

STAFF REPORT

Date: January 22, 2025

To: Mayor and City Council

Thru: Jackie Bryant, City Manager

Subject: Staff Report (For Possible Action): Financial update presentation and discussion; Resolution to augment the budget of the City of Reno, Nevada, for FY24/25; and approval of budget revisions for the period of October 1, 2024 through December 31, 2024.

From: Vicki Van Buren, Director of Finance
Lynsey Hatfield, Budget Manager

Department: Finance

Summary:

This item includes a financial update and the second quarter augmentation for FY25. As we progress through the fiscal year, it is prudent for the City to review revenues and expenditures to ensure City operations are on track to stay within the approved budget. The City adopts an annual budget each year. The annual budget is the overall plan for City services for the fiscal year. As we proceed through the fiscal year, the plan changes and evolves requiring resources to be reallocated or added through budget augmentations. Budget augmentations must be adopted by resolution, and information forwarded to the Nevada Department of Taxation for approval. Augmentations of appropriations of a fund which receives ad valorem taxes must be noticed in the local newspaper prior to Council approval. The Augmentations were noticed as required.

Alignment with Strategic Plan:

Fiscal Sustainability

Previous Council Action:

October 23, 2024 - Council approved budget augmentations/revisions for July 1, 2024 through September 30, 2024

May 22, 2024 - Council adopted the FY 24/25 Budget

Background:

The budget development period for the City begins with budget planning in October and November and leads to budget adoption in May, with funding available on July 1 of each fiscal year. The focus from staff during this process is long-term planning to sustain City operations and meet Council goals. During the year, however, issues arise that require a more immediate response rather than waiting until the next budget cycle for funding. Instead of each individual request coming to Council at different times during the year, staff combines these requests into one report that is presented to Council quarterly as we progress through the fiscal year.

Discussion:

Financial Update

The City's general fund is heavily reliant on consolidated tax (C-Tax) distributions and property tax collections. C-Tax, property tax, and franchise fees account for over 70 percent of the City's general fund revenues collected each year. Each of these sources have specific challenges.

- C-Tax revenues are constrained by a statutory formula. The distribution of C-Tax revenue is driven by the formula rather than by the geographic location where the revenue is collected.
- Property tax collections are capped by statutory limits of 3 percent to 8 percent annual growth, depending on the property type. Additionally, property tax does not reset on sale and is adjusted for depreciation.
- Franchise fees fluctuate based on the weather (electric and gas usage) and also on customer consumption.

For all three of these revenue sources, the City cannot control the receipts and must adjust to fluctuations in the revenue sources. As of November:

- Property taxes are coming in on budget.
- C-Tax is flat year over year and is trending 5 percent below budget.
- Franchise fees are 15 percent below budget and have declined year over year.

Additionally, business licenses are 5 percent below budget. For each new business requesting a license, another business is closing, so revenues are overall flat year over year.

These trends are critical to understand as the City prepares the FY26 budget. Even without any additions to the budget, the City needs revenues to grow by 5-8 percent each year just to maintain the current staffing and service levels. Over 75 percent of the general fund budget is personnel. In FY25, Council approved the use of one-time funds in the amount of \$8 million to cover the budget gap following the approval of the most recent round of collective bargaining agreement contracts. On a go-forward basis, this use of one-time funds has to be overcome with either revenue growth or expenditure savings. If those options are not enough, then fund balance will be impacted.

Expenditures for the current year are on track with budget as anticipated. Overall, there is a slight savings in salaries and benefits due to deferred compensation match being utilized less than anticipated and also changes to enrollment in employee medical plans that resulted in some savings (family plan vs. single plan, etc.). Operating expenses including encumbrances outstanding (purchase orders) are tracking at 52 percent of budget and is similar to prior year usage.

In addition to understanding the current revenue and expenditure trends, there are several other issues that are important to our budget development process.

- The State Economic Forum was held on December 2. The overall message was that revenue growth will be very slow over the next few years. The forecast anticipated FY25 will be flat at 0.0 percent growth, FY26 predicted at 2.0 percent, and FY27 at 2.7 percent growth. These are not growth rates that will sustain the current staffing and service levels of the City. A change in both areas will need to be addressed moving forward.
- The PERS contribution rates were also released on December 2. Beginning July 1, 2025, regular member rates will increase by 3.25 percent to 36.75 percent and police/fire members will increase by 8.75 percent to 58.75 percent. The labor contracts in place have the employee and the City splitting the increase in percentage equally. Even with the split, the impact to the City is substantial.
- In addition, the restructuring of the building fund to allocate the positions to the funds receiving the work needs to be addressed.

Going forward, the slow revenue growth and increased labor costs will create challenges in building the FY26 budget. Strategic decisions about the long-term fiscal sustainability of the City will need to be made regarding service levels, maintenance, capital replacement programs, and fund balance reserves. Prioritizing expenditures and limiting growth in total City expenditures is necessary for a structurally balanced budget. In addition to a balanced budget, adequate reserves position an organization to weather significant economic downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies, such as natural disasters, catastrophic events, or excessive legal judgments.

FY24/25 2nd Quarter Budget Augmentation

General Fund

The additional appropriations to the General Fund included in the proposed augmentation are \$1,884,295. Of that \$1,683,371 is related to the addition of grants and reimbursements. Included in the grants and reimbursements are awards to the Parks and Recreation, Police, and Fire Departments. The remaining \$200,924 appropriation to the General Fund is due to the prior fiscal year fund balance true-up following Council's acceptance of the FY23/24 Annual Comprehensive Financial Report (ACFR).

Additional revisions to the General Fund include donations from Council outlined below.

Donating Councilmember	Benefitting Department/Purpose	Donation Amount
Mayor Schieve	Fire Department/Lithium battery fire extinguishers	\$5,000
Councilmember Taylor	Access Advisory Committee	\$500
Councilmember Taylor	Parks & Recreation Department	\$10,000
Councilmember Taylor	Special Events	\$4,000
Councilmember Martinez	Special Events	\$4,000

Fund Balance True-up

Following completion of the FY23/24 ACFR and its subsequent acceptance by Council, Finance staff calculate any necessary adjustments to fund balances. This reconciliation is a true-up between the initial projections for FY24/25 beginning fund balances and the final actual balances.

Capital funds typically receive the largest adjustment in this reconciliation due to the length of time it takes to complete many capital projects. When a capital project spans multiple years, the initial budgets are allocated in their entirety to the first year. If the project is not completed in that first year, a reconciliation is required to carry project funds forward to the current fiscal year to enable completion of the project and the payment of associated expenses. This method ensures the funding is available as the project progresses. Any anticipated project costs that are not expensed in the prior year as anticipated, are rolled forward and considered a part of the current (FY24/25) beginning fund balances.

A complete list of fund balance true-up adjustments is included in the section below.

Fund Group	Fund Balance Adjustment
General Fund	\$ 200,924
Hud and State Housing Fund	1,332,464
Community Assistance Fund	758,266
Street Fund	5,864,671
Performance Deposit Fund	4,598,063
Drainage Facility Impact Fee Fund	314
Room Tax Fund	(5,950)
Stabilization Fund	136,530
Court Special Revenue Fund	1,639,402
Drug Forfeiture Fund	837,349
Opioid Recoveries Fund	662,627
City of Reno Debt Service Fund	(40,242)
Sales Tax Bond Fund (Cabela's)	(32,107)

Railroad Debt Service Fund	874,261
Event Center Debt Fund	(2,492,862)
Special Assessment District Debt Fund	374,342
General Capital Project Fund	346,313
Room Surcharge Capital Project Fund	(16,990)
Event Center Capital Project Fund	19,570
Bond Capital Project Fund	28,210
Park District Capital Projects Fund	606,928
Capital Tax Fund	(1,651)
Street Bond Fund	70,218
TOTAL Fund Balance Adjustments	\$15,760,650

Position Changes

Throughout the fiscal year, departments work with the City Manager's Office to align their available positions with the strategic initiatives of Council to best meet the needs of the community. Some adjustments may require reclassifying positions, moving positions between departments or funds, adding new positions, or eliminating vacant positions. Administrative position changes that do not alter the total count of the City's approved positions can be executed at the direction of the City Manager. Any increases to the City's approved positions are presented to Council for approval.

This augmentation includes the elimination of two positions: Director of Code and Parking Enforcement and the Assistant to the City Manager. A change in funding is proposed for the Revitalization Manager and the Historic Preservation Management Assistant to be 100% funded from the Redevelopment Agency (RDA). With these changes, the code enforcement positions are proposed to be funded entirely from the General Fund. The net impact of these changes results in no overall impact to the General Fund. This is part of a solution to the Building Fund position allocation changes that are needed to align the job duties to the correct funding sources.

Additional positions for the fire department and the parks department that were previously approved by Council this fiscal year are included on this augmentation as well. These positions include the twenty-four fire positions approved with the Reno-Tahoe Airport Authority agreement on October 23, 2024, and one park river ranger approved by Council on November 13, 2024.

Two new positions for the RDA are proposed. These include a Project Manager and a Management Assistant. These positions will be involved in the project management of the RDA programs.

Contingency Funds

\$1,000,000 FY24/25 Contingency Budget
(300,000) – Downtown Trashcans – Council approved on 10/23/24
(6,600) – Stolen fencing at the Lear Theater (proposed with this augmentation)
\$693,400 – Contingency Remaining

Financial Implications:

Augmentations are funded by various sources per the attachment. All other items are revisions that move allocations between line items but do not increase the overall budget.

Legal Implications:

Augmentations to the current budget are required to be adopted by a resolution of Council in accordance with NRS 354.598005.

Recommendation:

Staff recommends Council adopt the Resolution approving the budget augmentations herein, direct staff to forward the approved resolution and attachments to the Department of Taxation as required by NRS 354.598005, approve revisions on the attached list, and record these changes in the minutes.

Proposed Motion:

I move to approve staff recommendation.

Attachments:

Attachment A – State Document (detailed schedule of changes)

Attachment B – Resolution