



CITY OF

*Richmond* CALIFORNIA

# Updates on 5-Year Budget Forecast, Major Revenue Sources, Overtime, Service Impacts, Status of Meet and Confer and the Richmond Housing Authority Budget Deficit

Richmond City Council Meeting  
Finance Department  
September 22, 2020

## Recommended Action:

RECEIVE updates on the five-year budget forecast, major revenue sources, overtime, and status of meet and confer discussions; and, DIRECT staff on which of the three options to pursue regarding the Richmond Housing Authority's budget deficit.

# Agenda

- Budget Updates
- Revenue Updates
- Overtime Report
- Impact of Budget Reductions on City Services
- Status of Meeting and Confer
- Richmond Housing Authority Budget
- 5-Year Budget Forecast Update

# Budget Goals

- Structurally balanced budget
- Preserve services to the extent possible
- Consider impacts of COVID-19 on services
- Minimize staff reductions
- Increase cash reserves to policy level
  - Maintain bond ratings

## Budget Updates

- Budget adopted with \$3 million placeholder for accommodations
  - No agreements reached yet
- Deficit has increased by \$2 million due to unfunded liability portion of CalPERS being under-budget with removal of vacancies
- Major revenue sources align with budget at this juncture

# Revenue Updates

- Property Taxes
  - Budgeted at estimated growth of 2.7%
  - Assessed Valuation indicates growth of 4.27%
  - This equates to ~\$500,000 in increased revenue
- Sales Tax
  - Most sensitive to shelter-in-place order and economic decline
  - Currently aligns with budget
- Utility Users Tax (UUT)
  - Currently aligns with budget

# Overtime Report

General Fund	Adopted Budget	Actual Expenditures	% Expended
City Clerk	10,184	6,532	64%
Finance	4,365	295	7%
Police - Non-Sworn	588,137	63,277	11%
Police - Sworn	2,497,290	522,025	21%
Fire - Sworn	1,993,165	778,960	39%
Public Works	291,839	39,281	13%
Library	727	-	-
Community Services	2,327	-	-
Information Technology	2,910	-	-
<b>Total General Fund</b>	<b>5,390,944</b>	<b>1,410,370</b>	<b>26%</b>

*Overtime report represents July 2020 & August 2020 (Should be at 17% expended)*

# Impact of Budget Reductions on City Services

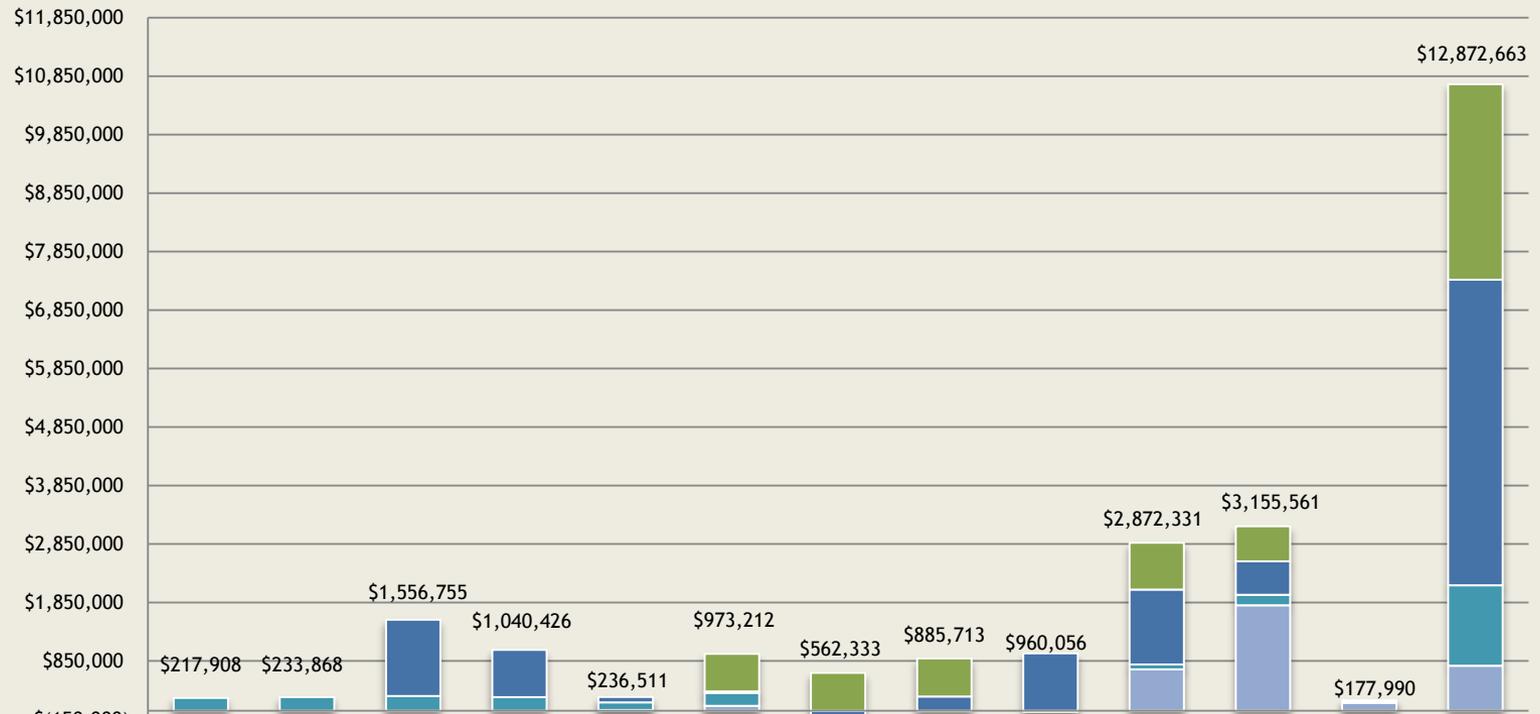
- Highlighted Foreseeable Impacts:
  - Longer response time to calls for public safety services
  - Failing equipment and infrastructure due to deferred maintenance and replacement
  - Delay in City's re-alignment of its classification and compensation structure
  - Limited library and recreation programs and services
  - Increased workloads causing stress and injuries
  - Reassessment of priorities
  - Inability to complete some key projects in the requested timeframe

## Status of Meet and Confer

- Staff and bargaining units continue to meet and confer
- No agreements reached on accommodations
  - Deficit will continue to grow the longer it takes to reach and implement
- Staff reductions likely if:
  - No accommodations are given
  - No new expenditure savings are realized
  - No new sources of on-going revenue

# Richmond Housing Authority

Richmond Housing Authority Outstanding Amount as of July 2020



	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2013-14	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21	Cumulative Total
■ Cost Allocation Charges						643,352	647,016	650,662		800,949	601,576	-	3,343,555
■ Payroll Reimbursements			1,304,063	807,142	93,422	22,847	(78,817)	243,926	980,834	1,279,324	572,326	27,968	5,225,067
■ Sewer & Storm Drain Charges	217,908	233,868	252,692	233,284	131,094	223,011				83,974	178,838	15,609	1,375,831
■ AP/Cal Card/Medical/Misc.					11,995	84,002	(5,866)	(8,875)	(20,778)	708,084	1,802,820	134,412	768,562

# Richmond Housing Authority Options

City Council to direct staff on which option to pursue:

- Option 1 - Provide annual General Fund Subsidy (equates to ~\$1M in FY 2020/21)
- Option 2 - Debt continues to grow in anticipation of recovery of funds through repositioning (currently at ~\$13M)
- Option 3 - Transfer public housing assets to another entity (prohibits ability to recover funds)

# Next Steps

- City Council to receive updates on October 6, 2020:
  - Position control
  - Negative cash balances
  - Year-end clean-up
  - Deferred maintenance and capital improvements
  - Richmond Housing Authority
  - Rent program cash position



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# 5-Year Budget Forecast Update

Russ Branson



# Purpose of Budget Forecasting

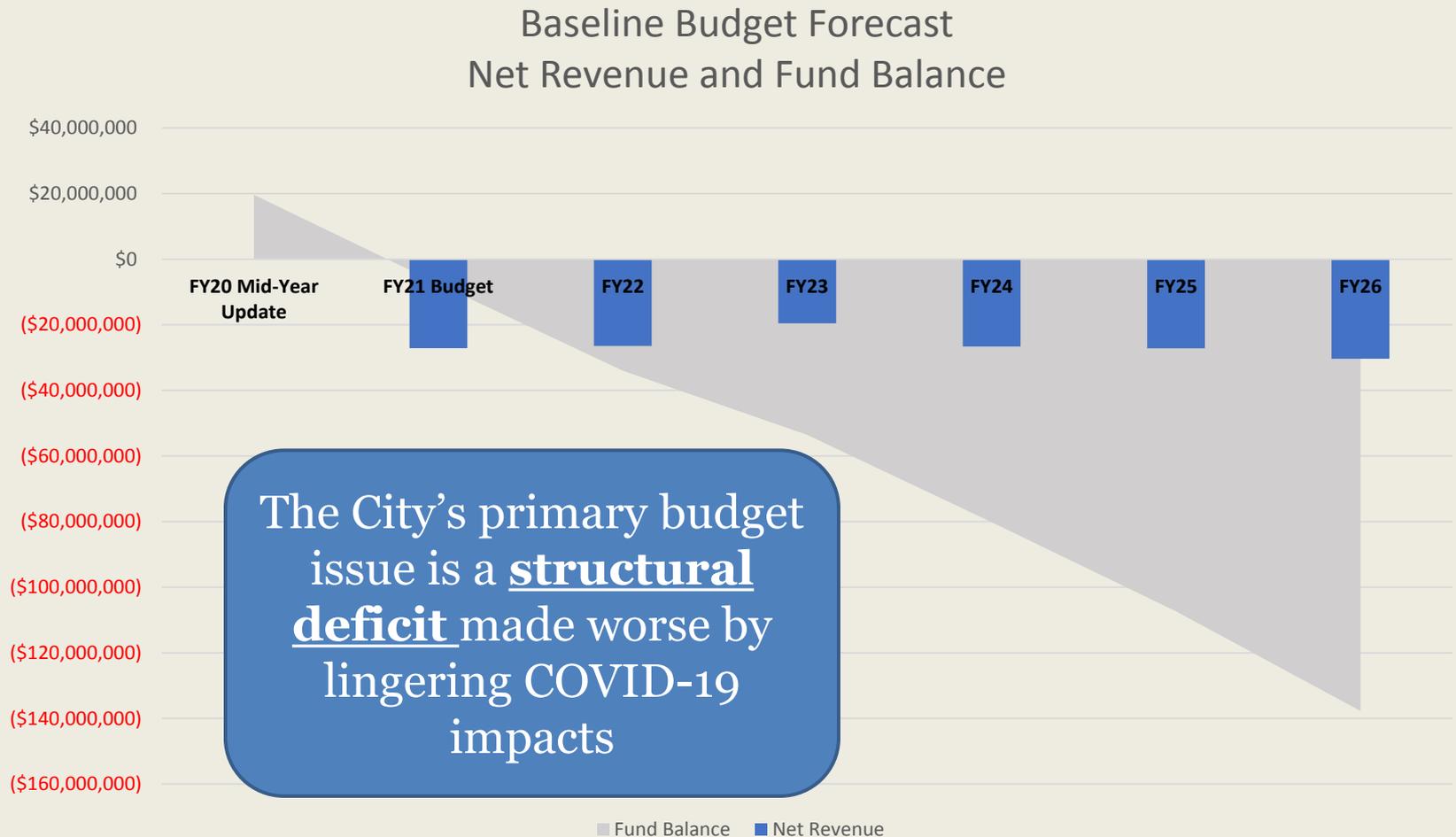
1. Not prediction...but preparation
2. Understand potential budget futures
3. Implement budget strategies to meet Council policies
4. Guide Council decisions in current fiscal year

“The future depends on what we do in  
the present.”

- Mahatma Gandhi

# May 2020 Baseline Forecast

- May forecast showed negative fund balance of \$140 Million by FY26



# Budget Changes Since May Forecast Presentation



## Revenue

- No major changes to revenue projection in Baseline



## Expenses

- Reduced \$3M in insurance reserves
- Delayed \$2.4M in vehicle replacement
- \$2M unidentified cuts in FY21 (UAL increase over budget)



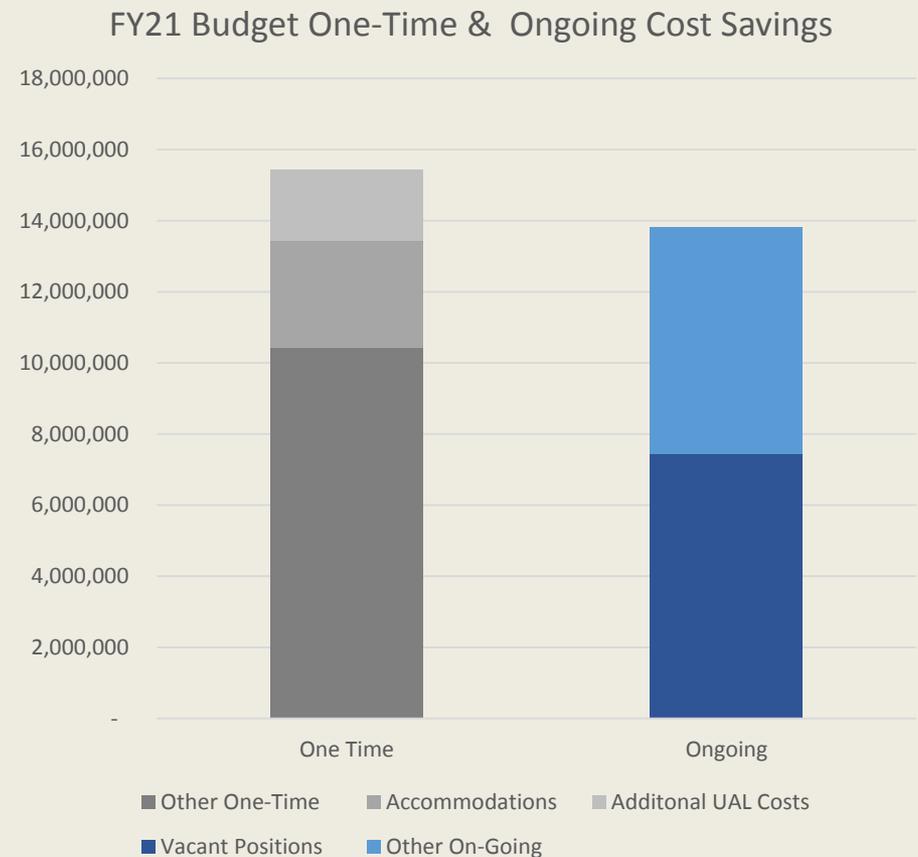
## Labor Changes

- Froze 60 GF positions
- Reduced OT
- Added PERS investment loss repayment
- Updated to new pension actuarial
- \$3M in union accommodation

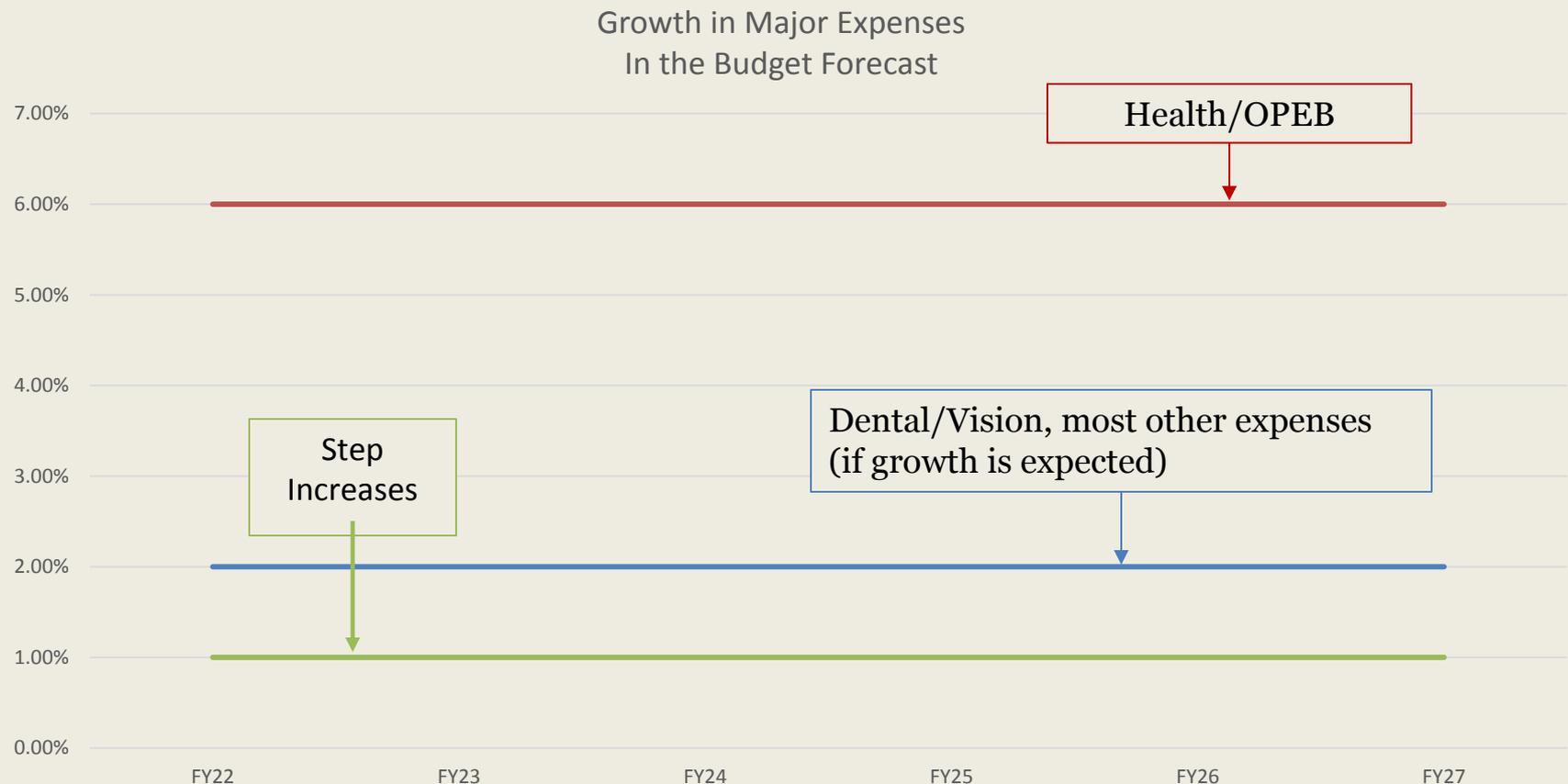
# Impact of FY21 Budget Adjustments

- FY21 total budget adjustments of **\$29.5 Million**
- **One Time** portion of these cost savings is **\$15.4 Million per year**

Note: Some labor accommodations could be ongoing



# Baseline Forecast Expense Assumptions (excludes pension)

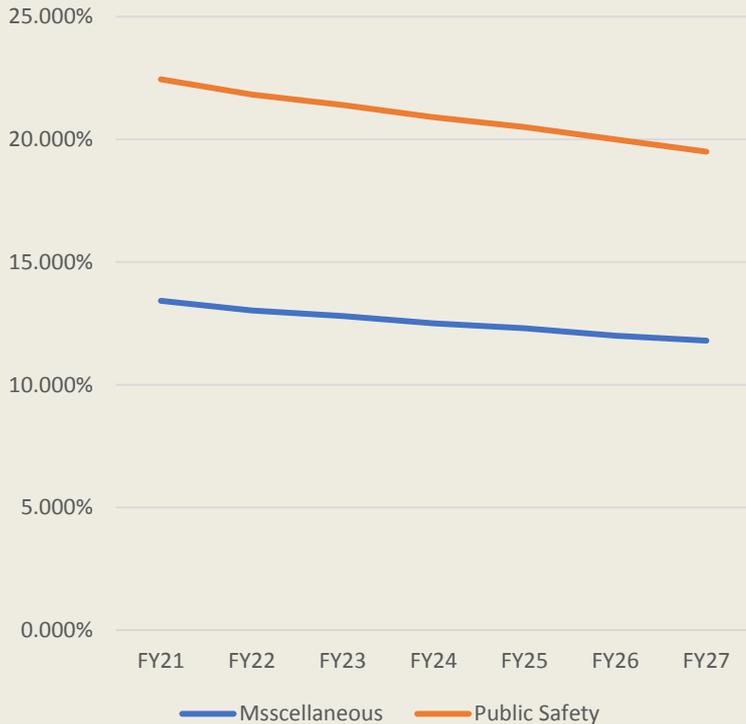


# CalPERS Cost Growth

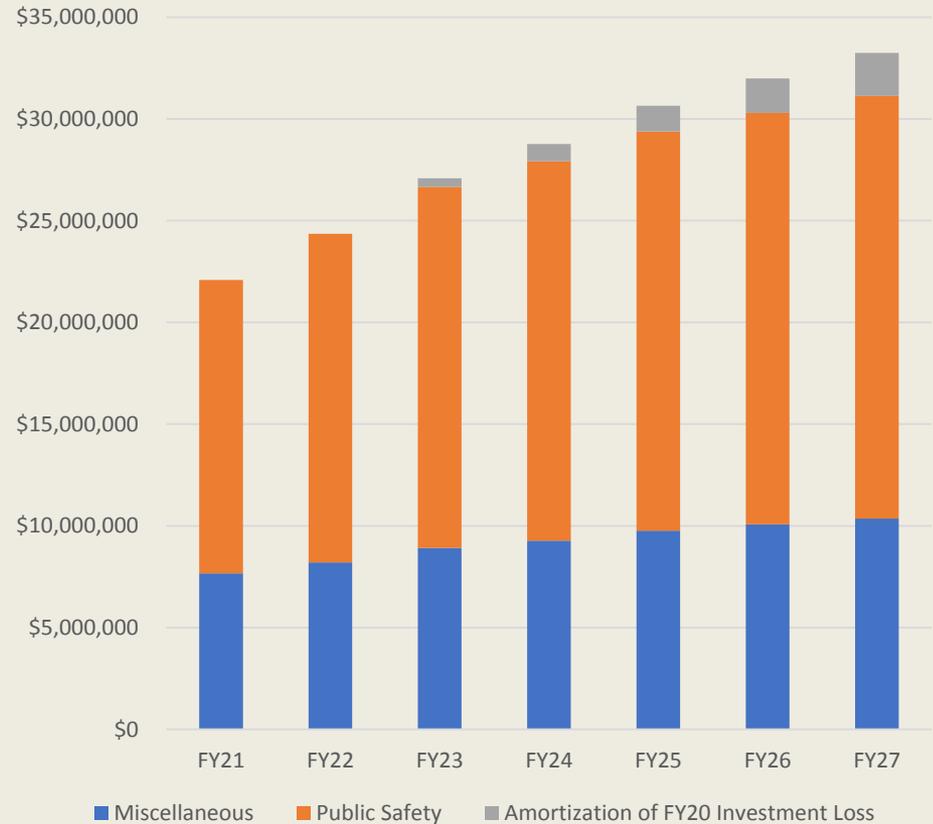
“Normal Cost” covers the cost of current employees

UAL will add \$43.4 Million through FY27 combined

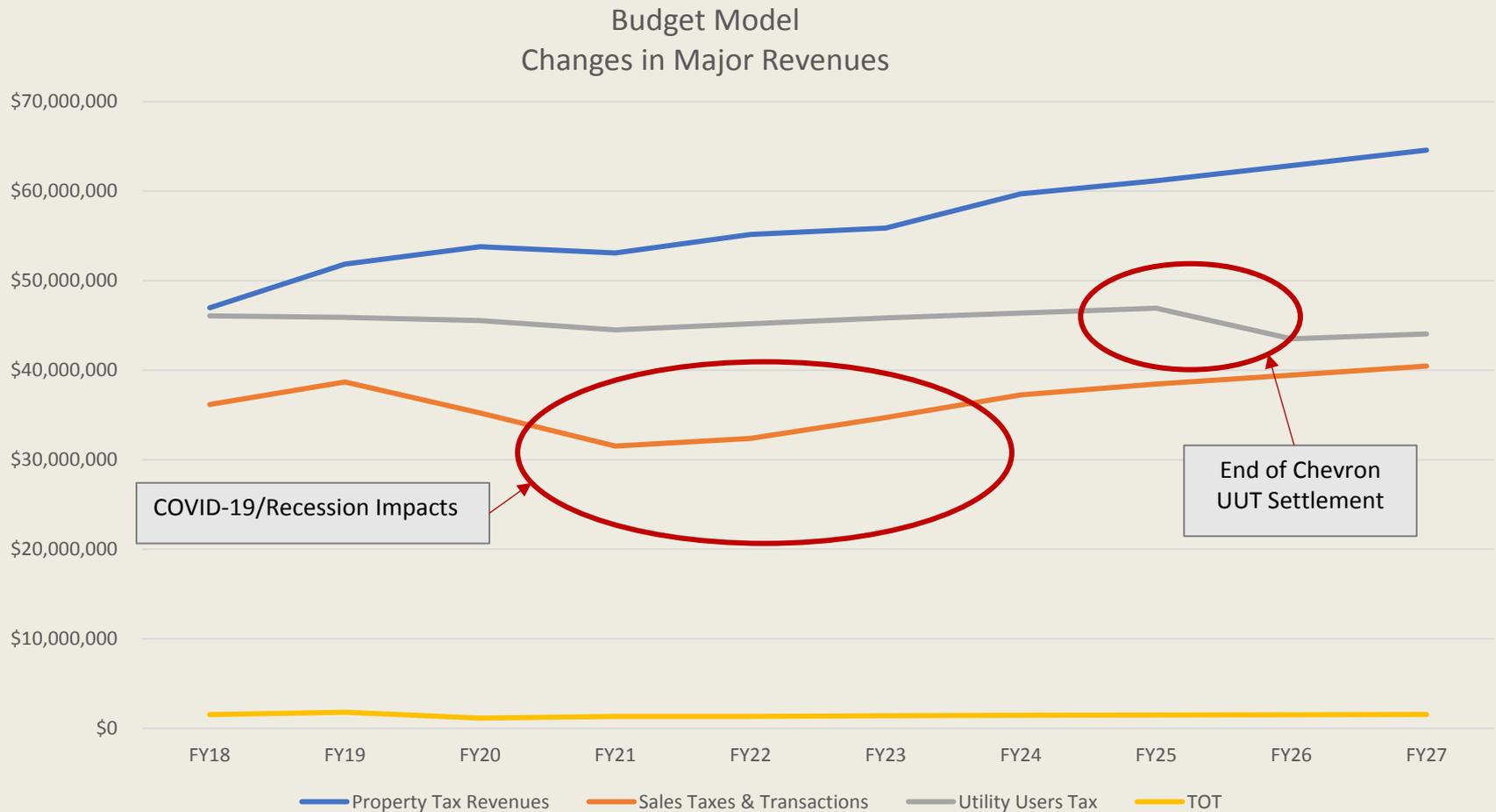
**PERS Normal Cost As Percent of Salary**



**Unfunded Pension Liability Costs**



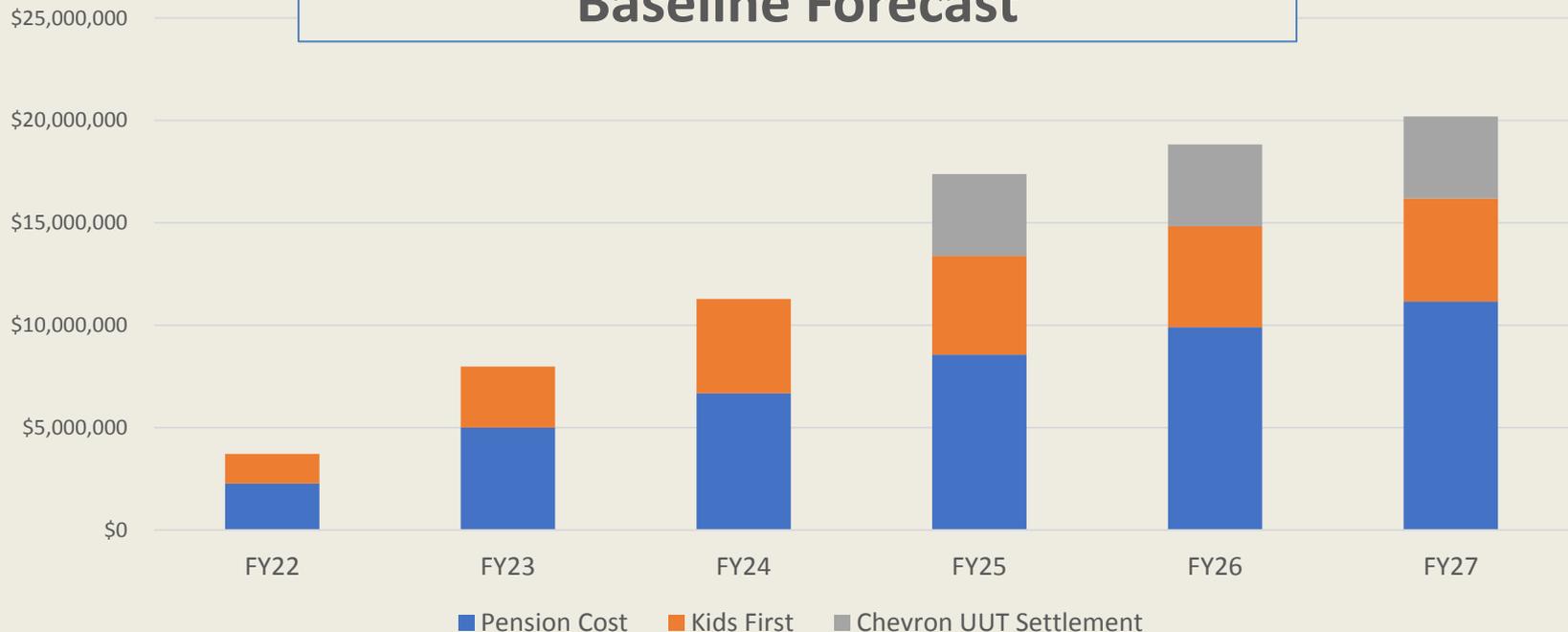
# Impact of COVID-19 | Revenue Growth



# Baseline Budget Pressures

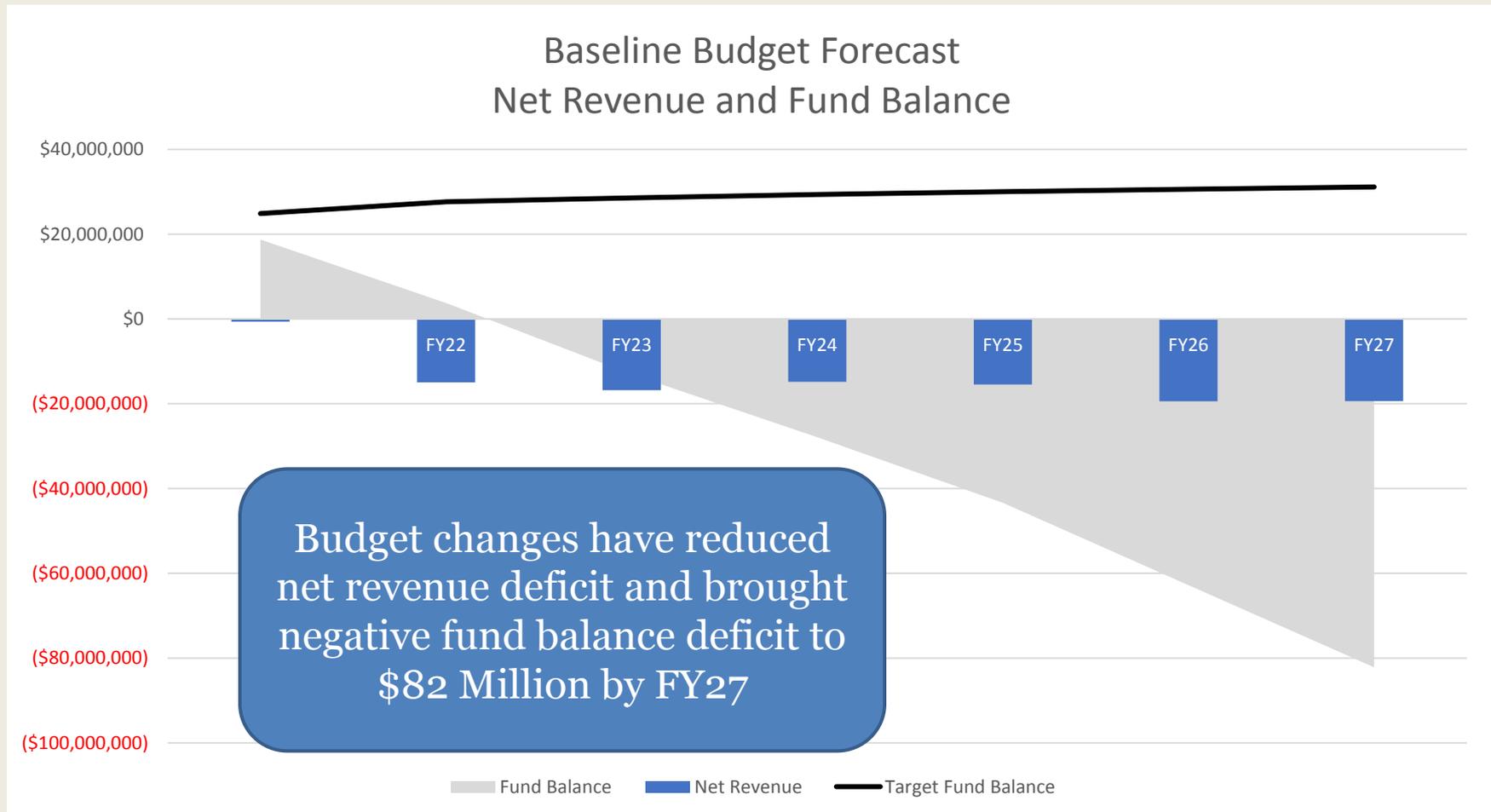
- Nearly **\$79.5 Million** in increased spending and decreased revenue will impact coming budgets

## Cost/Revenue Changes Included in the Baseline Forecast

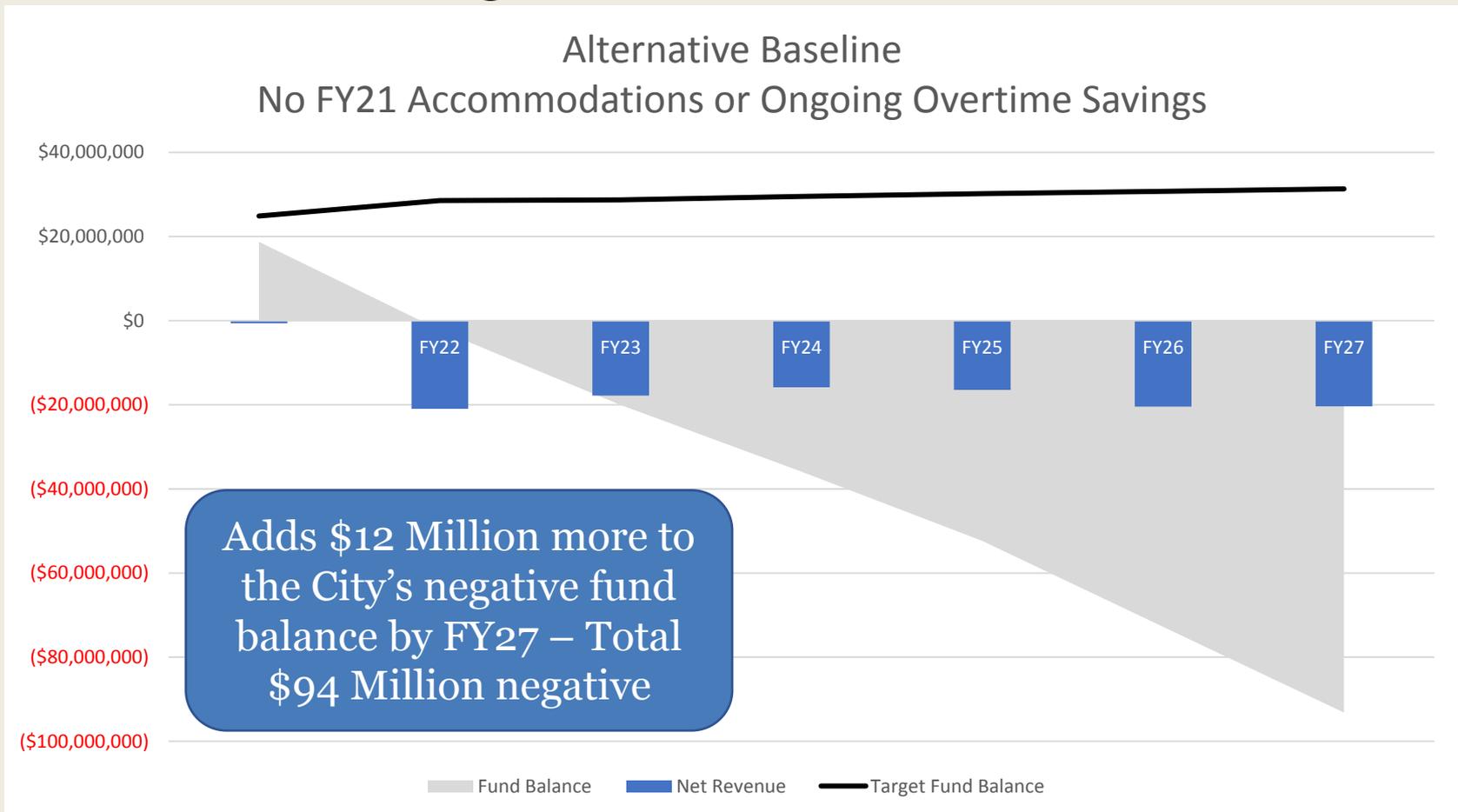


# Updated Sept. Baseline Forecast

- Frozen positions are not added back, no COLA for labor

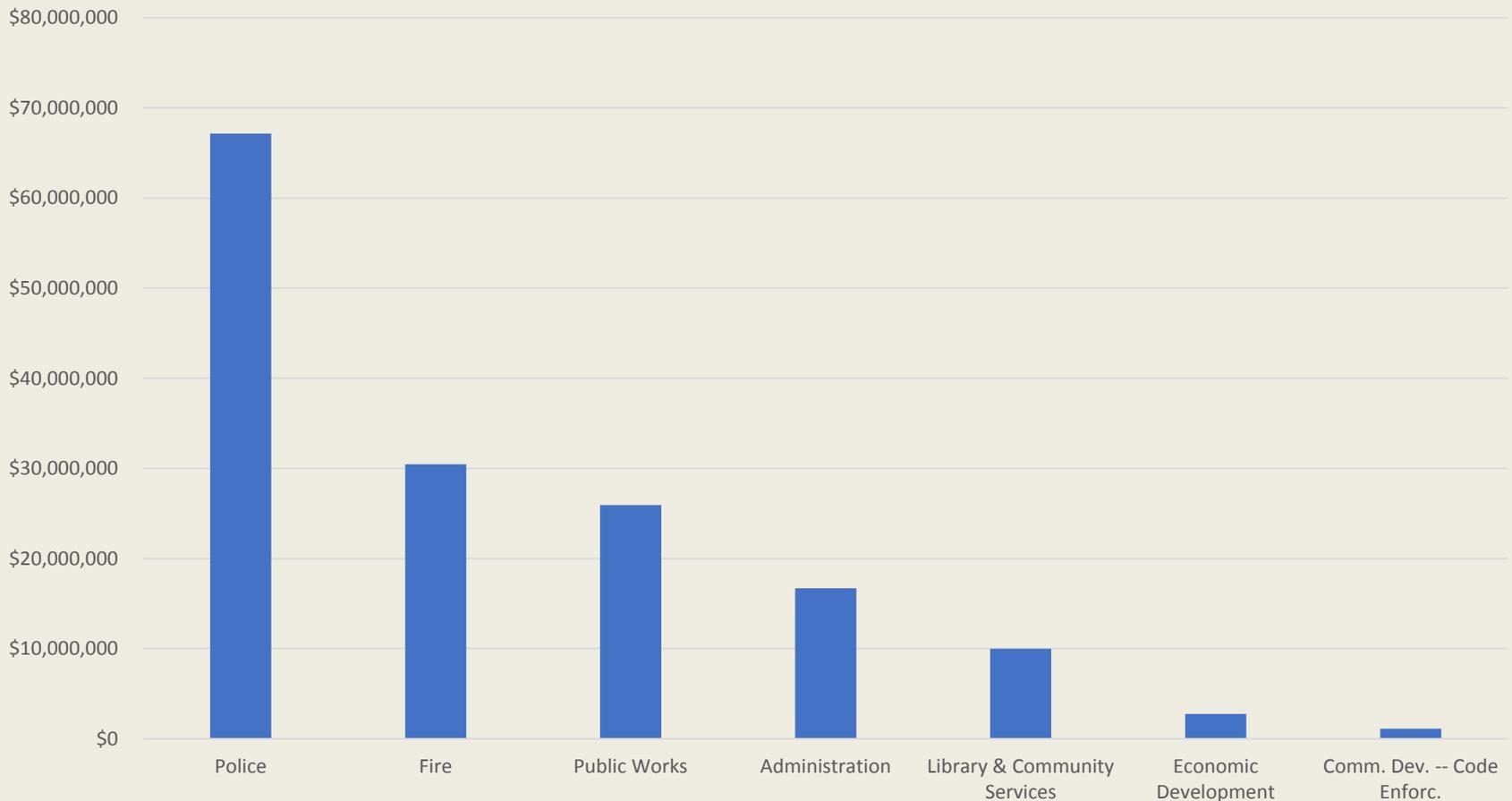


# Baseline Forecast | No Accommodation or Overtime Savings



# GF Budget Spending by Dept.

Where City Spends Its Resources



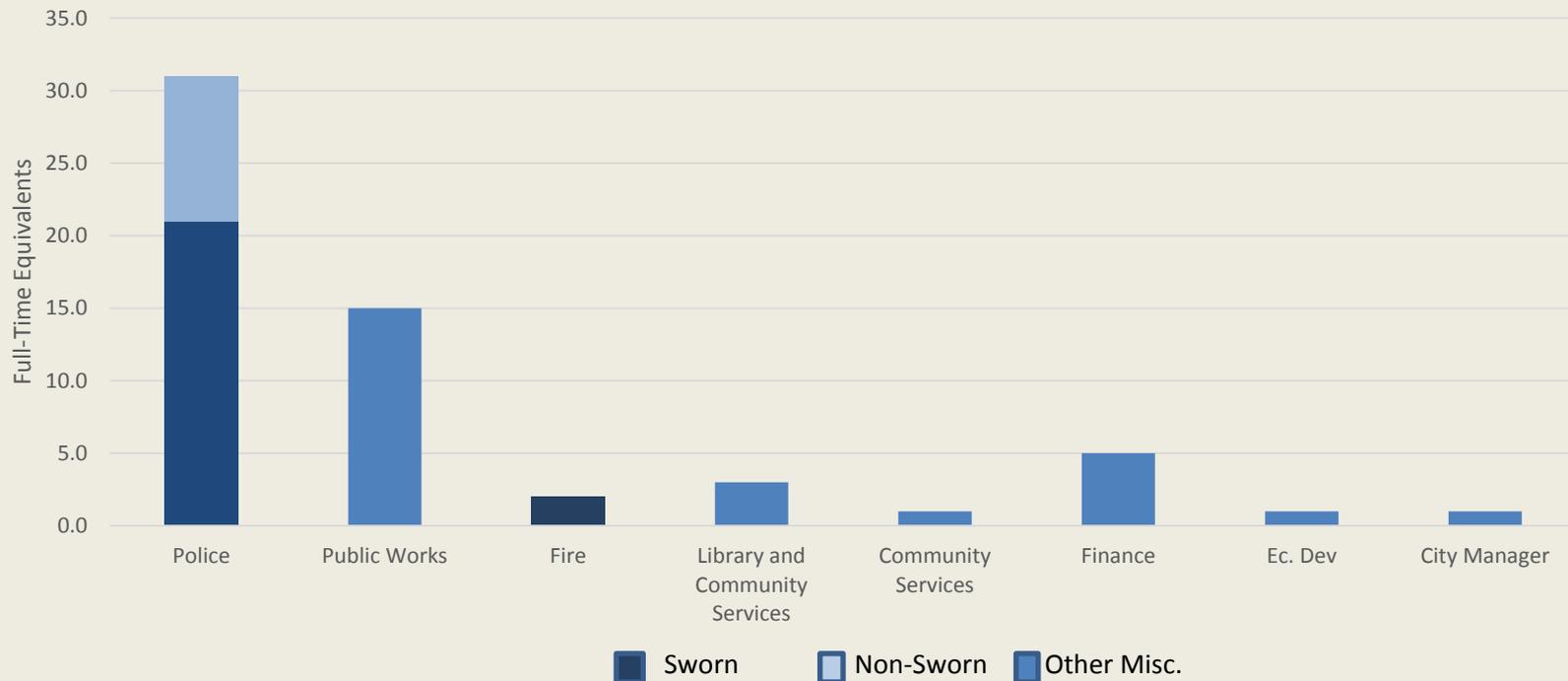
# Spending Pressures Not in Baseline

- Re-fund frozen positions
- Future COLAs
- Deferred maintenance
- Fully-fund retiree health liability
- Community investment (*e.g., new programs or facilities*)
- Reserves brought to council policy level

# FY21 De-Funded Positions

- Requires increased revenue and/or decreased expenses to re-fund

FY21 Frozen Positions



# Forecast Alternatives & Initiatives

# Unfunded Liabilities

- \$661.3 Million in unfunded liabilities
- Drives up future expenses

Source	Pensions	Retiree Health (OPEB)	Deferred Maintenance
Miscellaneous	\$134.6M		
Public Safety	\$216.3 M		
Citywide		\$187.7*	\$100M (est.)
RPOA Trust		\$22.7M**	
<b>Total</b>	<b>\$350.9M</b>	<b>\$210.4M</b>	<b>\$100M</b>

\* Excludes RPOA pre-2017

\*\* RPOA employees since 2017

Sources: CalPERS actuarial reports, August 2020  
 OPEB valuation reports, Van Waarden Assoc., 2019  
 City Public Works Estimate

# Council Policy Reserve Levels

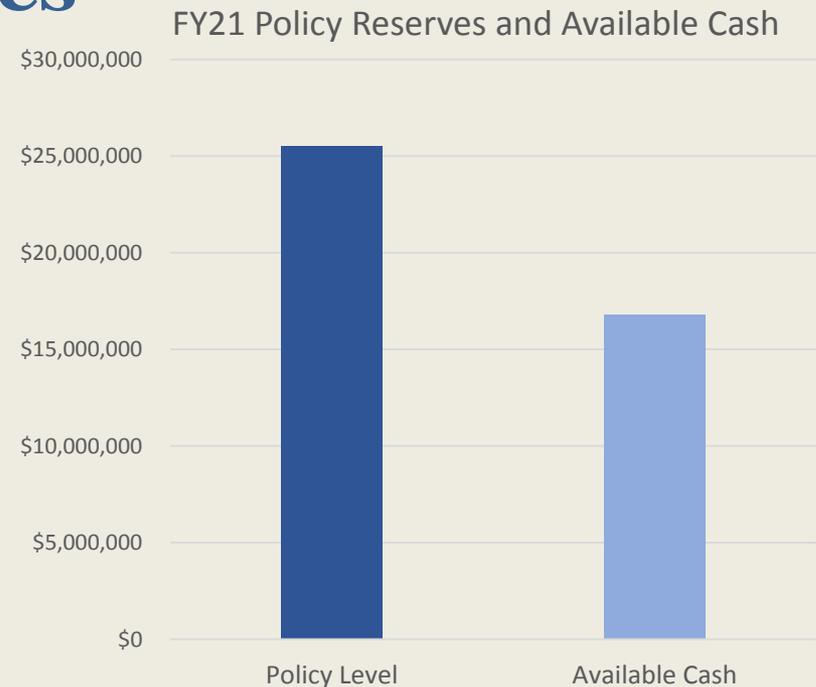
- “15% of next year’s budgeted expenditures”

“The City Council shall have the discretion to use the reserve for one-time emergencies only and not to be used for ongoing expenses.”

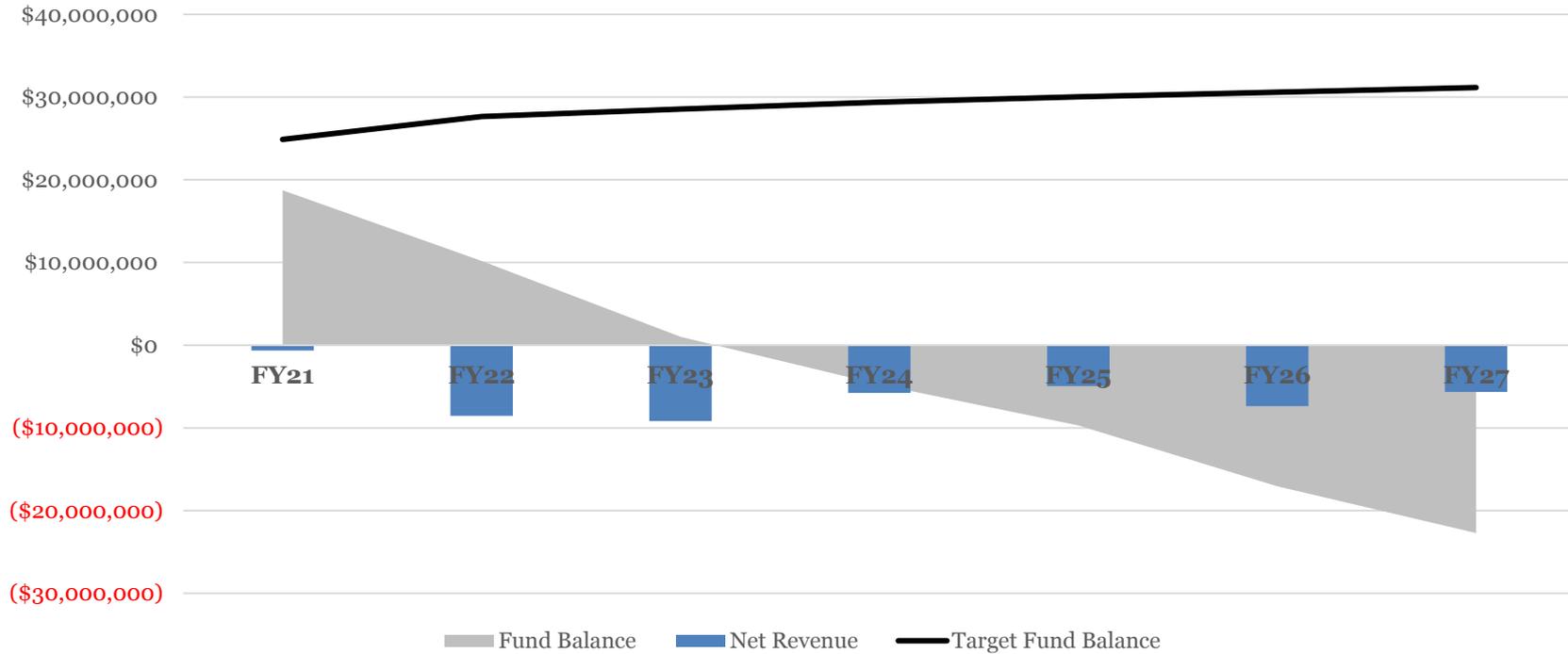
“As the City experiences net revenue gains in future years, the reserve balance must grow back to a minimum fifteen percent (15%) of total expenditures”

# Budget Reserves Status

- The City is \$8.7M under policy reserve levels
- **Cost to rebuild reserves**
  - **\$2.9M/yr. – 3 years**
  - **\$1.7M/yr. – 5 years**
- Maintaining reserve levels keeps the City financially solvent



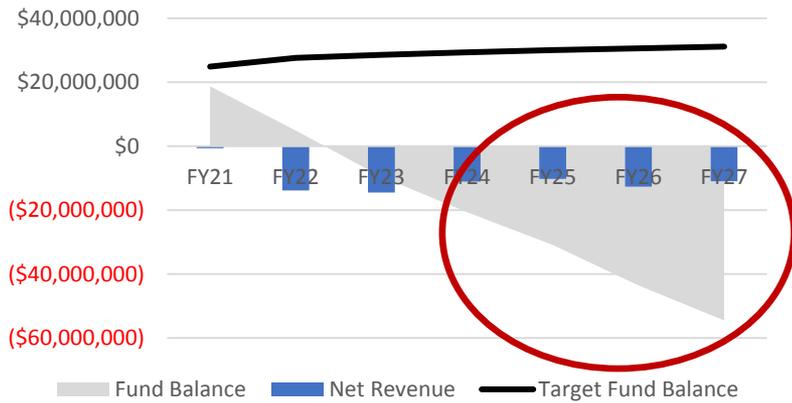
## Alternative Forecast #1: Improved Property & Sales Tax Increased Business License Tax



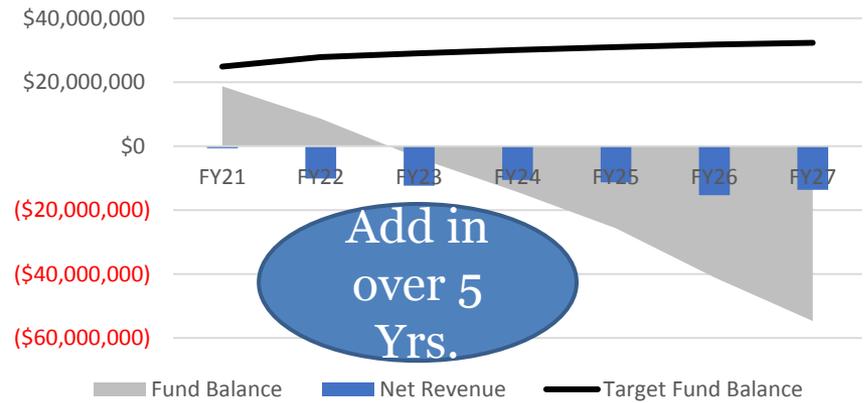
# Alternative Forecasts

All Alts. ~ (\$50M)  
Fund Balance

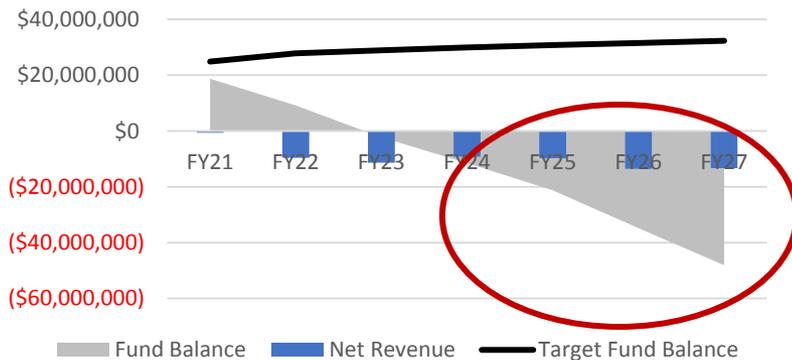
### Alternative #1B Improved Prop. and Sales Tax



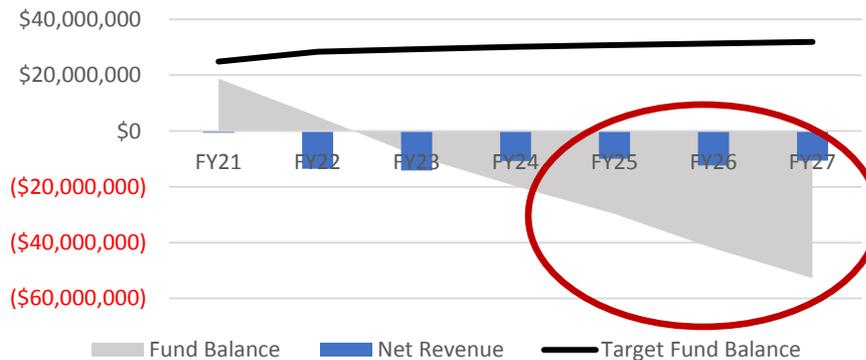
### Alternative Forecast #2: Add Back Frozen Positions



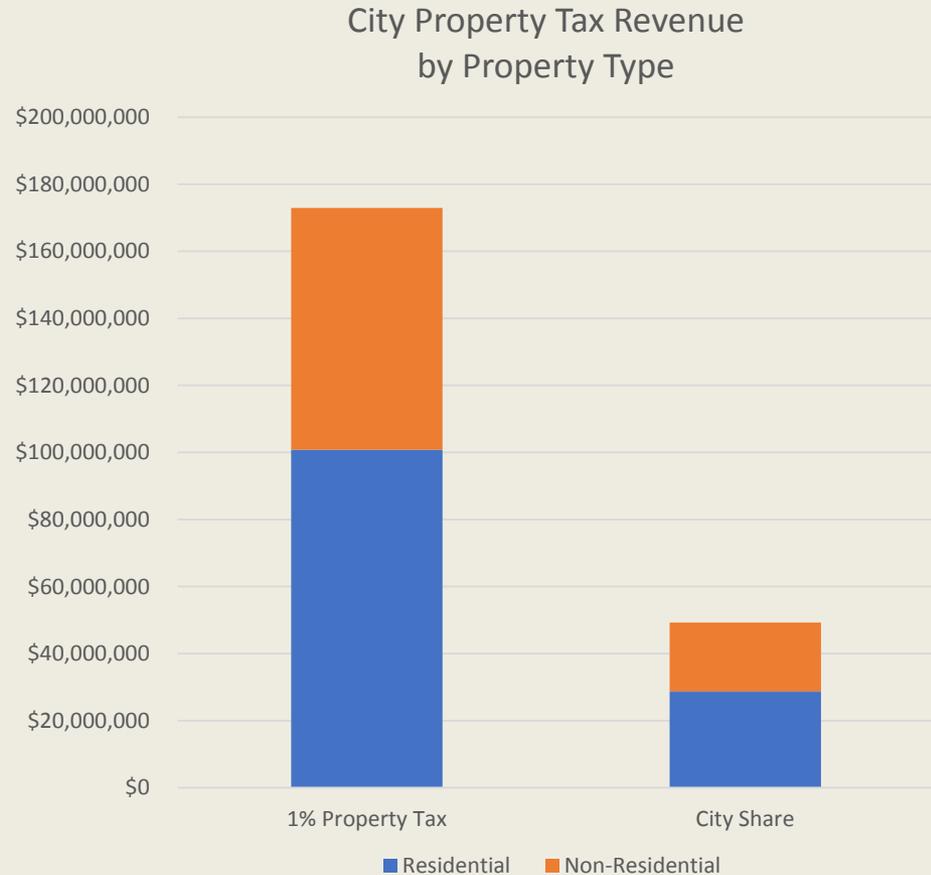
### Alternative Forecast #3: Add COLA



### Alternative Forecast #4: Add \$5M/Yr. Deferred Maintenance



# Split of Property Tax Roll



# Impact of Proposition 15

- Would impact revenues starting in FY23 at the earliest
- Property tax increase to the City is **unknowable** at this time
  - When properties changed hands
  - How market value will be determined
  - Impacts on value in current economy

# What Should the City do now?

- Restructure City services
  - **Develop Plan for Sustainable Services**
    - Fund long-term liabilities
    - Adequately resource services that are provided
    - Conduct up-to-date compensation study
- Build Reserves
  - Council policy reserve level – requires set-aside of future revenue growth
- Fund Deferred Maintenance
  - Include as annual budget item
  - Study City needs and priorities

Questions?