

## City Council Questions and Responses May 6, 2025 FY 2025-26 Draft Budget

Below are the Councilmembers' questions and comments from May 6, 2025, City Council meeting, listed in chronological order. Responses from City staff are provided below for each question.

The next discussion regarding the draft FY 2025-26 Budget will occur on June 3, 2025.

### Vice Mayor Zepeda:

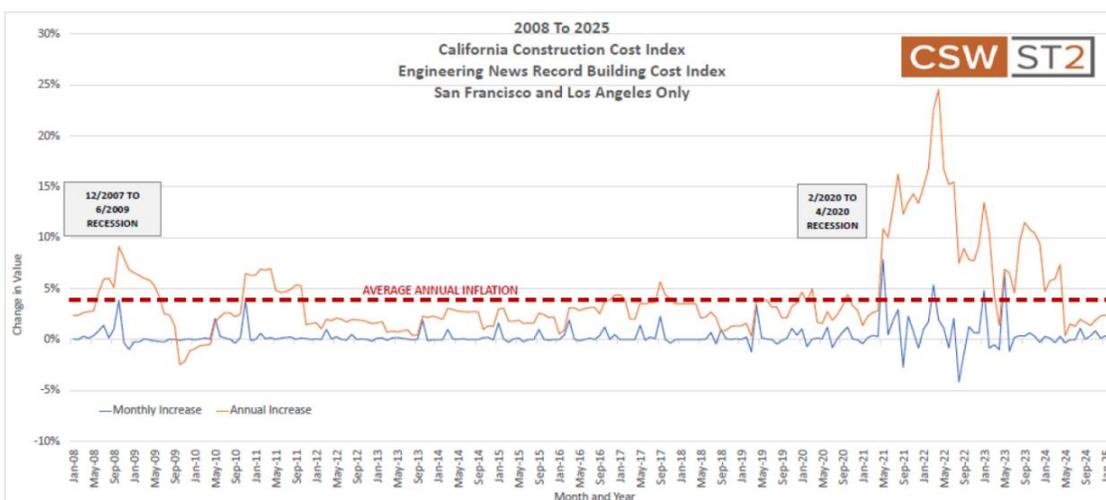
- What are the impacts of tariffs on Sales Tax projections or any other taxes? Include percentage and dollar amounts in presenting the assumption.
  - Response: Tariffs can have direct and indirect effects on sales tax projections, primarily through their impact on consumer prices, consumption behavior, and the overall economy, but no exact dollar amount or percentage has been used so far by Avenu, the City's Sales Tax Consultant. It is expected that tariffs will lead to increased consumer prices and that will in turn reduce consumption – especially for price sensitive goods (i.e. consumer electronics, travel, clothing and grocery items). Consumers will either buy less or switch to cheaper alternatives. Additionally, Avenu's conservative sales tax growth forecast reflects the following constraints, locally and regionally, on consumer, business, and government spending on taxable goods, ("headwinds").
    - Uncertainty about federal policy and budget changes and their impacts
    - Rising unemployment
    - Consumer spending shifted towards non-taxable services and away from gasoline
    - High and rising housing costs
    - High and rising insurance premiums
    - High and rising grocery prices
    - High and rising health care and education costs
    - Higher temperatures and energy consumption (including energy for training and deploying artificial intelligence)
    - High and rising energy prices
- What are the effects of the tariffs on Capital Improvement Projects (CIP). Do we have any estimated impact in percentage in that area?
  - Response: The impact of tariffs on Capital Improvement Projects are as follows:
    - Increased Pricing Volatility: The start of 2025 saw increased pricing volatility and reduced predictability due to changing tariffs and

international trade policies. These shifts are significantly influencing material costs, supply chain timelines, and overall project budgets.

- **Impact on Trade:** One of the most influential factors behind rising construction costs in 2025 is the evolving trade landscape. Recent trade actions have expanded in scope, affecting a wide array of building materials.
- **Lumber Prices:** Softwood lumber, a key material for residential and light commercial construction, remains one of the most visibly impacted commodities. Ongoing tariff adjustments are contributing to elevated lumber prices and supply variability, leading to tighter margins and reduced cost certainty for builders and developers.
- **Figure 1 below, from CSW|ST2 illustrates the California Construction Cost Index from 2008 through 2025.** The chart shows that during the great recession from 2008 through 2009, the index decreased reflecting the lower inflation. During Covid-19, inflation rose and also the index. However, it is uncertain how the tariffs will affect the prices, since there are multiple factors that can affect the cost index, recession could decrease prices while tariffs will increase prices.

Figure 2: California Construction Cost Index, 2008 - 2025

## MARKET UPDATE: CONSTRUCTION



- When and how best should City Councilmembers provide any projects that the City Council wants to prioritize? Is it on or before June 3<sup>rd</sup>? Are we going to give a list? If we all have 20, are we going to have a conversation on all of them?

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- Response: FY 2025-26 Proposed Operating and Capital Projects' budget will be discussed on June 3, 2025, during a City Council study session. The City Council can recommend and discuss projects and programs during the session.
- What are the impacts on Section 8 vouchers from the federal policy changes? How much money do we think we need to set aside to assist the individuals that might be affected by it?
  - Response: The Housing Authority of Contra Costa County (HACCC) currently administers the Section 8 Housing Choice Voucher (HCV) Program for the City of Richmond and the unincorporated areas of the County. The Richmond Housing Authority (RHA) transferred the Section 8 HCV Program to Contra Costa County as of June 30, 2019.

With the recent federal policy changes, the City of Richmond Staff has proactively reached out to HACCC to determine the potential budget cuts. We are also inquiring about the policies and practices they are implementing to minimize the impact on current voucher holders who are under contract, including the suspension of new voucher issuance.

There may be risks to new developments in the pipeline, such as Nevin, Richmond Village, and Nystrom. Staff will continue to monitor the situation and provide updates as more information becomes available.

- Why does the Refinery Property Tax show between 0 percent – 4 percent change on some years? How is it fluctuating so much, what makes it so?
  - Response: The Refinery valuation is based on a myriad of factors including the price of gas and volume produced. Contra Costa County does not share the actual calculation nor the expected valuation for the following year. Looking back at the previous ten years, the average yearly valuation change is 2.5 percent; however, within that time frame there have been significant increases and decreases. Without knowing the County Assessor's methodology, it is prudent to leave the forecast of the Refinery valuation change at zero. For FY 2025-26, current Secured Property Taxes, the Refinery is valued at \$3.3 billion. The City will not know the actual amount until the first week in July 2025.

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Figure 3: Historical Assessed Valuation

Fiscal Year	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Assessed Valuation (AV) Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Refinery AV in millions	3,053	3,176	2,982	3,321	3,035	3,020	2,631	2,843	3,162	3,343	TBD
% AV Change	12.8%	4.0%	-6.1%	11.4%	-8.6%	-0.5%	-12.9%	8.0%	11.2%	5.7%	TBD

- What do the Asset Capital Outlay numbers pertain to?
  - Response: Asset Capital Outlay numbers include new vehicle purchases, computer hardware and software purchases, IT equipment, mobile data computer, parks improvement, furniture and equipment purchases.

**Councilmember Bana:**

- What is included in the “Other Revenue” category and what is the driver behind the significant increase compared to last year? Why is it so much higher and the actuals are lower?
  - Response: The Other Revenue Category includes the \$50 million. The variance is greater compared to the previous year’s budget because FY 2025-26 includes the first \$50 million installment from the 10-year agreement.
- How does the appropriations limit, often referred to as the “Gann Limit”<sup>1</sup> affect us?
  - Response: The Gann Limit, established by California Proposition 4 in 1979, aims to keep state and local government spending, including school spending, capped at 1978-79 levels, adjusted for changes in population and inflation. The primary purpose of the Gann Limit is to ensure that government spending does not exceed a certain threshold, thereby maintaining fiscal responsibility and preventing excessive government expenditure.

Per the City Council Resolution No. 56-24 current Appropriations Limit (Gann Limit) is \$521 million and the proposed FY 2025-26 General Fund Budget is \$257 million which is well below the limit. The City will revise the Gann limit in June 2025.

<sup>1</sup> California Constitution Article XIII B and Government Code (GC) section 7900 et seq.

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- What is the worst-case scenario of an economic slowdown?
  - Response: On June 17, 2025, City staff will present an updated Five-Year Financial Forecast with three scenarios: Pessimistic, Middle of the Road, and Optimistic.
- Utilize bar charts to compare year-to-year changes in the budget documents and presentations.
  - Response: The comment is noted, and City staff will continue to explore options to incorporate other effective data visualization tools. The exploration of other data visualization tools will further enhance the clarity and comprehensibility of the budget analysis.

**Councilmember Jimenez:**

- What are the revenue assumptions for Measure U? Does it include the actual amount for Chevron?
  - Response: The Business License Tax (Measure U) forecast is based on actual payments made by businesses operating in or located in Richmond. City staff reviewed the actual tax payments collected through March 2025. For businesses that had not yet paid their 2025 tax, the 2024 payment amounts were provided as a placeholder. Adjustments were then made to reflect any changes in the Ordinance, such as the addition of a new tax category for auto dealerships. After determining the base revenue, City staff applied a conservative 2 percent growth factor to project future revenue.

Yes, the budgeted amount includes an estimate for the business tax to be paid by Chevron under the gross receipts business tax calculation. A legislative subpoena was issued to Chevron on May 29, 2025 by the City Attorney's Office.

- The position vacancy rate is increasing from 6 percent to 11 percent. What is the methodology behind that increase?
  - Response: The position vacancy rate is based on the following factors:
    - The total approved position control is 800 full-time equivalent (FTE) positions, with approximately 17 percent currently vacant (135 FTEs). In FY 2024-25, 55 positions were added to position control. Thus, the higher vacancy rate.
    - The City faces challenges in filling public safety positions, making it unlikely that all vacancies will be filled by July 1, 2025. As of April

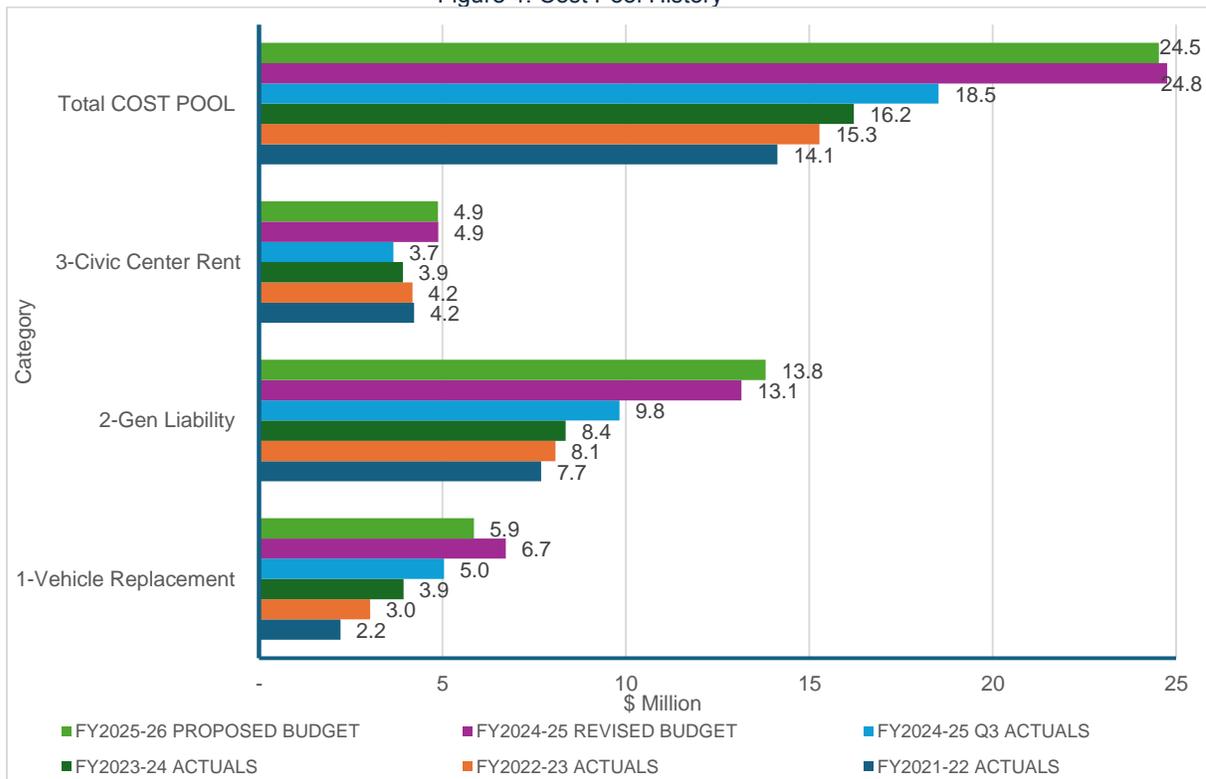
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30, 2025 there are 23 vacant sworn positions in the Police Department.

- The City remains under the state audit and must exercise prudent judgement in filling these vacancies.
- Considering the aforementioned factors and current economic conditions, City staff have determined that an 11 percent vacancy rate is appropriate for the FY 2025-26 budget. This enables a balanced sustainable budget without term funding.

- The cost pool budget is \$24M, but last year actual was only \$12M. Show year-over-year changes and provide more detail. What were the things we were going to buy or do, but didn't do?
  - Response: City staff is unable to verify the \$12 million mentioned in the Councilmember's reference to the expenditure. The FY 2024-25 cost pool budget is \$24.8M, and the FY 2025-26 proposed cost pool is \$24.5M. Figure 4 below shows the year-over-year actual and budget comparison since FY 2021-22.

Figure 4: Cost Pool History



- Include percentages and dollar amount of changes for revenue and expenses in revenue and expenditures assumptions.

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- Response: The comment is noted. City staff used a bar chart in Figure 4 and will continue to explore options to incorporate other effective data visualization tools.

**Councilmember Wilson:**

- Provide more clarity on the position listing and the assumed vacancy rate. If vacancy rate is planned, why do we still have 800 positions in the budget? Why don't we just budget for what we anticipate having as staff for next year?
  - Response: The position vacancies are based on the following factors:
    - Adjusting position control is a good idea and staff welcomes the opportunity to do so.
    - The total approved position control is 800 full-time equivalent (FTE) positions, of which 55 were added in FY 2023-24, with approximately 17 percent currently vacant. The City faces challenges in filling public safety positions, making it unlikely that all vacancies will be filled by July 1, 2025.
    - The City remains under State Audit and must exercise prudent judgement in filling these vacancies and account for MOU negotiations, Capital Improvement Projects, etc.
- Unable to understand the 10-year forecast capital projects. There needs to be more context.
  - Response: The City staff prepared a draft list of the potential capital projects for the next 10 years that also aligned with the Capital Improvement Projects (CIP) by the programmatic approach. The procurement process for a formal facility needs assessment study is currently underway. City staff can provide additional context and details during the June 3, 2025 City Council meeting.
- How does the annual budget and the 5-year Capital Improvement Projects intersect?
  - Response: The 5-year Capital Improvement Plan (CIP) outlines the funding plan for approved projects that span the next 5 years. The annual budget allocates funds for the first year of the 5-Year CIP.

**Mayor Martinez:**

- All the revenue assumptions should reflect percentages, along with the actual numbers changed from the previous year.
  - Response: The comment is noted, and City staff will incorporate this recommendation into future reports and presentations.

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- Additional context for the multi-year Capital Improvement Projects forecast to help with decisions on ongoing financial impacts of investing in these projects.
  - Response: City staff prepared a draft list of the potential capital projects for the next 10 years that also aligned with the Capital Improvement Projects by the programmatic approach. The procurement process for a formal facility needs assessment study is currently underway. City Council will receive a CIP presentation as part of the June 3 budget session.

**Vice Mayor Zepeda:**

- Why are the firefighter positions reduced from 39 to 31 in the proposed draft budget?
  - Response: Eight (8) temporary positions were created for the Fire Academy process. Upon the conclusion of the academy, the graduating trainees have been assigned to the existing vacant Firefighter positions.

**Mayor Martinez:**

- In the Position Control it is good to have the preferred number of staff. However, what is the realistic number of staff/positions that the City should have?
  - Response: As of April 30, 2025, there are total 800 budgeted positions with 665 filled and 135 vacant. City staff will continue to monitor the economic indicators and the City's revenues and expenditures and exercise strategic hiring to maintain City services without interruption. Fifty-five (55) positions were added in FY 2023-24.

**Councilmember Jimenez:**

- Provide vacancies by department. Code Enforcement has 6 vacancies. What is the hiring process going to be? Are we doing the soft holds?
  - Response: These positions are cost recovery and being filled by Human Resources and Community Development departments. Figure 5 below lists vacancies by department as of April 30, 2025. Staff will continue to monitor the economic indicators and the City's revenues and expenditures and exercise strategic hiring to maintain City services.

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Figure 5: Vacancy by Department as of April 30, 2025

<b>Department</b>	<b>Count of Position</b>
CITY ATTORNEY	3
CITY MANAGER	3
COMMUNITY SERVICES	
COMMUNITY CRISIS RESPONSE	9
EMPLOYMENT AND TRAINING	11
LIBRARY	3
OFFICE OF NEIGHBORHOOD SAFETY	1
RECREATION	8
DEPARTMENT OF CHILDREN & YOUTH	1
ECONOMIC DEVELOPMENT	3
FIRE	5
INTERNAL SERVICES	
FINANCE	4
HUMAN RESOURCES	3
INFORMATION TECHNOLOGY	2
MAYOR	1
PLANNING & BUILDING REGULATION	12
POLICE	39
PUBLIC WORKS DEPARTMENT	23
RENT PROGRAM	1
TRANSPORTATION	1
WATER RESOURCE RECOVERY	2
<b>Grand Total</b>	<b>135</b>