



Council Agenda Correspondence

DATE: February 18, 2025
TO: Mayor and Council
FROM: Emily Jackson, Finance Director
VIA: Whitney McDonald, City Manager
SUBJECT: ITEM 7A – REVIEW OF FISCAL YEAR 2024-25 2ND QUARTER BUDGET REPORT

Staff received the following questions, regarding the FY 2024-25 Second Quarter Budget Report. The questions are below with staff's response shown in *italics*:

1) What was the methodology used to determine the recommended amounts for the additional payments to CalPERS?

The recommended amounts for the CalPERS Additional Discretionary Payments (ADPs) from the General Fund and enterprise funds are based upon staffing cost growth in each fund from FY 2018-19 to FY 2023-24. The inflators in each fund factor in both the positions that have been added since FY 2018-19, as well as negotiated changes to total compensation. More information about the increased ADPs can be found in [Attachment G](#) to the January 14, 2025 Budget Foundation Item.

2) Does staff have a recommendation for the \$2 million currently assigned in the General Fund Balance for the 115 Trust?

Staff shared additional detail on the amounts included in fund balance as part of the report for clarity only. Council could direct staff to return with a recommendation to appropriate those funds for a contribution to a 115 trust, make a payment directly to CalPERS, or unassign the funds to support budgets in the 2025-27 Financial Plan.

3) What are the pros and cons of putting funds in the 115 Trust?

The 115 Trust enables the City to set aside funding to contribute to the City's pension plan. The primary feature of the 115 Trust is that once deposited, funds cannot be used for anything other than contributions to the pension. The benefit of this is that the funds are available for unfunded liability payments when the budget cannot otherwise support them—this helps to insulate the funding from potential diversion to other budgetary uses. The downside of depositing funds into the Trust is that they are not accessible for other purposes in times of financial difficulty, which means that the City has less flexibility in determining how to balance the budget to address other needs.

- 4) What was the original intent of the funding dedicated to “tenant improvements” in the downtown area that was reallocated to other economic development initiatives, including the Buy Local Bonus?**

The Tenant Improvement assigned balance within the General Fund Balance was initially created in December, 2020 with [Resolution 11203 \(2020 Series\)](#) to appropriate \$3,425,000 in unbudgeted Local Revenue Measure Funds for immediate investment in economic development efforts and homeless services largely in response the COVID-19 related impacts the City was experiencing at the time.

Additional detail can be found in the [Staff Report](#) from that agenda item. The \$1,400,000 identified in the General Fund was part of the recommendation to “Create Grant Funding Opportunities for Tenant Improvements”. The goal was to be able to invest those funds to create interest income that could be used to reduce or eliminate the costs of commercial tenant improvement permits to encourage re-tenanting of vacant spaces. That approach did not prove feasible so the funds were set aside for economic development purposes and used in subsequent budgets to continue programs like Buy Local Bonus that do not have ongoing funding identified. The remaining balance as of June 30, 2025 is \$608,000 and is expected to be fully expended in the 2025-27 Financial Plan to continue those programs (at a reduced level) and support other economic development initiatives (e.g. HotHouse grant funding) subject to Council approval.

- 5) The report indicates that the Insurance Fund reserves are well below policy levels and less than a 55% confidence level based on actuarial reports. Does staff intend to address this with the 2025-27 Financial Plan?**

Increasing the reserve level of the Insurance Fund is one of many priorities for the 2025-27 Financial Plan and a recommendation will be contingent upon available funding. If staff prioritize funding for ongoing operations, use of one-time funding at year-end is another appropriate funding source. Staff is discussing the status of the Insurance Fund reserve as a part of 2025-27 Financial Plan development and plans to make recommendations to address the reserve level at a future date.

- 6) What transit grants did we budget for that we no longer expect to receive?**

In April 2024, staff applied for a discretionary grant application for the purchase of additional battery electric vehicles. The funding request was not awarded, and the revenue and expenditure budgets will be reduced accordingly.

- 7) Can you please explain how certain budget lines might show negative actual results?**

Negative results for a revenue line are typically the result of an accounting adjustment. Attachment B, Federal Funding Summary, indicated negative year-to-date actual receipts for Transit grant funding in “Other Federal Grants”. The

Federal Transit Authority overpaid the City in FY 2023-24 and reclaimed those funds in FY 2024-25, resulting in negative revenue for the current fiscal year to date. There is no impact to operations or fund balance based on this accounting adjustment.