

# The 2025 – 2026 Contra Costa County Civil Grand Jury

## Pinole's Financial Future: It's a Rough Road

Report 2604  
May 8, 2026

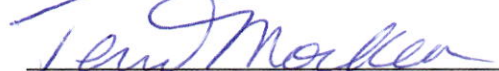
Approved by the Grand Jury



Brenda Balingit  
GRAND JURY FOREPERSON

5/14/26  
Date

Accepted for Filing



Hon. Terri Mockler  
JUDGE OF THE SUPERIOR COURT

5/21/26  
Date



## SUMMARY

The City of Pinole faces a growing and potentially severe financial crisis driven by structural budget imbalances, rising long-term liabilities, and substantial unfunded infrastructure needs. For multiple years, Pinole has not aligned ongoing expenditures with ongoing revenues. Instead, it has relied on one-time funds and reserve withdrawals to offset annual operating deficits. This approach is contrary to Pinole’s published financial policies and is unsustainable.

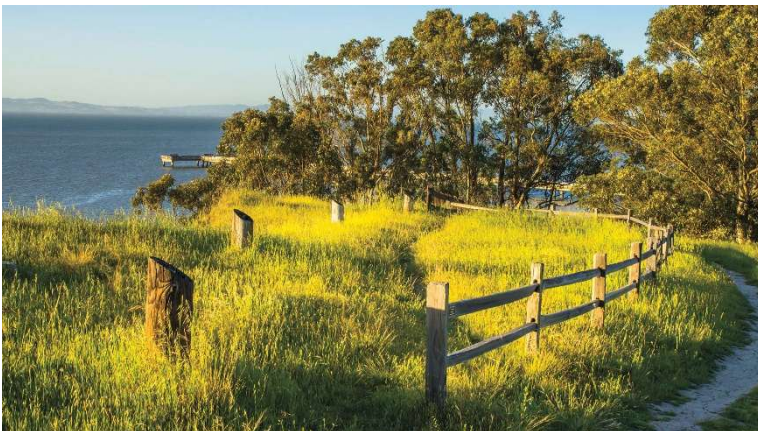
In February 2026, the Pinole City Council (Council) reviewed a “Preliminary General Fund Long-Term Financial Forecast” prepared by Pinole staff that projected annual operating fund deficits starting at \$700,000 in Fiscal Year 2026/27. These deficits are projected to grow to \$5.6 million in Fiscal Year 2030/31 when Pinole’s pension and retiree healthcare trust funds are projected to be exhausted. Financial forecasts prepared by outside experts are consistent with Pinole’s projections.

At the same time, Pinole faces mounting long-term financial obligations that will place additional strain on its General Fund. Pinole’s unfunded pension liability has grown to approximately \$45 million, and its unfunded retiree healthcare liability is approximately \$35 million. Pinole also has road rehabilitation and other deteriorating infrastructure that will cost an estimated additional \$60 million to eventually repair or replace.

The Grand Jury assessed Pinole’s overall financial condition using publicly reported financial data, including audited Annual Comprehensive Financial Reports. These data demonstrate pressure on General Fund reserves resulting from persistent structural budget imbalances and growing liabilities for pensions and retiree healthcare. A fiscal dashboard developed by the California Policy Center applies standardized metrics to the same data and classifies Pinole as financially distressed.

Pinole’s current financial trajectory poses serious risks to its long-term fiscal stability and its ability to maintain essential public services. Choices made by Pinole’s leadership in the next few years will be consequential for the financial and operational health of Pinole.

## BACKGROUND



Situated on San Pablo Bay in west Contra Costa County, Pinole is an attractive suburban community. Among the smallest in population (approximately 19,500) of the County’s 19 cities, Pinole offers a variety of housing options. The choices include single-family homes, condominiums, townhouses, and apartment buildings. Several of the apartment buildings are specifically

designated as affordable housing. Visitors to Pinole see a vibrant downtown business district comprising many locally owned small businesses. Pinole has several thriving commercial areas adjacent to the Interstate 80 freeway as well as more than a dozen well-maintained city parks.

Pinole is governed by a five-person Council whose members are elected at large and serve four-year overlapping terms. Currently, the mayor is not an independently elected position, as the mayorship rotates among the Council members. The Council holds its public meetings two times per month. The proceedings are live-streamed and broadcast by a city-owned television station, and the recordings are stored electronically and available to the public. A City Manager, supported by staff, is responsible for Pinole's day-to-day operations. The Council hires the City Manager, who serves at the will of the Council. Pinole has faced and continues to face fiscal challenges, like many cities in California and the Bay Area. These challenges are the subject of this Grand Jury report.

## METHODOLOGY

The Grand Jury referred to these sources to conduct its investigation:

- Interviews with subject matter experts on the issues addressed in this report
- Financial documents from Pinole, including actual and projected budgets and policies
- Financial regulatory filings (the Annual Comprehensive Financial Report) from Pinole and accompanying Report on the Audit of Financial Statements
- Comparative analysis of Pinole's financial results relative to similar cities
- Review of meetings of the Council posted online, including agendas and minutes
- A report from Baker Tilly Consultants, "Strategic Financial Planning," dated April 2024

## DISCUSSION

### Definition of Terms Used in this Report

Municipal financial statements use standardized accounting terms to describe financial actions and results. In this report, the following terms are used:

- **Annual Comprehensive Financial Reports (ACFRs):** A detailed set of audited financial statements published annually by local governments, as required by the state controller's office.
- **Capital Improvement Budgets:** The capital improvement budget consists of the budgeted costs for capital projects, which are a set of activities that maintain or improve city assets, often referred to as infrastructure, such as buildings and roads. These activities can be new construction, expansion, renovation, or replacement of existing infrastructure. Project costs can include the cost of land, engineering, architectural planning, and contractual services required to complete the project.
- **General Fund:** Pinole defines it as:

*The primary fund of the City used to account for all revenues and expenditures of the City not legally restricted as to use. This fund is used to offset the cost of the City's general operations. Examples of departments financed by the General Fund include the City Council, Police and others.*

- **Structurally Balanced Budget:** A budget in which recurring expenditures are funded entirely by recurring revenues, without reliance on one-time sources, such as asset sales or reserve drawdowns.
- **Pinole Sales Tax:** 10.25% total tax as of May 2026, comprising:
  - 7.25% California state tax
  - 1.5% Pinole sales tax from:
    - 0.5% 2006 Measure S
    - 0.5% 2014 Measure S
    - 0.5% 2024 Measure I
  - 1.5% Transportation related (BART and MTC)
- **Unfunded Pension Liability:** When the present value of all retirement benefits promised to current and former employees and retirees exceeds the assets currently held in the pension fund to pay those benefits, there is an unfunded pension liability. The California Public Employees' Retirement System (CalPERS) administers Pinole's pension benefits and requires annual contributions from Pinole. An unfunded pension liability may increase required annual contributions.
- **Other Post-Employment Benefits (OPEB):** Retiree health benefits administered and funded directly by Pinole.
- **Section 115 Trust:** A trust account authorized by the Internal Revenue Code. It is used by municipalities, school districts, and government agencies to set aside funds for future liabilities related to retiree benefits.
- **Unrestricted Net Position: Governmental Activities:** Net position measures the balance of an entity's overall financial resources and obligations, a proxy for net worth. Unrestricted net position for governmental entities is a subset of overall net position representing the portion of city resources that are not restricted and available for operations and long-term obligations like its pension and retiree healthcare obligations.

## **CHRONIC FINANCIAL ISSUES**

Municipal budgets throughout California have been impacted by historical legislation, such as:

- Proposition 13, enacted in 1978, limited property taxes, which are a significant portion of most municipal revenue.
- Proposition 218, passed in November 1996, reformed local government finance by requiring voter approval for new or increased taxes, assessments, and certain fees.

- Proposition 26, passed in 2010, increased voting requirements from a simple majority to a two-thirds super-majority for certain new taxes and fees.

Combined, these legislative actions reduced municipalities’ ability to raise revenue while expenditures continued to increase. Furthermore, growing demand for services, rising labor costs, and other barriers to increasing revenue are being felt statewide. Pinole is not immune from these pressures.

### **Pinole’s Government Structure**

The Pinole City Council (Council) exercises legislative authority over the city. The Council's responsibilities include the adoption of the annual budget. The Council sets spending targets and priorities and it is the function of the City Manager to execute the Council’s direction. The City Manager position is currently filled by a part-time interim manager.



Pinole has established written financial policies that are incorporated into each fiscal year’s budget. The Grand Jury reviewed controlling policies as set out in the “Fiscal Year 2025/26 Operating and Capital Budget Appendix: Financial and Investment Policies,” as approved by the Council. Pinole’s “Structurally Balanced Budget Policy” directs the City to develop an annual budget that will be “structurally balanced whereby the operating budget will be prepared with current year expenditures funded with current year revenue.”

Furthermore, Pinole’s “Revenue Policy – One-Time (Non-Recurring) Resources” says the “General Fund Budget will be structurally in balance without relying on one-time resources.” In the event a budget is passed that is not structurally balanced and requires “one-time resources,” the “Structurally Balanced Budget Policy” calls for a plan to be “developed and implemented to bring the budget back into balance.”

When expenditures exceed revenues, Pinole posts an operating deficit.

### **Pinole Has a History of Financial Challenges**

Pinole posted an operating deficit in five of the eleven fiscal years between 2015 and 2026. Pinole also showed an operating budget deficit every year from 2003 to 2007. A healthy reserve position served to buffer the deficit in those years, but that reserve was fully depleted by the 2008 recession.

## Pinole’s Operating Deficits Since 2021

Pinole posted a General Fund operating deficit—before one-time fund balance transfers—for four of the five years from 2021/22 through 2025/26, as shown in Table 1 on the following page.

**Table 1. Pinole General Fund Operating Results 2021/22 to 2025/26 (in \$ Millions)**

	<b>FY2021/22 Actual</b>	<b>FY2022/23 Actual</b>	<b>FY2023/24 Actual</b>	<b>FY2024/25 Actual</b>	<b>FY2025/26 Budget</b>
<b>Revenues</b>	\$22.9	\$29.4	\$27.1	\$27.6	\$31.5
<b>Expenditures</b>	(\$25.1)	(\$27.6)	(\$31.6)	(\$29.1)	(\$32.8)
<b>Net Surplus or (Deficit)</b>	(\$2.2)	\$1.8	(\$4.5)	(\$1.5)	(\$1.3)

The surplus in Fiscal Year 2022-23 was the result of a one-time infusion of \$4.1 million from the American Rescue Plan Act, a federal government response to the COVID-19 economic impacts. The cumulative deficit for the last five years, including the current 2025/26 budget’s projection, is \$8 million.

The City Manager’s cover letter in the 2025/26 Operating and Capital Budget acknowledges:

*... the City’s prior long-term financial forecast shows that ongoing City revenues are not expected to be sufficient to cover ongoing routine City services, and existing City revenue mechanisms are not going to be sufficient to address the City’s two main unfunded liabilities, which are deferred capital maintenance and other post-employment benefits.*

### Reliance on One-Time Funding Sources

The approved 2025/26 operating budget projects a \$1.3 million deficit before special one-time adjustments:

- Total Revenues \$31.5 million
- Total Expenditures \$32.8 million
- **Net Deficit** (\$1.3) million

The Council passed the Fiscal Year 2025/26 operating budget based on a one-time reduction in General Fund Reserves, or the “rainy-day fund.” While this action generated a structurally balanced budget, it cannot be repeated every year under conditions of persistent structural deficits because the General Fund Reserves will eventually be exhausted.

Pinole’s original projections for Fiscal Year 2025/26 were revenues of \$31.7 million and expenditures of \$33.1 million with an estimated ending General Fund Reserve balance of \$4.4 million. Pinole’s staff noted in the budgeting process that Pinole lacked the capacity to fund significant ongoing expenditures beyond the budgeted amounts. The City Manager’s cover letter for Pinole’s Fiscal Year 2025/26 Operating and Capital Budget supplies further detail:

*The General Fund operating budget is balanced, meaning that ongoing expenditures are funded by ongoing revenues... Also, the budget includes the use of available unassigned fund balance for a number of one-time initiatives and capital improvement projects, which is an acceptable use of this funding source.*

The phrase “one-time initiatives” is significant because Pinole’s Financial Policies state that “the General Fund Budget will be structurally in balance without relying on one-time resources.” The Financial Policies go on to state:

*[A]ppropriate uses of one-time resources include establishing and rebuilding the General Fund Reserve, other City established reserves, or early retirement of debt, capital expenditures, reducing unfunded pension liabilities (PERS and OPEB), and other non-recurring expenditures.*

This guiding principle establishes a policy that a reduction of fund balances to provide extra revenue to balance the General Fund budget is only appropriate for large and financially strategic expenditures that do not occur on an annual basis. Such transfers are presently the only mechanism by which Pinole can create a structurally balanced budget, even though that same budget without transfers shows a \$1.3 million operating deficit.

The budget details the “other non-recurring expenditures” that required a \$1.3 million transfer of unassigned fund balances in Fiscal Year 2025/26. There are 16 items ranging from \$2,000 for advertising to \$10,000 for an executive retreat to \$350,000 for road maintenance repairs. Many of these “non-recurring expenditures” are called “Council-directed special projects” in the budget’s Executive Summary.

### **Council-Directed Special Projects**

The “other non-recurring expenditures” in the budget document do not conform to the strategic or financial planning expenditures that are envisioned by Pinole’s financial policies. Pinole’s Operating and Capital Budgets for the two prior fiscal years (2023/24 and 2024/25) used the same approach to characterize general operating deficits as “structurally balanced general fund budgets.” In both these prior years, the City Manager’s budget cover letters used the same words to note that “the budget does use one-time sources, such as fund balance, for one-time expenditures.”

Just as in the Fiscal Year 2025/26 budget, both prior year budgets referenced a list of Council-directed special projects. These special projects in all three fiscal years do not meet the substance of Pinole’s financial policies’ definition of non-recurring expenditures. The fact that Pinole has used this funding tactic in three consecutive budgets does not adhere to the city’s financial policies. Pinole has been drawing down its General Fund Reserve balances each year to fund add-on Council-directed special projects and other recurring expenditures.

The following extract is from the 2025/26 budget Executive Summary:

*City staff believes that it will be able to complete the Council-directed special projects listed above by the end of FY 2025/26 but does not have the capacity to take on*

*any additional special projects...and recommends that the City adopt a practice of not adding any special projects mid-fiscal year unless an existing special project is taken off of the list. It is a public finance best practice...to create a proposed General Fund operating budget that is structurally balanced, meaning that ongoing revenues equal or exceed ongoing expenditures.*

This information matches the wording in the budget letters from the prior two years. Each letter focuses on controlling expenditures, specifically special projects.

## **LOOKING FORWARD**

The Council's Finance Subcommittee held discussions on February 18, 2026, regarding the Fiscal Year 2026/27 Operating Budget. Pinole's finance staff presented a forecast that showed an additional \$45 million deficit over the next 10 years. Pinole staff stated that while revenues are increasing 2.7% year-over-year, expenses are increasing at a 5% rate.

City documents identify several challenges Pinole faces that will impose future costs.

- A comprehensive update of the General Plan within the next three years, a refresh or update of the 16-year-old Specific Plan, and a comprehensive Zoning Ordinance update.
  - Collectively, these efforts are expected to cost \$2-3 million and will require a multi-year funding strategy.
  - Staff will recommend annual budgeting to set aside funds to support these updates while balancing competing budget priorities.
- Replacement of the police department fleet and mobile radios over the next several years, with expected total costs of \$595,000.
- Aging infrastructure and funding limitations, especially in the areas of road rehabilitation, facilities upgrade, and procurement of needed equipment.
- Salary increases due to pending union contract negotiations are expected to increase 5%. Pension and other benefit costs are estimated to increase by 9%.
- A pension benefit trust established in 2018 to help mitigate rising pension costs is estimated to be depleted by Fiscal Year 2030/31, after which the annual General Fund deficit is expected to grow to \$5.6 million.
- A trust established to partially fund other post-employment benefits was funded with \$2.4 million realized in Fiscal Year 2024/25 by reducing Pinole's general reserves—its rainy-day fund—by half. This fund is also projected to be exhausted by Fiscal Year 2030/31.

### **The Baker Tilly “Strategic Financial Planning Report”**

Baker Tilly Management Partners (Baker Tilly) is a national consulting firm that specializes in municipal governance, including budgets, financial forecasts, and organizational structures. In late 2023, Pinole engaged Baker Tilly to assist it with strategic financial planning. The goals of the engagement were:

- Reviewing the City's financial forecast and extending it to 20 years

- Identifying gaps between current conditions and desired conditions as well as funding gaps
- Developing strategies in conjunction with City staff to close any identified gaps
- Working with staff to gather feedback from elected officials and the public on potential budget strategies
- Developing a draft and final long-term financial plan

In April 2024, Baker Tilly issued a “Strategic Financial Planning Report” (Baker Tilly Report) projecting that Pinole’s General Fund will be unbalanced over a 20-year timeframe if actions are not taken to balance ongoing revenues and ongoing expenditures.

## **PENSIONS, SECTION 115 TRUST & RETIREE HEALTHCARE**

### **Unfunded Pension Liability with CalPERS**

Pinole’s qualified permanent and probationary employees may participate in the “Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan” (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan offers an individual rate plan within a safety risk pool (police and fire) or a separate risk pool for all others. Table 2 shows the number of participants enrolled in each plan and the annual plan cost.

The approximately 500 pension participants are more than four times the number of current Pinole employees.

**Table 2. Pension Liability with CalPERS – Employee Counts and Annual Expense**

	<b>Miscellaneous Plans</b>	<b>Safety Plans</b>
<b>Active employees</b>	74	26
<b>Transferred employees</b>	97	54
<b>Retired employees and beneficiaries</b>	128	108
<b>TOTAL</b>	<b>299</b>	<b>188</b>
<b>Annual Pension Expense</b>	\$2,250,481	\$4,292,423
<b>Pension Total (Both Plans)</b>		<b>\$6,542,904*</b>

\* For the year ending 6/30/2024

### **Retirement Unfunded Liability Trend**

Details of the total net pension unfunded liability are shown in Table 3. Note the 9.5% compound annual growth rate.

**Table 3. Net Pension Unfunded Liability, 2014 – 2024 (in \$ Millions)**

Pension Type	6/30/14	6/30/19	6/30/24
<b>Total</b>	<b>\$18.5</b>	<b>\$33.9</b>	<b>\$44.7</b>
Miscellaneous	\$7.8	\$15.1	\$18.9
Safety	\$10.7	\$18.8	\$25.8

A key metric to understand pension liability is the “funding ratio,” which calculates the ability to pay future contractual retirement benefits. A funding ratio of less than 100% means there are currently not enough assets to pay future obligations. U.S. debt rating agencies such as Standard & Poor’s consider an 80% funding ratio the minimum for avoiding potential future payment difficulties. Pinole’s funding ratio over the past decade is shown in Table 4.

**Table 4. Pinole’s Pension Funding Ratios, 2014 - 2024**

Pension Type	6/30/14	6/30/19	6/30/24
Miscellaneous	61.1%	69.0%	70.3%
Safety	81.4%	74.2%	72.3%

A Section 115 Trust is used by municipalities, school districts, and government agencies to set aside funds for future liabilities related to retiree benefits. Pinole initially funded a 115 Trust with \$16.3 million in July 2018, using the one-time proceeds from the sale of a municipal property to help address its growing pension liability. Pinole spends a portion of its 115 Trust each year to meet its ongoing annual contribution to CalPERS.

Pinole projects a fund balance of \$13 million by the end of Fiscal Year 2025/26. Pinole’s finance staff and the Baker Tilly Report both estimate that the 115 Trust will be exhausted by Fiscal Year 2030/31. At that point, Pinole’s forecasts show the City will be forced to use its General Fund to pay all CalPERS-mandated contributions. This will make it even more challenging for Pinole to achieve structurally balanced budgets.

### **Pinole’s Unfunded Retiree Health Care Liability**

Pinole provides OPEB health care coverage to current and former employees with five or more years of service. Pinole is currently funding the benefits on a pay-as-you-go basis, with Fiscal Year 2025/26 payments amounting to approximately \$1.6 million.

Table 5 shows the number of active and retired employees covered by the benefit terms under the Plan as of June 30, 2023.

**Table 5. Number of Employees Covered by the Plan**

Staff Type	# Participants
Active Employees	102
Retirees	104
<b>Total</b>	<b>206</b>

Pinole’s unfunded OPEB liability was \$34.9 million as of June 30, 2024. The City has a component of the 115 Trust account set aside to offset liabilities for OPEB in the amount of \$2.4 million. This was funded by a 50% reduction of General Reserves in the current fiscal year. However, Pinole staff forecasts the trust account will be exhausted by Fiscal Year 2030/31.

## **INFRASTRUCTURE PROJECTS**

### **Pinole’s Unfunded Capital Improvements**

Pinole has lagged in making capital improvement investments that provide value to its residents. Pinole’s public roads are deteriorating due to age and lack of routine maintenance. Public buildings and amenities, such as swimming pools and municipal building roofs, lack adequate repair and maintenance. Pinole staff and the Council estimate that total capital improvement budget needs over the next 10 years amount to a minimum of \$120 million. Staff has advised the Council that the total funding requirements cannot be addressed by reliance on the annual \$32 million General Fund Operating Plan revenues.

### **Pinole’s Deteriorating Public Roads**



Pinole is working to develop a plan and identify funding for the extensive work needed to fix its roads. Possible approaches include a mix of strategic planning, temporary repairs to enhance safety, and ongoing maintenance. A “Road Rehabilitation Plan” is being developed so that construction may begin once the funding has been secured.

All publicly maintained roads in Contra Costa County are inspected every two years as part of a pavement management program through the Metropolitan Transportation Commission (MTC). Pinole estimates it has a backlog of approximately \$60 million in pavement maintenance and repair work, based on a 2024 MTC study.

After an inspection, the MTC assigns a Pavement Condition Index (PCI) score to different categories of roads. The most recent PCI score for Pinole’s roads overall was “55” (2024). It was “56” and “55” in the previous two years. A “55” score is considered “At Risk” and indicates a need for extensive rehabilitation, substantiating the \$60 million estimate.

Roads that are satisfactory or better are less costly to maintain than roads that have already become degraded. The cost for road rehabilitation increases exponentially as the PCI score declines. At a “55” PCI, roads are approaching “Unmaintainable.” By comparison, Contra Costa County roads, on average, have a “69” PCI or a “Fair” rating.

Pinole’s current financial commitment to rehabilitation is insufficient to avoid continued road deterioration. According to Pinole’s “Road Repair” website:

*Road repairs are planned to be funded through a combination of local and state sources, including \$750,000 of Measure J funds for the Pavement Rehabilitation Plan and \$350,000 of Measure S funds for maintenance and repairs in FY 25/26.*

Fiscal Year 2025/26 spending of \$1.1 million is insufficient to meet estimated overall road rehabilitation needs. Pinole’s Public Works department estimates that \$20 million is the minimum budget needed over the next five years.

## ASSESSMENT OF COMPARATIVE FINANCIAL HEALTH

### Pinole’s Comparative Overall Financial Health

The State of California publishes comprehensive financial data for all its counties and cities (and special districts). The state does not provide an analytical tool to compare assessments of the fiscal conditions of its counties and cities. The California Policy Center (CPC) is a non-profit organization that has developed a fiscal dashboard that allows for such comparisons and overall fiscal assessments. The Grand Jury recognizes that CPC is an organization engaged in policy advocacy, but its dashboard is based on publicly reported financial data and applies standardized metrics to these same data. The Grand Jury independently reviewed Pinole’s underlying financial indicators and found them to be consistent with CPC’s assessments.

CPC’s dashboard has adopted a fiscal framework developed initially by the Hoover Institution, a public policy organization headquartered at Stanford University. CPC’s model applies a standardized set of 10 financial indicators based on Annual Comprehensive Financial Report data and combines them into a composite score. This approach enables consistent comparison of fiscal condition across cities based on liquidity, operating performance, and long-term liabilities. CPC then assigns a letter grade from A to F based on the composite score of each city. These grades are each assigned a designation as low, moderate, or high risk for fiscal distress.

As shown in Table 6, Pinole’s overall financial score merited an “F” grade per CPC’s scorecard for the last three fiscal years for which data is available. In all three years, Pinole ranked in or near the bottom of all California cities whose ACFR data has been reported to the State.

**Table 6. Pinole’s Recent CPC Scores and Rankings**

Year	Pinole Fiscal Health Score Out of 100/Grade	Pinole Ranking/ Reporting CA Cities
2024	47 / F	407/410
2023	49 / F	436/442
2022	48 / F	457/460

An “F” fiscal health score is described by the CPC as having a “High Risk of Financial Distress.” Pinole’s adverse fiscal health score is largely driven by its unfunded pension and OPEB obligations and its substantially negative unrestricted net position.

For the same period (2022-2024), the 18 other cities in the County had fiscal health scores ranging from 55 to 99. See Appendix A for more details.

## **CITY LEADERSHIP - LEARNING TO LIVE WITHIN PINOLE'S MEANS**

### **Tax Fatigue**

Pinole cannot feasibly resolve the financial challenges it faces exclusively by raising existing taxes or creating new ones. Pinole residents voted in 2024 to approve Measure I, a 0.50% sales tax increase. Following Measure I and two previous 0.50% sales tax increases approved since 2006, Pinole's residents now pay a total sales tax of 10.25%, highest among Contra Costa County's 19 cities. During the Grand Jury's interviews with subject matter experts, many interviewees used the phrase "tax fatigue" when asked to describe the overall sentiment of Pinole voters. Residents have repeatedly authorized more taxes with little perceived evidence that services are improving.

At an October 14, 2025, Council Finance Workshop, various Council members expressed concern that Pinole residents would not approve additional sales or parcel tax increases. These concerns are related to having just passed Pinole Measure I and the anticipated November 2026 BART-related tax initiative. In addition, the Contra Costa County Board of Supervisors has voted to place a 0.625% general sales tax on the June 2026 primary ballot. The Council suggested that it might not be practical to seek voter approval of additional taxes until 2028.

### **Expense Reduction: The Elephant in the Room**

There are only two ways to bring Pinole's structural operating deficits into balance: finding new sources of incremental revenues or reducing expenditures.

The Council has not prioritized expense reductions in recent years' budget deliberations. Looking ahead, Pinole's long-term projections show expenditures continuing to grow faster than revenues based on existing service levels. The Council's budgets for the last three years continue to promote continuity of service levels and add Council-directed special projects each year while relying on general reserve reductions to close the annual funding gap.

The Baker Tilly Report's long-term financial forecast projects a requirement for Pinole to cut annual expenditures by a minimum 10% per year, even when taking into account the 0.5% sales tax increase authorized by Measure I. The Grand Jury noted potential areas for expenditure reductions. The Fiscal Year 2025/26 budget projects deficits in several Pinole departments, including Recreation (\$1.8 million), Building and Planning (\$900,000), and Pinole's cable TV station (\$400,000). These are examples of departments that have required operating subsidies in recent years and could be the types of targets for efficiency measures and expenditure cuts. In addition, Pinole's staff has suggested to the Council that it avoid further unfunded Council-directed special projects.

## The Baker Tilly Report Offers Options

The Baker Tilly Report provided three scenarios for the Council to consider for adoption, shown in Table 7 on the following page. They vary from an option that emphasizes revenue enhancement over expense reduction to an option emphasizing cutting expenses over raising revenue.

**Table 7. Baker Tilly Report Fiscal Scenarios**

Scenario	Description
Baseline Scenario Before Budget Corrections	<ul style="list-style-type: none"> <li>• Annual deficits through 20-year forecast period</li> <li>• Assumes pension trust funding ends in 2030</li> <li>• Current staffing levels</li> <li>• CalPERS maintains current discount rate</li> </ul>
Scenario 1 – Strong Revenue Strategies	<ul style="list-style-type: none"> <li>• Introduce a parcel tax</li> <li>• Increase business license tax rate or revise structure</li> <li>• Finance street and road rehabilitation</li> <li>• Introduce additional ½ cent sales tax measure</li> <li>• Increase franchise fees</li> <li>• Increase UUT for existing services and expand tax to others</li> <li>• Pursue change from General Law to Charter city and successfully introduce real property tax revenue stream</li> </ul>
Scenario 2 – Mixed Approach (Moderate Revenues and Implement Expenditure Cost Shift Strategies)	<ul style="list-style-type: none"> <li>• Increase franchise fees</li> <li>• Increase UUT for existing services and expand tax to other services</li> <li>• Pursue change from General Law to Charter city and successfully introduce real property tax revenue stream</li> <li>• Increase employee pension contributions</li> <li>• Shift medical contribution cost to employees</li> <li>• Reduce or eliminate retiree medical benefit for new hires</li> <li>• Implement General Fund expenditure reductions (as necessary) totaling \$500,000 annually through FY 2029-30</li> </ul>
Scenario 3 – Strong Operating Expenditure Reduction Strategies	<ul style="list-style-type: none"> <li>• Increase employee pension contributions</li> <li>• Shift medical contribution cost to employees</li> <li>• Reduce or eliminate retiree medical benefit for new hires</li> <li>• Implement General Fund expenditure reductions (as necessary) totaling \$1 million annually through 2029-30</li> </ul>

\*UUT = Utility Users Tax, an excise tax that cities impose on the consumption of utilities such as water and electricity.

To date, the Council has implemented two of the revenue recommendations in the Baker Tilly Report:

- Increase sales tax by 0.5% to a total rate of 10.25%
- Reduce Pinole’s reserve fund by half

The Baker Tilly Report illustrates consequences of not addressing Pinole’s current budget deficits:

*The fiscal impact of taking no action would leave the City’s General Fund fully depleted of reserves by FY 2028-29, at which point the City would be forced to implement hiring*

*freezes or layoffs to avoid bankruptcy... Ultimately, the City would be placed into a form of receivership by the state and would then be overseen by an appointed court to implement the necessary actions to allow the City to operate.*

### **Pinole Lacks Urgency in Addressing Its Fiscal Health Issues**

The Grand Jury, based on Pinole’s publicly available budgets and financial statements, supplemented by interviews with subject matter experts, found that Pinole faces pending operational and capital financial challenges. The Baker Tilly Report recommended significant expenditure cuts. The Grand Jury has found, however, that Pinole has not yet adopted any of the expense reduction recommendations.

### **Other Northern California Cities Have Experienced Bankruptcy**

The Baker Tilly Report makes clear that without changes in Pinole’s approach to budgeting, it faces a real risk of bankruptcy. Over the past 20 years, two Northern California cities—Stockton and Vallejo—have experienced bankruptcy proceedings. Bankruptcy neither relieves a city of its financial obligations, nor gives a free pass on having to provide essential city services. As a result of the bankruptcy proceedings, these cities found it necessary to close fire stations, lay off public safety employees, cut support to local youth and senior citizen centers, and replace existing agreements with labor unions with less generous ones. In Stockton’s case, retired city employees lost access to free health care benefits.

There are additional consequences to municipal bankruptcy. Credit ratings are slashed, and some residents and businesses elect to move elsewhere. This results in lower tax receipts for the city, only deepening the problem.

Pinole’s current financial trajectory poses serious risks to its long-term fiscal stability and its ability to maintain essential public services. The choices made by Pinole’s leadership in the next few years will determine whether Pinole restores fiscal balance and protects its future or continues on a path that may ultimately bring severe financial and operational consequences to Pinole and its residents.

## **FINDINGS**

**F1.** The City of Pinole’s Fiscal Year 2025/26 Operating Budget is characterized as structurally balanced in its budget documents.

**F2.** Pinole’s Fiscal Year 2025/26 Operating Budget achieves structural balance by relying on a general fund reduction to pay for what are termed “one-time initiatives.”

**F3.** Within the Fiscal Year 2025/26 Operating Budget, deficits are projected in the Recreation Department (\$1.8 million), the Building and Planning Department (\$900,000), and the city-sponsored cable TV station (\$400,000).

**F4.** Pinole’s finance staff project that annual operating budget deficits will increase, growing to a \$5.6 million deficit for Fiscal Year 2029/30.

**F5.** Pinole generated operating deficits due to expenditures exceeding revenues in four of the five years prior to Fiscal Year 2025/26.

**F6.** By relying on reserves to pay for “one-time expenditures” for the most recent three budget cycles (2023/24 through 2025/26), Pinole has not complied with its financial policies.

**F7.** Pinole has a total sales tax rate, at 10.25%, among the highest of any city in Contra Costa County.

**F8.** In Council meetings and workshops, Pinole officials have acknowledged the difficulty of obtaining voter approval for additional tax measures.

**F9.** Pinole’s long-term financial forecast projects 10 years of operating deficits beginning in Fiscal Year 2026/27.

**F10.** The April 2024 “Baker Tilly Strategic Financial Planning Report” projects 20 years of operating deficits through Fiscal Year 2044/45.

**F11.** The Baker Tilly Report emphasized a need for urgency in addressing ongoing deficit spending.

**F12.** Pinole’s CalPERS unfunded pension liabilities have increased from \$18 million in 2014 to \$45 million in 2024, an increase of 150%.

**F13.** Pinole’s most recently reported CalPERS annual obligation from 2024 was \$6.5 million.

**F14.** The CalPERS obligation is projected to increase by more than 10% in Fiscal Year 2026/27.

**F15.** Pinole’s Section 115 Trust was funded in 2018 from proceeds from a one-time asset sale for \$16.3 million to help offset the unfunded pension liability.

**F16.** Pinole staff projects its Section 115 Trust funds will be exhausted by Fiscal Year 2030/31.

**F17.** Pinole has an unfunded retiree healthcare liability (Other Post-Employment Benefits, or OPEB) of approximately \$35 million.

**F18.** The OPEB obligations have been funded on a “pay as you go” basis with annual contributions from the General Fund.

**F19.** Pinole’s public roads are graded at “55” in the 2024 Metropolitan Transportation Commission Pavement Condition Index survey, indicating the roads are “At Risk” and require extensive rehabilitation.

**F20.** Pinole staff has estimated \$60 million will be needed for public road capital improvements over the next 10 years.

**F21.** Pinole staff has identified an additional \$60 million funding gap for infrastructure capital improvements other than public roads over the next 10 years.

**F22.** The Pinole finance staff told Council in 2025 that the City does not have the necessary funding for these infrastructure capital improvements.

**F23.** Pinole’s deferral of capital improvements will translate into higher costs (replacement versus repair) in the future.

**F24.** Through the Fiscal Year 2025/2026 budget cycle, the Council had not publicly developed or discussed a comprehensive strategy for expenditure reduction or service adjustments to address projected structural budget deficits.

**F25.** An assessment of Pinole’s overall fiscal health, based on a dashboard developed by the California Policy Center using standardized financial measures, rated Pinole among the lowest of all reported California cities from 2022 to 2024.

**F26.** The Baker Tilly Report concluded that Pinole faces ongoing severe operating budget issues, including the threat of bankruptcy, if it does not balance annual expenditures and revenues.

## RECOMMENDATIONS

**R1.** When developing all future Operating Budgets, the Council should comply with Pinole’s “Financial and Investment Policies ” that require a structurally balanced annual budget.

**R2.** During all future budget development cycles, the Council should consider directing staff to prepare an Operating Budget that includes expenditure reductions so that expenditures match revenues in each budget cycle.

**R3.** By Fiscal Year 2027/28, the Council should consider adopting a formal long-term financial plan that incorporates the level of expenditure reductions as outlined in the 2024 Baker Tilly Report.

**R4.** By December 31, 2026, the Council should consider developing methods to engage Pinole residents regarding options to address ongoing fiscal challenges.

**R5.** By June 30, 2027, the Council should consider developing a plan to fund and reconstruct Pinole’s public roads.

**R6.** By March 31, 2027, the Council should consider directing staff to review funding options, such as asset sales, to address Pinole’s unfunded pension liability.

## REQUEST FOR RESPONSES

Pursuant to California Penal Code Section 933(b) et seq. and California Penal Code Section 933.05, the 2025-2026 Contra Costa County Civil Grand Jury requests responses from the following governing bodies:

<b>Responding Agency</b>	<b>Findings</b>	<b>Recommendations</b>
City Council for the City of Pinole, California	F1- F26	R1- R6

These responses must be provided in the format and by the date set forth in the cover letter that accompanies this report. An electronic copy of these responses in the form of a Word document should be sent by email to: [ctaadmin@contracosta.courts.ca.gov](mailto:ctaadmin@contracosta.courts.ca.gov) and a hard (paper) copy should be sent to:

Civil Grand Jury – Foreperson  
725 Court Street  
P.O. Box 431  
Martinez, CA 94553-0091

## **Attachment A**

### **Pinole Fiscal Ranking California Policy Center Local Fiscal Health Dashboard**

The non-profit California Policy Center (CPC) maintains a Local Fiscal Health Dashboard tracking the financial health of California cities. This dashboard assumes the role of the California State Auditor's Office Local Government High-Risk Dashboard which was discontinued in 2023. Using published data from every city's Annual Comprehensive Financial Report (ACFR), the CPC rates comparative fiscal health using ten standardized financial metrics: 1) general fund reserves; 2) debt burden; 3) liquidity; 4) revenue trends; 5) pension costs; 6) pension funding; 7) pension obligations; 8) other post-employment benefit obligations; 9) other post-employment benefit funding; and 10) net worth.

Using the most recent data from 2024 ACFR reporting, Pinole ranks in the bottom 1% of nearly 500 CA cities with an overall dashboard rating of 47 out of 100 points, representing an "F" score defined by CPC as a "high risk of financial distress, including the ability of the city to pay its bills in the short and long term". Four of the ten metrics are driving Pinole's "F" rating: 7) pension obligations; 8) other post-employment benefit obligations; 9) other post-employment benefit funding; and 10) net worth.

See the following page for a relative ranking of all 19 cities in Contra Costa County using the CPC's dashboard for the last 3 consecutive years of data.

Contra Costa	FISCAL SCORE			Letter Grade	Financial Distress
County City	2024	2023	2022		
Danville	99 A	99 A	98 A	A	85-100 Low Risk
Lafayette	96 A	92 A	94 A		
Oakley	95 A	93 A	93 A		
Moraga	85 A	86 A	89 A		
Orinda	85 A	87 A	85 A		
Clayton	78 B	81 B	85 A		
San Pablo	76 B	79 B	80 B	B	70-84 Low Risk
San Ramon	75 B	76 B	81 B		
Walnut Creek	78 B	77 B	80 B		
Brentwood	75 B	75 B	83 B		
Antioch	73 B	73 B	82 B		
Hercules	72 B	71 B	81 B		
El Cerrito	70 B	71 B	70 B	C	60-69 Moderate Risk
Pittsburg	68 C	70 B	71 B		
Martinez	67 C	70 B	76 B		
Pleasant Hill	68 C	68 C	71 B		
Concord	65 C	63 C	68 C		
Richmond	55 D	52 D	54 D		
Pinole	47 F	49 F	48 F	F	49 and Below High Risk