City of Richmond
Five-Year Budget Forecast with Adopted FY17 Budget

July 26, 2016

City Goals in Budget Initiatives

1. Build and maintain a **minimum 10 percent unrestricted budget reserve**
2. Create a budget structure where **recurring revenues exceed recurring expenses**
3. **Repair and maintain the City's roads** by creating revenues in excess of that needed to maintain fund balance
4. **Maintain City's investments** in parks, libraries, and other public buildings by setting aside monies for repairs as they are needed
5. Craft a compensation plan that is **competitive but affordable**

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Baseline Budget Forecast Changes

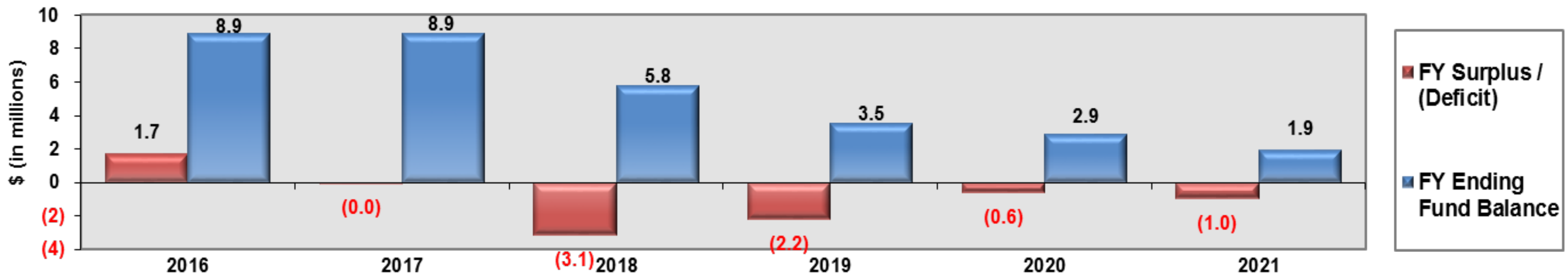
Major Changes in the Budget Model Include:

- Updated with adopted FY17 revenues and expenses
- Inclusion of agreed-to labor contract concessions
- Budgeted expected vacancy savings in salaries and benefits in FY17 only
- Transfer of Code Enforcement into the General Fund

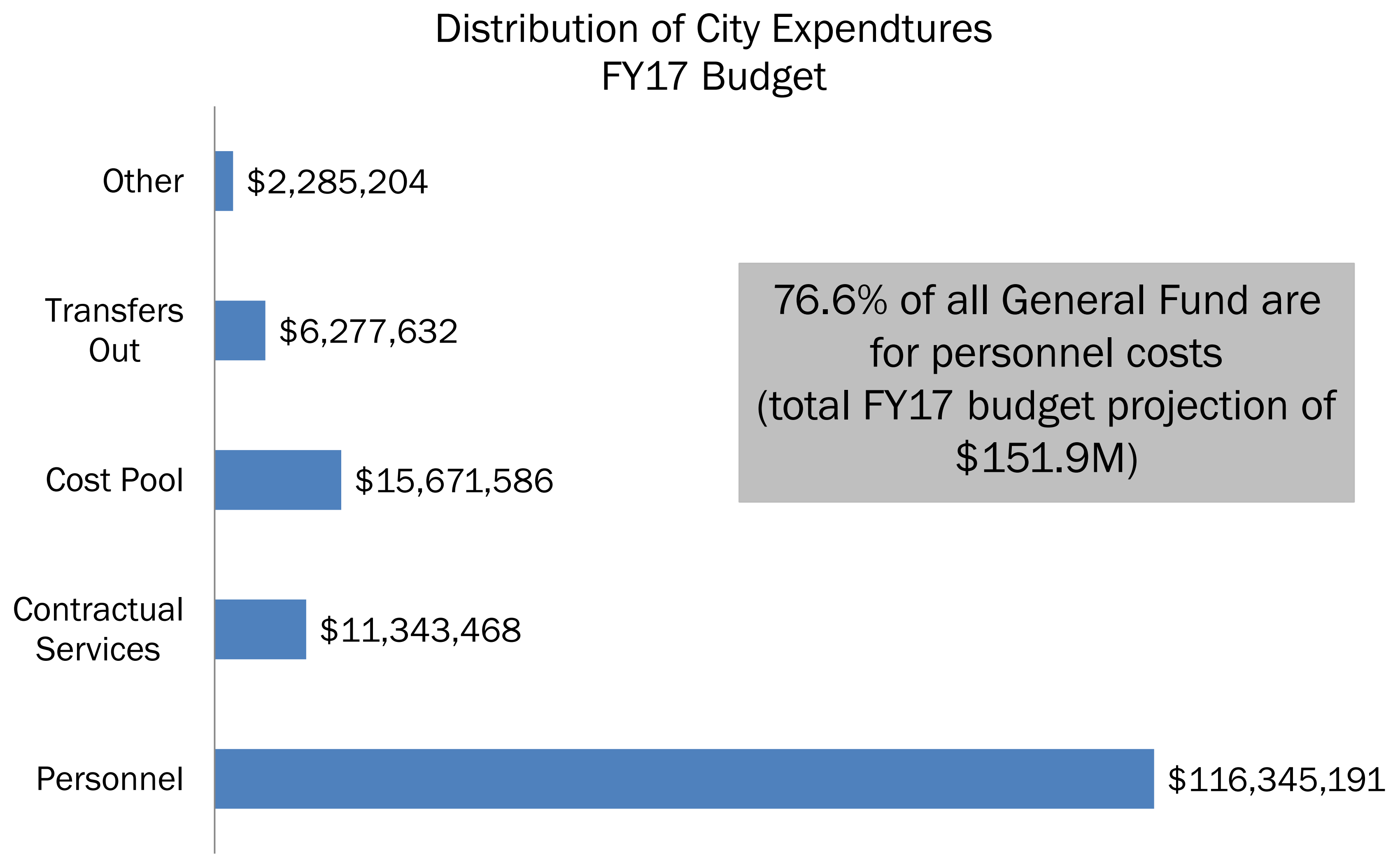
Baseline Forecast Results | With Proposed FY17 Budget

- FY17 reflects the balanced budget adopted by Council
- Deficit spending through FY21 <u>without</u> any negotiated compensation increases or decreases
- Results in a **$1.9 million fund balance by FY21**
- Need an additional **$15.1 million swing in expenses and/or revenues to have a 10% fund balance reserve** by **FY21**

City of Richmond General Fund
Budget Projections (FY16 – FY21)



How City Spends General Fund Revenues



76.6% of all General Fund are for personnel costs (total FY17 budget projection of $151.9M)

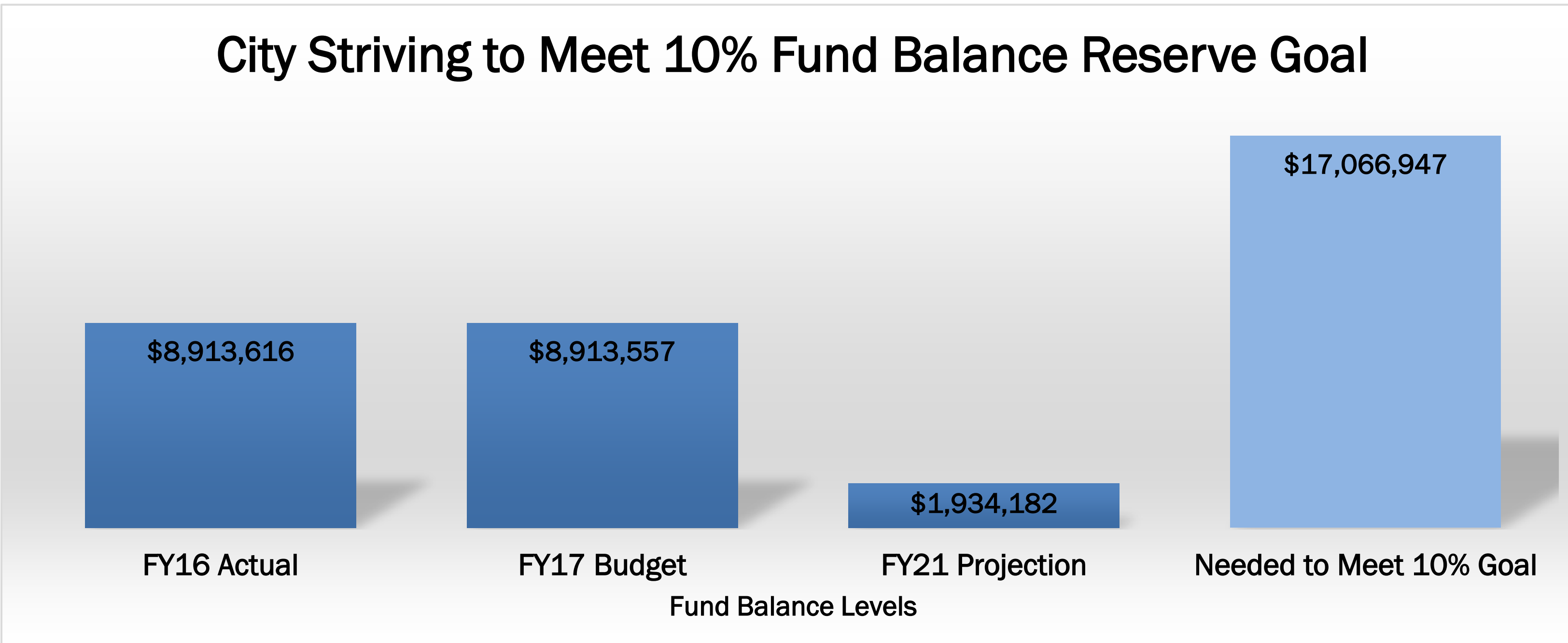
Issues in Achieving a Balanced Budget

1. City has little control over revenues
2. Reducing non-personnel costs is not sufficient
3. Reducing personnel costs:
   - Can lead to reductions in service
   - May require a meet and confer process with unions
4. Maintenance of City buildings, parks, and roads requires a capital infusion above-and-beyond current budgeted amounts
5. Revenue reductions are likely in next recession

Fund Balance Insufficient | Need to reduce costs/increase revenues

It is important to maintain a minimum 10% fund balance:

- Prudent fiscal management—protects services during economic downturns
- Needed to repair bond rating



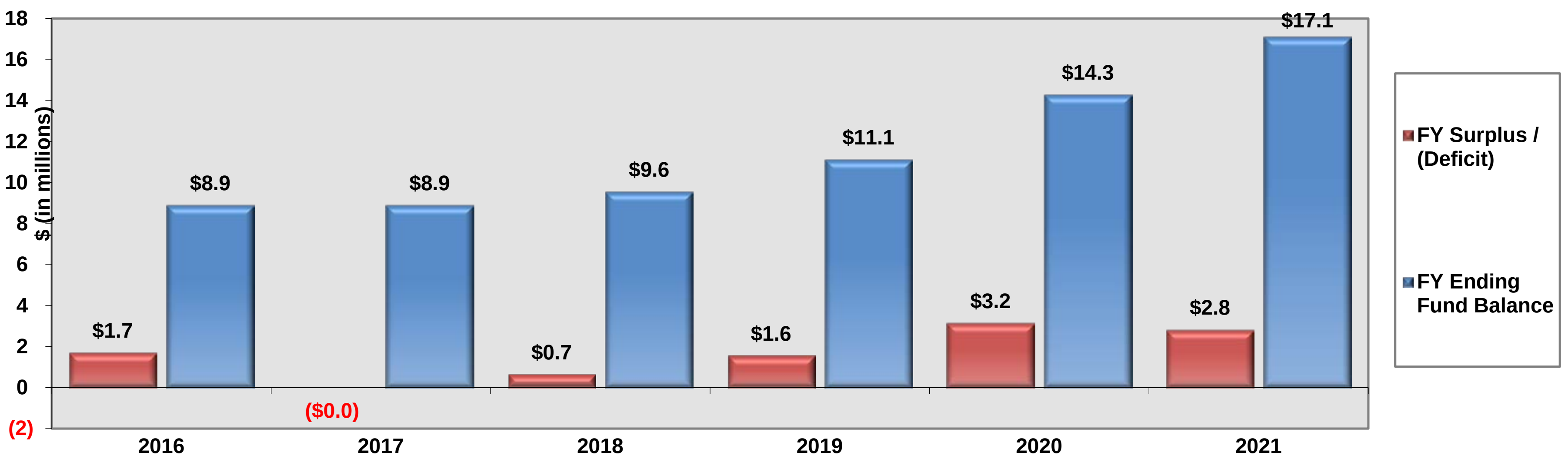
City needs to continue to reduce expenses/increase revenues

Source: CalPERS Actuarial Valuation Reports

Meeting Reserve Targets | Increase in Net Revenue

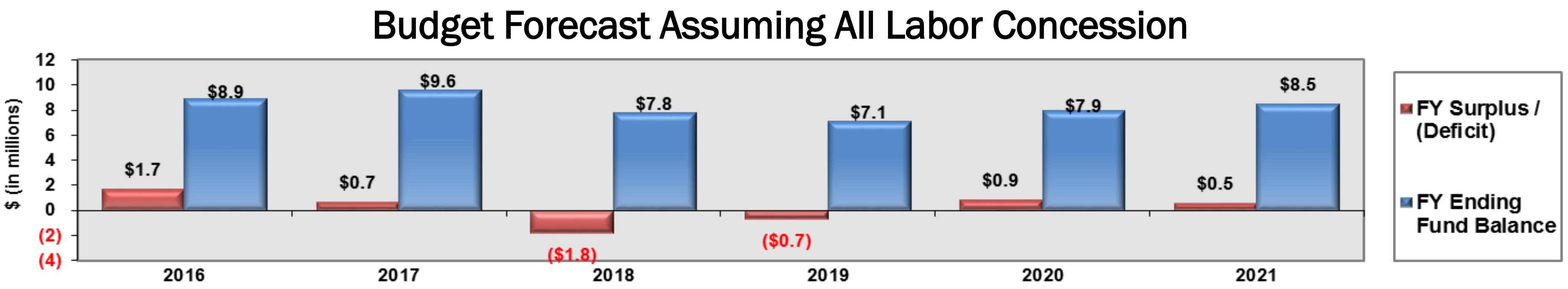
- The City needs to increase net revenues in FY18 through FY21 to build a sufficient fund balance. **A reduction in expenses or increase in revenues of $3.8 million per year will meet the City's goal**

Budget Forecast Assuming
$3.8 million per year increase in Net Revenues

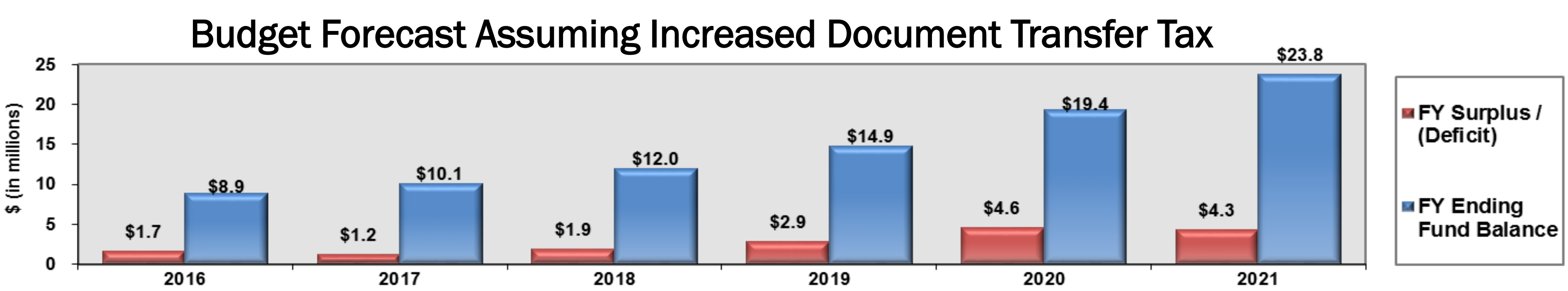


Other Budget Outcomes

- If the City is able to secure concessions from all labor groups, the City's negative net income would be minimal

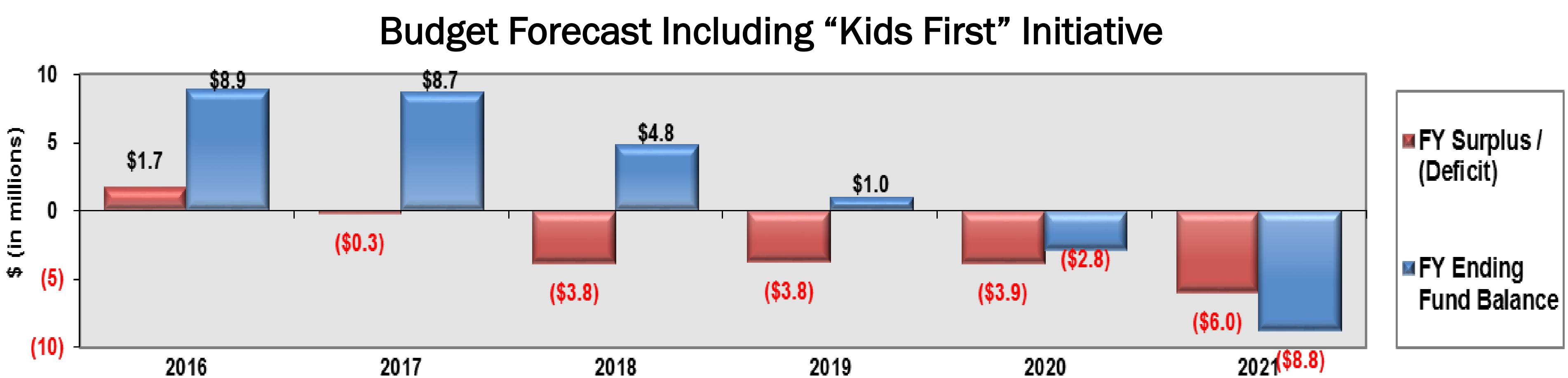


- Voter approval of an increase to the City's Document Transfer Tax would provide budget room for the City to increase services and fund infrastructure



Impact of "Kids First" Initiative

- Passage of the Kids First initiative, if passed, will put the City into a budget deficits in future years and will not be sustainable without new revenue or service-level reductions
- The "Kids First" initiative could further exacerbate the City's financial outlook if immediate corrective measures are not taken
- Would require service reductions or new revenue



Conclusions

- FY17 budget is balanced
- The General Fund reserve balance will continue to erode without:
  - Continued expense reductions
  - An infusion of new or increased revenue
- Looking toward voter-approved tax-rate increases, such as the documentary transfer tax, could provide the City the opportunity to meet its long-term financial goals