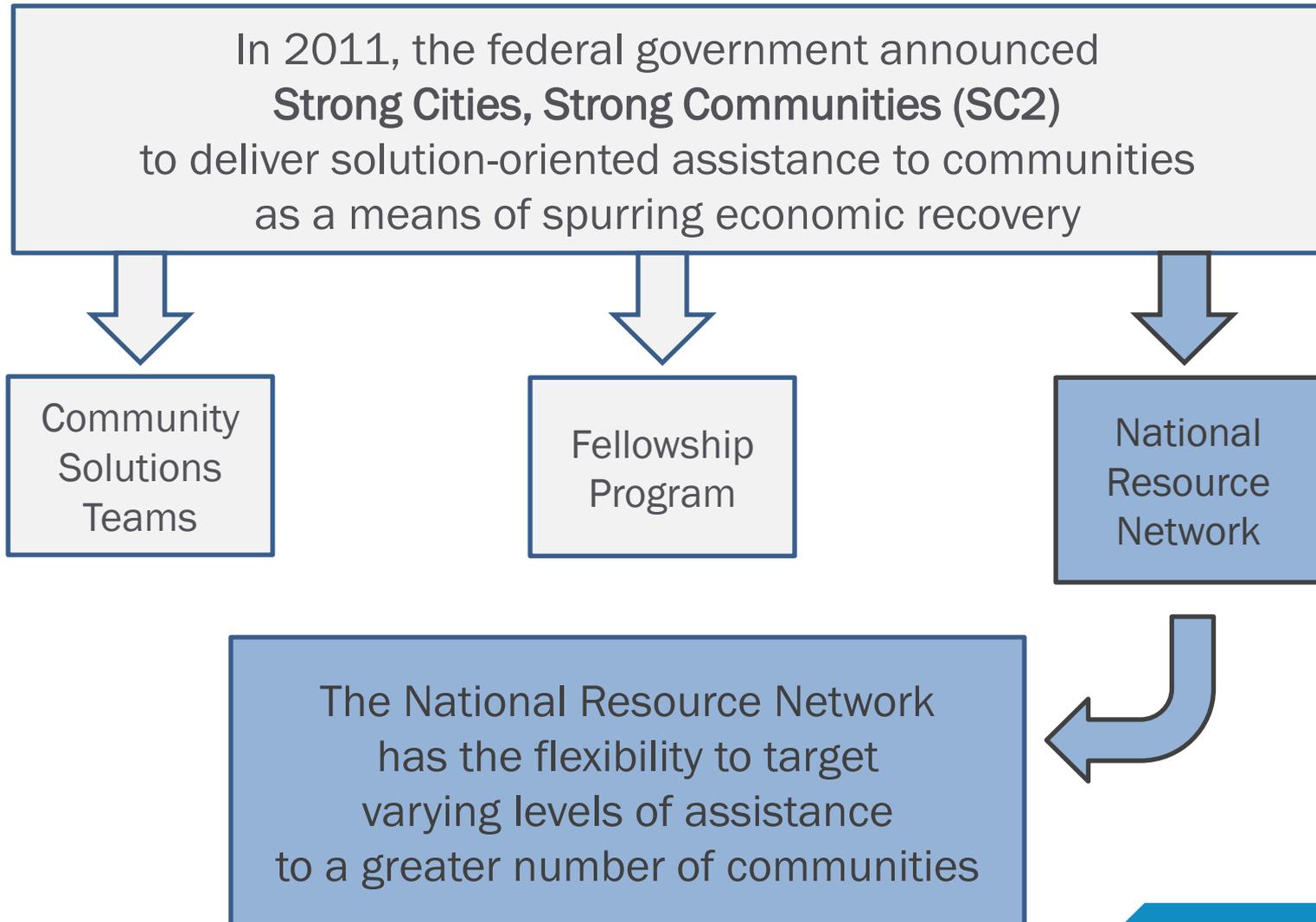


# City of Richmond Multi-Year Budget Update

December 15, 2015

# Introduction | The National Resource Network



# Purpose of Long-Range Financial Planning

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## Strategic

Helps create a long-view for strategic decision making

Informs policy decisions, such as the impact on General Fund reserves

Projects impacts of policy changes in volatile economic environment

## Financial

Identifies structural budget issues

Helps evaluate long-term impacts of current decisions

Helps understand major revenue and expense budget drivers

# Fiscal Situation | \$45m Cumulative Deficit over last 6 years

## Moody's Credit History

- Sept '12: Downgrade from Aa3 to A1
- May '15: Downgrade to Baa1
- August '15: Downgrade to Ba1

## Challenges

Revenue volatility

High levels of exposure to variable rate debt

Prior GF advances to poorly performing cost-recovery funds

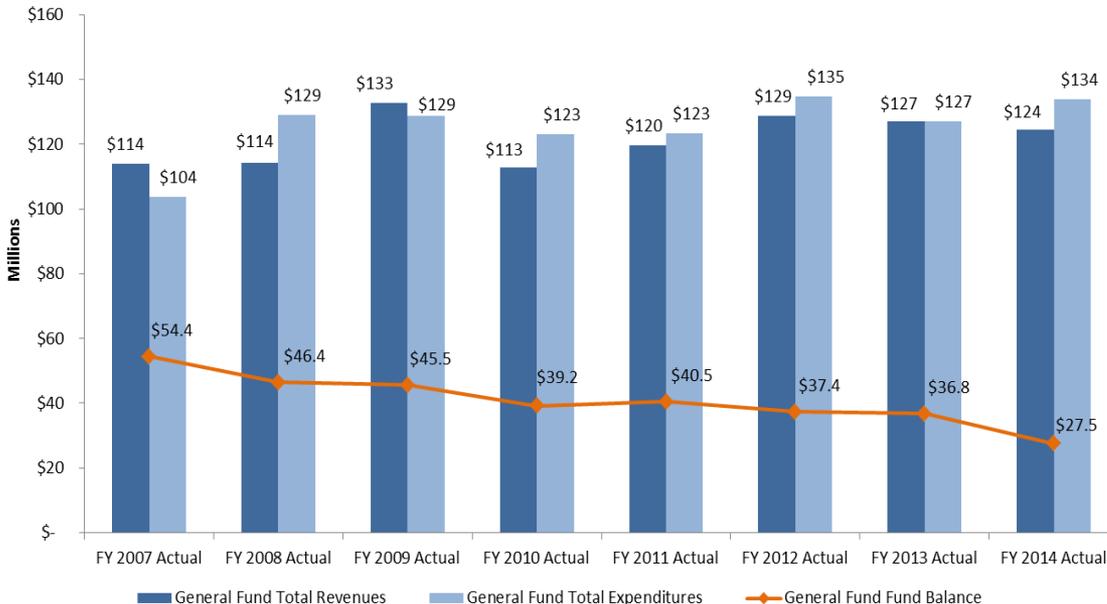
Inadequate steps to address long-term structural imbalance

Depletion of cash position

Borrowing from insurance reserves for short-term liquidity

Ongoing significant infrastructure funding needs

Staff cuts >20% since recession, less in public safety



GF balance fell by 50%

Total Gov Fund balance fell by 70.3%

# Agenda

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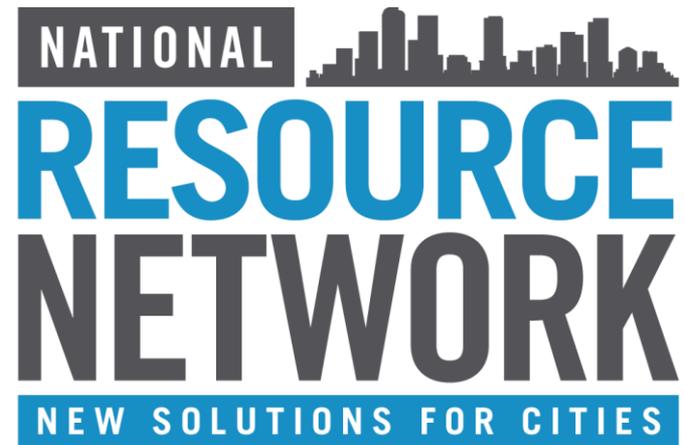
## I. Economic Context

## II. Baseline Forecast

- Budget projection with no changes from current practices without corrective action

## III. Alternative Budget Outcomes

- Steps Council can take to eliminate short term deficits and build a strong, stable General Fund budget

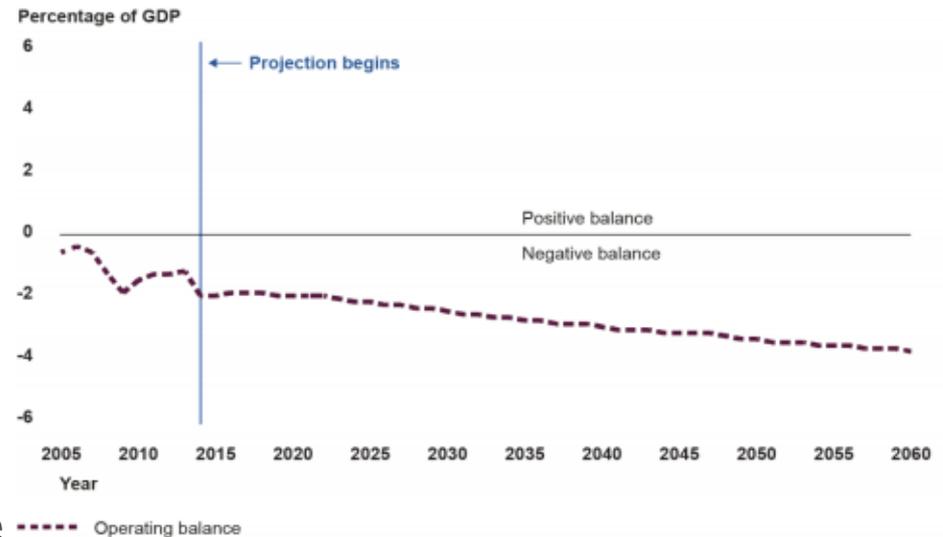


# Economic Context

# Structural Fiscal Challenges Remain

- The U.S. Government Accountability Office (GAO) has developed a simulation model for the state and local sector as an entirety, projecting significant fiscal gaps absent corrective action, due largely to:
  - Flat revenues as % of GDP
  - Healthcare and retiree costs rising faster than the overall economy
- GAO calculated that closing the structural fiscal gap would require action equivalent to a **18% reduction** in state and local government recurring expenditures

State and Local Operating Balance Measure, as a Percentage of Gross Domestic Product (GDP)



Sources: GAO calculations using Bureau of Economic Analysis data and GAO simulations, updated December 2014. | GAO-15-224SP

Source: United States Government Accountability Office, "State and Local Governments' Fiscal Outlook: April 2013 Update"

# The Start of the Next Downturn is Now Closer than the End of the Last One

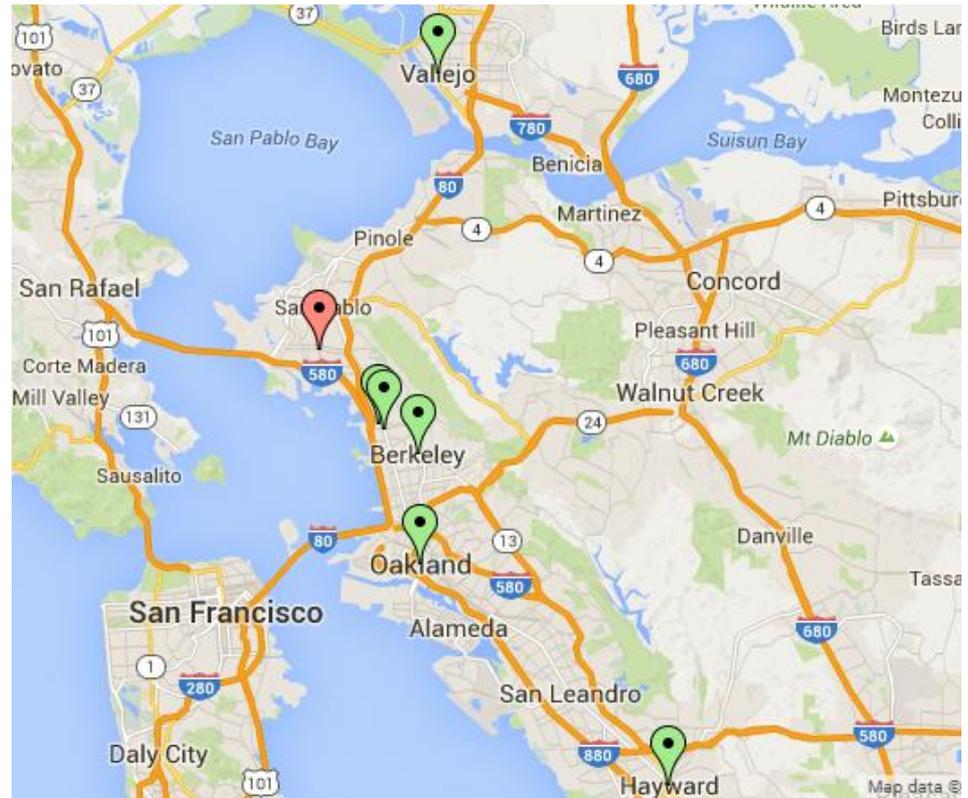
- The current expansion phases of the business cycle began five years ago, after the recession bottomed out in June 2009
  - 78 months and counting as of December 2015
- Last five expansion phases (trough to peak):

Start/End	Duration
November 2001 – December 2007	73 months
March 1991 – March 2001	120 months
November 1982 – July 1990	92 months
July 1980 – July 1981	12 months
March 1975 – January 1980	58 months

- Average 1945-2009 (11 cycles): 58.4 months
- Range: 12 to 120 months

# Richmond Compared to Nearby Cities

- Six comparator cities were selected based on population, land area, and proximity to Richmond to provide economic context to the City's budget forecast model.
  - Albany, CA
  - Berkeley, CA
  - El Cerrito, CA
  - Hayward, CA
  - Oakland, CA
  - Vallejo, CA



# Population Trends | Richmond population growth on par

- From 2000 to 2014, Richmond's population grew by 4.7%, a CAGR of 1.2% per year
- Population growth trends among the comparator group average 5.3% population growth from 2000 to 2014, a CAGR of 1.3% per year

Comparative City	Population
Oakland	410,603
Hayward	152,889
Vallejo	119,683
Berkeley	118,780
Richmond	107,388
El Cerrito	24,288
Albany	18,565
Richmond Rank	5 of 7
Median (excl. Richmond)	107,388

Source: California Department of Finance, 2015 New State Population Report

# Income Levels | Low compared to neighbors

Comparative City	Median Household Income
El Cerrito	\$88,380
Albany	\$78,769
Oakland	\$78,597
Berkeley	\$65,283
Hayward	\$62,691
Vallejo	\$58,472
Richmond	\$54,857
<b>Richmond Rank</b>	<b>7 of 7</b>
<b>Median (excl. Richmond)</b>	<b>\$71,940</b>

Comparative City	Income Per Capita
El Cerrito	\$44,153
Berkeley	\$42,406
Albany	\$40,426
Oakland	\$27,993
Vallejo	\$25,945
Hayward	\$25,770
Richmond	\$25,769
<b>Richmond Rank</b>	<b>7 of 7</b>
<b>Median (excl. Richmond)</b>	<b>\$34,210</b>

*Richmond's median household income and per capita income are below average relative to comparative cities*

Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

# Poverty & Unemployment | Average to High

Comparative City	Poverty Level
Berkeley	20%
Vallejo	18%
Richmond	17%
Hayward	15%
Albany	11%
Oakland	9%
El Cerrito	8%
<b>Richmond Rank</b>	<b>3 of 7</b>
<b>Median (excl. Richmond)</b>	<b>13%</b>

Comparative City	Unemployment
Vallejo	8.2%
Hayward	6.6%
Oakland	5.8%
Richmond	5.7%
El Cerrito	5.0%
Albany	4.7%
Berkeley	3.8%
<b>Richmond Rank</b>	<b>4 of 7</b>
<b>Median (excl. Richmond)</b>	<b>5.4%</b>

***Richmond's poverty rate is above the comparator group median and its unemployment rate is average amongst comparative communities***

Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

Source: Bureau of Labor Statistics, 2015 Unemployment Rate (average to date)

Note: County unemployment rates were used for El Cerrito and Albany

# Home Values | Very Low for Region

Comparative City	Median Home Value
Berkeley	\$719,500
Albany	\$639,500
El Cerrito	\$589,100
Oakland	\$435,000
Hayward	\$339,700
Richmond	\$271,300
Vallejo	\$222,100
Richmond Rank	6 of 7
Median (excl. Richmond)	\$512,050

***Richmond's median home values are below average for comparative communities. This impacts property taxes as well as attractiveness to retailers***

Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

# Revenue per Capita | Among the Highest

- The City's total General Fund revenues per capita ranks 3rd out of the 7 comparable labor-market cities
- Nearly one-third of revenues come from the Utility Users Tax

Comparative City	Revenue per Capita
Albany	\$1,432
Berkeley	\$1,342
Richmond	\$1,339
Oakland	\$1,301
El Cerrito	\$1,248
Hayward	\$918
Vallejo	\$648
Richmond Rank	3 of 7
Median (excl. Richmond)	\$1,275

***Richmond has higher than average General Fund resources to provide services for residents***

Source: California Department of Finance, 2015 New State Population Report

Source: FY16 City General Fund Budgets

# Public Safety Spending | Highest Among Comparators

Comparative City	Police Expenditures per Capita	Fire Expenditures per Capita	Total
Richmond	\$589	\$268	\$857
Oakland	\$516	\$301	\$817
El Cerrito	\$460	\$346	\$806
Berkeley	\$481	\$238	\$719
Hayward	\$432	\$229	\$661
Albany	\$360	\$261	\$621
Vallejo	\$243	\$168	\$411
Richmond Rank	1 of 7	3 of 7	1 of 7
Median (excl. Richmond)	\$446	\$250	\$690

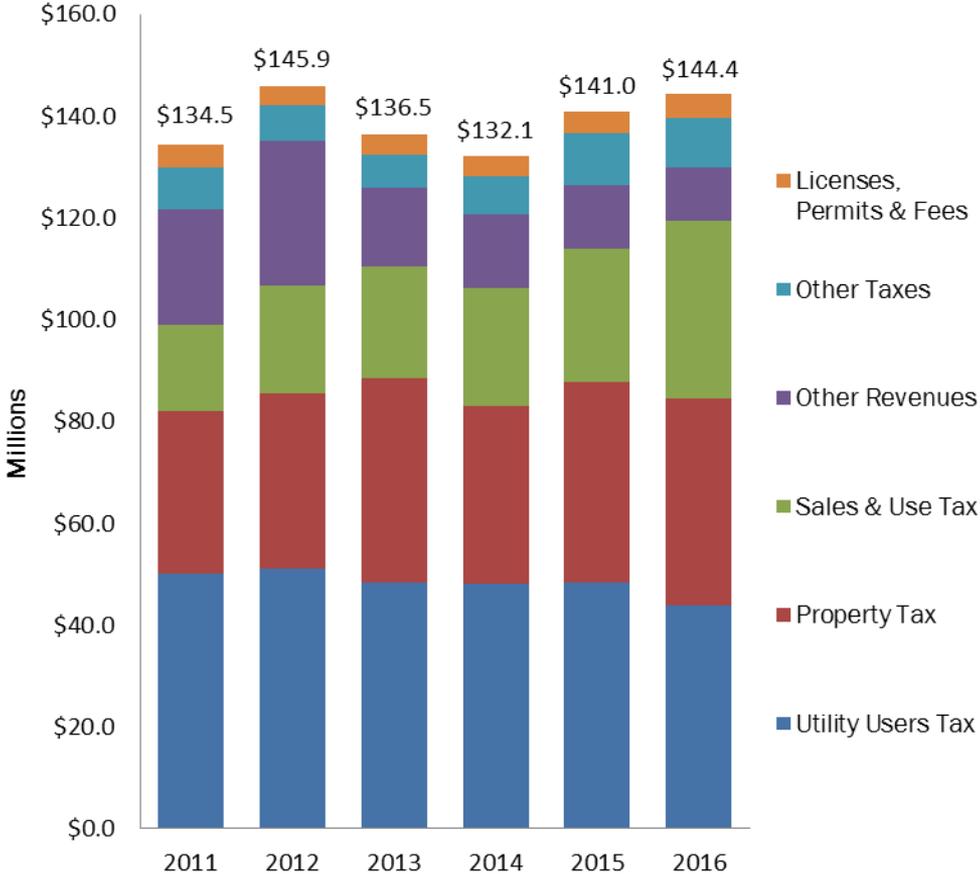
***Richmond spends more per capita on public safety than any comparator City. This results in millions of dollars of additional spending over the next closest City***

Source: California Department of Finance, 2015 New State Population Report

Source: FY16 City General Fund Budgets

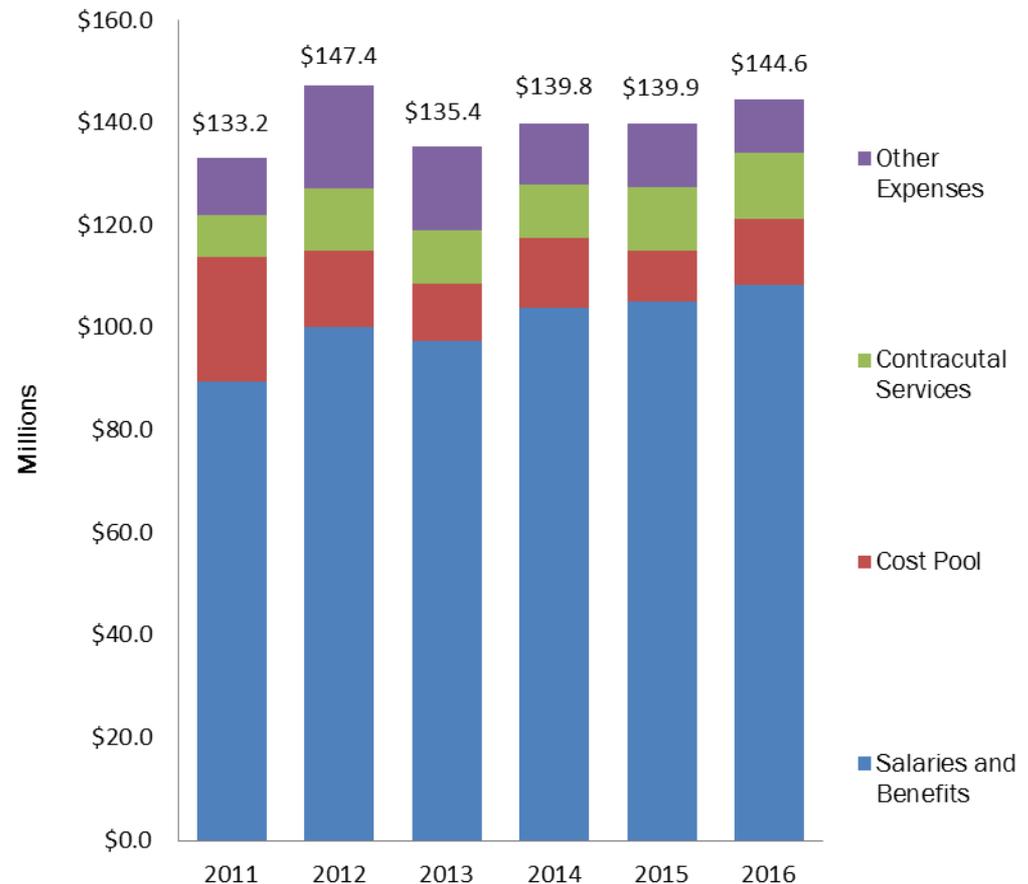
# General Fund Revenues | Dependent on Taxes

- Property (28.2%), sales (24.1%), and utility users (30.4%) tax revenues comprise 82.7% of total General Fund Revenue



# General Fund Expenses

- Salaries and benefits account for **75%** of total General Fund expenditures in FY16
- The other **25%** is comprised of expenses that have little room for reductions (e.g., debt service, utilities, rents, gas, supplies)

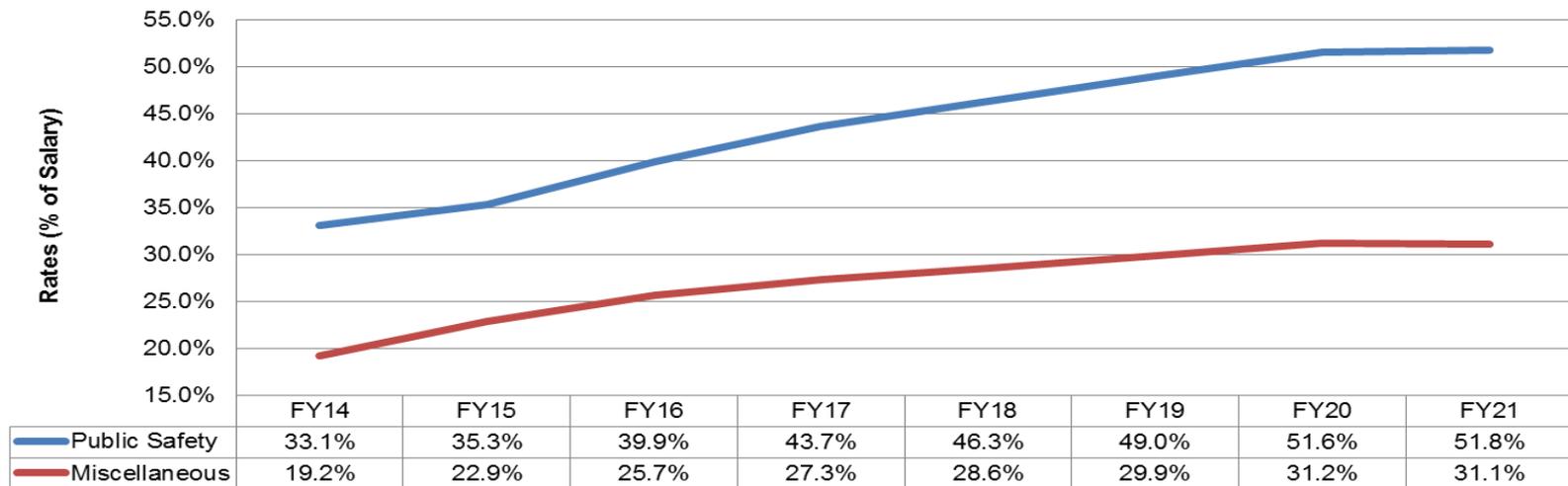


Note: Cost Pool includes civic center rent, general liabilities, and expenditures for replacement vehicles

# CalPERS Rates | Increasing Significantly

- Employer PERS rates are expected to rise significantly over the next several years as a result of actuarial changes approved by the CalPERS board and mortality improvements
- PERS contributions grow by 6% per year on average from FY16 to FY21 (adding \$6.5 million per year pension costs by FY21)

**PERS Employer Contribution Rates  
FY14 - FY21 (projected)**



***Forecast Employer PERS rates will have a significant impact on the City of Richmond's finances through FY21***

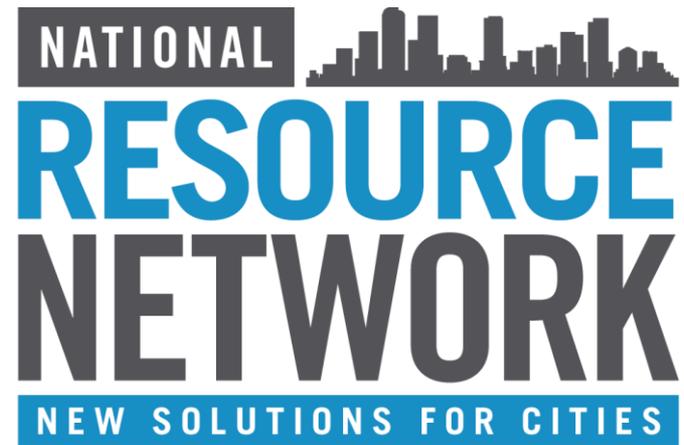
Source: CalPERS Actuarial Valuation Reports

# Overtime | Significant Cost in Public Safety

## FY11-15 Overtime Costs



***Through the first quarter of Fiscal Year, Police have accumulated \$1.5 million in overtime and are on track for \$6 million***



# Baseline Budget Forecast

# Baseline Forecast

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- The following slides summarize Richmond’s “baseline” forecast, reflecting:
  - The City’s financial position on a carry-forward basis over the next five years inclusive of debt refinancing
  - The baseline assumes continuation of current programs and financial policies without corrective action
- This forecast does not reflect the impact of setting aside revenue for long-term unfunded liabilities:
  - Retiree healthcare Annual Required Contribution
  - Deferred road repairs
  - Upkeep of other City infrastructure (e.g., buildings and parks)

# Baseline Forecast Assumptions

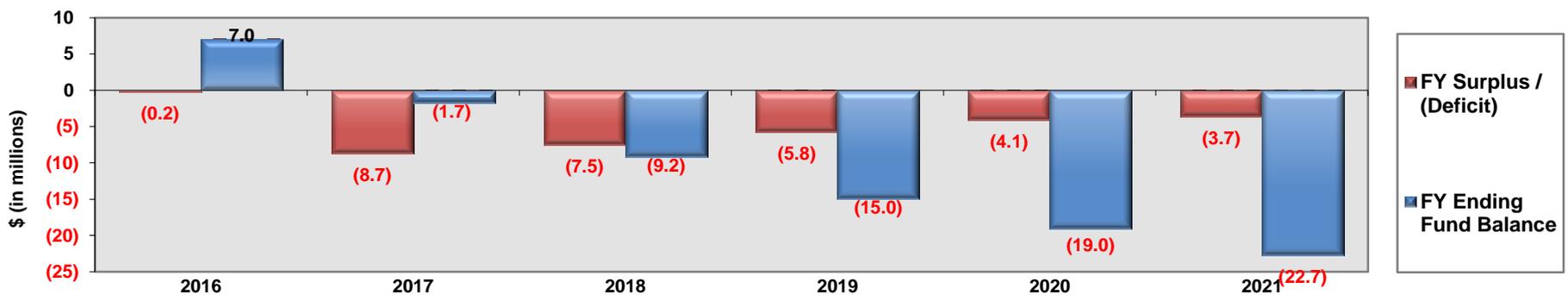
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- **Key Revenue Growth Rates** –
  - **Property Taxes:** grow 6% in FY17 and FY18 and 5% thereafter
  - **Sales Taxes:** 4% per year (MuniFinacial projections)
- **Key Expense Growth Rates**
  - **Salaries:** 1% annually (natural step increases and longevity )
  - **PERS:** CalPERS forecast from latest actuarial valuations (less 3% employee share for police and fire)
  - **Group Health Insurance:** OPEB actuarial forecasts
  - **Retiree Health:** 2013 actuarial analysis
- **Other revenue and expense** track general inflation, ranging from 2.0% to 2.3% per year
- No funding for additional road maintenance, funding of retiree health trust, or ongoing maintenance of City buildings and parks

# Baseline Forecast Results | Growing Deficit

- Deficit spending through FY21 without any negotiated salary increases
- Results in a **\$22.7 million negative fund balance** by FY21
- Need a **\$39.4 million swing in expenses and revenues to have a 10% fund balance** reserve of \$16.8 million in FY21

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



Note: Decreasing deficit based on property tax growth assumptions

# Key Drivers of Long-Range Gap

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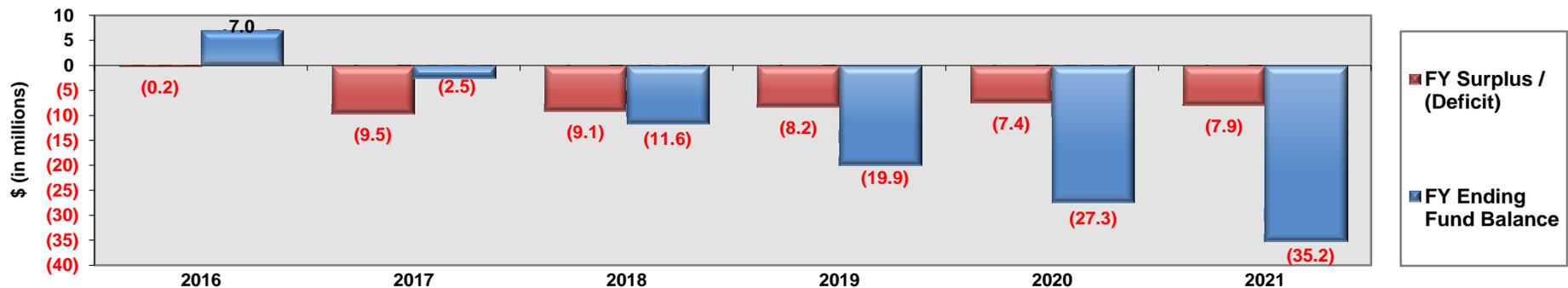
- Elimination of one-time revenues and expense savings result in decrease to net revenue of **\$5.5 million in FY17**
- Increases to pension costs resulting in average cost increase of **\$1.3 million per year**
- Health cost escalation resulting in average cost increase of **\$650,000 per year**
- A \$6 million reduction of the Chevron UUT settlement payment in FY16 with another decline of \$3 million in FY21
- General cost growth

**NOTE: Baseline assumes no increases to negotiated base wages throughout the forecast period**

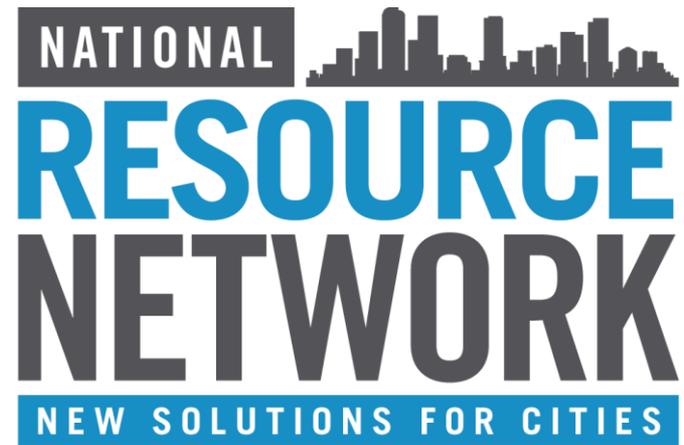
# Baseline Forecast Results | Salary increases are unaffordable

- If an average 1% salary raise is granted (increasing annually by 2%), total annual deficits increase and fund balance drops to a negative **\$35.2 million in FY21**
- Salary raises cannot be granted without creating budget room
- Need a **\$52.4 million swing in expenses and revenues to have a 10% fund balance** of \$17.1 million in FY21

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



Note: Decreasing deficit based on property tax growth assumptions



# Alternative Budget Outcomes



# City Goals in Budget Initiatives

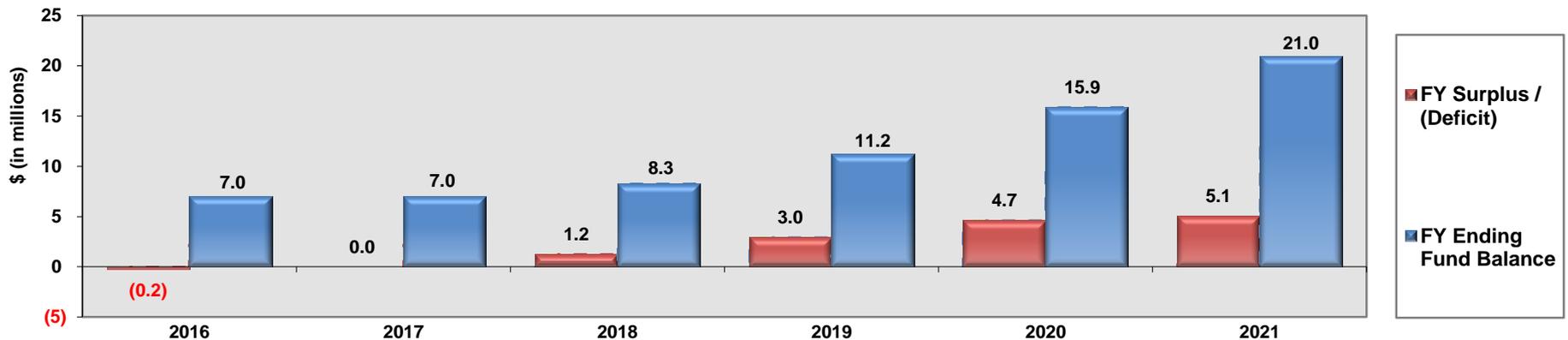
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1. Build and maintain a **minimum 10 percent unrestricted budget reserve**
2. Create a budget structure where **recurring revenues exceed recurring expenses**
3. **Repair and maintain the City's roads** by creating revenues in excess of that needed 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**

# Fixing the Budget | Requires major expense reductions

- The City needs to increase net revenues by 7.6% in FY17 to balance the budget. **A reduction in expenses or increase in revenues of \$8.7 million per year**
- Difficult decisions on service levels and staffing costs are needed
- This “fix” would build reserves and allow for investments in City infrastructure

**Budget Forecast Assuming  
\$8.7 million increase in Net Revenues**



# Expense Considerations

Savings Opportunity	FY17 Savings	Projected 5-Year Savings
Change LEAP and Public Art Funding Source	\$883,167	\$4.5 million
Cut Overtime by 25%	\$1.9 million	\$9.6 million
20% Health Care Cost Sharing	\$2.2 million	\$12.6 million
50% PERs Normal Cost Share (misc.)	\$407,387 (FY18 Savings)	\$1.7 million
Eliminate Current Vacant Positions	\$1.9 million	\$9.9 million
Staff Reduction	\$7.0 million	\$35.0 million
Freeze Wages	\$806,078	\$12.1 million
<b>Total Cumulative Savings</b>	<b>\$14.7 million</b>	<b>\$85.4 million</b>
<b>Change in Net Savings Needed</b>	<b>\$8.7 million</b>	<b>\$39.4 - \$52.4 million</b>

# Revenue Considerations

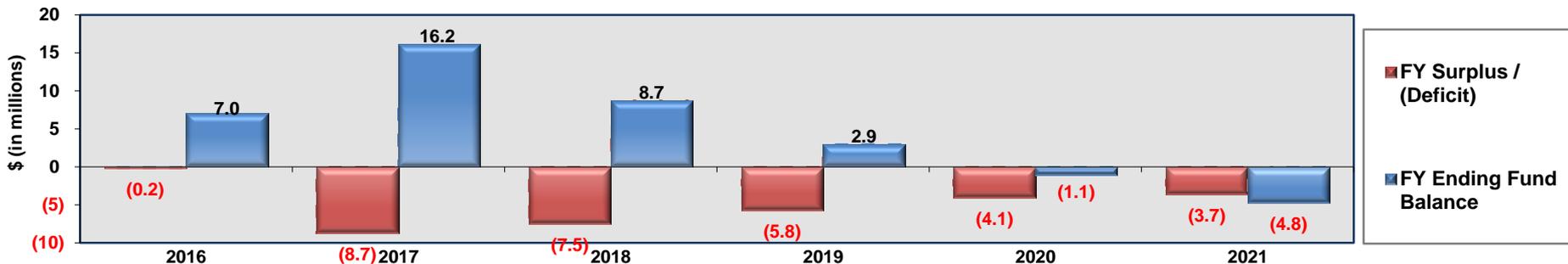
Revenue Opportunity	FY17 Revenue	Projected 5-Year Revenue
Increase City-Controlled Revenues	\$782,986	\$3.9 million
UUT Water/Sewer	\$400,000-\$600,000 per year (FY18 Implementation)	\$2.4 million
¼ Cent Sales Tax or Other Voter Approved Tax	\$4.2 million (FY18 implementation)	\$16.8 million
Sales of City Assets	\$17.9 million	\$17.9 million
<b>Total Cumulative Revenue</b>	<b>\$18.7 million</b>	<b>\$41.0 million</b>
<b>Change in Net Revenue Needed</b>	<b>\$8.3 million</b>	<b>\$39.4 - \$52.4 million</b>

*Note: UUT Water/Sewer revenue depends on the rate charged and the total amount of billing*

# Use One-Time Revenues Carefully

- Anticipated one-time revenues in FY17 could add \$17.9 million to the Fund Balance
  - JPA Reserve Distribution \$2.2 million
  - Richmond Housing Authority \$1.7 million
  - Fire Training Center Sale \$2.0 million
  - Terminal 1 \$9.5 million
  - Westridge Apartment Building reserve release \$2.5 million
- If budgets are not balanced, these funds will be lost to deficit spending

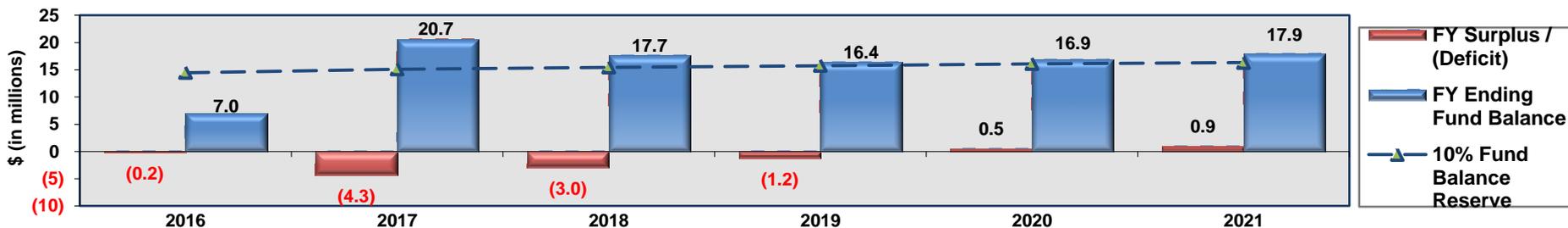
FY2016 - FY2021 Budget Forecast with One-Time Revenues



# Scenario A | No Impact to Employee Base

- Eliminate \$1.9 million in vacant positions from budget in FY17 (based on current vacancies)
- Reduce overtime by 25%
- Additional \$15.9 million in one-time revenues to fund balance in FY17
- Pay for LEAP and Public Art Programs from special revenue
- Results:
  - Does not eliminate structural budget deficit until FY20
  - Able to maintain a minimum 10% Fund Balance reserve
  - No budget room to fund infrastructure funding or staff raises

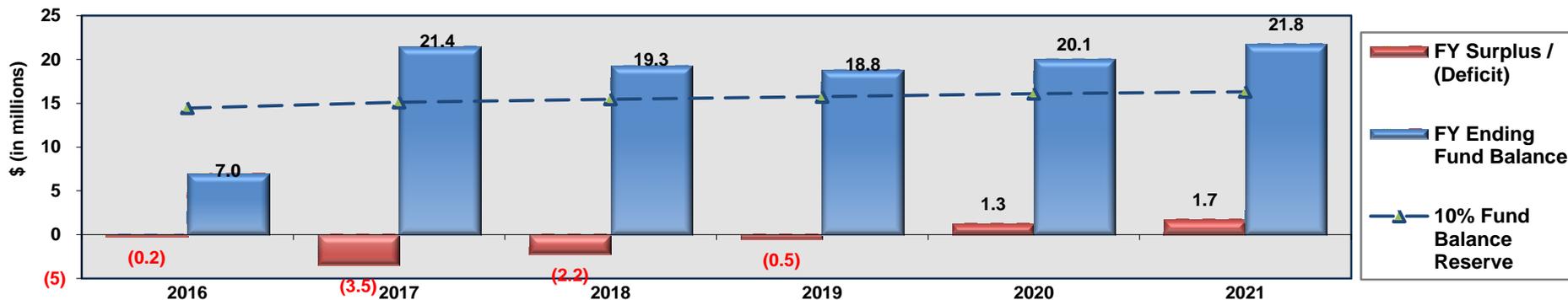
FY2016 - FY2021 Fund Balance: Scenario A



# Scenario B: | Increase User Charges

- In addition to Scenario A, increase user charges by 10%
- Results:
  - Ability to maintain a 10% Fund Balance reserve
  - Growing structural surplus in FY20, and FY21
  - Ability to consider staff raises in priority with other spending needs
- Ability to fund additional street maintenance, pay down retiree health liability, maintain City parks and buildings, or fund raises

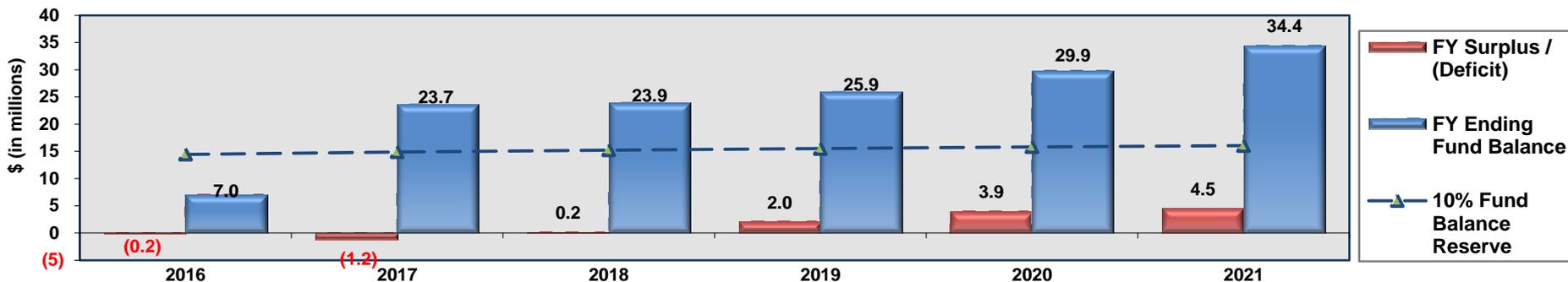
FY2016 - FY2021 Fund Balance: Scenario B



# Scenario C-1 | Add Employee Health Premium Cost Share

- In addition to Scenario B changes, have employee's pay 20% of health premium costs
- This combination of actions results in the following:
  - Ability to maintain a 10% Fund Balance reserve
  - Structural budget surplus of \$4.5 million in FY21
- Ability to fund additional street maintenance, pay down retiree health liability, maintain City parks and buildings, or fund raises

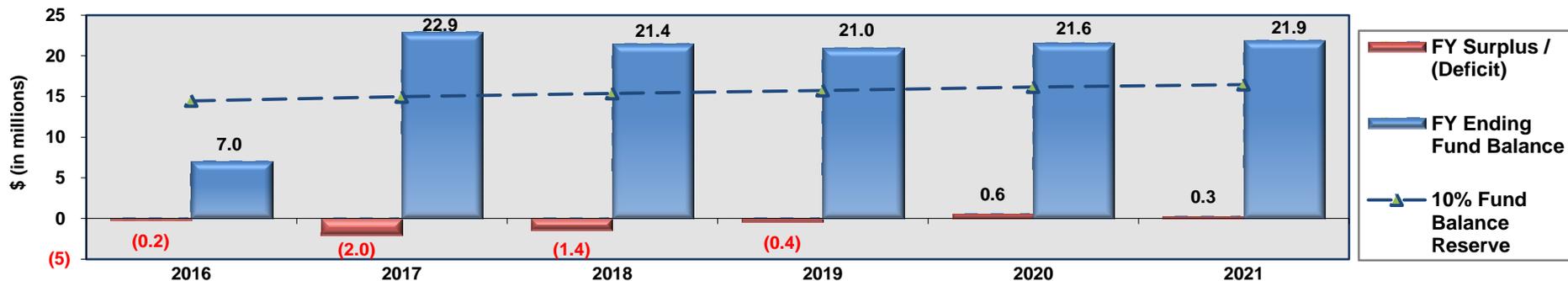
FY2016 - FY2021 Budget Forecast: Scenario C1

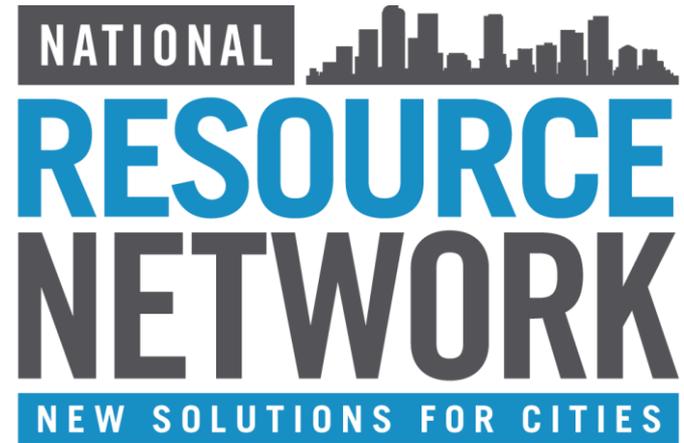


# Scenario C-2 | Add 1% Per Year in Salary Increases

- In addition to Scenario B changes, have employee's pay 20% of health premium costs and receive an average 1% salary raise (increasing annually by 2%),
- This combination of actions results in the following:
  - Does not eliminate structural budget deficit until FY20
  - Ability to maintain a 10% Fund Balance reserve
- Inability to fund additional street maintenance, pay down retiree health liability, maintain City parks and buildings

FY2016 - FY2021 Budget Forecast: Scenario C





# Conclusions

# Conclusions

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- Choices the City makes in the next year will either lead to increased financial stability or increased financial distress
- Definitive action is required by the Council in developing the FY17 budget this spring to reset the City's baseline budget
  - Cuts in spending will be necessary
  - Impacts to employees will be unavoidable (either in cost-sharing or positions)
  - Service levels may be reduced
- Building and maintaining a General Fund reserve requires immediate budget action. Funding the reserve from one-time monies without a plan to reduce the budget will result in a continued deterioration of reserves