City of Richmond
Balancing the FY17 Budget

April 26, 2016

National Resource Network

Phase I:

- Development of 5-year budget model
- Evaluation of budget-balancing options
- Presentation to Council on December 15, 2015

Phase II:

- Update budget model based on FY17 proposed budget—Currently under development
- Assist City in identifying budget issues and changes to balance FY17 budget

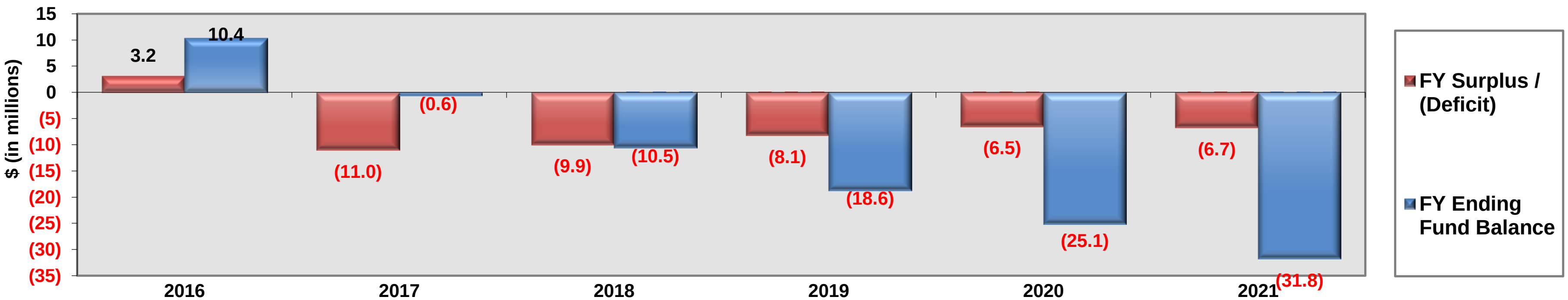
City Goals in Budget Initiatives

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**

Baseline Forecast Results | With Proposed FY17 Budget

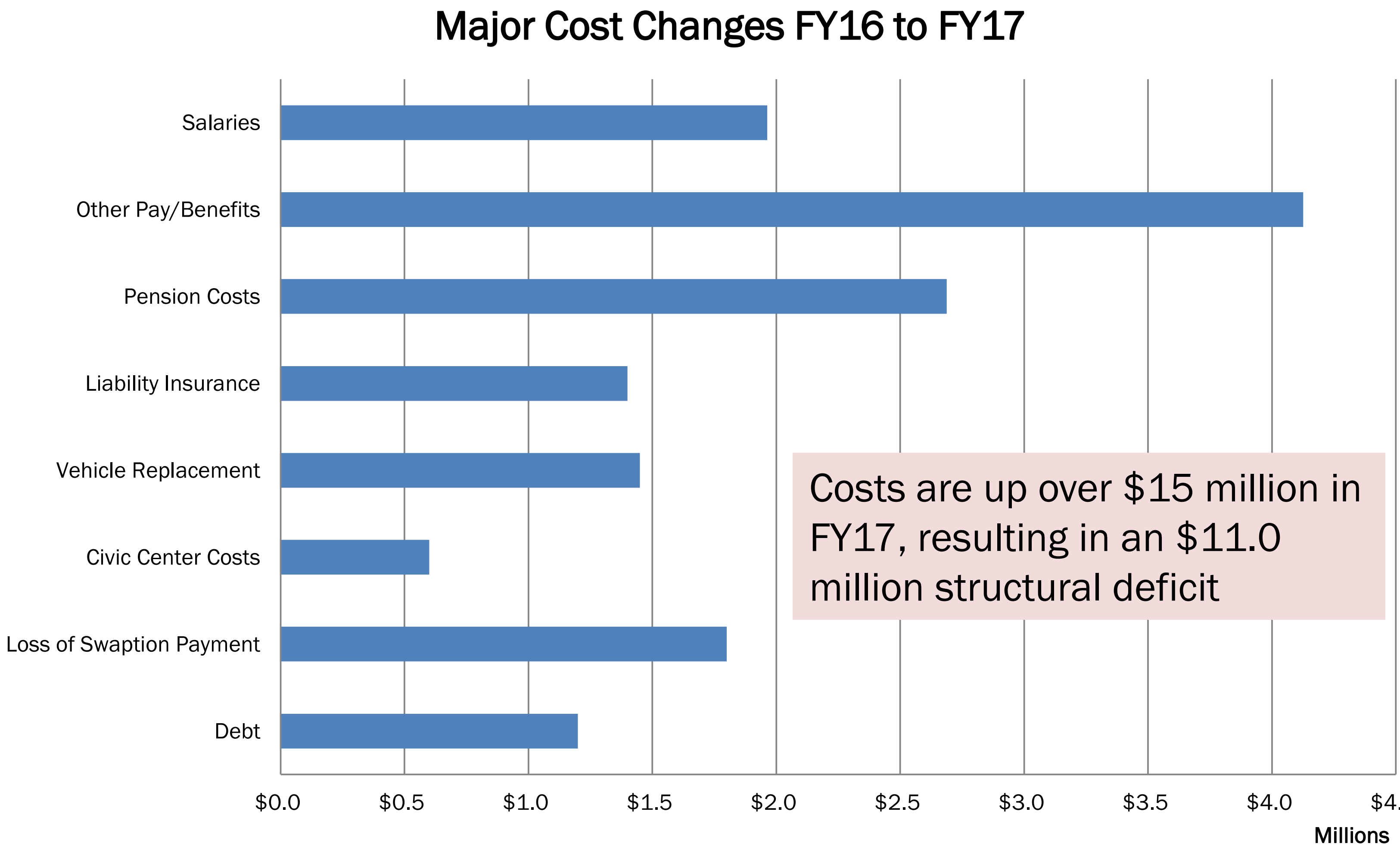
- Deficit spending through FY21 **without** any negotiated salary increases
- Results in a **$31.8 million negative fund balance** by **FY21**
- Need an additional **$17.3 million swing in expenses and revenues to have a 10% fund balance reserve** by **FY21**

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



NATIONAL RESOURCE NETWORK
NEW SOLUTIONS FOR CITIES

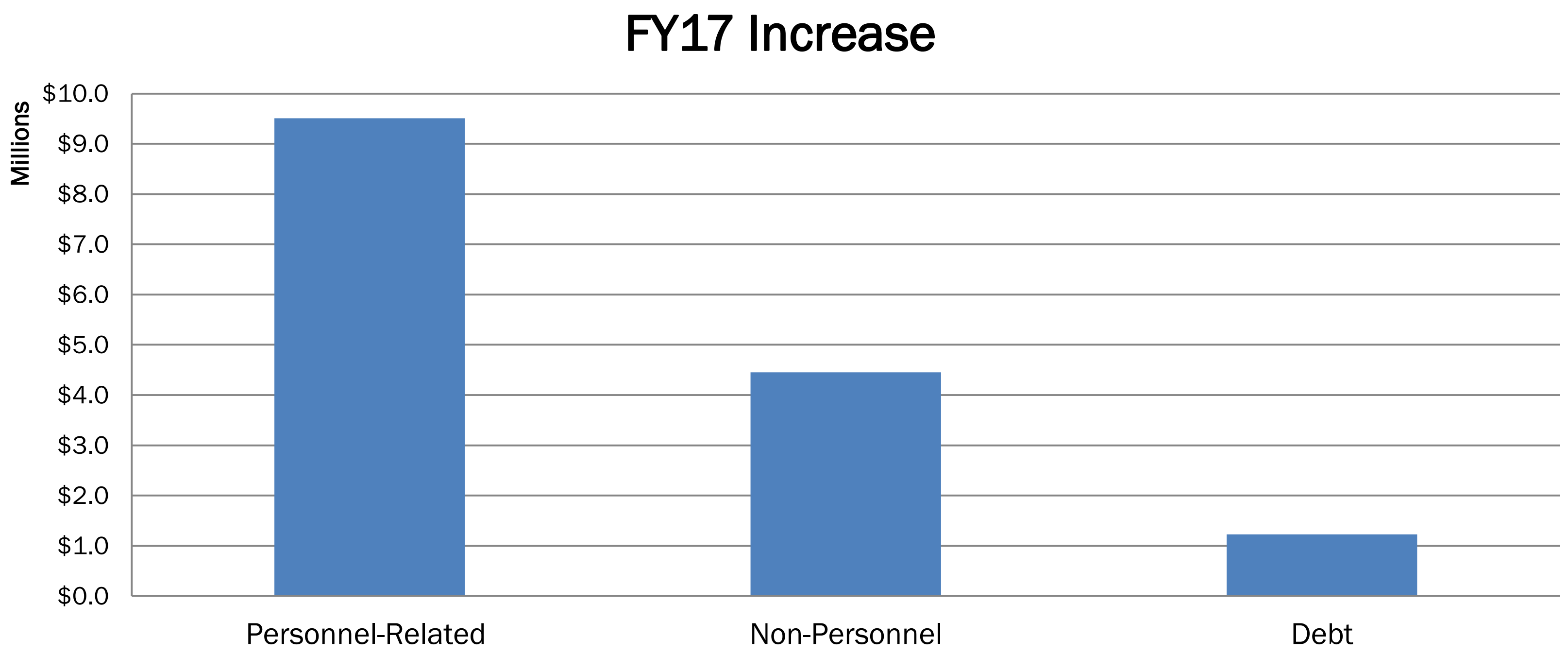
Expense Increases are Outpacing Revenues



Costs are up over $15 million in FY17, resulting in an $11.0 million structural deficit

FY17 Cost Increases: Mostly personnel-related

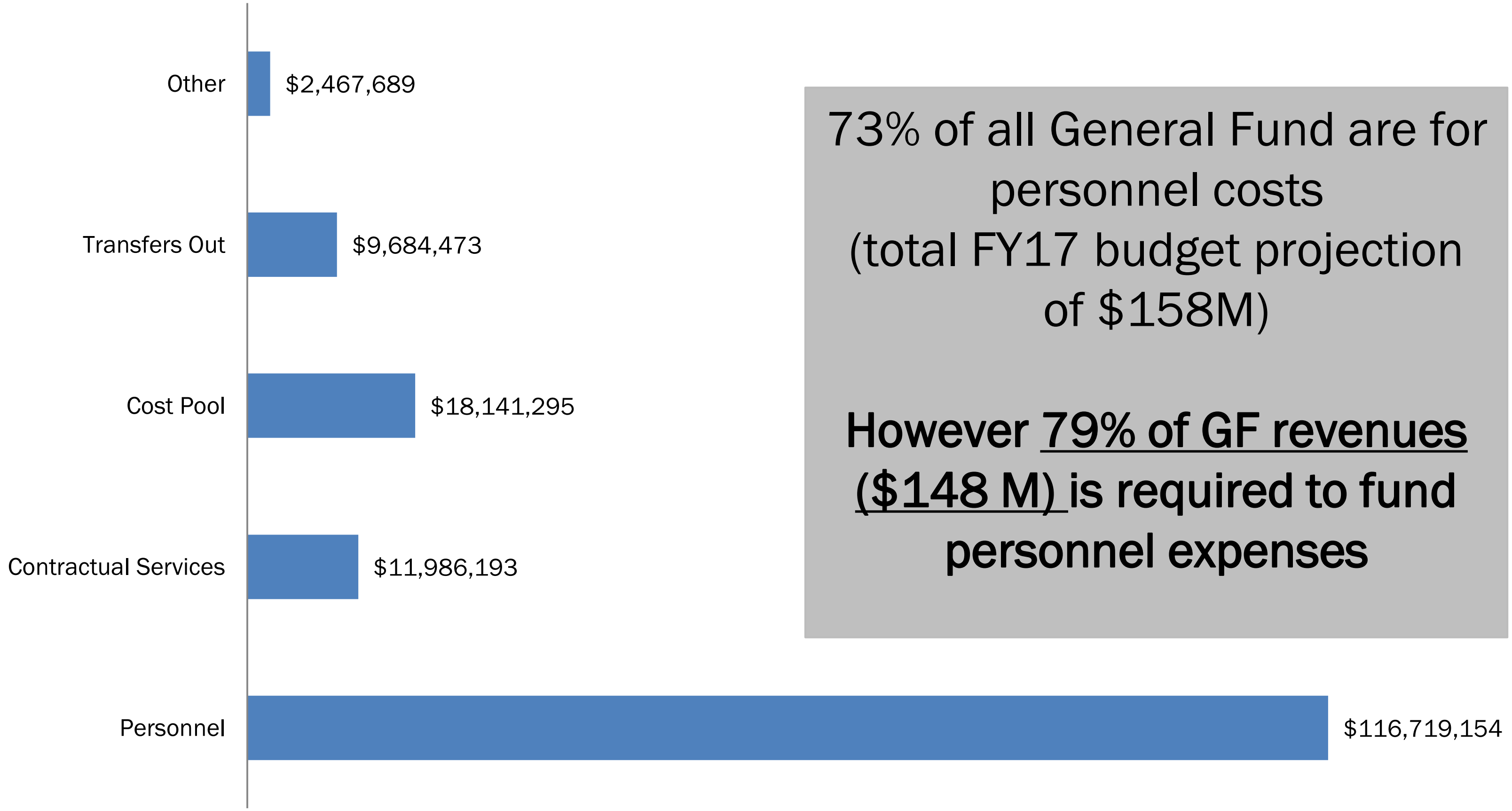
- Personnel Costs are up $9.5 million
- Non-Personnel costs include fall-off of $1.8 million swaption payment, vehicle replacement ($1.4 million), and liability insurance increases ($1.4 million)



NATIONAL RESOURCE NETWORK
NEW SOLUTIONS FOR CITIES

How City Spends General Fund Revenues

Distribution of City Expendtures
FY17 Budget



73% of all General Fund are for personnel costs
(total FY17 budget projection of $158M)

However <u>79% of GF revenues ($148 M)</u> is required to fund personnel expenses

NATIONAL RESOURCE NETWORK
NEW SOLUTIONS FOR CITIES

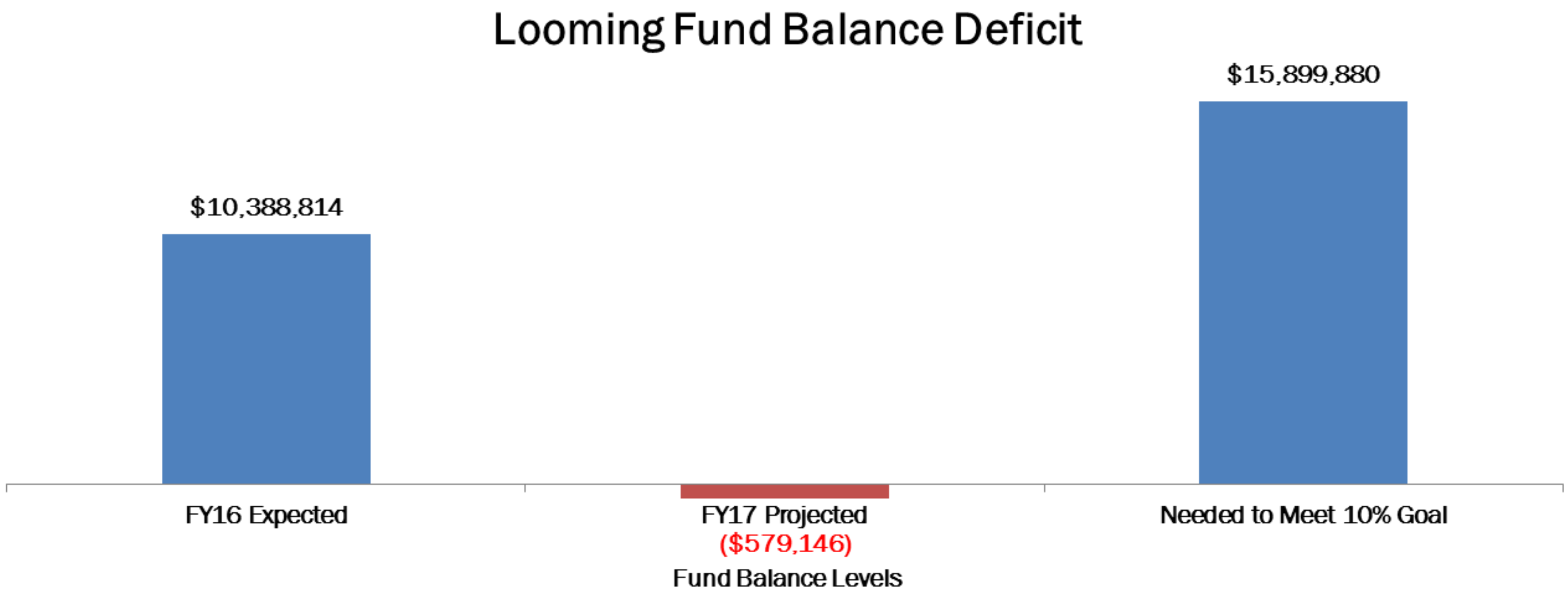
Issues in Achieving a Balanced Budget

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
6. Impact of “Richmond Kids First Initiative” could divert $4.5M of GF revenue by FY21

Fund Balance Insufficient| Need to reduce FY17 costs

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

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

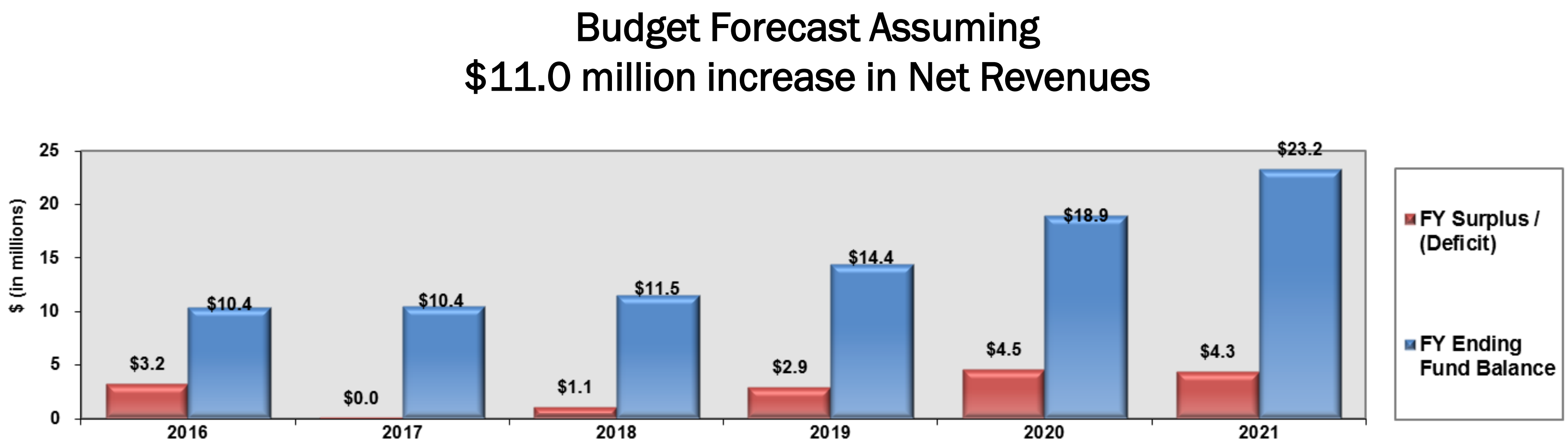


City is facing a fund balance deficit if major cuts to expenses are not instituted for the coming fiscal year

Source: CalPERS Actuarial Valuation Reports

Fixing the Budget | Requires major expense reductions

- The City needs to increase net revenues by 18.8% in FY17 to balance the budget. **A reduction in expenses or increase in revenues of $11.0 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



Eliminating the FY17 Budget Gap

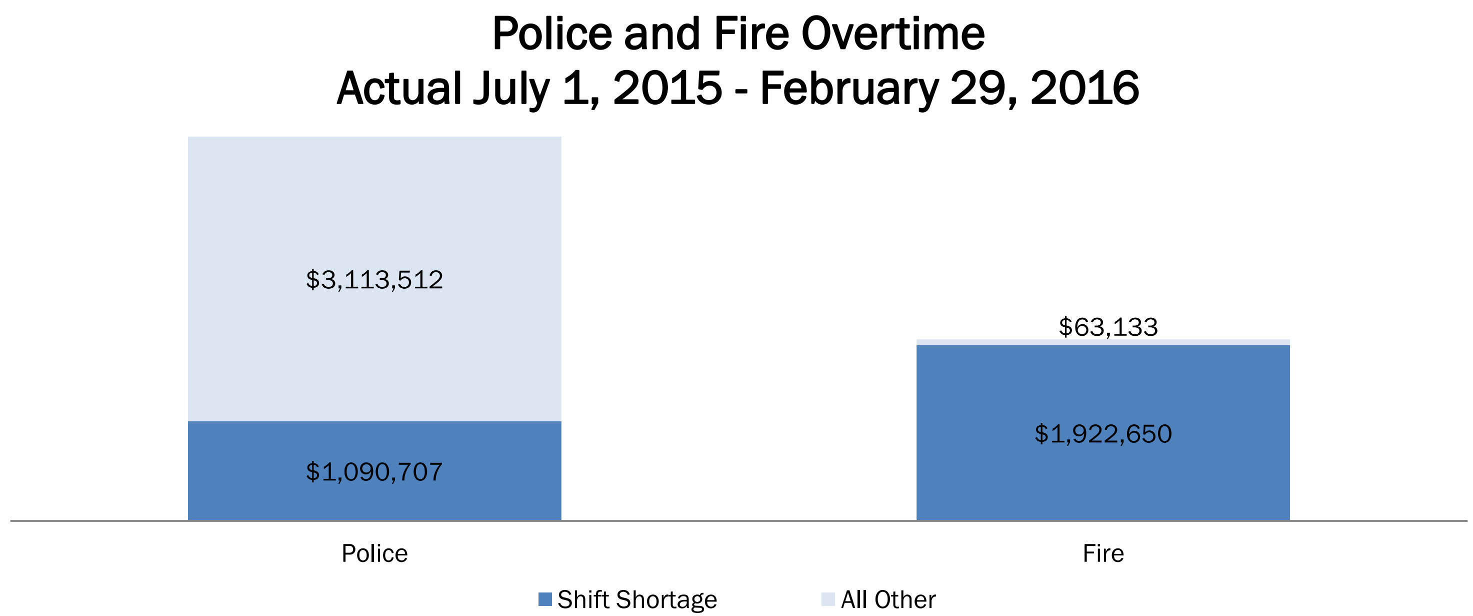
Expense/Revenue Opportunity	Change in Net Revenue	Service Impacts
Move ancillary programs to non-General Fund sources	$1.0 million	None unless other funding not available
Reduce Personnel Costs - Benefit Cost Sharing - Overtime - Eliminate Vacant Positions - Increase revenue recovery in development departments	$5.0 million	- Impact on employees - Service impacts from lower OT and fewer employees to provide services
Non-Personnel Costs - Vehicle replacement reduction - Reduced contracts/prof. serv. - Increase Code Enforcement fines	$3.0 million	- Use of older vehicles - Loss of outside professional assistance - Potential service impacts in non-GF departments
Use One-Time Money - Insurance Liability - Worker's Comp. Liability	$2.0 million	- Reduced one-time money for road maintenance and budget reserve
Total Cumulative Savings	$11.0 million	

Long-Term Budget Recommendations

Opportunity	Benefit
Have employees pay portion of OPEB liabilities	Creates ongoing source of revenue to help guarantee long-term retiree healthcare
Allocate revenue above a 10% operating reserve to capital/maintenance costs	Provides targeted funding for road, park, and building maintenance
Utilize a percentage of property tax revenue from new development for road resurfacing	Provides an ongoing benefit to existing City residents from new development
Evaluate all structural budget changes (e.g., salary increases, new or expanded programs) in the City's 5-year budget model	Ensures program sustainability and allows City to avoid budget deficits that threaten critical programs

Opportunities to Reduce Overtime

- **Police overtime** is used primarily for support of non-patrol functions. FY17 budget assumes reduction in OT from FY16, but additional reductions might be necessary
- **Fire overtime** is primarily for shift shortage. Reduction of overtime would result in periodic service level reductions

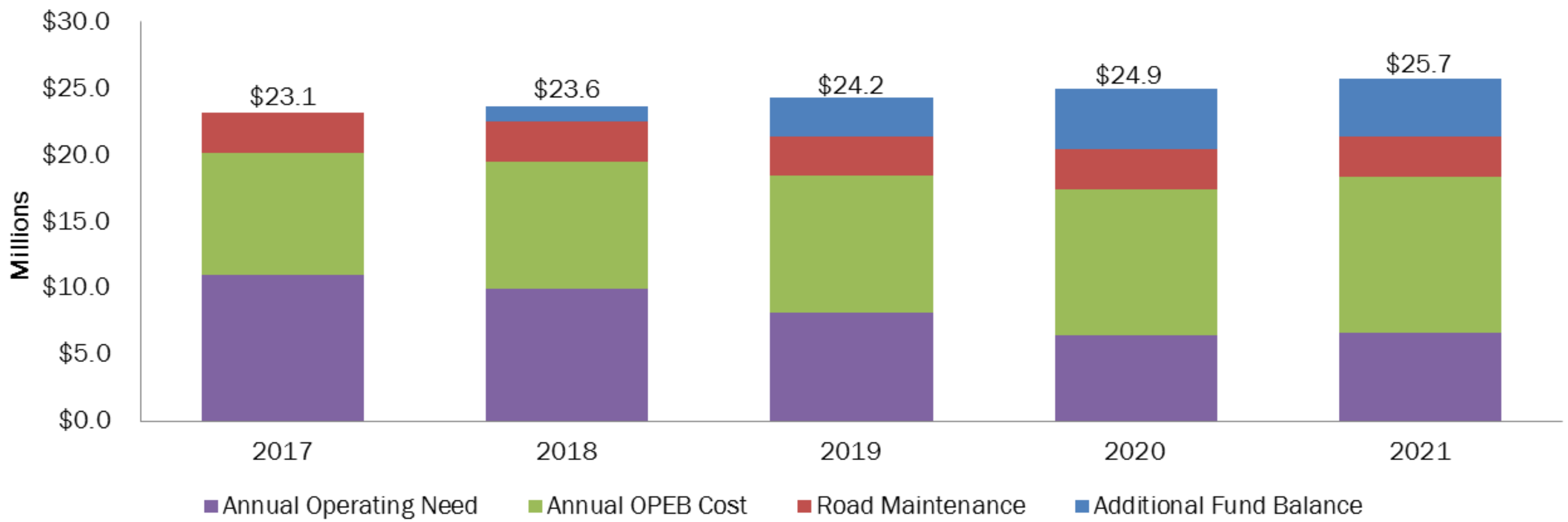


Note: As of 2/29/16, police overtime was nearly at budgeted levels. Fire is on track to be at or under FY16 budget

Alternative Budget Outcomes

Funding What's Not in the Budget

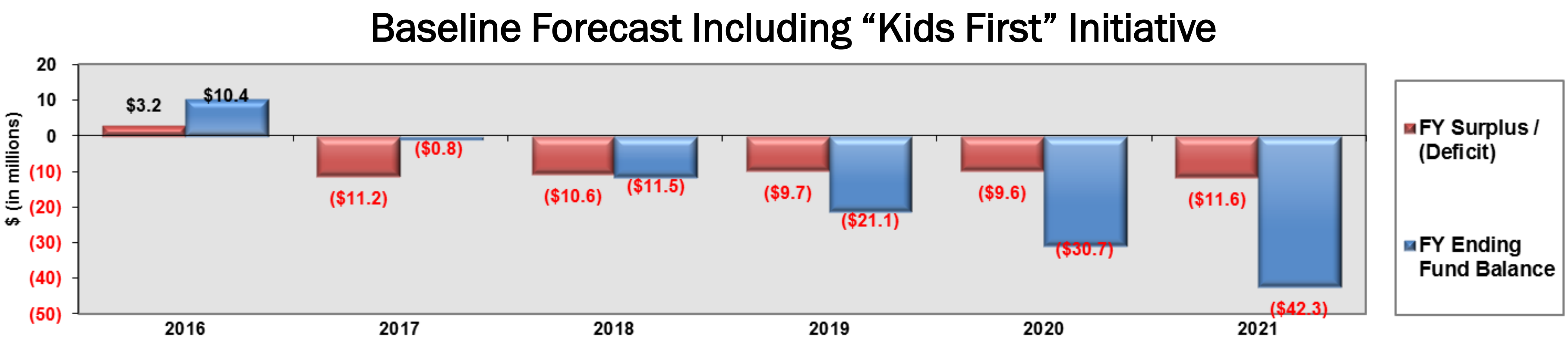
- Beyond balancing the budget, the City also has ongoing, and growing, liabilities in other areas:
  - Retiree Health Care (aka "OPEB") -- $9-10M/yr.
  - Road maintenance -- $3M/yr.
  - Building a General Fund Reserve
  - Building/park maintenance (*Not included below*)

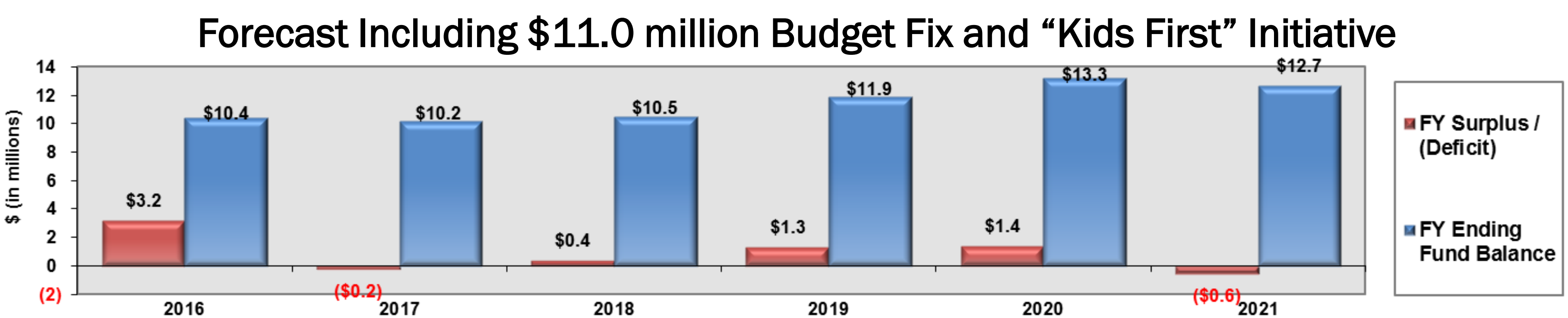


Note: Does not include cost of ongoing park and building maintenance

Impact of “Kids First” Initiative

- The “Kids First” initiative could further exacerbate the City’s financial outlook if immediate corrective measures are not taken.

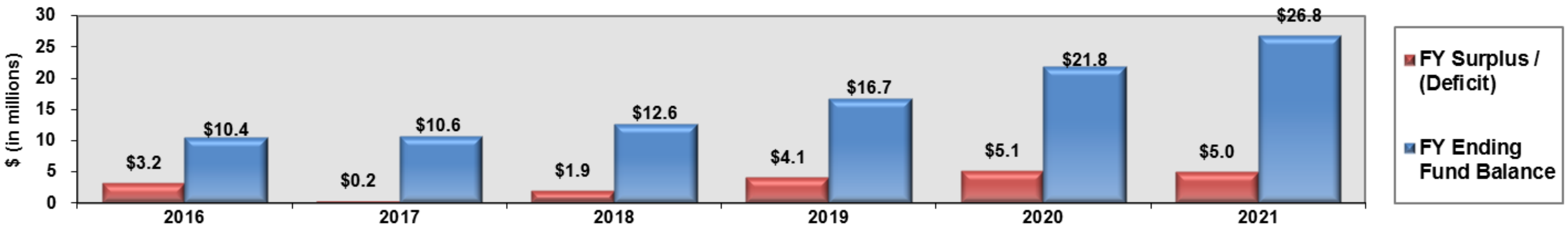




Impact of Proposed Development

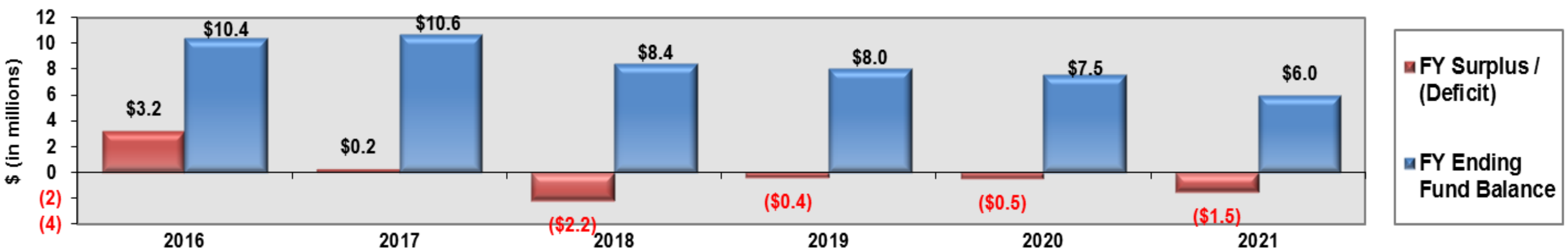
- The anticipated impact of proposed development and cuts in the FY17 budget creates room for the City to fund other priorities in future years (e.g., road maint. and OPEB liabilities)

Budget Forecast Including Proposed Development and additional $11.0 million



- If development revenues are used to fund a 2% COLA, the City would not have a balanced budget in future years

Budget Forecast Including Proposed Development and additional $11.0 million to Fund 2% COLA



Use One-Time Revenues Carefully

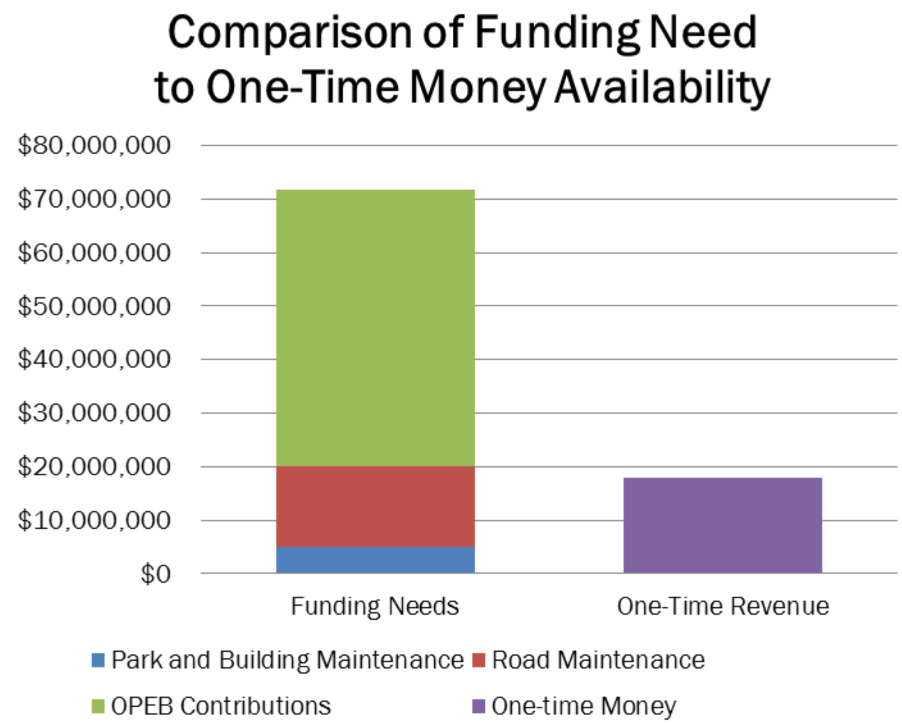
- Anticipated one-time revenues in FY 16 and FY17 could add $17.9 million to the Fund Balance
  - JPA Reserve Distribution (*in FY16 Fund Balance*) $2.2 million
  - Richmond Housing Authority $1.7 million
  - Fire Training Center Sale $2.0 million
  - Terminal 1 $9.5 million
  - Westridge Apartment Building reserve release $2.5 million

  Total $17.9 million
- The City has a choice in how to use these funds now, but that choice requires balancing the FY17 budget with existing General Fund revenues
- Failure to balance the budget will result in the de facto use on one-time moneys for subsidizing City operations. This will serve to delay budget issues, not solve them
- **If budgets are not balanced, these funds will be lost to deficit spending**

Use of One-Time Funds: Council should be proactive

- If Council adopts a balanced budget in FY17, by FY21 the City will have a 10% fund balance reserve of $17 million. If a balance budget is not adopted, one-time moneys will be needed to fund operations

One-time monies will not fully fund needs for:
- Street maintenance and repair
- OPEB trust
- Upkeep of parks and City buildings



Conclusions

- Choices the City makes in FY17 are critical to ongoing fiscal sustainability of the City
- Definitive action is required by the Council in developing the FY17 budget this spring to reset the City's baseline budget
  - Cuts in spending are required to balance am $11M deficit
  - Impacts to employees are unavoidable (cost-sharing and/or position reductions)
  - Service levels may be reduced
- The City does not have sufficient reserves to fund the FY17 deficit, and using any reserves in FY17 will put the City in a precarious position in FY18 and beyond
- Future cost-of-living increases will depend on creating more budget room

Questions?