



City of Richmond Budget and Organizational Overview

Council Presentation

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PFM Scope of Work | Elements

- ◆ Update City's Current Fiscal Condition**
- ◆ Perform High-Level Organizational Review**
- ◆ Recommend Actions to Close Budget Gap**
- ◆ Provide Presentation to City Council**



Council Goals and Staff Response

- ◆ The City operates under five strategic planning areas. The City Council has categorized focus areas and priorities into these Strategic Plan areas for action

Strategic Plan Areas
Governance, Finance, and Leadership
Full Service and Safe Communities
Environment, Health Equity, and Sustainable Communities
Residential and Built Environment
Economic Development and Education

City Council Feb 8 th Retreat
Seven Focus Areas (44 Priorities)
Public Safety
Mobility
Financial Stability
Community Health & Environment
Housing
Education
Economic Development



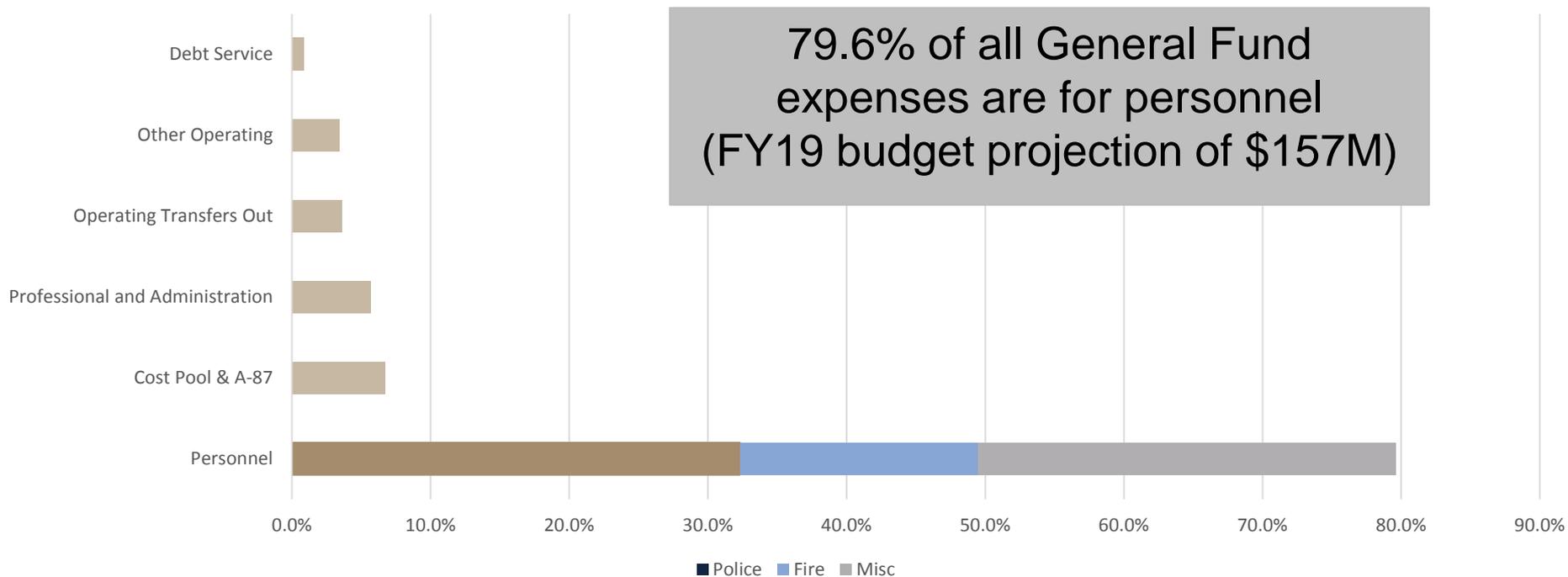
Fiscal Condition Analysis



How City Spends General Fund Revenues

- ◆ Personnel costs are, by far, the General Fund's primary cost for municipal services
- ◆ Other costs for the City have little flexibility in year-to-year adjustment, making budget reductions difficult and painful

Distribution of City Expenditures
FY19 Budget





Fiscal Condition | Identified Issues

- The City needs to take action now to avoid the budget impacts from several converging issues

- **Identified Issues**

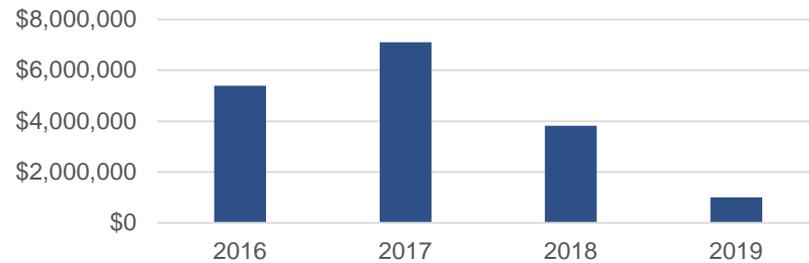
- **Pensions** – PFM calculations show higher allocation of cost to City’s General Fund over the next several years – increasing City’s GF cost by about \$2 million per year
- **Chevron UUT Payment** – The UUT payment from Chevron will drop from \$7 million to \$4 million in 2021 and will end in 2025
- **Kids-First Program** – The implementation of the Kids-First program adds a new cost for the City that may or may not be offset by the recent increase in the Documentary Transfer Tax (Measure H)
- **Fund Balance** – Several non-GF programs have negative fund balances that may count against the General Fund. As these reallocations of fund balance occur, the City will see a reduction in its unassigned fund balance that will make the City more susceptible to recession or cost increases



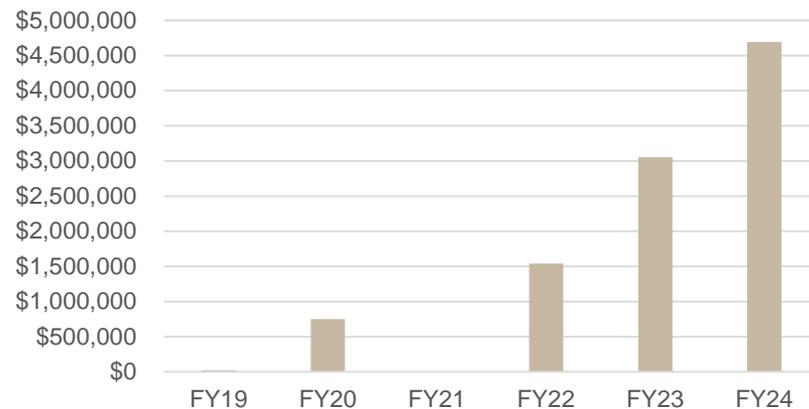
Kids First | Looking Ahead

- The Kids First program is underway, with funding ramping up in FY22 through FY24
- Issues:
 - Increased Transfer Tax revenue is uncertain and based on high-value sales in the real estate market
 - As the City moves into a set percentage of revenues dedicated to the Kids First Program, a lack of Transfer Tax revenue could burden other services in the City
 - Nearly 75% of the City's expenses are personnel related. Reductions in funding could lead to loss of service levels in other programs
- Overall documentary transfer tax is assumed up in budget forecast
 - FY10-FY19 Averaged \$4.7M/year
 - FY20-FY24 Projected Average of \$7.5M/year

Estimated Revenue
If Measure H Had Been in Place FY16-
FY19



Kids First Expected Funding





Funds with Negative Cash Balances | May impact General Fund

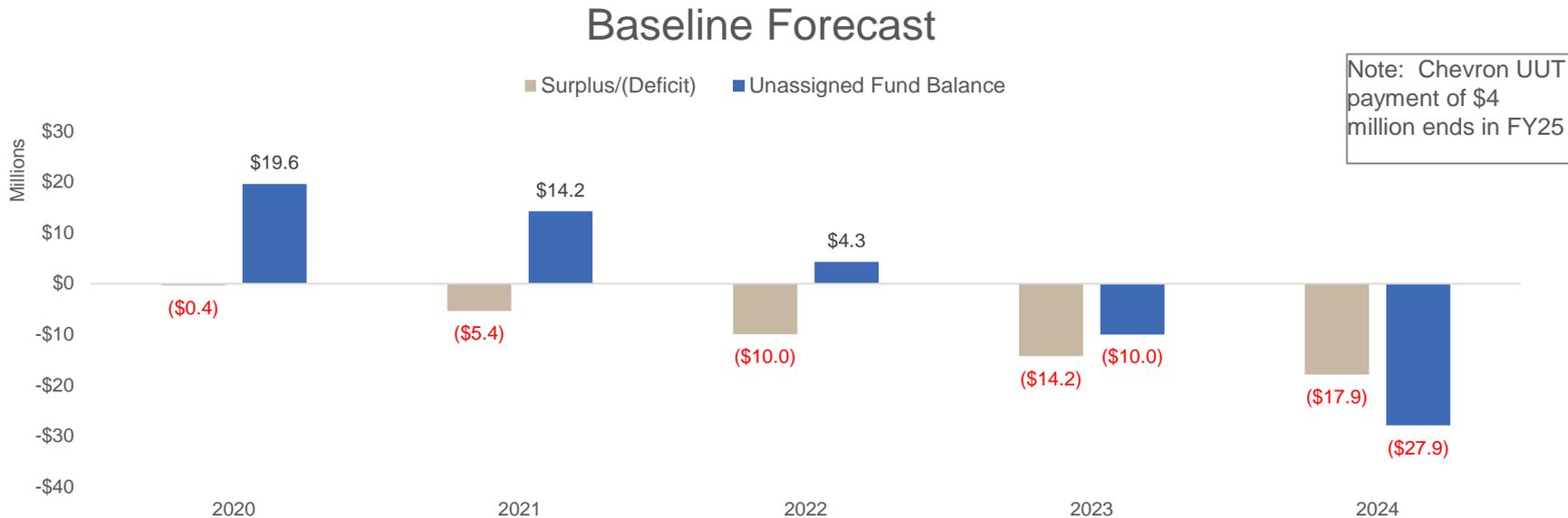
- ◆ The General Fund cash Balance is overstated by as much as \$12.9 million

Fund	FY17	FY18	Action Plan
Transportation (R-Transit) - 1003	(\$1,749,243)	(\$2,902,517)	Prior year funding expected in Nov. 2018
Engineering Cost Recovery – 1051	(2,208,899)	(2,298,974)	Increase in GF Subsidy
Code Enforcement – 1053	(2,439,356)	(2,381,066)	General Fund Reserves
2007 Refunding & Civic Center – 3005	(1,208,843)	(1,003,477)	On 5-Year repayment Plan
Stormwater – 4006	(1,416,114)	(904,477)	Future revenues
Housing Department	(3,143,929)	(3,367,762)	Disallowed costs will be drawn from GF reserve
Total	(\$12,166,384)	(\$12,858,770)	



Budget Forecast | Issues Ahead

- Under the Baseline budget forecast, the City will start running deficits by FY21 and will have a negative fund balance of \$27.9 million by FY24
- This is largely due to:
 - Increases in pension and salary costs
 - The reduction in UUT revenue from Chevron in FY21
 - Implementation of the Kids First funding—max of 3% of GF revenues in FY24



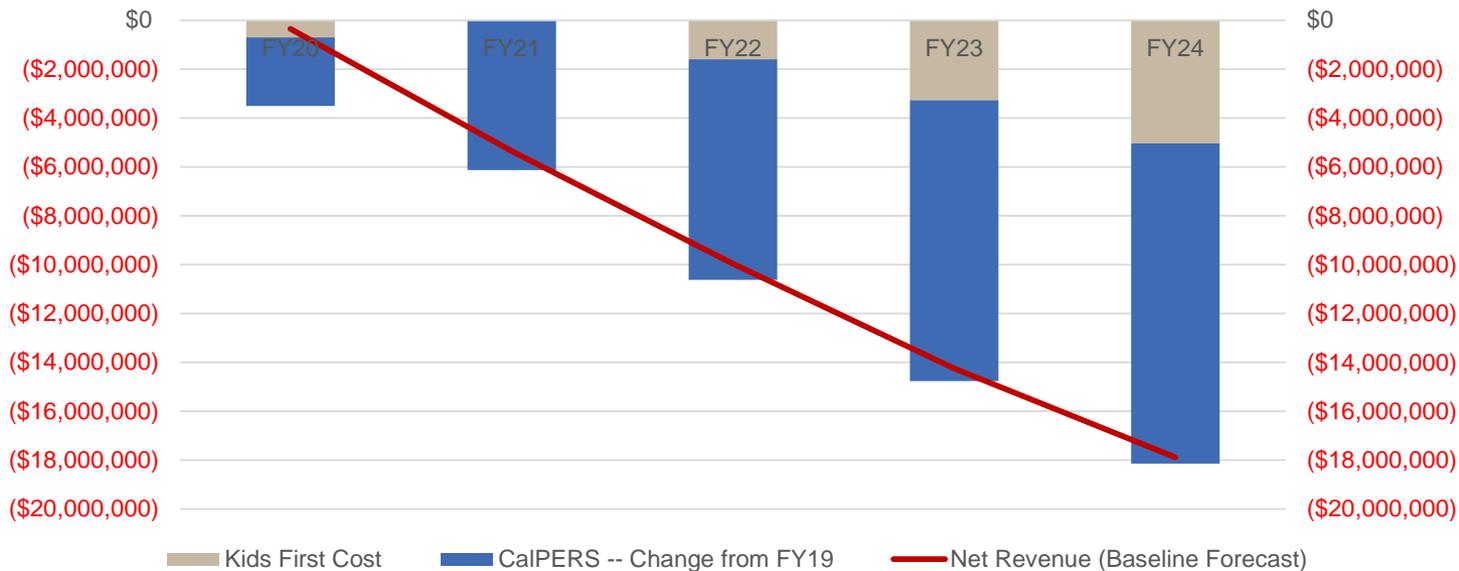
Source: City of Richmond and PFM



Pension and Kids First Costs | Driving Budget Deficits

- Combined, the increased costs from pensions and Kids First are greater than the total negative net revenue in each of the forecast years

Comparison of Cost Increases and Projected Net Revenue

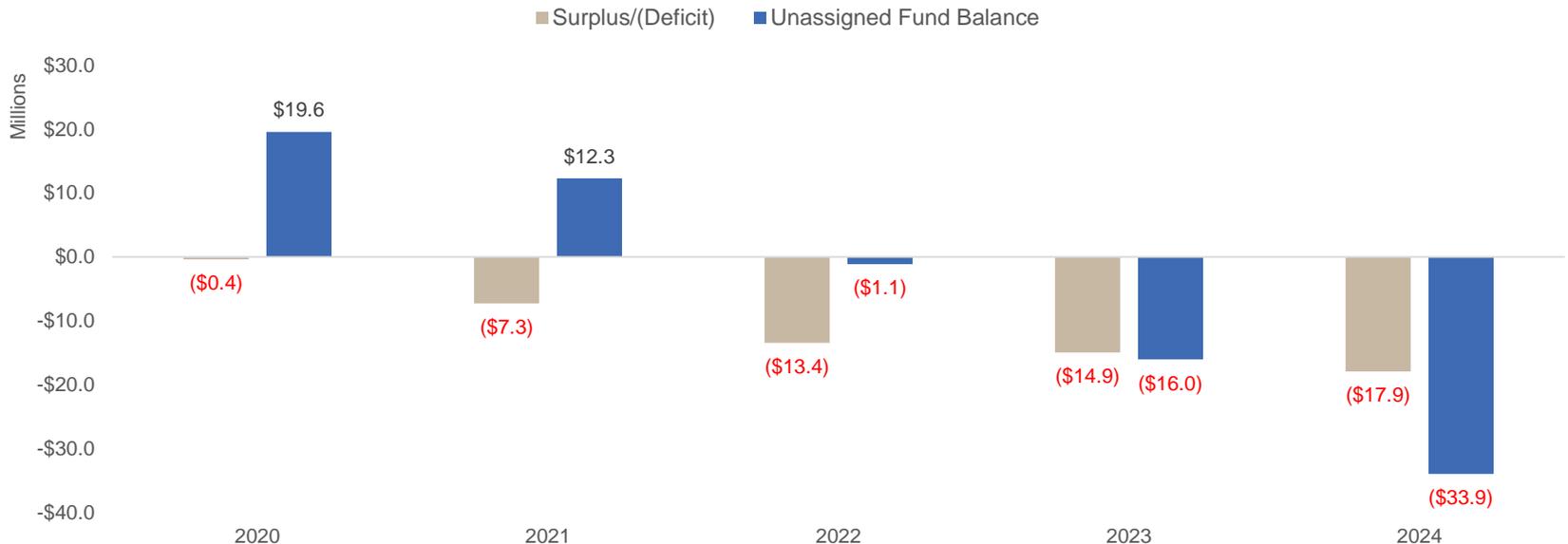




Budget Forecast | Recession Scenario

- ◆ If a recession hits in the next two years, the City may face a much harsher budget reality that could require millions of dollars of budget reductions or fund balance transfers to address

Recession Scenario



Assumptions:

- Sales tax drops to projected CPI for two years starting FY21
- Property tax drops to 2% growth in FY22 and FY23
- Wage growth at 1% in FY23 and FY24



Financial Condition | Implications

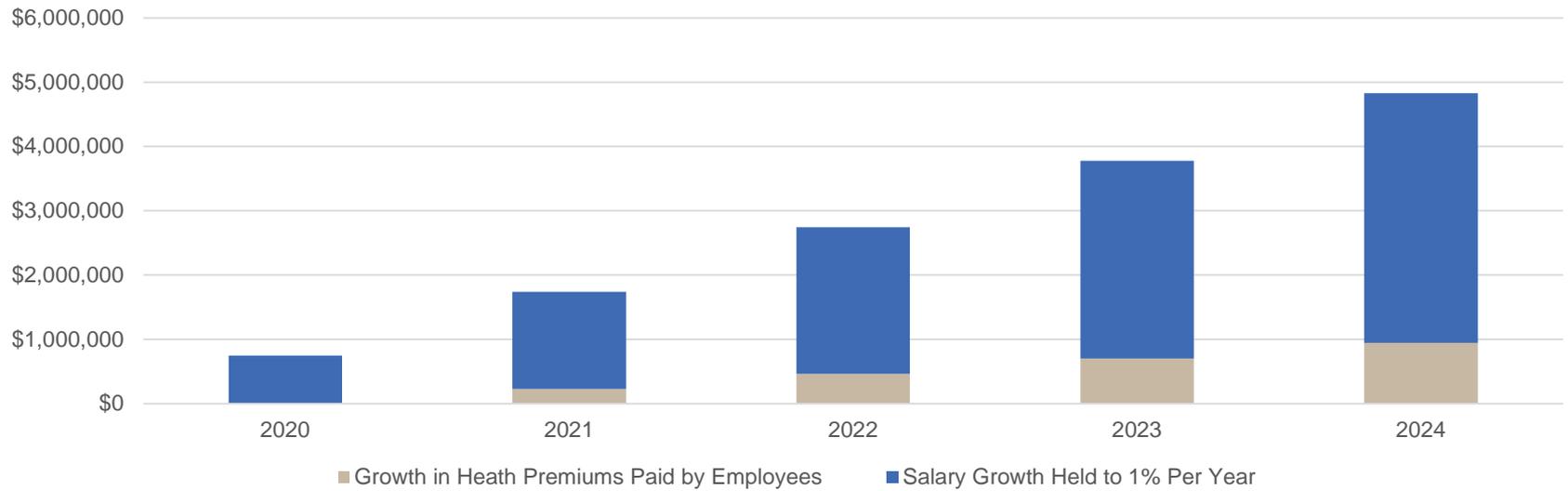
- ◆ The City is facing a precarious financial position in the next several years
- ◆ To address this, the City will need to look carefully at General Fund expenses
 - Transfers and subsidies to other funds
 - Staffing levels and services across all departments
 - Compensation and benefit levels in all bargaining groups
- ◆ The City's reserve levels are threatened from two directions
 - Projected negative net revenues—growing to over \$17 million in FY24
 - Transfer of reserves to fund negative fund balances in other funds
- ◆ The City is **not positioned well** for the next recession and could face a fiscal crisis if that recession has a significant impact on City revenues



Workforce Cost Savings | Needed, but cannot fix projected deficit

- ◆ The City's largest cost center is personnel. Two cost-savings measures were analyzed:
 - Limit growth in salaries to 1 percent per year – This will not keep up with inflation
 - Have employees pay for growth in health care premiums starting in FY21—Employee share not to exceed 20 percent of total cost

Sample Savings from Two Workforce Cost Measures





Organizational Comparisons



Overview of Findings

◆ Organizational Comparisons

- The City is generally in line with staffing at comparative cities on a per capita basis
- The City is near highest in staffing for sworn police
- The City is lowest—on a per capita basis—for non-sworn police
- Other areas of service are in the general range of other cities. There is no outlier in services provided

◆ Revenue and Expense Comparisons

- The City of Richmond is among the top three cities in General Fund revenue per capita—just below El Cerrito and Albany
- The City has the second highest per capita expenses for Police services
- Fire expenses are middle of the pack
- All other departmental expenses are third of the seven compactors—also behind El Cerrito and Albany



Comparative Revenue and Expenditures | Per Capital Comparison

Comparative City	Revenue per Capita
El Cerrito	\$1,597
Albany	\$1,540
Richmond	\$1,527
Berkeley	\$1,433
Oakland	\$1,388
Hayward	\$995
Vallejo	\$877
Stockton	\$740
Richmond Rank	3 of 8
Median (excl. Richmond)	\$1,388

Comparative City	Fire Expenditures per Capita
El Cerrito	\$402
Berkeley	\$329
Oakland	\$320
Richmond	\$278
Albany	\$269
Hayward	\$196
Vallejo	\$192
Stockton	\$142
Richmond Rank	4 of 8
Median (excl. Richmond)	\$269

Comparative City	Expenditures per Capita
El Cerrito	\$720
Albany	\$706
Richmond	\$466
Berkeley	\$588
Oakland	\$474
Hayward	\$368
Vallejo	\$170
Stockton	\$171
Richmond Rank	3 of 8
Median (excl. Richmond)	\$421

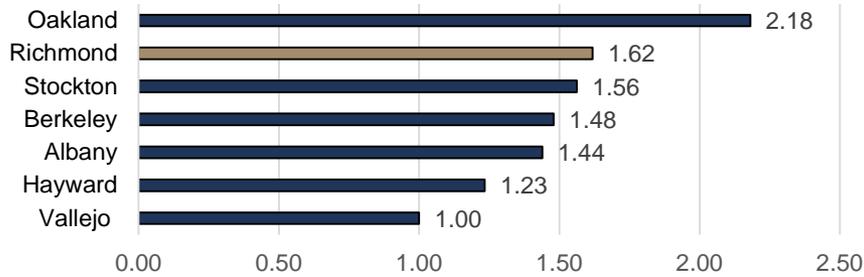
Comparative City	Police Expenditures per Capita
Oakland	\$681
Richmond	\$623
Berkeley	\$517
El Cerrito	\$474
Hayward	\$450
Stockton	\$398
Albany	\$391
Vallejo	\$377
Richmond Rank	2 of 8
Median (excl. Richmond)	\$450



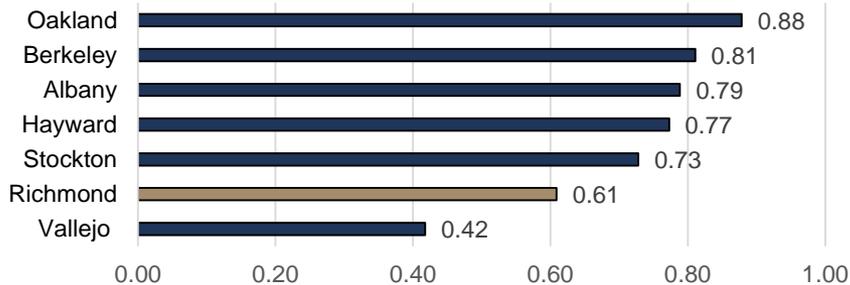
Public Safety | Comparative POLICE Staffing and Cost

- **Police** is second of eight in sworn staffing, but seventh of eight in non-sworn staffing

Police Department Comparison
Sworn Officers per 1,000 Residents



Police Department Comparison
Non-Sworn Officers per 1,000 Residents



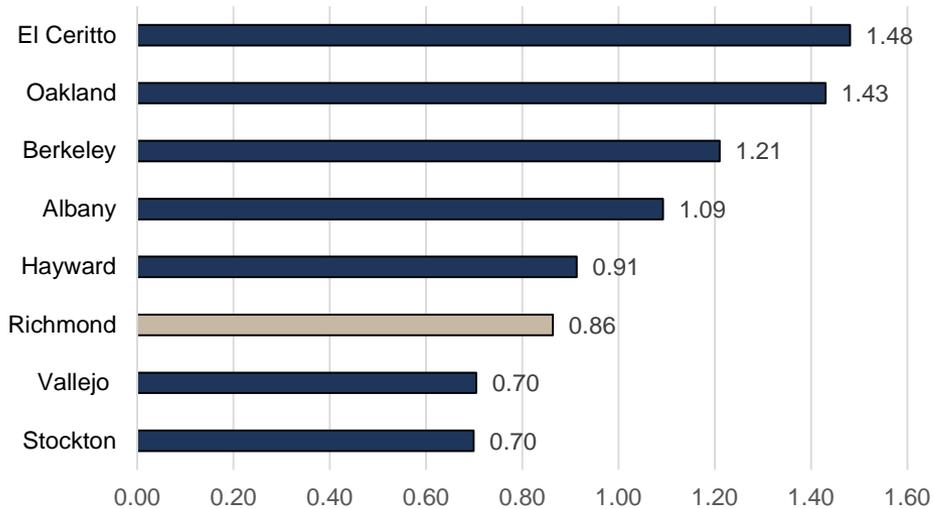
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Public Safety | Comparative FIRE Staffing and Cost

- ◆ The City's fire department is staffed and funded at median levels of comparative cities

Fire Department Comparison
Firefighters per 1,000 Residents



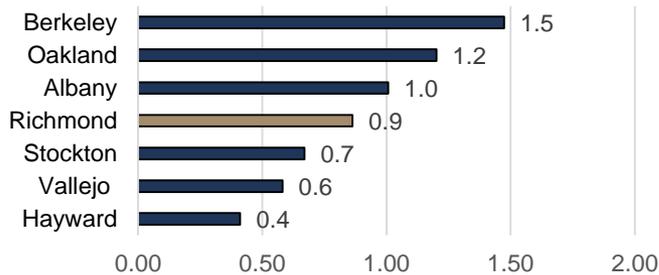
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Other Public Services | Comparative Staffing

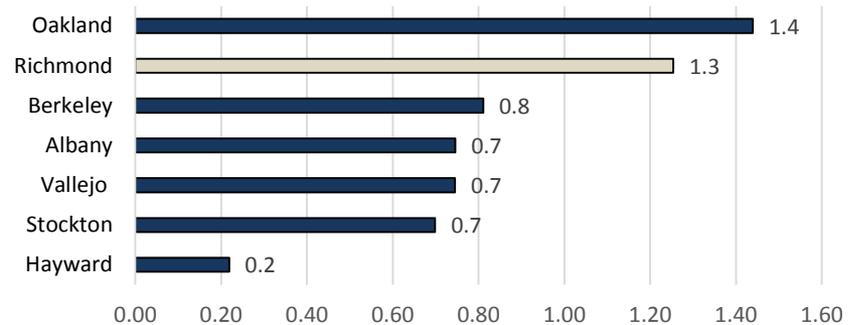
- Richmond's Recreation staffing is within the general range of comparator agencies

Recreation Staffing Comparison
Employees per 1,000 Residents



- The Public Works divisions are consistent with staffing in comparator agencies, but at the higher end

Public Works Department* Comparison
Employees per 1,000 Residents

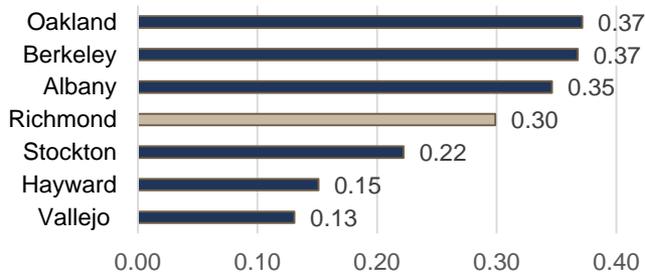


* Includes Infrastructure Maintenance & Operations and Capital Improvements



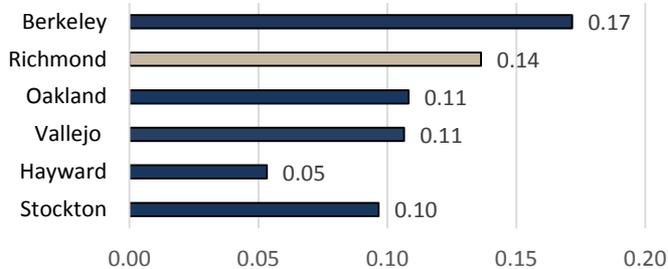
Administrative Departments | Comparative Staffing

Finance Comparison
Total Staff per 1,000 Residents

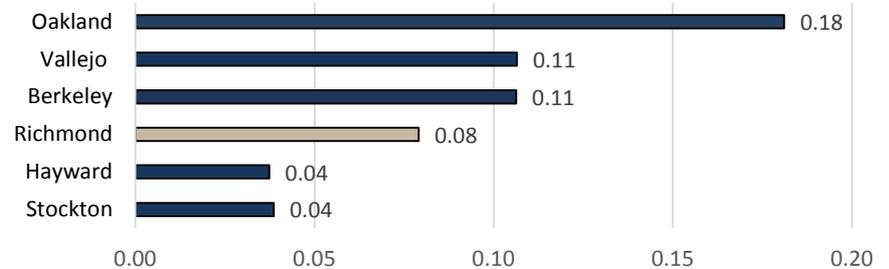


- Comparison of administrative departments is difficult due to different staffing and service models in different cities
- Overall, the City is staffing key administrative departments in a way that is consistent with comparative cities

Human Resources Comparison
Total Staff per 1,000 Residents



City Attorney Comparison
Total Staff per 1,000 Residents



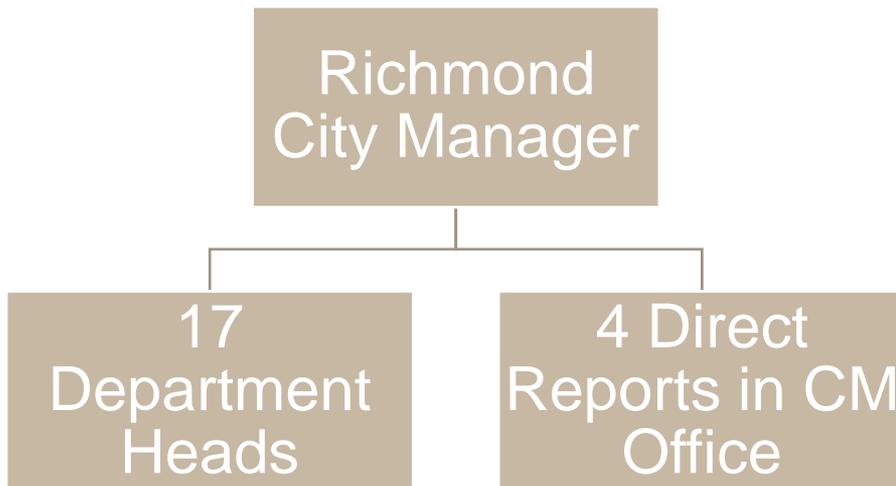


City Organizational Overview



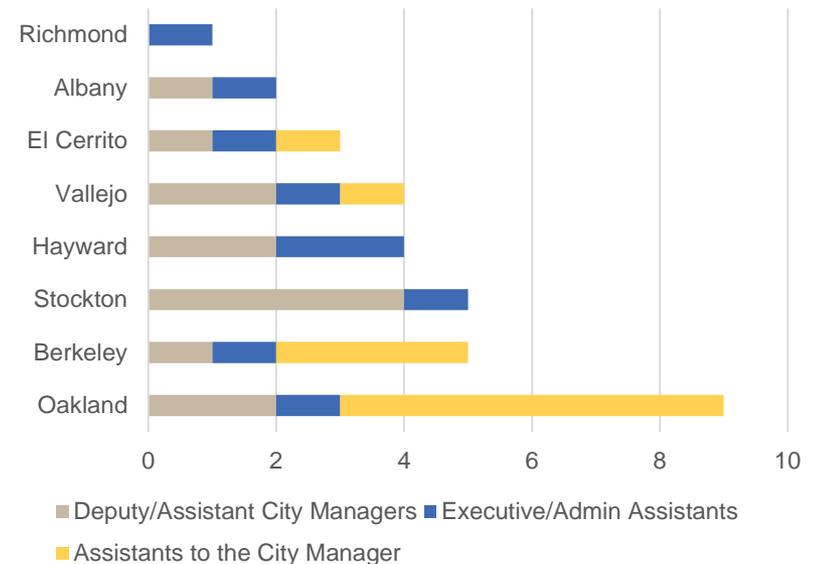
City Manager's Oversight

- The City Manager is directly responsible for 21 direct reports, including all department heads
- This concentration of oversight leads to:
 - Less direct control, as oversight is too broad



- Richmond is the only city among the comparative cities that does not have an Assistant City Manager (or equivalent)
- Additionally, four of the comparative cities have Assistants to the City Manager in addition to Exec. Assistants

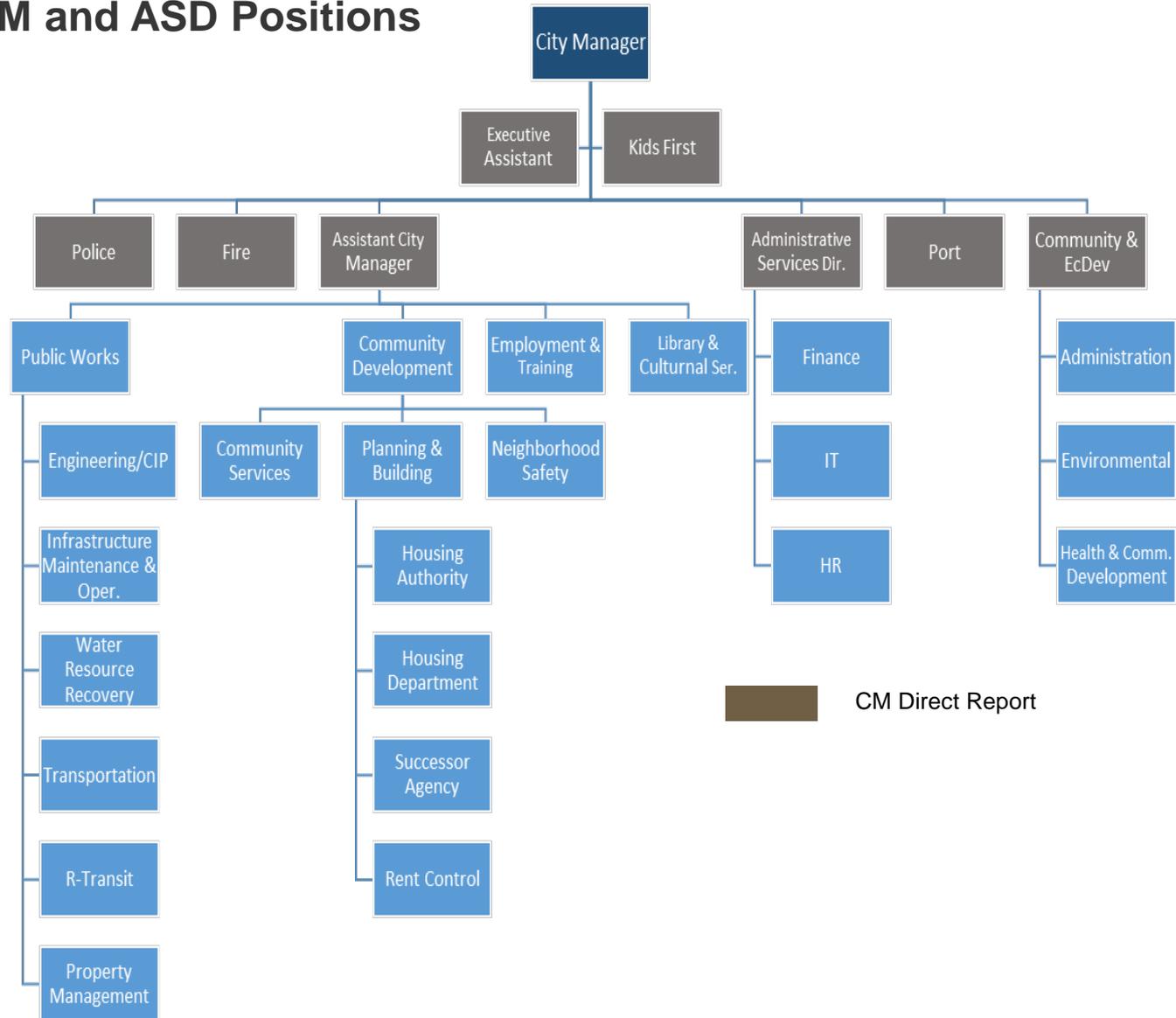
City Manager Support in Comparative Cities





Impact of Adding ACM and ASD Positions

- Addition of an Assistant City Manager and elevating one existing department head to an Administrative Services Director would:
 - **Reduce the number of CM direct reports from 21 to eight**
 - Improve organizational accountability
 - Lead to more efficient operations overall





Additional Areas for Exploration | Organizational Analysis

◆ Distribution of Finance Positions

- There are six departments with Finance staff assigned – the housing departments are also included in the Finance Org. Chart

- ◆ Can these separate staff allocations be combined and staffing reduced?





Initial Recommendation Thoughts



Preliminary Budget Recommendations | Areas for additional analysis

Area for Recommendation	Additional Analysis
<p>Limit General Fund Subsidies for:</p> <ul style="list-style-type: none">▪ Engineering▪ Landscape & Lighting Districts▪ Employment and Training	<ul style="list-style-type: none">▪ Who is being subsidized and why?▪ Impacts of eliminating subsidies on services▪ Impacts of other GF service if subsidies remain in place
<p>Create strategy for increased cost-sharing</p> <ul style="list-style-type: none">▪ Pension▪ OPEB▪ Health Care	<ul style="list-style-type: none">▪ Capacity to increase PERS sharing▪ Impact of additional OPEB by different bargaining groups▪ Saving with existing premiums or go-forward shares of premium increases
<p>Review Liability Insurance claims and methods to reduce annual insurance premiums</p>	<ul style="list-style-type: none">▪ Options to lower liability premiums – review actuarial/talk with insurance pool▪ Training or policy changes that could result in lower liability payments



Preliminary Organizational Recommendations

Department	Action	Follow-up
City Manager	<ol style="list-style-type: none">1. Create ACM position to oversee public works, community development and libraries & community services2. Elevate a current department head to Administrative Services Director over finance, HR, and IT	<ul style="list-style-type: none">▪ Identify cost of new position and elevated position▪ Identify potential cost savings or offsets (e.g., allocation of cost to non-GF activities, as appropriate)
Finance	<ol style="list-style-type: none">1. Look to combine finance positions in other departments to reduce costs	<ul style="list-style-type: none">• Opportunities in:<ul style="list-style-type: none">- Housing/Housing Authority- Community services- Employment and Training- Police
Capital Improvement	<ol style="list-style-type: none">1. Allocate costs in department based on ongoing vs. grant funding	<ul style="list-style-type: none">• Evaluate impact on future budgets with this change• Allocate use GF revenue if not needed in given year