



SOLANO COUNTY CIVIL GRAND JURY

2024-2025

City of Benicia Budget Deficit

July 1, 2025

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Solano County Civil Grand Jury 2024-2025

I. SUMMARY

The 2024-25 Solano County Civil Grand Jury (Jury) chose to investigate the City of Benicia budget deficit that has been a widespread topic of discussion in Solano County over the last several years. A major cause of the Benicia deficit has been the lack of expected property tax growth. The negative gap between income and expenses has been building over a large number of years, but was partly masked by the former use of reserves, which now are no longer sufficient. City administrators currently are taking serious and conscientious steps to resolve this problem.

II. INTRODUCTION

The City of Benicia is the fifth-largest city by population (26,033 – see Table A) within the seven-city County of Solano. However, its median income of \$125k per household (See Table B) ranks it first in the County for household income. Concerns were raised to the Jury concerning an annual shortfall of approximately \$6.5m in the city's budget. The shortfall was alleged to be a result of mismanagement and lack of financial controls. After the Jury's review of related information, it appears that Benicia has and continues to experience what city leaders call a structural deficit in their budget. They have addressed some problems by various means but the deficit issue continues to exist.

IV. STATEMENT OF FACTS

Benicia's budget was based on the expectation 20 years ago that: new housing would continue to expand, continuous sales of existing homes would generate real estate transaction fees, and property taxes would continue to increase, limited by Proposition 13 requirements. That model has not held true over time, because:

- a) Most existing Benicia residences are old homes and virtually no new homes are being built. A ceiling has been reached on land available for building.
- b) There is insufficient turnover on properties. Benicia has an older population who are mostly not buying or selling their houses, so very few real estate transaction fees are generated.
- c) Benicia's home values are the highest of the cities in Solano County (See Table C). However, the Proposition 13 property tax freeze covers the majority of Benicia's current homes. This allows only a maximum 2% annual increase for assessed value existing in 1975.

Benicia has attempted to reduce its budget deficit. The City Manager's Transmittal Letter (distributing the budget) dated June 20, 2023, states:

The vacancy factor is a reduction of total salaries and benefit expenses by the forecasted staffing vacancy rate. The prior years the City has relied on salary savings generated from vacant positions to offset expenditures of services,

supplies, and equipment, that exceeded budget in those categories. When salary savings were not used to offset current year expenditures, the resulting surplus was accumulated as undesignated fund balance and offset budget deficits in future years. The continual use of this practice has cloaked the structural deficit and created less transparency of the true operational budget needs of the City.

This structural deficit was reported to the City Council, and subsequently published by the media, indicating the City's revenue was inadequate to meet current expenses by approximately \$6.5 million yearly.

According to a City of Benicia press release issued Monday, March 18, 2024: "the city adopted a budget with short-term and unsustainable cost saving measures, such as reducing contributions to the worker's compensation fund, suspension of vehicle replacement and equipment replacement fund contributions, among other cuts to essential city operations." See this entire press release in Appendix 2.

The Jury found that prior Finance Directors periodically completed financial forecasts, with either five-year or ten-year parameters; however, there was no consistency in how those forecasts were developed. The City now uses forecasting software (which provides insights into future events by analyzing past and present data) to standardize the process. The forecasting software is separate from the enterprise resource planning (ERP) software (a centralized system that integrates and automates core business processes) used for financial accounting. The City uses Tyler Munis® as its ERP and financial accounting software. The forecasting software is configured to match the chart of accounts in Tyler Munis®.

Revenue projections were updated with the completion of each financial forecast and the forecasts consistently resulted in the same conclusion over a twenty-year period, identifying a deficit in the outer years of the forecast. The deficit was projected in earlier years of the forecast and a review of past forecasts and budget results identified a structural deficit that had continued for many years. However, that situation was not evident due to the use of reserves and one-time funds to balance the budget without addressing future year needs.

Tyler Munis® was implemented between 2018 and 2020, and historical information is available from 2018 forward. Not all functions of the software were implemented and a reimplementation effort began in 2022.

Beginning early in 2023 the City initiated a public information campaign regarding the budget challenges. A chart outlining 2023 publicity measures is included as Appendix 1, including details within Phase 11 (eleven).

A major consideration underlying the City's financial issues is that about 40% of the properties are limited by the Proposition 13-assessed levels as they were in 1975*. New valuations are

* Once Proposition 13 passed, property assessments for the 1978-79 fiscal year were required to be "rolled back" to 1975-76 values, establishing the first base year values in California. Properties that have not sold or undergone new construction since February 1975 are said to have a 1975 base year value.

(<https://www.sccassessor.org/faq/understanding-proposition-13>)

made only when property changes hands. There is a 2% annual tax increase limit for all properties. The city is nearly fully built-out; very little property is still available for construction. There are big box stores in larger communities nearby, but not in Benicia. The businesses in Benicia are mainly small, local ones and do not generate the same level of revenue. The tax base is aging and the original assumptions for projections (ever increasing property development, increasing taxes) are no longer accurate.

City personnel are addressing the shortfall issue now, which has led to positive actions. Some actions are as follows:

Measure A, Transient Occupancy tax (hotel fee), was passed in March 5, 2024 increasing this tax by 4%, from 9% to 13%. It is a general tax, not a special tax, and is not legally restricted to any specific purpose. Expected revenue is approximately \$250,000 annually.

Measure B passed in the same election. It was a three-quarter-cent ($3/4$ ¢) sales tax to improve public safety and essential services. Estimated annual revenue increase from this tax is \$5.4 million. Returns from these taxes will take at least a year to realize.

Measure F to fund critical road infrastructure passed in November 2024. It is a one-half-cent ($1/2$ ¢) sales tax on retail purchases, effective April 1, 2025. It is exclusively for repairing streets, potholes and sidewalks, and is expected to generate approximately \$4M annually.

It will take some time for revenue from these three measures to be collected fully and available. While awaiting the increased revenue from these measures, the City is taking other steps. Among them are allowing some open positions to remain unfilled, eliminating some positions altogether, eliminating or reducing some public recreational and library services, and increasing outreach to citizens. In co-operation with community groups, the City generated the Benicia Resiliency Plan (<https://engagebenicia.com/en/folders/bridgetoproprosperity>), dated March 5, 2024. This Plan outlines how they will implement the various changes and improvements, including time projections.

According to a City of Benicia press release issued Monday, March 18, 2024: “the city adopted a budget with short-term and unsustainable cost saving measures, such as reducing contributions to the worker’s compensation fund, suspension of vehicle replacement and equipment replacement fund contributions, among other cuts to essential city operations.” See this entire press release in Appendix 2 “Press Release: City of Benicia Controls Spending, Cuts Use of Reserves by Half” dated March 18, 2024 (<https://www.ci.benicia.ca.us/index.asp?SEC=168344BF-D432-4104-A49E-CCC4A509780B&DE=81435EE2-A1D4-4F06-8835-133DF238839A>).

IV. FINDINGS AND RECOMMENDATIONS

FINDING 1 –

Benicia's real-estate-based revenue projection model has not held true over time and has resulted in expenses exceeding revenue for many years.

RECOMMENDATION 1 –

The Benicia City Council prioritize and mandate the creation of specific plans for construction of mixed-use buildings on undeveloped land beginning in the next fiscal year. An expected requirement to include affordable homes in any new development could reduce the maximum possible revenue, but it still would increase the tax base.

FINDING 2 –

Benicia needs to increase revenue from sources other than sales tax. Benicia's sales tax is already the highest of any city in Solano County and thus is an unlikely source for additional income. (See Table D.)

RECOMMENDATION 2 –

Benicia City Council explore and implement, during the next fiscal year, other means to increase revenue, such as:

- a) Increase marketing of Benicia as a tourism destination by adding more festivals, faires and other events.
- b) Pursue methods to attract big box stores or other sales tax revenue generating companies to the City.
- c) Consider installing metered parking as a revenue source.

FINDING 3 –

Benicia already has reduced some services and staffing levels but this has not solved the problem.

RECOMMENDATION 3 –

Benicia City Council direct City departments to take measures within the next fiscal year to reduce expenditures as follows:

- a) City financial administration perform a cost/benefit analysis on services to recommend to City Council could be reduced or eliminated (e.g., parks and recreational services, library hours, or extending public works maintenance schedules).
- b) City administrators review staffing models to find areas to cut or to outsource.
- c) City Council direct appropriate agencies to reduce expenses by deferring and/or reducing raises and consider other means of compensation.

FINDING 4 –

Benicia did not project enough funds for budgeted activities into the future, such as creating a five-year plan.

RECOMMENDATION 4 –

City administrators continue with plans to prepare budget projections at least five years into the future and submit timely reports, including projections, to the City Council.

V. COMMENTS

The voters of Benicia recently approved three tax measures (Measures A, B, and F.) Revenues from these Measures will start in 2025. The Jury commends Benicia for recently implementing a temporary suspension of annual business license fees, which is projected to encourage local business openings and renewals, and stimulate the volume of business revenue.

Outdated financial software was alleged to cause inadequate reporting. However, interviews with city staff indicated that neither software issues nor timely financial reporting were significant causes of the deficit. It was claimed that a required final quarterly report for 2022-23 was not given to the City Council. However, interviewees indicated that data for the fourth quarter of that fiscal year was included in the annual audit, the External Audit Report (City of Benicia Annual Comprehensive Financial Report) for 2023

(https://www.ci.benicia.ca.us/vertical/sites/%7BF991A639-AAED-4E1A-9735-86EA195E2C8D%7D/uploads/Benicia_2023_ACFR.pdf) and met that requirement.

During the Jury’s investigation, Valero Refinery announced intentions to alter the nature of their operations in Benicia. No further information is available at this time to permit economic analysis or revenue projection.

VI. METHODOLOGY

- Interviews with City of Benicia officials
- 2023-2025 Biennial Budget – Finance – Benicia, California
(<https://www.ci.benicia.ca.us/index.asp?SEC=801B53CB-FFE2-4AC7-AD22-6B3E43FF3011&DE=3CB5C5D5-3873-4CE7-8B94-1B480190E512>).
- 2024 Benicia Resiliency Plan (<https://engagebenicia.com/en/folders/bridgetoprosperty>)
- External Audit Report (City of Benicia Annual Comprehensive Financial Report) for 2023 (https://www.ci.benicia.ca.us/vertical/sites/%7BF991A639-AAED-4E1A-9735-86EA195E2C8D%7D/uploads/Benicia_2023_ACFR.pdf).
- Office of the Assessor, County of Santa Clara: “Understanding Proposition 13” (<https://www.sccassessor.org/faq/understanding-proposition-13>)
- City Manager’s Transmittal Letter, June 20, 2023
(<https://stories.opengov.com/beniciaca/published/GZ8nr1c22>)
- Press Release, March 6, 2024: “Benicia Measures A and B Passed by Voters”
(<https://www.ci.benicia.ca.us/index.asp?SEC=168344BF-D432-4104-A49E-CCC4A509780B&DE=943C04C7-CF44-4C81-A0E8-AF7C98E79847>)
- Press Release, November 13, 2024: Voters Approve Measure F to Fund Benicia Roads
(<https://www.ci.benicia.ca.us/index.asp?SEC=168344BF-D432-4104-A49E-CCC4A509780B&DE=C1A84085-49D1-4012-A2B8-D482283FB126>)

VII. REQUIRED RESPONSE

Benicia City Council

VII. COURTESY COPIES

City of Benicia City Manager

City of Benicia Finance Director

**TABLE A: SOLANO COUNTY
POPULATION. BY CITY**

County of Solano, FY 2024/25
Recommended Budget, Section C-2,
Solano County Statistical Profile

AREA	POPULATION
Solano County	446,426
Benicia	26,033
Dixon	19,403
Fairfield	120,339
Rio Vista	10,004
Suisun City	28,840
Vacaville	102,173
Vallejo	121,558

<https://www.solanocounty.com/civicax/filebank/blobdload.aspx?BlobID=43019>

**TABLE C: SOLANO COUNTY CITIES’
MEDIAN HOME VALUES**

County of Solano, FY 2024/25
Recommended Budget, Section C-1,
Solano County Statistical Profile

CITY	VALUE
Benicia	\$798,000
Dixon	\$642,600
Fairfield	\$629,000
Rio Vista	\$487,900
Suisun City	\$546,000
Vacaville	\$634,500
Vallejo	\$542,500

Source: The California Association of
REALTORS®

<https://www.solanocounty.com/civicax/filebank/blobdload.aspx?BlobID=43019>

**TABLE B: SOLANO COUNTY MEDIAN
INCOME 2024**

Data Commons: Ranking by Median
Household Income, All Cities in Solano
County

AREA	INCOME
Solano County	\$99,994
Benicia	\$125,040
Dixon	\$98,798
Fairfield	\$102,321
Rio Vista	\$86,970
Suisun City	\$97,083
Vacaville	\$108,580
Vallejo	\$89,496

(<https://datacommons.org/ranking/MedianIncomeHousehold/City/geoId/06095?h=geoId%2F0600996&unit=%24>)

**TABLE D: SOLANO COUNTY CITIES’
SALES AND USE TAX RATES**

Operative April 1, 2025 (includes state,
county, local, and district taxes)

AREA	RATE
Solano County	7.375%
Benicia	9.625%
Dixon	8.375%
Fairfield	8.375%
Rio Vista	9.125%
Suisun City	9.125%
Vacaville	8.125%
Vallejo	9.25%

Source: Sales and Use Tax Rates,
California Department of Tax and Fee
Administration (CDTFA-95 (S2) REV. 34
(4-25) SALES AND USE TAX RATES)

APPENDIX 1

<https://engagebenicia.com/en/projects/budgetchallenges/11>

Budget Challenges

In early 2023, the City of Benicia announced a structural budget deficit of \$6.5-\$9 million. To provide the highest level of transparency and information to the public, the City started an information campaign on the budget challenges ahead. This process led to the implementation of the Resiliency Plan.

Phases

1	2	3	4	5	6	7	8	9	10	11
✓ Messages from the City Manager	✓ City Manager Announces...	✓ User Fee Study and Proposed...	✓ City Council Goal Setting...	✓ Benicia Budget Builder...	✓ Proposed Budget Review	✓ 2023-2025 Budget Adoption	✓ Presentations to City Boar...	✓ Virtual Budget Information...	✓ Budget Information Presentation...	✓ Declaration of Fiscal Emergency

For example, the details expanded under **Phase 11** are:

11: Declaration of Fiscal Emergency

December 1, 2023

[Press Release: City of Benicia Takes First Step in Placing Revenue Measures on March Ballot, Declares Fiscal Emergency](#)

Facing a multi-million dollar structural deficit, the City of Benicia took the first step in placing revenue measures on the March 5, 2024 election ballot by declaring a fiscal emergency at the November 7, 2023, City Council meeting. The declaration of fiscal emergency is required by law to place a revenue measure on a ballot that is not a regularly scheduled general election for members of the City Council.

To solve its structural budget deficit, the City of Benicia is undertaking the development of a Resiliency Plan, which will align the programs and services the city offers to its strategic goals and provide Benicia with solid and stable, long-term financial footing.

“Many cities struggle with financial challenges but fail to move with sufficient speed and focus to address issues before it’s too late. In Benicia, our City Council is taking the necessary action to secure our future. We want to protect those things that make Benicia a safe and vibrant community,” said Mario Giuliani, Benicia City Manager. “That means facing our problems head-on and being open and transparent by involving our community in the process.”

Already tightening its belt, the city recently combined the Parks and Building Maintenance Divisions with the Public Works Department, eliminating seven positions and saving taxpayers approximately one million dollars annually. Benicia still has a multimillion-dollar structural deficit and insufficient reserves to absorb the shortfall.

Revenues from any local tax measures would be used to protect public safety and essential city services, including maintaining police patrols, protecting 911 emergency response times, maintaining local parks and library services, and protecting vital city programs.

Potential local tax measures would be designed with taxpayer accountability measures, including independent citizen oversight and annual audits to ensure funds are used as promised.

The sales tax and hotel tax measures, presented for voter consideration on the March 5, 2024 ballot, may generate sufficient revenue to stabilize the city's fiscal condition, but would not provide additional revenue to address all future liabilities.

Residents will have many opportunities to participate in building the Pathway to Resiliency in mid-January. For more information on the city's strategic planning process, visit www.ci.benicia.ca.us/strategicplan.

For more information on the city's budget challenges, visit www.ci.benicia.ca.us/budgetchallenge.

APPENDIX 2

Press Release: City of Benicia Controls Spending, Cuts Use of Reserves by Half

Monday, March 18, 2024 at 1:05 PM

City of Benicia Controls Spending, Cuts Use of Reserves by Half

The City of Benicia is projected to save nearly \$1.9 million by reducing planned expenses in fiscal year July 1, 2023 to June 30, 2024. The reduction in expenses reduces the city's spending of reserve funds but does not balance the ongoing budget deficit.

In early 2023, the City of Benicia identified a structural budget deficit of nearly 10 percent of the city's budget, approximately \$6.5 million, as a result of expenses continuing to outpace revenues for many years. In order to adopt a balanced 2023-2024 budget, staff expected and budgeted to use \$3.9 million from the city's reserves to address the gap between expenses and revenues.

On March 19, 2024, finance staff will be presenting the 2023-2024 mid-year budget report which includes an update on forecasted revenues and expenses, highlighting that only \$1.9 million will be required to be used from city reserves to balance the fiscal year budget. However, to achieve this reduction in spending, the city adopted a budget with short-term and unsustainable cost saving measures, such as reducing contributions to the worker's compensation fund, suspension of vehicle replacement and equipment replacement fund contributions, among other cuts to essential city operations. During the first half of the fiscal year additional savings were created by not filling selected vacant positions and judiciously administering operating budgets.

"City staff worked hard to reduce expenses," said Benicia City Manager Mario Giuliani. "However, as expenses are continuing to outpace revenues, this was not enough to address Benicia's ongoing deficit, which is why a sales tax and transient occupancy tax increase was passed by voters to protect the city's current services."

The increase in transient occupancy tax and sales tax was passed by voters on the March 5, 2024, election with a combined annual revenue increase of approximately \$5.6 million. The city will begin to receive this revenue in fall 2024.