

STAFF REPORT

Date: October 23, 2024

To: Mayor and City Council

Through: Jackie Bryant, Interim 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 July 1, 2024, through September 30, 2024.

From: Vicki Van Buren, Director of Finance

Department: Finance

Summary:

This item includes a financial update and the first 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. This report will review the General Fund 23/24 fiscal year (FY) end (unaudited) as compared to the budget FY 23/24 amounts which were used as a basis for developing the FY 24/25 budget. This report will also discuss the status of General Fund revenues and expenditures for FY 24/25. The City adopts an annual budget each year. The annual budget is the 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 to the General Fund and Street Fund were noticed as required.

Alignment with Strategic Plan:

Fiscal Sustainability

Previous Council Action:

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

Two years ago, many economists predicted the chance of an economic recession at 100%. Just this week, Goldman Sachs lowered its estimation of an economic recession in the next year to 15% which means the chance of the economy faltering now is no more than in any other normal conditions. Given the highly uncertain economic conditions of the last two years, the local economy has still recorded moderate growth with the most significant growth being seen in property taxes. The housing market continues to remain robust, and demand continues to exceed supply. The average single family home value currently stands at \$547,587, marking a 4% increase over the past year. Consumer spending however as measured in sales taxes has been relatively flat due to the impact of high inflation.

The audit is not complete yet for FY24 but the preliminary numbers for the General Fund revenues came in overall on budget at 99.9% of budget. Of this, Property Tax increased 8.8% and Consolidated Tax increased 3.1% over the previous year. Property Tax has increased steadily over the last few years due to the continued growth of the area. Consolidated Tax grew rapidly during the FY21 and FY22 timeframe by 19% and 10% respectively. This was due to the large influx of economic stimulus funds that entered the economy during and following the Covid-19 pandemic. In FY23, Consolidated Tax declined by -1.1% due to several factors including the reset of spending habits following the pandemic, the increased inflation and subsequent interest rates, overall consumer confidence in the economy, and recession concerns. In FY24, Consolidated Tax increased by 3.1% as consumer confidence grew and recession worries quieted. The flattening of Consolidated Tax revenues and now the slight growth attained in FY24 are predictive of the return to a more normal growth cycle that trends with population growth.

Overall, total general fund revenues grew by 6.0% over FY23. Charges for Services experienced a significant year-over-year increase of 16.7% with increased revenue from the Sierra Kids program offered by the Parks Department. These programs were expanded to include new schools and additional youth camps during break times. Franchise fees are less than the prior year due to an audit of franchise fees that recovered one-time revenues in FY23. Business Licenses showed growth of 1.7% and fines and forfeits declined by -3.7%. Fines and forfeits include parking tickets, traffic fines, and delinquent license penalties. Intergovernmental income increased due to additional one-time grant funds received in FY24. Miscellaneous income includes earnings on investments and property sales which can vary year over year.

Total expenditures for FY24 were 92.8% of budget. Salaries and wages expense increased by 6.6% year over year and employee benefits increased 6.6%. Encumbrances and other carryforwards of unspent but committed funds of approximately \$6.6 million will be carried forward to FY25. Encumbrances include outstanding contracts and purchase orders not completed by June 30. Other carryforwards include contracts and other committed funds that do not have purchase orders assigned but are already committed for a specific purpose. With encumbrances and carryforwards factored in, the total expenditures come in at 94.9% of budget for FY24. Overall, an excess fund balance of \$8 million is anticipated. This is lower than the \$10 million anticipated during the FY25 budget process due to Consolidated Taxes coming in less than anticipated at 3.1% versus 5.0%.

For FY25, Council adopted a balanced budget that emphasized public safety, code enforcement, parks and homelessness as the top priorities. With these Council priorities as the guide, thirty-one (31) new positions were approved with the FY25 budget. Additionally, other items such as police forensic supplies; historic preservation funds, dispatch overlap allocations; code enforcement training, overtime, and towing funds; fire supplies and information technology replacement funds were approved totaling almost \$1 million.

During the time the FY25 budget was being developed and adopted, the City was in labor negotiations with all labor groups negotiating contracts that would start on July 1. Since labor negotiations concluded this fall, the full impact was not known at the time of budget adoption. Overall, a 4.2% increase in salaries and benefits was anticipated when the FY25 budget was drafted. During negotiations, Council approved the full implementation of the class and compensation adjustments from the most recent analysis as well as additional cost of living adjustments. The full impact of the collective bargaining changes resulted in an increase of approximately 9% in salaries and benefits. Subsequently the full impact to the general fund in the current fiscal year is an additional \$7.9 million. As discussed previously with Council, the anticipated savings from FY24 would be needed to cover the additional labor costs in the current year. For this reason, there are not any excess funds available from FY24 as the following augmentation proposes the use of the excess funds to cover the increased labor costs in the current year. This results in an unbalanced budget where prior year FY24 savings (excess) is being used to fund current year expenses (FY25).

Going forward, the slow revenue growth and increased labor costs will create challenges in building the FY26 budget. With one month of data on Consolidated taxes for FY25, consumer spending is flat, showing no growth over FY24. Growth in Consolidated taxes is necessary to keep pace with the annual growth in labor costs. Additionally, FY26 will see rate increases for

retirement costs. 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. With the following proposed augmentations to the FY25 budget, the general fund reserve level is maintained at 15% which is equivalent to two months of operating expenses.

FY24/25 Budget Augmentation

General Fund

The additional appropriations to the General Fund included in the proposed augmentation are \$16,359,701. Of that \$2,103,341 is related to the addition of grants and reimbursements. Included in the grants and reimbursements are awards to the Parks Department, Public Safety, and the City Manager's Office.

The carryforward of \$3,534,011 reflects amounts from FY 23/24 which were encumbered via purchase order. These purchase order carryforwards are detailed in Attachment A – PO & Contract Carryforwards. The remainder of the FY 23/24 fund balance carryforward includes funding for services or agreements that were anticipated to be expended by June 30, 2024 and were not, unspent FY 23/24 contingency funds, or items that require additional funding. These additional items are detailed in the table below.

Included in this augmentation is a true-up and transfer of \$1,576,376 from Ground Emergency Medical Transport (GEMT) revenue, previously received in the General Fund, to the Fire Capital Project Fund where it will be managed by the Fire Department for direct funding of the Fire Apparatus Replacement Plan.

This augmentation includes the addition of one River Ranger position in the Parks and Recreation (P&R) department. Partial funding was approved via reimbursement from the Truckee River Flood Management Authority (TRFMA). The remainder of funding for this position is being reallocated from budget savings within the Parks and Recreation department.

The following items are included as General Fund budget augmentations:

- General Fund

Source: Excess Beginning Fund Balance

Labor Negotiation Implementation	\$ 7,875,220
Purchase Order Carryforwards	3,534,011
Fire apparatus program Carryforward	1,576,376

Unencumbered Carryforwards	1,264,453
CMO/Ec. Dev. - Economic/RDA initiatives -	800,000
CMO/OPS - Citywide Strategic Plan -	132,000
CMO/C&S - Clean and Safe expenses -	60,000
CMO/Ec. Dev. – Software/prog. for Ec. Dev. -	52,000
CMO/OPS - State Lobbyist -	50,000
CMO/OPS - Strategic Dept. Plans -	38,000
Business License - Code revision -	29,644
Dispatch - equipment replacement-	24,950
CMO/Ec. Dev. - IDA and ULI Conferences -	15,000
P&R - Moana Springs Pool Operations -	13,500
CMO/OPS - PrimeGov -	10,000
CMO/OPS - Fiscal Equity -	10,000
P&R - Youth City Council carryforward -	9,000
CMO/Arts - FY24 Arts & Culture donations -	5,500
CMO/Arts - Budget Corr. - Arts & Culture -	5,000
CMO/ECR - RAAC/High Five Donation -	5,000
CMO/ECR - RELI expenses -	3,005
P&R - FY24 Bird Rev./adaptive cycling center -	1,854
Addtl allocation for Public Safety radio replacement	280,000
FY24 Unspent Contingency Carryforward	221,300
Grants & Various Reimbursements	2,103,341
Reduced Transfer from Capital Tax Fund	(80,000)
True-up BID Assessment to FY 24/25 anticipated	(415,000)
TOTAL General Fund	\$ 16,359,701
<u>HUD and State Housing Funds</u>	
• HUD and State Housing Funds	
Labor Negotiation Implementation	\$ 16,428
TOTAL HUD and State Housing Funds	\$ 16,428
<u>Community Assistance Fund</u>	
• Community Assistance Fund	
Labor Negotiation Implementation	\$ 11,776
TOTAL Community Assistance Fund	\$ 11,776

Street Fund

Proposed augmentations in the Street Fund are primarily the carryforward of unspent funds for projects not completed by June 30, 2024. Additionally, this augmentation includes a reduction of Ending Fund Balance for the implementation of the most recent labor contract changes (\$209,148).

- Street Fund

FY 24/25 Fund Balance Carryforward:

Carryforward Prior Year Encumbrances	\$ 11,186,576
Unencumbered Carryforward	1,308,321

TOTAL Street Fund	\$ 12,494,897
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Room Tax Fund

The carryforward of unspent funds for the Arts Commission and Art in Public Places is shown below in the Room Tax Fund. These funds were previously allocated but not spent by June 30, 2024. This augmentation also includes a Federal grant for Public Art (\$15,000) and carryforward for unspent Art Belongs Here allocation (\$36,672) and Council Projects (\$162,950).

- Room Tax Fund

FY 23/24 Fund Balance Carryforward:

Carryforward Arts Commission FY24 fund balance	\$ 396,905
Carryforward FY24 fund balance	233,456
Carryforward Council Projects FY24	162,950
Carryforward Public Art Master Plan & Title 22 update	65,000
Carryforward Art Belongs Here FY24	36,672
Federal Grant for Public Art	15,000

TOTAL Room Tax Fund	\$ 909,983
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Forfeiture Special Revenue Fund

- Forfeiture Special Revenue Fund

FY 23/24 Fund Balance Carryforward:

Carryforward Prior Year Encumbrances	\$ 384,496
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TOTAL Forfeiture Special Revenue Fund	\$ 384,496
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Opioid Recoveries Fund

- Opioid Recoveries Fund

FY 23/24 Fund Balance Carryforward:

Carryforward Prior Year Encumbrances	\$ 23,137
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TOTAL Opioid Recoveries Fund	\$ 23,137
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General Capital Projects Fund

Proposed augmentations in the General Capital Projects Fund are primarily the carryforward of unspent funds for projects not completed by June 30, 2024. Additionally, this augmentation includes a true-up and transfer of \$1,576,376 from Ground Emergency Medical Transport (GEMT) revenue, previously received in the General Fund, to the Fire Capital Project Fund where it will be managed by the Fire Department for direct funding of the Fire Apparatus Replacement Plan.

Additionally, within the General Capital Projects Funds, Maintenance and Operations (M&O) proposes a change of use for Council consideration. With the FY 22/23 Capital Improvement Plan (CIP) Council approved a roof replacement project for the Evidence Facility at 264 Keystone Avenue for \$500,000. After further consideration of the project, M&O believes a less expensive patching project would suffice for this facility and request approval to utilize any unspent funds for other Facility Maintenance needs.

• General Capital Projects Funds	
FY 23/24 Fund Balance Carryforward:	
Carryforward Prior Year Projects	34,250,402
General Fund transfer for Fire apparatus program	1,576,376
Carryforward FY24 fund balance	323,311
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TOTAL General Capital Projects Funds	\$ 36,150,089

Room Surcharge Capital Projects Fund

• Room Surcharge Capital Projects Fund	
FY 23/24 Fund Balance Carryforward:	
Carryforward Prior Year Encumbrances	\$ 3,288,429
Unencumbered Carryforward	208,499
Carryforward FY24 fund balance	52,775
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TOTAL Room Surcharge Capital Projects Fund	\$ 3,549,703

Park District Capital Project Funds

• Park District Capital Project Funds	
FY 23/24 Fund Balance Carryforward:	
Carryforward Prior Year Encumbrances	\$ 1,327,360
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TOTAL Park District Capital Project Funds	\$ 1,327,360

Capital Tax Fund

- Capital Tax Fund

FY 23/24 Fund Balance Carryforward:

Carryforward Prior Year Encumbrances \$ 110,428

Carryforward FY24 fund balance 20,088

TOTAL Capital Tax Fund \$ 130,516

Sewer Fund

Proposed augmentations in the Sewer Fund are primarily the carryforward of unspent funds for projects not completed by June 30, 2024. Additionally, this augmentation includes a Lake Park Watershed Grant and a reduction of Ending Cash Balance for the implementation of the most recent labor contract changes (\$417,548).

Maintenance and Operations (M&O) proposes an additional change of use for Council consideration. With the FY 24/25 CIP, Council approved \$1,500,000 to build an equipment storage building at the Corporation Yard. Due to recent challenges, M&O proposes allocating this funding instead to the effort to build a satellite facility in the North Valleys. The FY 24/25 CIP allocated \$1,000,000 each from the Street and Sewer funds to further this effort. The additional \$1,500,000 would be combined with this funding for a total of \$2,500,000 from the Sewer Fund and maintain the \$1,000,000 from the Street Fund.

- Sewer Fund

FY 23/24 Fund Balance Carryforward:

Carryforward Prior Year Encumbrances \$ 35,952,517

Unencumbered Carryforward FY24 21,528,956

Lake Park Watershed Grant 10,366

TOTAL Sewer Fund \$ 57,491,839

Building Fund

Proposed augmentations in the Building Fund are primarily the carryforward of unspent funds for projects not completed by June 30, 2024. Additionally, this augmentation includes a reduction of Ending Cash Balance for the implementation of the most recent labor contract changes (\$410,408).

- Building Fund

FY 23/24 Fund Balance Carryforward:

Carryforward Prior Year Encumbrances \$ 55,385

TOTAL Building Fund \$ 55,385

Fleet Fund

Proposed augmentations in the Fleet Fund are primarily the carryforward of unspent funds for projects not completed by June 30, 2024. Additionally, this augmentation includes a reduction of Ending Cash Balance for the implementation of the most recent labor contract changes (\$77,221).

- Fleet Fund

FY 23/24 Fund Balance Carryforward:

Carryforward Prior Year Encumbrances	\$ 4,561,475
TOTAL Fleet Fund	\$ 4,561,475

Labor Negotiation Implementation:

The table below outlines the fiscal impacts of implementing the recent labor contract changes. The amounts shown represent the City's obligation over and above what was included in the FY 24/25 adopted budget.

General Fund – Excess Beginning Fund Balance	\$ 7,875,220
Sewer Fund – Ending Cash Balance Reduction	417,548
Building Enterprise Fund – Ending Cash Balance Reduction	410,408
Street Fund – Ending Fund Balance Reduction	209,148
Fleet Fund – Ending Cash Balance Reduction	77,221
Risk Management Fund – Ending Cash Balance Reduction	63,789
HUD and State Housing Funds – Additional Federal and State Grant Revenue	16,428
Community Assistance Funds – Additional Federal Grant Revenue	11,776
TOTAL Labor Negotiation Implementation	\$ 9,081,538

Contingency Funds

Contingency – Requested by Council

\$1,000,000 FY24/25 Contingency Budget

(300,000) – Downtown Trashcans – Council requested on 10/09/24

\$700,000 – FY24/25 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:

Legal review completed for compliance with City procedures and Nevada law. Augmentations to the budget are required to be adopted by a resolution of Council in accordance with Nevada Revised Statutes (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 - PO & Contract Carryforwards
Attachment B - FY24.25 1st Qtr State Document
Attachment C – Resolution
Attachment D – Public Notice