Way Parks. (Costs



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related to the City Council basketball courts lighting is reflected below as budgeted in the Parks & LLAD Replacement Fund.)

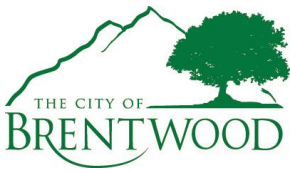
Since the workshop, staff included, and recommends, the following revisions to the draft Budget for updated financial information and estimates:

- Addition of about \$122,000 in FY 2024/25 in both revenues and expenditures in the Other Grants Fund for a U.S. Department of Energy grant awarded in FY 2023/24
- Increase in FY 2023/24 projected transfers in of about \$3.5 million to the Water Development Impact Fee Fund for the return of excess funding for the Pump Station 2.4 Installation CIP Project
- Reduction in FY 2023/24 projected expenditures of \$50,000 and increase in FY 2024/25 budget of \$90,000 in the Facilities Maintenance Fund for the timing change for purchase of equipment. The increase in budget of \$40,000 over FY 2023/24 is for inflationary and supply chain cost increases that may occur
- Reduction in FY 2023/24 Water, Wastewater and Solid Waste Enterprise Fund estimated depreciation expense (non-cash) of about \$490,000
- Increase in FY 2023/24 projected revenue of about \$175,000 in the Solid Waste Enterprise Fund for Organics-related State grant revenue
- Reduction in estimated investment income of about \$105,000 in the Vineyards Projects Capital Fund
- Updated transfer amounts from the Pension/OPEB Obligation Fund to the General Fund to ensure a balanced General Fund budget

CIP Updates

Following is a list of CIP project updates that have been incorporated into the draft Budget based on City Council direction at the Budget workshop and during CIP adoption. Updated CIP project sheets for the projects listed below are included in Attachment 6 – Exhibit C to this staff report.

- Comprehensive General Plan Update – At City Council direction, the cost of the project is proposed to be reserved in the General Fund at the end of FY 2023/24. The project timing was adjusted to occur earlier, with the project now set to begin in FY 2025/26. The funding source for this project is the General Fund.
- Basketball Court Lighting – Homecoming & Windsor Parks – At City Council direction, this project is proposed to be added to the 2024/25 – 2028/29 CIP. This project, scheduled to begin in FY 2024/25, will explore the feasibility of adding basketball court lighting at the Windsor Way and



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Homecoming Parks. The funding source for this project is the General Fund with an estimated cost of \$702,000. This cost includes estimates for design, PG&E connection and adding utility infrastructure, LED lighting and poles, cost for permits and CEQA analysis. In light of recent issues with the new Creekside Park pickleball courts resulting in neighborhood complaints about lighting, traffic, and noise, staff proposes to do significant neighborhood outreach with the two communities before constructing these improvements.

- Windsor Way Park Playground Replacement – The project timing was adjusted to occur earlier, with the project now set to begin in FY 2024/25. The funding source for this project is the Parks and LLAD Replacement Fund.
- Aquatic Complex Locker Rooms Remodeling – The project timing was adjusted to occur later, with the project now set to begin in FY 2025/26. The funding source for this project is the Facilities Replacement Fund.

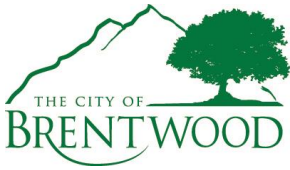
Since the workshop, staff included, and recommends, the following CIP update:

- Solid Waste Organics Diversion (CIP #542-54021) – Funding and expenditure budgets increase of \$259,000 in FY 2024/25 due to updated cost assumptions and making this a multi-year project. The funding source for this project is the Solid Waste and Wastewater Enterprise Funds.

5. General Fund Restrictions and Commitments

Recommended fund balance restrictions and commitments in the General Fund at June 30, 2024 are summarized in Attachment 4 - Exhibit A.

- As directed by the City Council at the Budget workshop, increase in the commitment to make funds available for the full cost of the Comprehensive General Plan Update CIP Project to commence in FY 2025/26.
- As directed by the City Council at the Budget workshop, establishment of a Future Capital Projects commitment of \$800,000
- The Police Department 5th Beat amount reflects funds that have been set aside for one-time and the first two years of ongoing costs of the 5th Beat
- Brentwood Boulevard Improvements restricted reserve to be used for funding of the Brentwood Boulevard Widening North – Phase 1 project in FY 2024/25
- The Future Strategic Initiatives amount reflects the costs to complete certain 2022/23 – 2023/24 Strategic Plan Initiatives funded by the General Fund



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- Successor Agency Payment Plan commitment for annual debt service payments which will sunset in FY 2024/25
- City Council Redistricting balance is for funds set aside for the cost of future redistricting activities that will be required after the 2030 U.S. Census

6. Operating Budget Policies and Guidelines

The City Council has adopted several financial policies that serve as a guide in the development, administration and management of the Budget. These include the Budget and Fiscal Policies (Council/Administrative Policy 10-5), the Capital Financing and Debt Management Policy (Council/Administrative Policy 10-23) and the Investment Policy (Council/Administrative Policy 10-4). They can be found on the City website at [Council / Administrative Policies \(Finance\) | Brentwood, CA \(brentwoodca.gov\)](https://www.brentwoodca.gov/council-administrative-policies-finance)

This Budget was also prepared in accordance with the following City Council direction and key budgetary principles:

- Includes funding and appropriations from the CIP adopted on May 28, 2024 and City Council direction received at the May 28, 2024 Budget workshop
- Maintains a General Fund 30% reserve
- Appropriates resources to complete carryover 2022/23 – 2023/24 Strategic Plan initiatives
- Continues the plan to fund its retiree medical benefit obligation at 85% of the annual actuarial required contribution, proactively addressing the unfunded liability for these benefits
- Budgets for the Internal Service Replacement Funds at appropriate levels to ensure operational stability and that adequate replacement funds are available when necessary
- Impacts of the proposed Budget and CIP on the Fiscal Model were analyzed by staff with the following results:
 - Over the ten-year period, the Fiscal Model shows annual revenues exceeding expenses and increasing 30% reserve requirements by about \$200,000 per year
 - Budget Stabilization balance at \$13.2 million at the end of the ten-year projection down from \$18 million previously projected
 - General Fund reserve maintained at 30% of operating expenditures

A copy of the Budget is included as Attachment 5 - Exhibit B to this staff report and available for public review on the City's website using the following link:



[Operating Budgets | Brentwood, CA \(brentwoodca.gov\)](https://www.brentwoodca.gov)

For a hard copy of the Operating Budget, please contact the Finance and Information Systems Department via email at finance@brentwoodca.gov or by calling 925-516-5460.

7. FY 2023/24 Operating Budget Amendments

A budget adjustment totaling \$71,709 is being proposed to increase the expenditure budget in seven Special Revenue Landscape and Lighting Assessment District Funds to account for utilities and other maintenance costs that are higher than anticipated in the original budget.

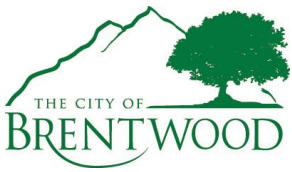
8. 2024/25 – 2025/26 Successor Agency Operating Budget

The City of Brentwood elected to serve as the Successor Agency to the Brentwood Redevelopment Agency (SA). As part of its duties, a successor agency must perform the administrative functions necessary to facilitate the orderly wind down of the former redevelopment agency.

The SA budget is comprised of two funds: Fund 303 – Successor Agency Administration and Debt Service and Fund 304 – Successor Agency RDA Obligation Retirement.

The SA Administration and Debt Services Fund is under the control of the SA, with any actions taken regarding these funds being subject to approval by the Oversight Board and by the State of California. The legislation governing the dissolution of redevelopment also required successor agencies to establish a fund to account for all future tax increment allocations made by the County Auditor-Controller's Office from their County Redevelopment Property Tax Trust Fund ("RPTTF"). The City of Brentwood, as SA, established Fund 304, the SA RDA Obligation Retirement Fund, for this purpose.

Staff is requesting approval of the 2024/25 – 2025/26 SA Operating Budget which allows for payment of the items listed on the approved Recognized Obligation Payment Schedule ("ROPS") for the period of July 2024 – June 2025. It should be noted that regardless of the approved operating budget, no funds can be expended by the SA without first securing approval on the ROPS via the Oversight Board and ultimately the State Department of Finance. For 2024/25, the expenses in Fund 303 consist of \$2,431,037 of debt service costs, \$250,000 of administrative costs and \$1,600 of investment fees. For 2025/26, the expenses



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in Fund 303 consist of \$2,421,415 of debt service costs, \$250,000 of administrative costs and \$1,600 of investment fees.

Staff is recommending budgeted expense transfers from the SA RDA Obligation Retirement Fund to cover the expenses detailed above for a transfer authorization of \$2,682,637 and \$2,673,015 in fiscal years 2024/25 and 2025/26, respectively.

The proposed SA budgets can be found in the Fiduciary Funds section of the 2024/25 – 20256 Operating Budget, Attachment 5 - Exhibit B, on page 163.

CITY COUNCIL STRATEGIC INITIATIVE

Not Applicable.

PREVIOUS ACTION

Previous Action by the City Council is included on Attachment 1.

DATE OF NOTICE

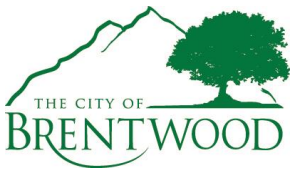
The City of Brentwood published a public hearing notice in the Brentwood Press and a draft of the 2024/25 – 2025/26 Operating Budget was made available on the City's website on June 14, 2024.

ENVIRONMENTAL DETERMINATION

This action has been found to be exempt from the requirements of the California Environmental Quality Act (CEQA), pursuant to CEQA Guidelines Section 15378(b)(4), as it relates to the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

ALTERNATIVE OPTIONS

1. Do not approve staff's recommended draft 2024/25 – 2025/26 Operating Budget and/or updates to the 2024/25 – 2028/29 Capital Improvement Program. If the draft 2024/25 – 2025/26 Operating Budget is not adopted, the City would not be able to make payments on any obligations, as there would be no legal budget appropriations.



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2. Modify staff's recommended draft 2024/25 – 2025/26 Operating Budget and/or updates to the 2024/25 – 2028/29 Capital Improvement Program.
3. Continue the item with direction for staff to return with additional information. A continuation of the adoption of the 2024/25 – 2025/26 Operating Budget would not allow City to make payments on any obligations, as there would be no legal budget appropriations.

ATTACHMENTS

1. Previous Action
2. Resolution
3. Successor Agency Resolution
4. Exhibit A – FY 2023/24 Budget Amendments and General Fund - Fund Balance Restrictions and Commitments
5. Exhibit B – 2024/25 – 2025/26 Operating Budget Draft
6. Exhibit C – Updated CIP Project Sheets