

STAFF REPORT

Date: April 9, 2025

To: Mayor and City Council

Through: 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 January 1, 2025 through March 31, 2025.

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

Department: Finance

Summary:

This item includes a financial update and the third 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:

January 22, 2025 - Council approved budget augmentations/revisions for October 1, 2024 through December 31, 2024

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**

General Fund revenues over the last decade have been steadily increasing and up until FY25 many sources exceeded original budget forecasts. In FY25, growth has slowed from previous years due to inflation, higher interest rates, and declining consumer confidence. The current year General Fund FY25 budget contains prior year one-time saving of \$8 million to balance the budget. This resulted from labor contract negotiations that were not resolved until after the FY25 budget was adopted. Council approved the use of one-time prior year savings in the amount of \$8 million to cover the gap. The only way to close the gap moving forward is by increased revenues, decreased expenses, and/or a combination of both. Both the City revenues and the expenditures have challenges in the near term that make developing the FY26 budget and subsequent years difficult.

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 has 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.

Current year General Fund revenues are trending approximately \$9 million under budget. The major revenue source of consolidated taxes is trending flat compared to last year or approximately -5% below budget. The State has encountered problems with their new financial system. Communication has lagged on the breakdown of allocations received from November on. It appears with limited information that receipts are in line with flat growth. The State has communicated that a true-up will occur in March and throughout the remainder of the fiscal year. Franchise fees are trending below budget due to mild weather conditions and changes in consumer consumption. Licenses and permits continue to trend under budget due to declines in

gross receipts which reflect the economy and consumer spending. Property tax is currently trending 1.5% above budget for the year.

For expenditures, changing economic conditions were recognized early in the fiscal year, hiring was slowed, and departments are reducing expenditures and finding savings when possible. The estimated savings in these areas are expected to cover the revenue deficit in the current year and will balance out even, or close to even for the year. Going forward, the slow revenue growth and increased labor costs will create challenges in building the 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.

FY24/25 3rd Quarter Budget Augmentation

General Fund

The additional appropriations to the General Fund included in the proposed augmentation are \$2,001,313. The majority is related to the addition of grants and reimbursements with \$25,279 from EMS billings. Included in the grants and reimbursements are awards to the Parks and Recreation, Police, and Fire Departments.

The City receives and then distributes sales tax allocations for the Freight House and Tessera Districts. These revenues and expenditures are tracked individually and have no fiscal impact to the City's General Fund. A fiscal analysis of these two sales tax sources reflects a current year decline in anticipated revenues. This augmentation includes a true-up to reflect this reduction and both revenues and expenditures have been reduced by half (\$1,000,000 reduction for the Freight House District and \$2,000,000 reduction for the Tessera District). These reductions have no impact on City operations.

Council approved the addition of twenty-four Reno/Tahoe Airport Authority fire personnel and one river ranger, all 100 percent reimbursed to the City, with the second quarter augmentation. The start date for these positions was unknown at that time. That date has been established, and staff has estimated the current year expenses and reimbursements which are included with this augmentation.

Additional staffing changes have been made within the Police Department and the need for a Background Investigations Unit Supervisor was identified. Finance and the City Manager's Office worked with the Police Department to identify a funding plan to cover the anticipated salary and benefit costs of the new addition. This funding plan requires the elimination of two Police Assistant I positions which, when combined, are equal in cost to the Background Investigations Unit Supervisor requiring no fiscal impact to the General Fund for the new position. The addition of this position will allow the department to reassign two Police Officers back into regular rotation who were previously undertaking the workload.

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

Donating Councilmember	Benefitting Department/Purpose	Donation Amount
Councilmember Taylor	Special Events – Riverwalk Banners	\$1,000
Councilmember Duerr	Capital Projects – Horse Protection Project (fencing)	\$20,000
Councilmember Ebert	Communications – Ward 4 NAB signs	\$143
Councilmember Anderson	Capital Projects – Horse Protection Project (fencing)	\$5,000

Sewer Fund

The additional appropriations to the Sewer Fund included in the proposed augmentation are \$321,559. This recognizes an increase for a United States Department of Agriculture grant for the West Wash Dam project. Council accepted this increase at the Council meeting on February 26, 2025. This augmentation will recognize the increased expenses and anticipated revenue.

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