



## **STAFF REPORT TO THE FINANCE COMMISSION**

**DATE:** Regular Meeting of June 10, 2025

**TO:** Members of the Finance Commission

**VIA:** Dante Hall, City Manager

**SUBMITTED BY:** Edwin Gato, Director of Finance

**SUBJECT:** Public Hearing on Proposed FY 2025-26 City of Hercules Annual Budget Plan including the First Year of the Ten-Year 2025–2035 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 2025-26 City of Hercules Budget Plan which includes the First Year (2025-26 Fiscal Year) of the Ten-Year (2025-2035 Fiscal Years) Capital Improvement Plan (CIP) Budget and making certain designations and fund balance adjustments, approving annual contracts for services in total amount of \$7,743,160.
2. Approving the FY 2025-26 Hercules Public Financing Authority Budget Plan Consisting of Debt Service in the amount of \$2,023,258.
3. Establishing the Appropriations Limit for the FY 2025-26 in accordance with Proposition 111 and Article XIII B.

### **BACKGROUND:**

The City Council convened a budget workshop at their regular meeting on April 22, 2025, to engage in a detailed discussion of the proposed Ten-Year Capital Improvement Plan (FY 2025-2035) alongside the FY 2025-26 Annual Budget. The Recommended Budget is thoughtfully crafted to align with the City Council's strategic priorities and reflects a commitment to policy directions centered on fiscal sustainability.

This budgetary plan emphasizes the importance of using ongoing revenue to support regular expenses, ensuring a stable financial foundation for city operations. Additionally, it advocates for the prudent use of one-time revenues to cover one-time costs, thereby safeguarding the city's financial integrity. The strategy also includes maintaining adequate

reserves to prepare for unforeseen challenges and addressing long-term liabilities to ensure the city's future security.

The first public hearing regarding the comprehensive recommended annual budget took place on May 27, 2025, when community members had the opportunity to voice their opinions and concerns. Tonight, we continue this public hearing as we move closer to final adoption, inviting further public input on this critical financial blueprint for the city's future.

## ANALYSIS:

The proposed FY 2025-26 Annual Budget including the City Manager's Budget Message is available on-line 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 be applied to labor costs, contingent upon the outcomes of ongoing negotiations with bargaining groups. Staff will present comprehensive recommendations to the City Council upon the conclusion of negotiations with the labor groups. Additionally, the proposal incorporates an overall increase of 3% to address the effects of inflation. Furthermore, several strategic adjustments are included to enhance organizational efficiency and effectiveness.

The chart below provides a comprehensive overview of significant changes, 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	Other Funds	Total
<b>Ongoing costs:</b>			
Low-Income Home Repair Program	\$30,000	-	\$30,000
Housing Program Support	\$67,390	-	\$67,390
DocuSign Contract Lifecycle Management Platform	-	\$19,624	\$19,624
<b>Total, Ongoing</b>	<b>\$97,390</b>	<b>\$19,624</b>	<b>\$117,014</b>

<b>One-Time Costs:</b>			
Housing Transaction Support	-	\$120,595	\$120,595
General Plan Update and EIR	-	\$1,300,000	\$1,300,000
Motorola Radios for Police Department	\$143,647	\$100,000	\$243,647
Marshfield Consulting	-	\$50,000	\$50,000
Quad-City CORE Homeless Services Pilot Program	\$48,965	-	\$48,965
SNG Contract for Engineering and CIP Services	\$240,000		\$240,000
<b>Total, One-Time</b>	<b>\$432,612</b>	<b>\$1,570,595</b>	<b>\$2,003,207</b>
<b>Total</b>	<b>\$530,002</b>	<b>\$1,590,219</b>	<b>\$2,120,221</b>

Since the first public hearing held on May 27, 2025, there has been a single addition to the budget: an allocation of \$240,000 for the SNG Contract. This funding will support

Engineering and Capital Improvement Project (CIP) services. For more detailed information, please refer to page 38 of the budget book.

Following the conclusion of the public hearing this evening, the City Council is hereby requested to deliberate on the approval of the Budget as recommended by the City Manager. The Budget Resolution articulates the necessary designations to ensure that these elements are accurately represented in the forthcoming annual audit. In addition, the resolution that approves the Budget also encompasses the endorsement of several annual contracts for services for which funding has been allocated within the Budget. This structured approach aims to enhance transparency and accountability in the management of City finances.

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

<b>Vendor Name</b>	<b>Service Description</b>	<b>FY 2025-26</b>
AMS.Net	Network Support & Maintenance	\$222,500
Superion, LLC (Central Square)	Financial & Business Applications Support & Maintenance & Training Subscription	115,000
M-Group	Associate Planner	125,000
CSG Consultant	Code Enforcement	120,000
Pacific Site Maintenance	Landscaping	630,349
Andre, Mechanical Service	Lift Station Maintenance /Electrical Trouble Shooting	97,000
Kleen Tech	Janitorial (Citywide)	155,000
SCA	Street sweeping	82,086
Contra Costa County	Animal Control	328,000
H&R Plumbing	Storm Drain & Sewer Cleaning	150,000
Hercules Tree	Tree Work	100,000
City of Pinole	Sewer Plant Operating and Capital Costs	5,618,225
<b>TOTAL:</b>		<b>\$7,743,160</b>

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 proposed budget for Fiscal Year 2024-25, and the recommended budget for Fiscal Year 2025-26. 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 2025-26, the HPFA's budget plan includes a debt service allocation of \$2,023,258. 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 2025-26 is \$561,212.
- 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 2025-26 is \$906,578.
- 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 2025-26 is \$555,468.

#### 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 2025-26, 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 2025-26, which encompasses payments to Catellus and Senior Bridge Housing, is approximately \$9.7 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 2025-26. For Fiscal Year 2025-26, the Appropriations Limit has been carefully determined to be \$585,116,335. Additionally, it is noteworthy that the appropriations for FY 2025-26, 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 six 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 2025-26 Citywide Budget appropriates expenditures of \$47 million, of which General Fund is \$20 million, Special Revenue, Capital Projects and Debt Service funds are \$16 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 \$423,000. The fund is projected to uphold a substantial operating reserve of \$5.1 million, representing 25% of the total General Fund budget.

#### **ATTACHMENTS:**

1. Annual Budget Resolution
2. PFA Resolution
3. GANN Resolution
4. FY 2025-26 Annual Budget