



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of June 23, 2026

TO: Members of the City Council

SUBMITTED BY: Patrick Tang, Interim City Manager
Edwin Gato, Director of Finance

SUBJECT: Continued Public Hearing on Proposed FY 2026-27 City of Hercules Annual Budget Plan including the First Year of the Ten-Year 2026–2036 Capital Improvement Plan (CIP) Budget

RECOMMENDED ACTION:

Open the continued Public Hearing, receive a Staff Report, take public testimony, close the Public Hearing, and adopt the following resolutions (Attachments 1-3):

1. Approving the FY 2026-27 City of Hercules Budget Plan which includes the First Year (2026-27 Fiscal Year) of the Ten-Year (2026-2036 Fiscal Years) Capital Improvement Plan (CIP) Budget and making certain designations and fund balance adjustments, approving annual contracts for services in total amount of \$7,933,656.
2. Approving the FY 2026-27 Hercules Public Financing Authority Budget Plan Consisting of Debt Service in the amount of \$2,025,144.
3. Establishing the Appropriations Limit for the FY 2026-27 in accordance with Proposition 111 and Article XIII B.

BACKGROUND:

The City Council convened budget workshops on March 24, 2026, and May 12, 2026, during which they engaged in detailed discussions about the proposed Ten-Year Capital Improvement Plan spanning fiscal years 2026 to 2036, as well as the Annual Budget for fiscal year 2026-27. During these workshops, council members thoroughly reviewed resource allocation and established financial priorities for the upcoming year. Their goal was to ensure effective governance and strategically foster community development, addressing residents' needs and aspirations while planning for the future.

This budgetary plan highlights the importance of allocating ongoing revenue to support operational expenses and establishing a stable financial framework for City functions. Additionally, it advocates prudent allocation of one-time revenues to address specific, non-

recurring costs, thereby safeguarding the City's financial integrity. The strategy further emphasizes the necessity of maintaining sufficient reserves to prepare for unexpected challenges and addressing long-term liabilities to ensure the City's financial security in the future.

The first public hearing regarding the comprehensive recommended annual budget was held on June 9, 2026. This event allowed community members to articulate their views and concerns regarding the proposed financial framework. This evening, we reconvened to continue the public hearing as we approach the final stages of the budget adoption process. We invite further public input on this essential financial plan, which will play a pivotal role in determining our city's future priorities and development.

ANALYSIS:

The proposed FY 2026-27 Annual Budget including the City Manager's Budget Message is available on the City's website (<https://www.herculesca.gov/>) and through the following link: <https://www.herculesca.gov/government/finance/budgets>

The budget proposal delineates a 3% Cost-of-Living Adjustment (COLA) to all bargaining groups and 2% equity adjustments to the Police Officer's Association (POA) applied to labor costs, in accordance with the terms outlined in the approved labor agreements. These adjustments demonstrate our commitment to offering fair and competitive compensation for our law enforcement professionals.

Additionally, the proposal incorporates an overall increase of 3% to address the effects of inflation. This average increase is based on prevailing economic trends, the Consumer Price Index (CPI) for the San Francisco area as of February 2026, and efforts to reduce or eliminate non-essential spending. This adjustment aims to manage payroll increases while maintaining overall financial stability effectively

Furthermore, several strategic adjustments are included to enhance organizational efficiency and effectiveness. The chart below provides a comprehensive overview of additional budget requests, along with an analysis of their corresponding economic impacts. This detailed presentation is designed to facilitate a clear understanding of the implications associated with each adjustment.

| | Budget Impact | | |
|--|-----------------|----------------------------|-----------------|
| | General Fund | Internal Service Fund (IT) | Total |
| Ongoing costs: | | | |
| Reallocation of Full-Time Parking Enforcement Funding | \$11,000 | - | \$11,000 |
| Full-Time Recreation Technician - Child Care | \$21,000 | - | \$21,000 |
| Finance Director Salary Grade from 056 to 057 | \$10,000 | \$10,000 | \$20,000 |
| Reclassifying an Accounting Technician to an Accountant position | \$300 | - | \$300 |
| Total, Ongoing | \$42,300 | \$10,000 | \$52,300 |

| | | | |
|--|------------------|-----------------|------------------|
| One-Time Costs: | | | |
| Automated External Defibrillator (AED) Replacement | \$26,000 | - | \$26,000 |
| Community Center Oven Replacement | \$30,000 | - | \$30,000 |
| Dispatch Firewall Replacement | \$11,036 | - | \$11,036 |
| Total, One-Time | \$67,036 | - | \$67,036 |
| Total | \$109,336 | \$10,000 | \$119,336 |

Following the first public hearing conducted on June 9, 2026, the Council has put forth the following requests for consideration:

1. To allocate \$250,000 from the SB1 Road Maintenance and Rehabilitation Account (RMRA) for the John Muir Parkway traffic calming project. Detailed information can be found on page 203 of the budget book.
2. To allocate \$100,000 from the General Fund Reserve for the construction of the monument sign. Detailed information can be found on page 206 of the budget book.
3. To designate and reserve \$50,000 from the General Fund for community benefit initiatives. Further information regarding the designation of the General Fund is available on page 94 of the budget book.

Upon the conclusion of the public hearing this evening, the City Council is requested to deliberate on the approval of the Budget as recommended by the City Manager. The Budget Resolution explicitly outlines the necessary designations to ensure accurate representation of these elements in the forthcoming annual audit.

In addition, the resolution that approves the Budget not only encompasses financial allocations but also formally endorses several annual service contracts that have been specifically funded within this financial plan. This methodical approach is intended to enhance both transparency and accountability in how the city manages its financial resources, ensuring that taxpayers can have confidence in the stewardship of public funds.

The annual contracts being approved are set forth in the following table:

| Vendor Name | Service Description | FY 2026-27 |
|--------------------------------|---|--------------------|
| AMS.Net | Network Support & Maintenance | \$230,000 |
| Superion, LLC (Central Square) | Financial & Business Applications Support & Maintenance & Training Subscription | 121,000 |
| M-Group | Associate Planner | 138,900 |
| CSG Consultant | Code Enforcement | 122,400 |
| Pacific Site Maintenance | Landscaping | 642,956 |
| Andre, Mechanical Service | Lift Station Maintenance /Electrical Trouble Shooting | 99,000 |
| Kleen Tech | Janitorial (Citywide) | 161,000 |
| SCA | Street sweeping | 88,000 |
| Contra Costa County | Animal Control | 334,400 |
| H&R Plumbing | Storm Drain & Sewer Cleaning | 150,000 |
| Hercules Tree | Tree Work | 115,000 |
| City of Pinole | Sewer Plant Operating and Capital Costs | 5,731,000 |
| TOTAL: | | \$7,933,656 |

The budget provides a comprehensive overview of revenue estimates and expenditure appropriations across all City funds, capturing the full spectrum of operations, capital investments, and internal financial transfers that support various programs and essential functions within the City. The budget document includes thorough fund summaries and financial schedules for each City budgetary unit. These schedules reflect the actual fiscal results from the previous two years, the budget for Fiscal Year 2025-26, and the recommended budget for Fiscal Year 2026-27. This comprehensive approach provides clarity on the City's financial health and strategic future planning.

In addition to the proposed budget, the following related items are presented for Council approval:

Hercules Public Financing Authority (HPFA) Budget

The City has established the Hercules Public Financing Authority (HPFA) to facilitate the financing of important public capital improvement projects. The Authority has issued bonds to generate funds specifically designed to support initiatives that benefit the community. For the fiscal year 2026-27, the HPFA's budget plan includes a debt service allocation of \$2,025,144. The PFA Debt Service Funds include the following:

- 2020 Public Financing Authority (PFA) Lease Revenue Refunding Bonds – This bond issue helped pay for the Hercules Community Library construction and is paid for solely out of the General Fund. The debt service payment for FY 2026-27 is \$563,162.
- 2009 Public Financing Authority (PFA) Taxable Lease Revenue Bonds – Bio-Rad/Venture – This bond was issued to pay for the Venture Building on Linus Pauling Drive and is fully paid for by lease revenue and a guaranteed investment contract (GIC). The debt service payment for FY 2026-27 is \$905,796.

- 2021 Public Financing Authority (PFA) Wastewater Revenue Bonds – This bond issue was to finance improvements to the City’s wastewater system and is paid for solely out of the wastewater fund. The debt service payment for FY 2026-27 is \$556,186.

Successor Agency to the former Hercules Redevelopment Agency

The Successor Agency relies on property tax increment revenue to fulfill the obligations of the former Hercules Redevelopment Agency. To access this tax increment, the Successor Agency submits an annual Recognized Obligation Payment Schedule (ROPS) to the Oversight Board and the State Department of Finance. Upon approval from the Oversight Board, the Contra Costa Auditor Controller's Office will distribute the tax increment funds to the Successor Agency. It is important to note that the utilization of these tax increments is restricted; any excess tax increment, after accounting for debt service and administrative costs, is allocated to other taxing entities. These may include the City of Hercules, cities within Contra Costa County, the State of California (for schools), and various special districts.

For the FY 2026-27, the Successor Agency anticipates that its revenue will be sufficient to meet all debt service obligations for bonds. The total budget for bond debt service payments for FY 2026-27, which encompasses payments to Catellus and Senior Bridge Housing, is approximately \$10 million. As property values increase and additional tax increments become available, there will be adequate funding to support administrative expenses, fulfill developer obligations, and cover pass-through payments that have been approved by the State Department of Finance.

Appropriation (GANN) Limit

The California Constitution limits growth in local government spending and establishes a maximum limit for expenditures from general taxes. The law, commonly known as the Gann Limit, requires that the limit is recalculated and approved annually by the City Council at the beginning of each fiscal year. The Gann Limit is indexed to specified growth factors approved by the Legislature and applied to revenue appropriations. The annual Appropriation (GANN) Limit establishes the maximum amount that can be appropriated to the General Fund.

Article XIII B of the California Constitution was approved by California voters in 1979 and has been amended several times since its adoption. Article XIII B creates a restriction on the amount of revenue that can be appropriated in any fiscal year.

Article XIII B requires all local government entities to establish an annual appropriation limit. The appropriation subject to limitation is to be based on the 1978-79 appropriation adjusted for changes in cost of living and population.

California Government Code Section 7910 mandates that each local government establish its appropriation limit through the passage of a resolution. The attached resolution seeks to approve the Appropriations Limit for Fiscal Year 2026-27. For Fiscal Year 2026-27, the Appropriations Limit has been carefully determined to be

\$611,991,723. Additionally, it is noteworthy that the appropriations for FY 2026-27, which fall under this limit, represent just 3% of the total appropriation limit, confirming compliance well within the established guidelines.

Budget Awards

The City of Hercules has been awarded the prestigious Budget Excellence Award by the Government Finance Officers Association of the United States and Canada (GFOA) and the California Society of Municipal Finance Officers (CSMFO) for seven consecutive years. This recognition reflects the City's steadfast commitment to transparency and accountability in its financial management practices. Such honors represent a significant accomplishment and demonstrate the dedication of both the governing body and staff to uphold the highest standards in governmental budgeting.

FISCAL IMPACT:

The proposed FY 2026-27 Citywide Budget appropriates expenditures of \$45 million, of which General Fund is \$21 million, Special Revenue, Capital Projects and Debt Service funds are \$13 million, and Sewer Enterprise Fund is \$11 million. There are sufficient revenues and accumulated fund balance to fund these appropriations.

The General Fund—the principal operating fund—is anticipated to conclude the fiscal year with a positive balance of \$127,000. The fund is projected to uphold a substantial operating reserve of \$5.4 million, representing 25% of the total General Fund budget.

ATTACHMENTS:

1. Annual Budget Resolution
2. PFA Resolution
3. GANN Resolution
4. FY 2026-27 Annual Budget