



CITY OF

Richmond CALIFORNIA

ITEM H-1: Staff Recommendations on Budget Balancing Strategies and Five- Year Budget Forecast Model

Richmond City Council Meeting
Finance Department
May 26, 2020

ITEM H-1

APPROVE staff recommendations on budget balancing strategies, and RECEIVE a presentation on the City's preliminary five-year budget forecast - City Manager's Office/Finance Department

Agenda

- Preliminary Five-Year Budget Forecast
- Staff Recommendations on Budget Balancing Strategies
- Next Steps



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Five-Year Budget Forecast Model

Russ Branson



City Budget Issues & COVID-19



COVID-19 Impacts

- Sales Taxes down with no clear bottom
- TOT down 25% in FY20 and FY21
- Uncertainty in all revenue sources



Budget Reserves

- Low cash reserves
- Reduced ability for City to “wait-and-see” on COVID-19 impacts
- Critical cash shortage without near-term action



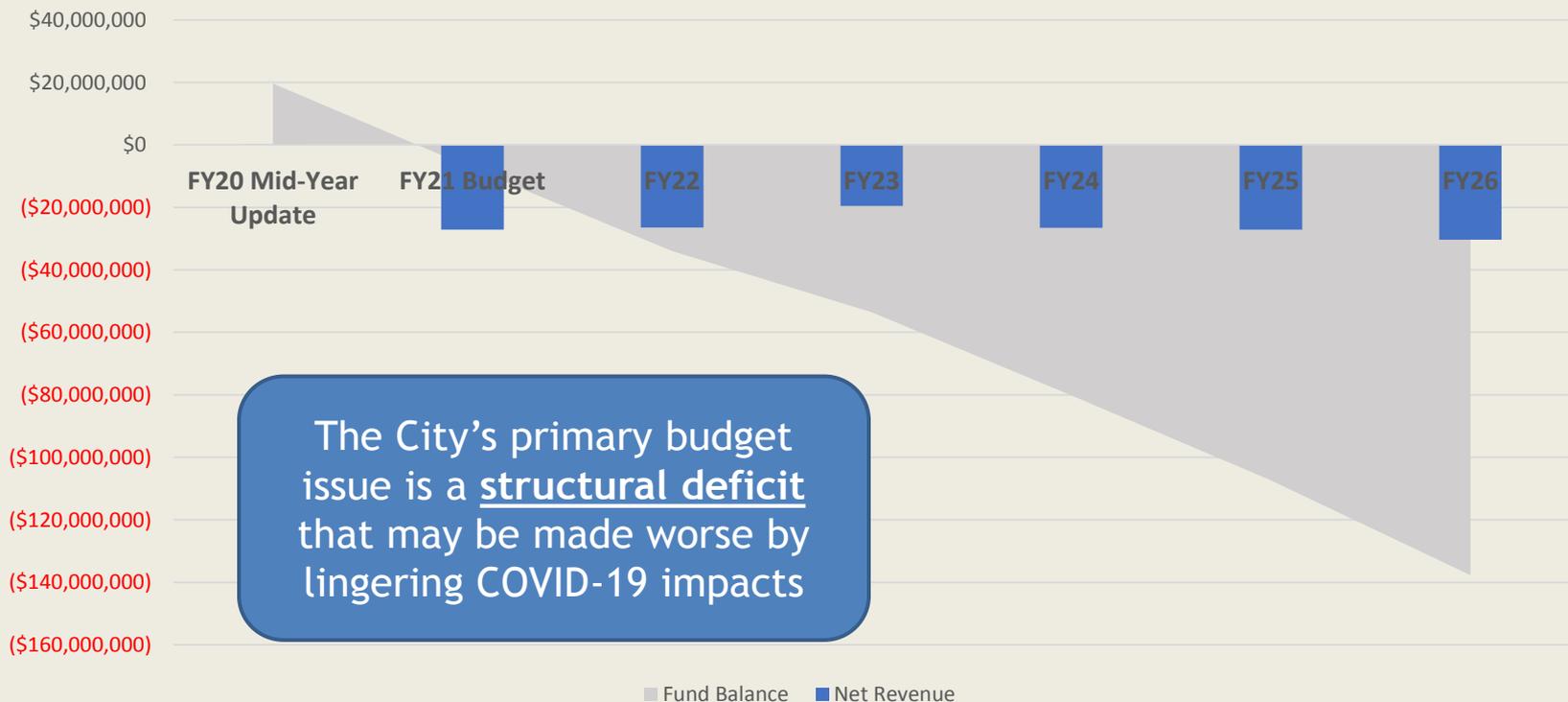
Budget Pressures

- Pension costs
- Unfunded deferred maintenance
- Chevron UUT
- Kids First
- Labor Cost pressures
- RDA Trust Fund

PRELIMINARY Baseline Forecast

- Structural budget deficit in 2021 that will not be erased without corrective action by the Council

Baseline Budget Forecast
Net Revenue and Fund Balance

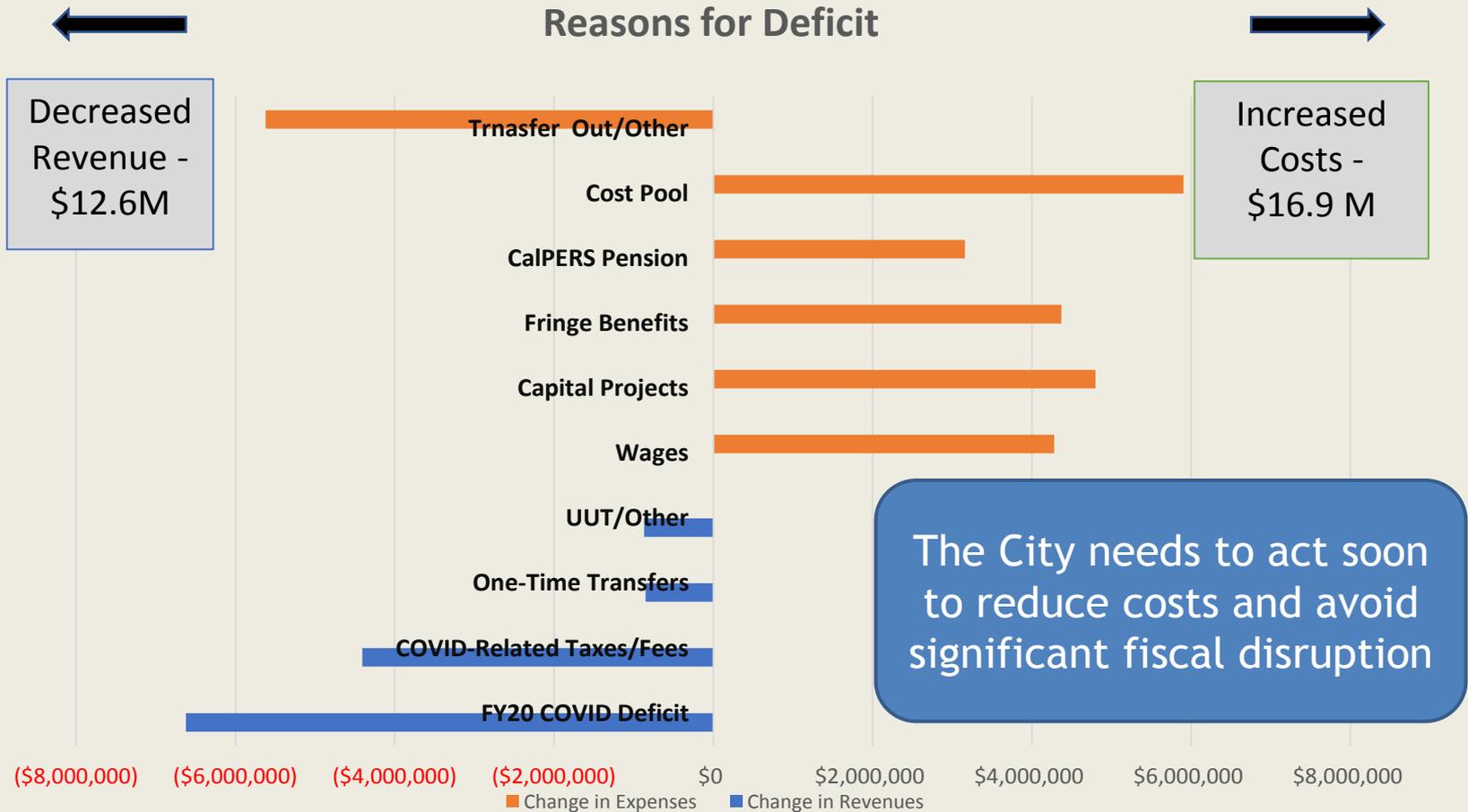


Current Financial Condition

Overview of City Financial Condition

FY21 \$29.5 Million deficit

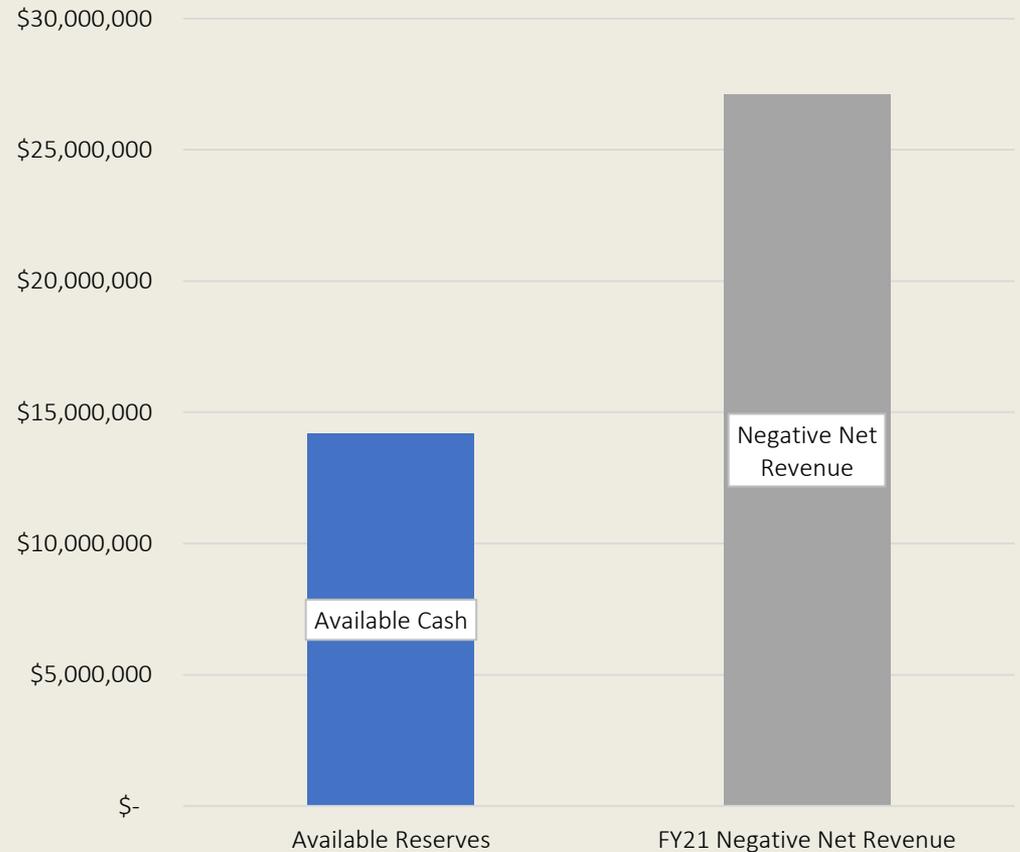
FY21 Budget Reasons for Deficit



Insufficient Reserves

Significant budget reductions needed to avoid a cash crisis

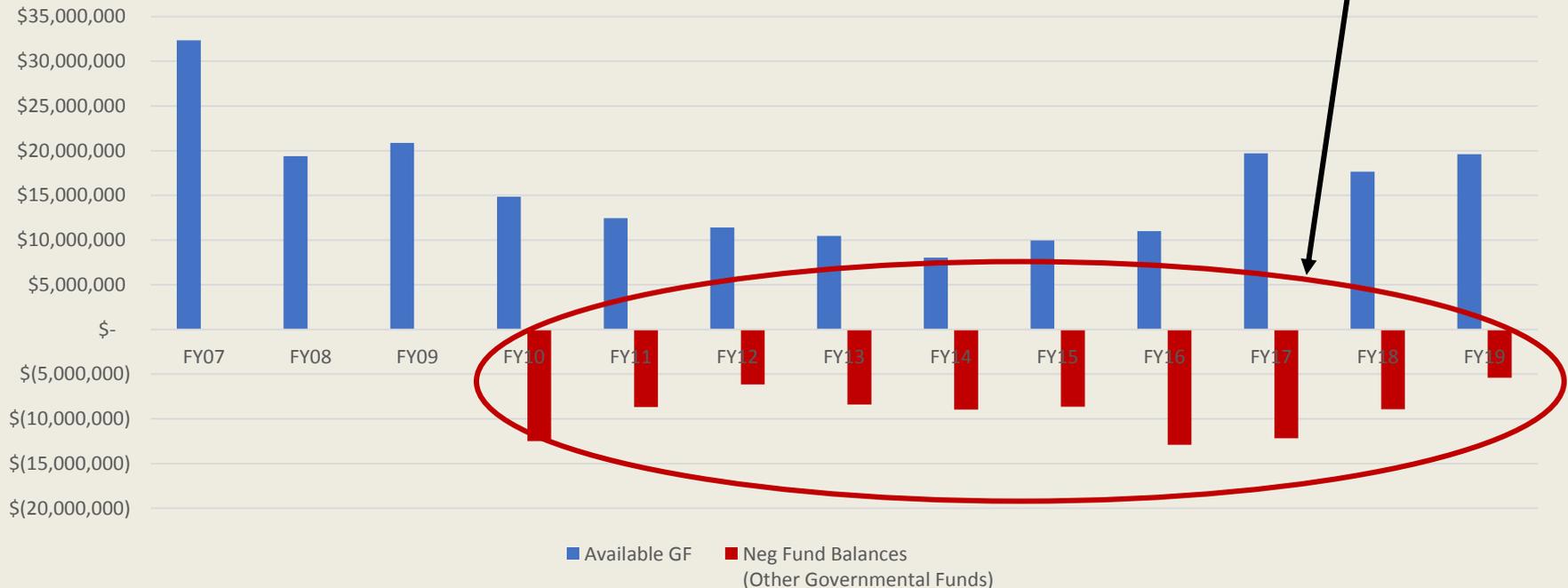
City Fund Balances Cannot Support FY21 Budget Deficit



Building Back Fund Balances

General Fund back-stop of housing, engineering, stormwater, and other funds

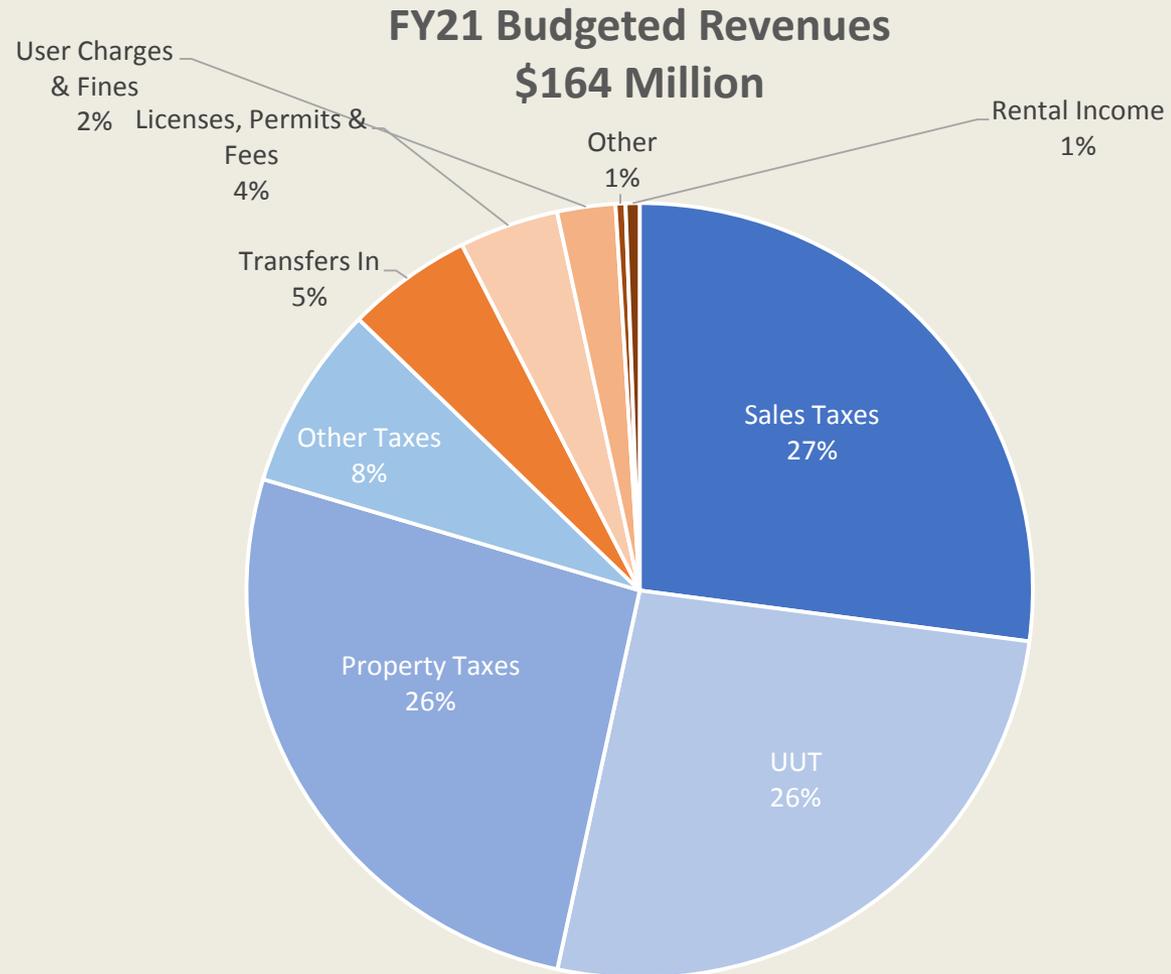
Historical Fund Balances
(Shows "Other Governmental Funds" Covered by GF)



Current City Budget

FY2021 Budget | Revenues

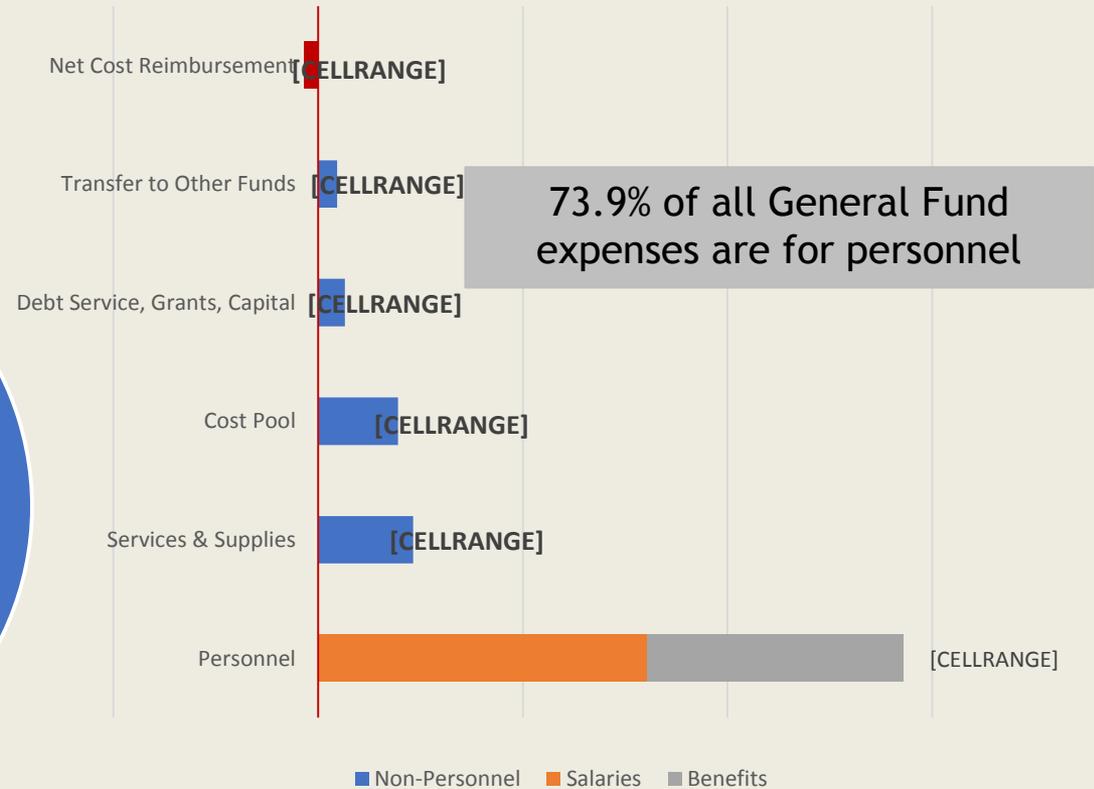
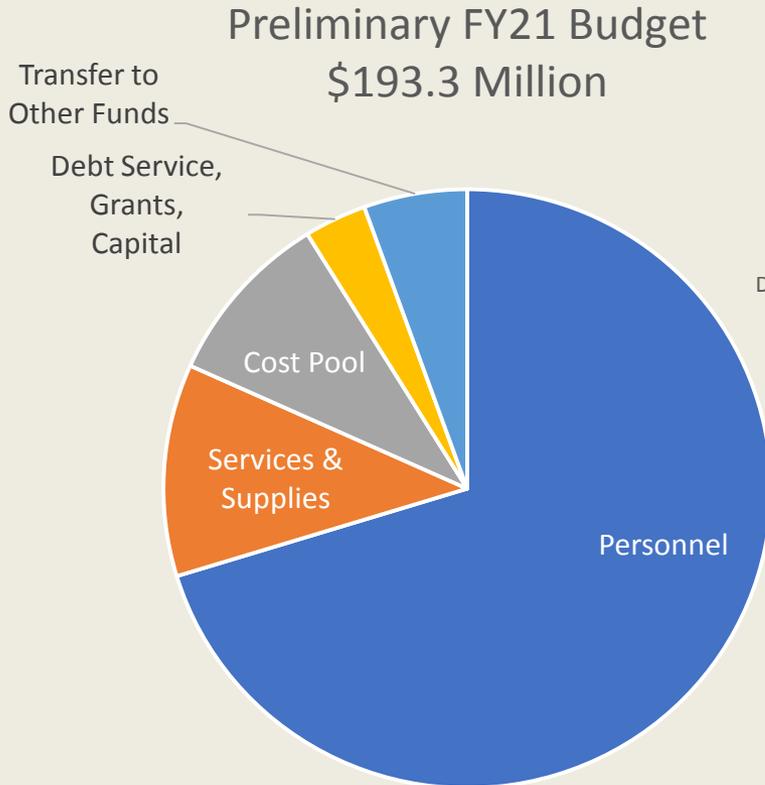
- Taxes are **87%** of GF revenues
- Sales taxes and TOT will be hit hardest by sheltering-in-place



How City Spends its Revenues

- Little flexibility to easily address structural deficit in any cost category

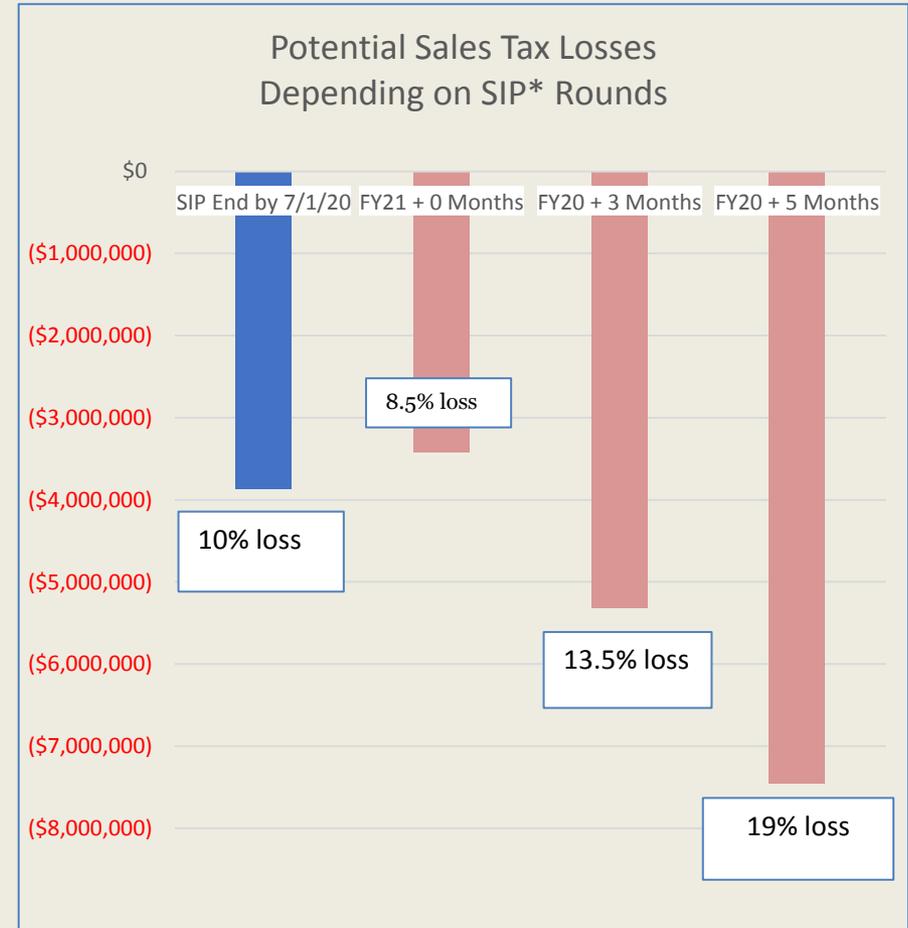
Distribution of FY20 General Fund Expenditures



Budget Stressors

COVID-19 | Budget Uncertainty

- **Sales Taxes**
 - If SIP continues in FY21, sales tax revenues will decrease further
- **Hotel Taxes**
 - Expected 25% loss in FY20 and FY21
- **User Charges**
 - Recreation, rents, counter fees for planning, building, and Public Works
- **Property Taxes**
 - Could see decrease with AB8 challenges
- **New Development**
 - Likely delays in projects
- **Business Recovery**
 - What businesses will remain?
 - How fast will customers come back?

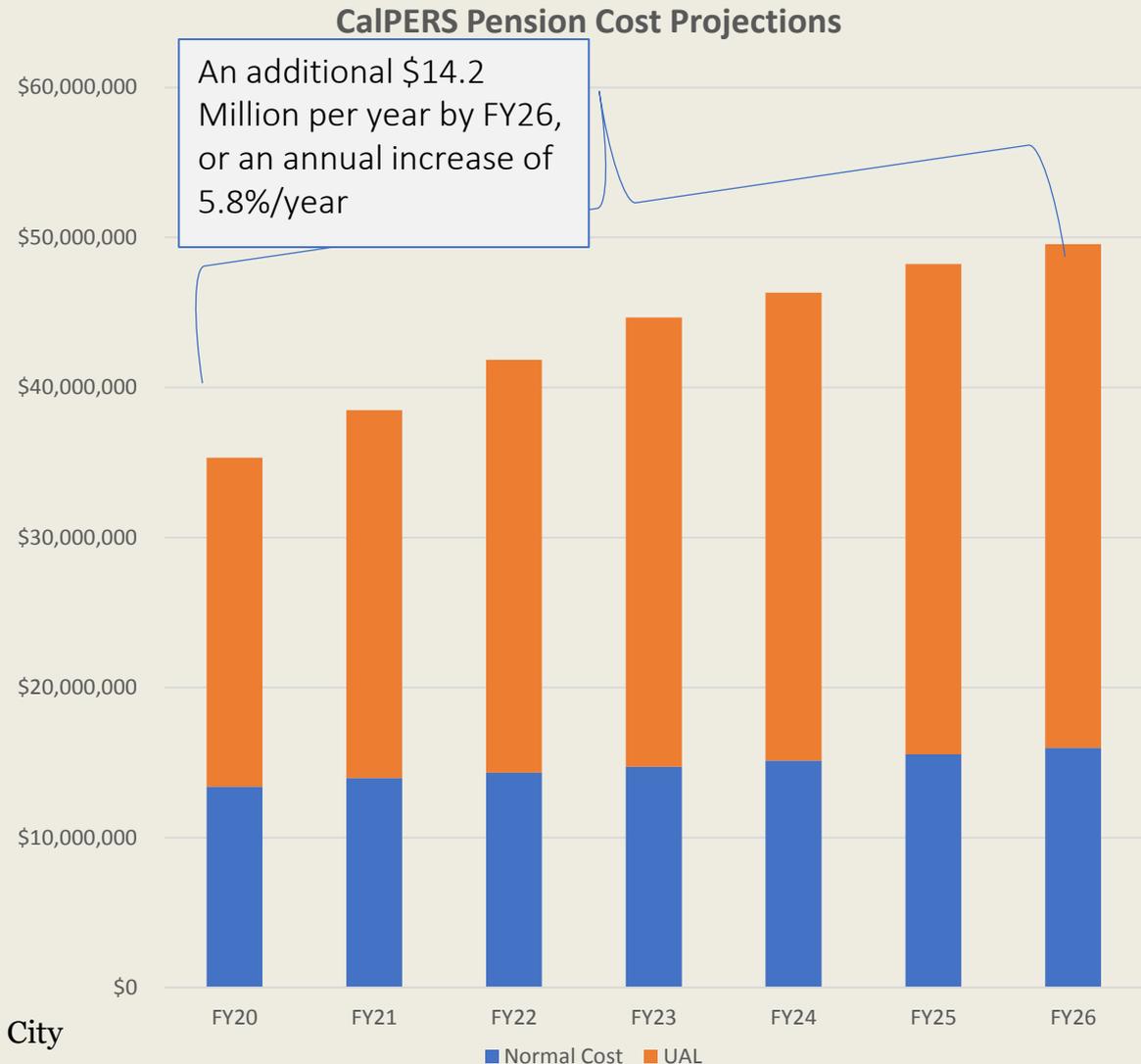


*SIP = Shelter In Place

Source: Avenu projections & forecast tool, City Finance Dept.

Ongoing Pension Cost Pressure

- PERS cost increases continuing
- Impact of market losses in FY20 will show up in FY22

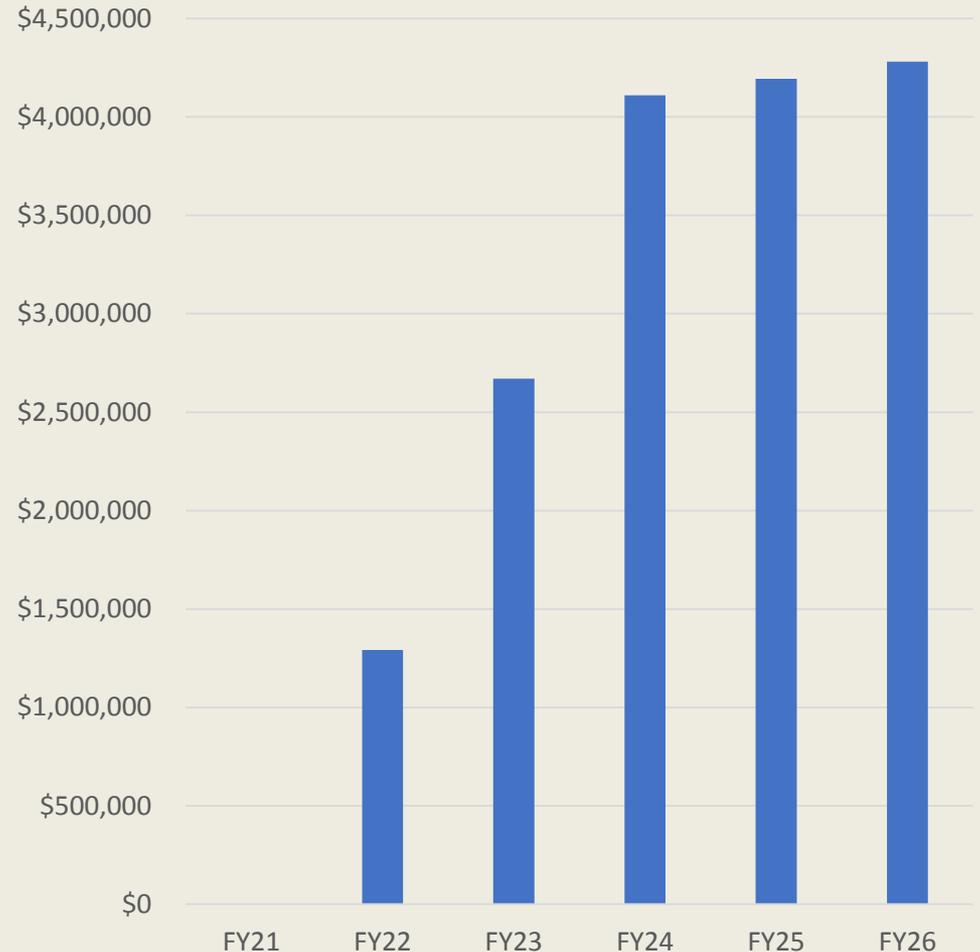


Source: CalPERS actuarial reports for City

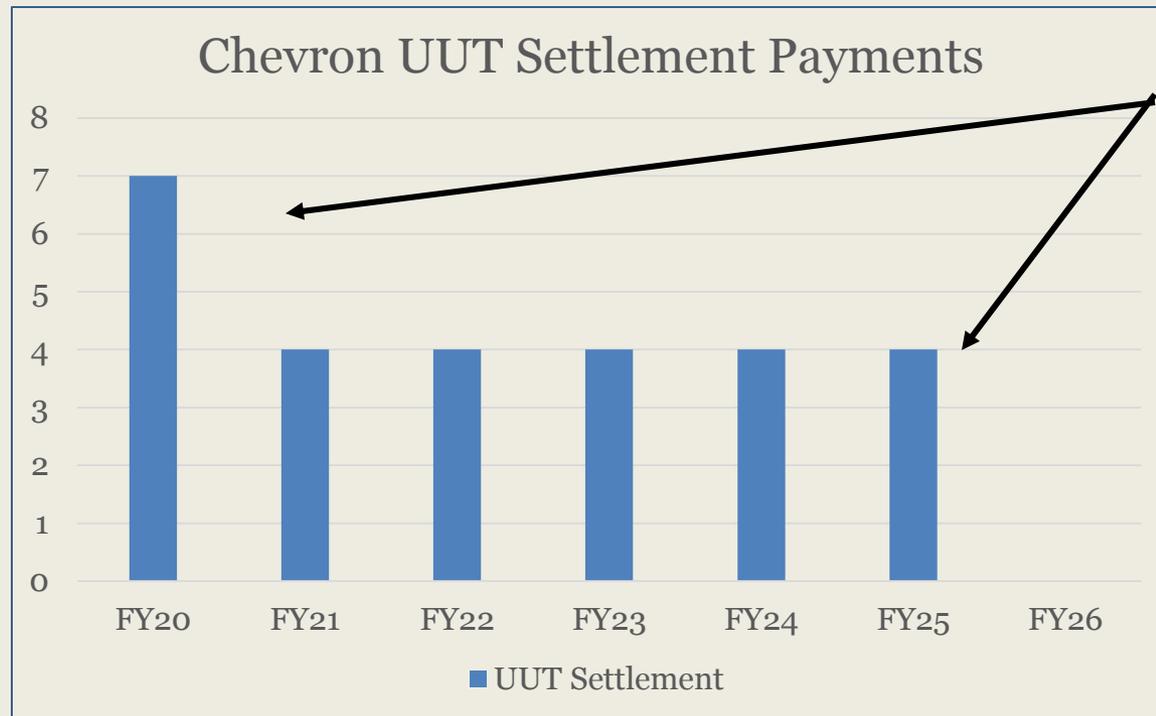
Kids First | Looking Ahead

The Kids First funding as a % of budget starts in FY22 at 1% and increase to 3% of discretionary revenues in FY24

Kids First Expected Funding



Reliance on Oil Refinery Taxes



Loss of \$3M in
FY21 and \$4M
in FY26

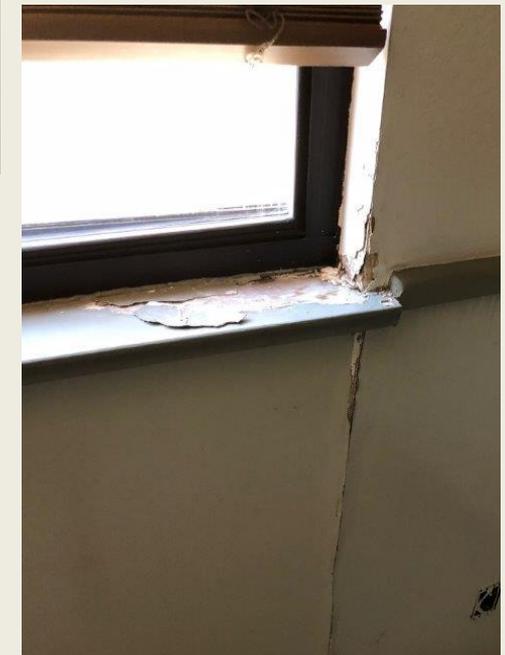
Issues of Concern to the City

- Sales tax revenues are likely to take a short-term hit
- The refinery property taxes could drop along with the price in oil (a major factor in assessed value)

Unfunded Needs

- Facilities - \$10M per year for the next five years
- Streets - \$100M in deferred maintenance
- OPEB - \$150M unfunded liability

The funding to address the deferred maintenance needs has not been funded in the City's recent budgets

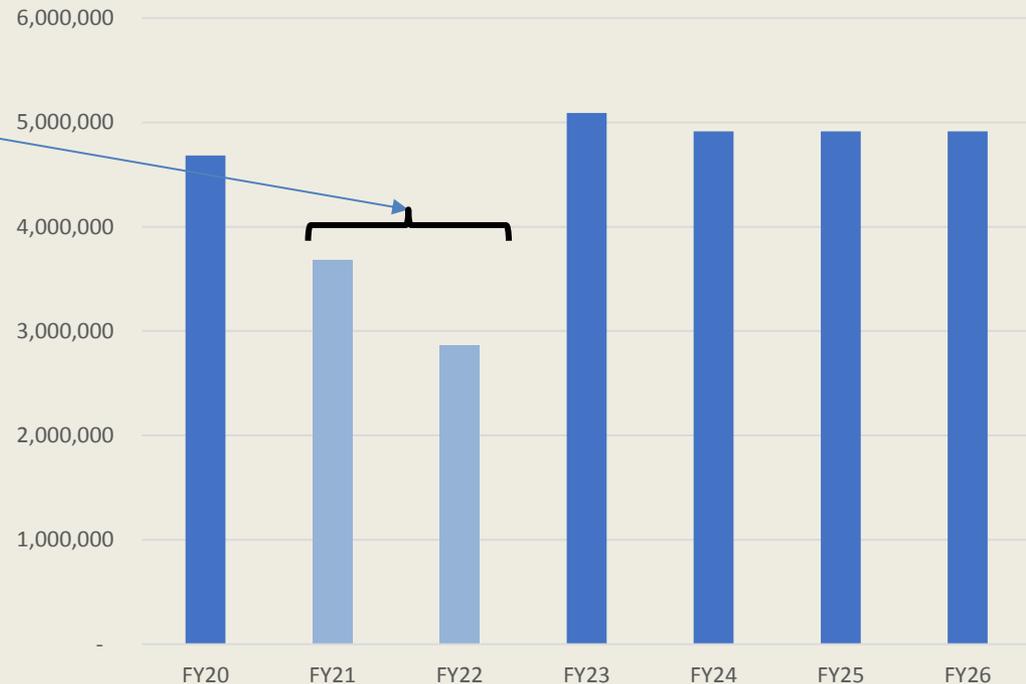


Successor Agency | Repayment to State

- The Successor Agency has a balloon payment to the State of \$9.9M in FY21 that will **lower City property tax revenue by \$2.8 Million**

Unrelated to COVID-19, the City expects to see RPTTF revenues drop by \$2.8 Million over FY21 and FY22

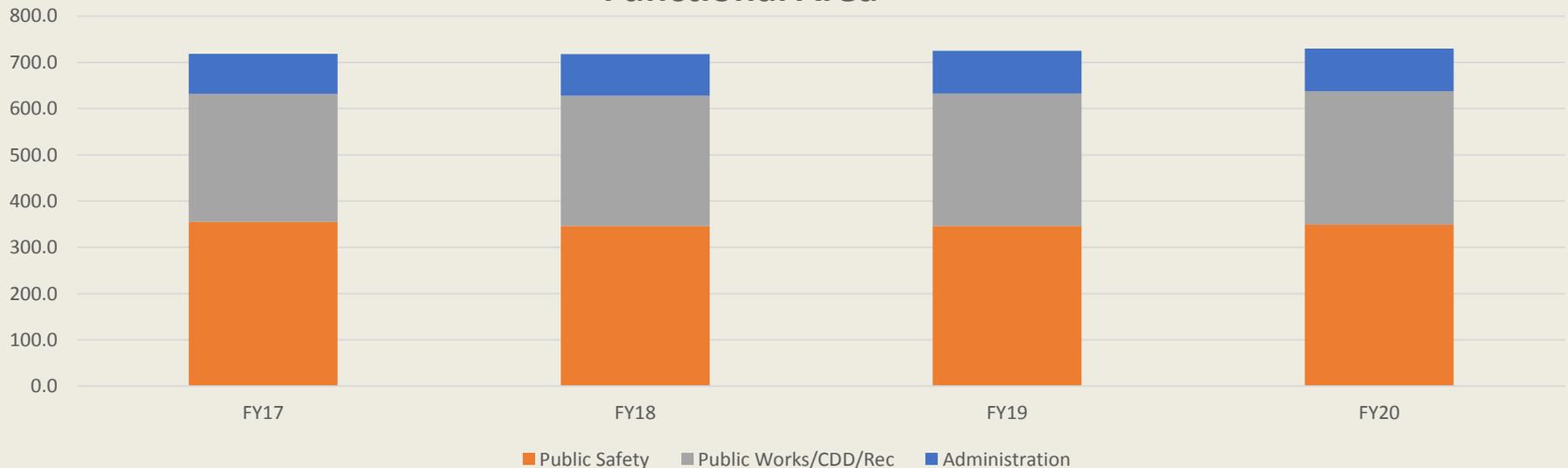
Projected Trust Fund Payments to the City



Labor

- The City has kept FTE stable over the last four years
- Wage increases have been limited to **1% cost-of-living adjustment**—for RPOA, Local 188, and RPMA—in FY19 and a second 1% slated prior to June 30th of this year (\$533,000 in FY20)
- Pent-up demand for wage increases will be difficult to address

Full-Time Positions by
Functional Area



Bright Spots | Positive Changes

- New Development (as of Oct. 2019)

Development	Status
Residential Units	434 units under construction 1,023 units entitled 745 units under review
Warehouse	417,000 sf in construction 446,000 sf under review
Hotels	Two 100+ rooms under review
Ferry Service to SF	Began January 2019

- One-time cash infusions

- Possible repayment of **\$9.5M** of Port loan with latitude at Terminal 1 FY21 land sale

Budget Forecasting

Purpose of Budget Forecasting

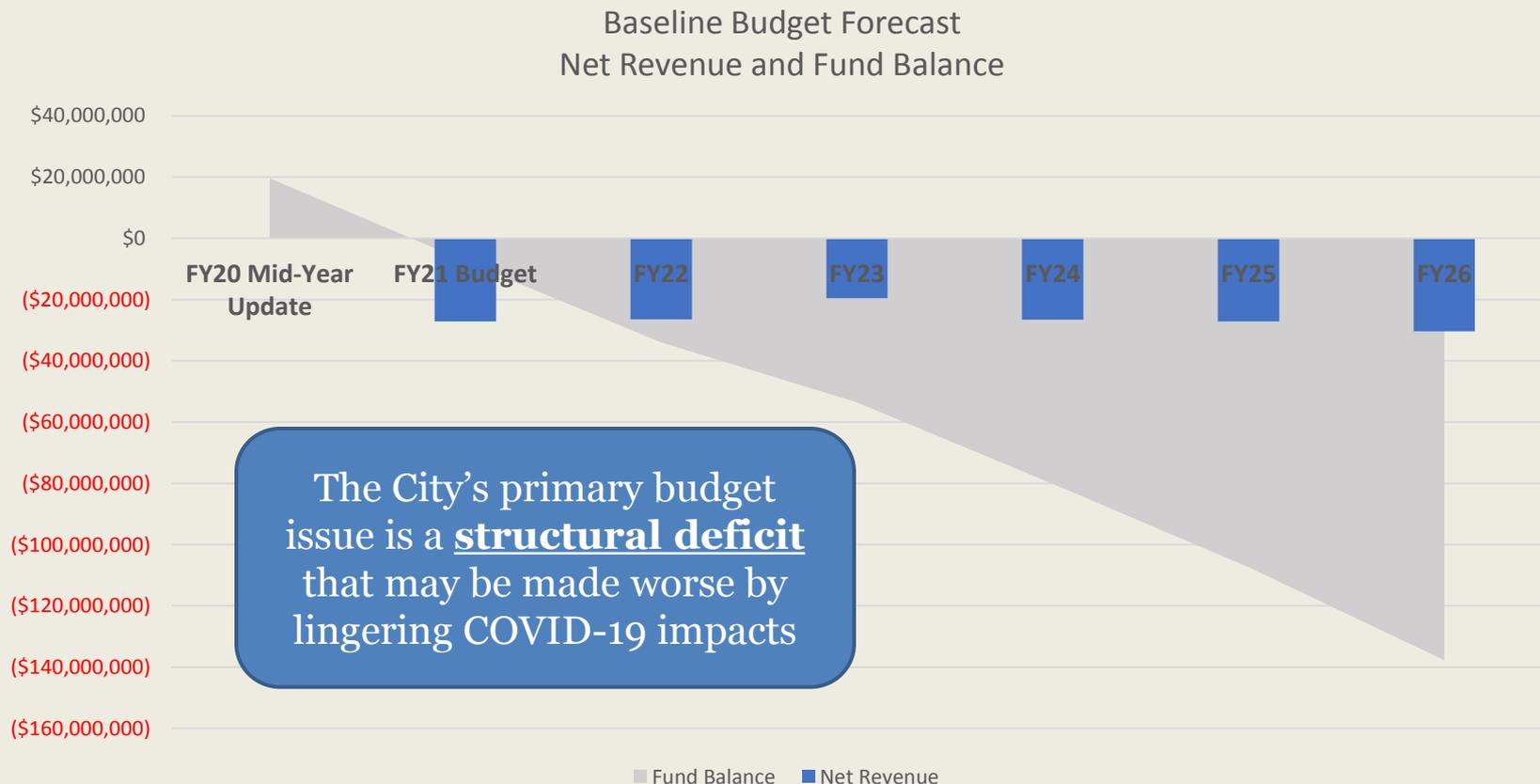
1. Inform policy discussions
2. Identify and quantify budget issues in time to institute reforms, if needed
3. Show all funding needs - labor, capital, long-term liabilities
4. Inform budget discussions
5. Focus on biggest budget drivers

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

- Mahatma Gandhi

PRELIMINARY Baseline Forecast

- Structural budget deficit in FY21 that will not be erased without corrective action by the Council



Key Takeaways

Long-term Structural Deficit



COVID-19



Limited Reserves



Need to Rebuild Reserves



Unfunded Maintenance/OPEB/Streets



**Need to Take Bold Action
to Survive the Next Two Years & Work Toward
Sustainable, Structurally Balanced Budget**

Creating a Path to Sustainability

1. Updating the budget forecast with the latest revenue and expense projection for FY21 and beyond
2. Modeling “What ifs:”
 - Lingering COVID-19
 - Quick turn-around from COVID-19
 - Recession
 - Expected development projects
3. Stress-test:
 - Higher salaries
 - Fund capital/maintenance needs
 - Passage of new voter-approved revenues
4. Lay out strategy to balance the budget over the next several years



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Staff Recommendations on Budget Balancing Strategies

Finance Department

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

Revised FY2020-21 Draft General Fund Budget

Deficit = \$29.5 million

	FY2019-20	FY2019-20	FY2020-21	FY2020-21	\$ CHANGE	% CHANGE
REVENUE	MID-YEAR BUDGET	REVISED BUDGET	PROJECTED BUDGET	REVISED BUDGET	FY2019-20 to FY2020-21	FY2019-20 to FY2020-21
PROPERTY TAXES	\$43,897,435	\$43,897,435	\$43,928,806	43,928,806	\$31,371	0.1%
SALES & USE TAX	48,356,233	44,231,169	44,995,626	40,995,626	(3,235,543)	-7.3%
UTILITY USERS TAX	46,278,438	46,168,225	43,606,312	44,506,312	(1,661,913)	-3.6%
OTHER TAXES	12,841,286	13,377,662	12,398,074	12,204,709	(1,172,953)	-8.8%
LICENSES,PRMITS&FEES	6,514,667	5,894,932	6,793,570	6,389,388	494,456	8.4%
FINES & FORFEITURES	941,160	627,102	948,157	948,157	321,055	51.2%
INTEREST INCOME	236,079	236,079	236,079	236,079	-	0.0%
CHARGES FOR SERVICES	3,688,840	3,438,840	3,023,440	4,281,868	843,028	24.5%
OTHER REVENUE	270,996	252,210	176,496	196,496	(55,714)	-22.1%
RENTAL INCOME	946,529	827,916	952,123	952,123	124,207	15.0%
INTERGOV STATE TAXES	65,000	42,595	87,405	87,405	44,810	105.2%
INTERGOV STATE GRANT	809,740	809,740	100,000	100,000	(709,740)	-87.7%
INTERGOV OTHER GRANT	314,076	314,076	167,856	167,856	(146,220)	-46.6%
PROC FR SLE PROP	55,000	55,000			(55,000)	-100.0%
OPERATING TRANSFERS IN	11,565,857	9,646,815	8,542,234	8,796,816	(849,999)	-8.8%
TOTAL REVENUES	\$176,781,337	\$169,819,796	\$165,956,178	\$163,791,641	(\$6,028,155)	-3.5%

Revised FY2020-21 Draft General Fund Budget

Deficit = \$29.5 million

	FY2019-20	FY2019-20	FY2020-21	FY2020-21	\$ CHANGE	% CHANGE
EXPENDITURES	MID-YEAR BUDGET	REVISED BUDGET	PROJECTED BUDGET	REVISED BUDGET	FY2019-20 to FY2020-21	FY2019-20 to FY2020-21
SALARIES AND WAGES	\$76,532,911	\$76,191,929	\$76,312,040	\$80,472,520	\$4,280,591	5.6%
FRINGE BENEFITS	54,904,417	54,904,417	63,502,905	62,437,640	7,533,223	13.7%
PROF & ADMIN	10,069,862	10,069,862	10,573,732	11,301,783	1,231,921	12.2%
OTHER OPERATING	5,276,330	5,276,330	4,990,858	5,140,533	-135,797	-2.6%
UTILITIES	4,467,662	4,467,662	4,165,982	4,548,320	80,658	1.8%
EQPT & CONTRACT SVCS	2,239,442	2,239,442	2,165,494	2,223,740	-15,702	-0.7%
INSURANCE	4,643	4,643	3,143	3,143	-1,500	-32.3%
COST POOL	13,634,097	13,634,097	18,428,606	19,539,266	5,905,169	43.3%
ASSET/CAPITAL OUTLAY	323,994	323,994	5,061,178	5,121,178	4,797,184	1480.6%
DEBT SVC EXPENDITURE	890,289	890,289	1,375,767	1,375,767	485,478	54.5%
A87 COST PLAN REIMBS	-4,518,250	-4,518,250	-4,518,250	-3,516,104	1,002,146	-22.2%
GRANT EXPENDITURES	251,094	251,094	40,000	40,000	-211,094	-84.1%
OPER XFERS OUT	12,704,654	12,704,654	10,974,029	4,647,726	-8,056,928	-63.4%
TOTAL EXPENDITURES	176,781,145	176,440,163	193,075,485	193,335,513	16,895,350	9.6%
NET SURPLUS/(DEFICIT)	\$192	\$6,620,367	\$27,119,307	\$29,543,872		

Revised FY2020-21 Draft General Fund Budget

Deficit = \$29.5 million

	FY2019-20	FY2019-20	FY2020-21	FY2020-21	\$ CHANGE	% CHANGE
	MID-YEAR BUDGET	REVISED BUDGET	PROJECTED BUDGET	REVISED BUDGET	FY2019-20 to FY2020-21	FY2019-20 to FY2020-21
TOTAL REVENUES	\$176,781,337	\$169,819,796	\$165,956,178	\$163,791,641	(\$6,028,155)	-3.5%
TOTAL EXPENDITURES	176,781,145	176,440,163	193,075,485	193,335,513	16,895,350	9.6%
NET SURPLUS/(DEFICIT)	\$192	(\$6,620,367)	(\$27,119,307)	(\$29,543,872)		

Staff Recommendations

	Strategy - General Operating Items	FY2019-20 Estimated Cost Savings	FY2020-21 Estimated Cost Savings
	BEGINNING DEFICIT	\$6,961,540	\$29,543,872
1	Credit card processing fees		90,000
2	Eliminate festivals	11,000	300,000
3	Discontinue Fire consulting contract		100,000
4	Eliminate 1% across-the-board cost of living adjustments		1,300,000
5	Reduce Police vacancies		2,107,479
6	Institute hiring freeze for some positions/vacancy savings	2,408,000	1,046,732
7	Reduce department operating budgets	1,113,001	1,427,952
8	Reduce pool cars	5,000	20,000
9	Eliminate matching funds for campaigns		100,000
10	Fund community programs with ECIA funding		325,000
11	Reduce recreation programs	340,982	991,278
12	Reduce insurance reserves to 70% confidence level		3,029,873
13	Reduce equipment/vehicle replacement		1,295,000
14	Fund information technology replacement with a capital lease		3,300,000
	TOTAL ESTIMATED COST SAVINGS	<u>3,877,983</u>	<u>15,433,314</u>
	REMAINING DEFICIT BALANCE	\$3,083,557	\$14,110,558

Credit Card Processing Fees

- FY2020-21 - \$90,000
 - Pass 2% processing fees charged by credit card companies on to customers who pay fines, fees, etc. with credit cards
 - Currently, the City pays these fees

Eliminate Festivals

- FY2019-20 - \$11,000
 - Eliminate festivals that have not yet occurred:
 - Juneteenth \$5,000
 - Point Richmond Music \$5,000
 - Pride \$1,000

- FY2020-21 - \$300,000
 - Eliminate funding for all festivals:
 - Cinco de Mayo \$5,000
 - Homefront \$5,000
 - Juneteenth \$5,000
 - MLK Day of Service \$5,000
 - Native American Pow Wow \$5,000
 - North Richmond Blues \$5,000
 - North Richmond Shoreline \$5,000
 - Oakland Symphony - 3rd of July \$5,000
 - Point Richmond Music \$5,000
 - Pride \$1,000
 - Overtime \$249,000

Discontinue Fire Consulting Contract

- FY2020-21 - \$100,000
 - Discontinue contract with CSG Consulting
 - Assign plan reviews to Fire Marshal

Eliminate 1% Across the Board COLA

- FY2020-21 - \$1.3M
 - \$1.3 million currently budgeted as a placeholder for 1% across the board cost of living adjustment

Reduce Police Vacancies

- FY2020-21 - \$2,107,479
 - Freeze the following Police vacancies:
 - Crime Scene Technician
 - Police Captain
 - Police Officers (7)

Institute Hiring Freeze

- FY2019-20 - \$2,408,000
 - Keep current vacancies unfilled through end of fiscal year

- FY2020-21 - \$1,046,732
 - Freeze the following vacancies:
 - Community Services
 - Auditorium Aide I
 - Library
 - Library Assistant I
 - Library Aide
 - Economic Development
 - Economic Development Administrator
 - Finance
 - Senior Budget Analyst
 - Senior Accountant
 - Public Works
 - Director of Infrastructure Maintenance & Operations
 - Building Trades Worker I

Reduce Department Operating Budgets

- FY2019-20 - \$1,113,001
 - Reductions in professional/contract services, travel/training, equipment, software, office supplies:
 - City Attorney \$13,407
 - City Clerk \$8,500
 - Finance \$18,650
 - Non-Departmental \$115,500
 - Office of Neighborhood Safety \$45,128
 - Police \$911,816

Reduce Department Operating Budgets continued

- FY2020-21 - \$1,427,952
 - Reductions in professional/contract services, travel/training, equipment, software, office supplies:
 - City Attorney \$13,407
 - City Clerk \$4,600
 - Finance \$27,200
 - Non-Departmental \$107,850
 - Office of Neighborhood Safety \$45,128
 - Police \$1,229,767

Eliminate Pool Cars

- FY2019-20 - \$5,000
 - Eliminate remaining pool cars from motor pool, resulting in cost savings in maintenance and fuel
- FY2020-21 - \$20,000
 - Eliminate remaining pool cars from motor pool, resulting in cost savings in maintenance and fuel

Eliminate Campaign Matching Funds

- FY2020-21 - \$100,000
 - Eliminate matching funds for candidates running for the City Council

Fund Community Programs with ECIA Funding

- FY2020-21 - \$325,000
 - Fund Employment & Training youth employment program
 - Revise ECIA agreement to reallocate funds to other community programs

Reduce Recreation Programs

- FY2019-20 - \$340,982
 - Reduce part-time temporary staff due to closure of programs

- FY2020-21 - \$991,278
 - Does not include closure of pools
 - Reduce or eliminate:
 - Summer camp and after school programs will be virtual
 - Reduce sports programs
 - Reduce hours or closure of facilities

Reduce Recreation Programs continued

- FY2020-21
 - Reduce or eliminate:
 - Reduce community center hours to 5 hours Monday to Friday
 - Eliminate special events, including fireworks and snowball
 - Reduce part-time temporary staffing

Reduce Insurance Reserves to 70% Confidence Level

- FY2020-21 - \$3,029,873
 - Reduce allocations from about 78% to 70%

Reduce Vehicle/Equipment Replacement

- FY2020-21 - \$1,295,000
 - Reduce budget to fund only the most critical replacement needs
 - Proposed reductions are as follows:
 - Public safety vehicles
 - Maintenance vehicles including street sweepers

Fund I.T. Replacement Needs with Capital Lease

- FY2020-21 - \$3.3M
 - Reduce the cost of \$4.3M by entering into a capital lease (loan).
 - This will allow the city to spread the cost across 5 years.
 - This will increase the original cost by \$375k due to the interest we will incur based on the estimate we received on May 15th.

Other Budget Impacts

- 1% cost of living adjustment per RPOA MOU
 - “Me too” clauses in Fire Local 188 and RPMA
- Negative Fund Balances
- Rent Program

Next Steps

Next Steps

- Adopt staff recommendations on budget reductions for FY2019-20 and FY2020-21
- Review City Council budget calendar for upcoming meetings and actions

City Council Budget Calendar

May 26, 2020	<ul style="list-style-type: none"> • Receive an update on the 5-year budget forecast from Russ Branson Consulting • Accept staff recommendations on budget reductions totaling \$3.9M in FY2019-20 and \$15.2M in FY2020-21
June 2, 2020	<ul style="list-style-type: none"> • Adopt staff recommendations on budget reductions for FY2019-20 and FY2020-21 • Receive budget balancing proposals
June 9, 2020	<ul style="list-style-type: none"> • Accept updates to FY2019-2020 and FY2020-21 budgets
June 16, 2020	<ul style="list-style-type: none"> • Accept updates to FY2019-2020 and FY2020-21 budgets • Review proposed balanced budget (with placeholders) and respond to final questions from council
June 23, 2020	<ul style="list-style-type: none"> • Receive proposed balanced budget (with placeholders) and direct staff to finalize documents for approval
June 30, 2020	<ul style="list-style-type: none"> • Adopt the FY2020-21 Operating Budget and FY2020-21 to FY2024-25 Capital Improvement Plan

Thank you

Questions/Comments