



AGENDA REPORT

Finance Department

DATE:	October 18, 2022
TO:	Mayor Butt and Members of the City Council
FROM:	Shasa Curl, City Manager Nickie Mastay, Deputy City Manager Delmy Cuellar, Director of Finance Mubeen Qader, Budget Administrator LaShonda White, Interim Director of Library and Community Services
SUBJECT:	Fiscal Year 2021-2022 Year-End Clean-Up
FINANCIAL IMPACT:	The financial impact to the General Fund is \$12,771,275. This amount will be covered by the General Fund operating surplus for FY 2021-2022. The financial impact to Non-General Funds total (\$4,825,437).
PREVIOUS COUNCIL ACTION:	June 29, 2021, October 26, 2021, January 25, 2022, February 1, 2022, February 15, 2022, March 1, 2022, March 22, 2022.
STATEMENT OF THE ISSUE:	As part of the FY 2021-2022 fiscal close, the agenda item is to acquire City Council approval before using the Operating Surplus to clear the historic negative cash in non-general funds. The agenda item is also to obtain the City Council approval to convert some commitments and assignments in the fund balance to unassigned (see Fund Balance Section of the staff report).
RECOMMENDED ACTION:	ADOPT a resolution to approve the use of the estimated Operating Surplus to clear the negative cash and other administrative budget adjustments, transfer to Other Post-Employment Benefits Trust, and release General Fund fund balance assignments and commitments listed in the attached resolution – Finance Department (Shasa Curl/Nickie Mastay/Delmy Cuellar 510-620-6790).

Disclaimer: The amounts in this staff report are preliminary estimates and are subject to change. The goal of this staff report is to inform the City Council regarding the year-end activities and receive approval for the year-end actions to better position the City of Richmond financially.

DISCUSSION:

In conjunction with the annual audit, the year-end clean-up is the process of making necessary adjustments to the budget, actual revenues and actual expenditures, and changes to the fund balance prior to the official closing of the fiscal year and issuance of the Annual Comprehensive Financial Report (ACFR). Adjustments are determined by thorough analysis of the budget and actual activity that has occurred over the fiscal year. This is to ensure that year-end financial results are accurately represented in the ACFR and the City Council approval is acquired before using the Operating Surplus to clear the historic negative cash in non-general funds. The agenda item is also to obtain the City Council approval to convert some commitments and assignments in the fund balance to unassigned.

General Fund: Revenues & Expenditure

The FY 2021-22 General Fund is estimated to have an operating surplus of \$27,041,113 due to revenues exceeding the estimated projections and expenditures coming in lower than budgeted. Total revenues are estimated to exceed earlier projections by 6 percent due to better-than-expected property, sales & use tax, utility user tax, and other taxes. Total expenditures are below budget by 10 percent. Major source of the positive variance are salary & benefits, professional services, and operating transfers out.

Table 1: FY2021-22 Revenue and Expenditure (Unaudited Preliminary Amounts, Subject to Change)

ACCOUNT DESCRIPTION	Original Budget	Revised Budget	Estimated Actual	% Used
PROPERTY TAXES	47,460,890	45,233,561	47,362,317	105%
SALES & USE TAX	50,060,211	51,993,736	53,453,323	103%
UTILITY USERS TAX	45,452,324	46,522,663	48,373,587	104%
OTHER TAXES	18,269,102	20,953,343	26,573,076	127%
LICENSES PRMITS&FEES	11,806,326	10,354,335	11,132,527	108%
FINES & FORFEITURES	550,000	468,897	405,439	86%
USE OF MONEY&PROPRTY	236,079	236,079	168,426	71%
CHARGES FOR SERVICES	3,383,931	3,424,459	3,752,529	110%
OTHER REVENUE	158,977	1,473,927	804,601	55%
RENTAL INCOME	733,206	747,268	797,763	107%
INTERGOV STATE TAXES	90,000	90,000	127,228	141%
INTERGOV STATE GRANT	160,000	187,878	219,234	117%
INTERGOV OTHER GRANT	153,569	153,569	272,254	177%
PROC FR SLE PROP	100,000	100,000	6,788	7%
LOAN/BOND PROCEEDS	-	36,400	93,800	258%
OPER XFRS IN	9,856,182	10,204,224	9,859,938	97%
Total Revenues	188,470,796	192,180,338	203,402,830	106%
SALARIES AND WAGES	75,424,602	75,790,274	70,437,323	93%
PYRLL/FRINGE BENEFIT	62,145,202	62,136,825	60,166,323	97%
PROF & ADMIN	11,201,880	16,993,833	10,651,402	63%
OTHER OPERATING	10,680,893	7,222,218	5,441,249	75%
UTILITIES	4,565,743	5,009,003	4,739,848	95%
EQPT & CONTRACT SVCS	2,628,158	2,561,348	2,153,676	84%
PROVISN FOR INS LOSS	25,725	27,673	26,673	96%
COST POOL	14,130,436	14,455,436	14,130,436	98%
ASSET/CAPITAL OUTLAY	1,602,890	1,451,585	1,033,373	71%
DEBT SVC EXPENDITURE	1,065,359	1,065,359	1,054,108	99%
A87 COST PLAN REIMBS	(3,516,104)	(3,516,104)	(3,471,526)	99%
GRANT EXPENDITURES	2,500	82,500	90,781	110%
OPER XFRS OUT	7,884,939	12,801,419	9,908,051	77%
Total Expenditures	187,842,223	196,081,371	176,361,718	90%
Net Surplus/(Deficit)	628,573	(3,901,032)	27,041,113	

Negative Cash

There are several funds with negative cash balances; however, many funds are expected to recover from the negative cash balances in future years, while other fund

balances are not expected to recover. As mentioned above, the General Fund is estimated to end FY 2021-2022 with an operating surplus of \$27,041,113. This is an opportunity to cure some of historic negative cash balances in other funds and to make budgetary adjustments. City staff is requesting to use part of the estimated General Fund surplus balance from FY 2021-2022 to clear out negative cash balances in the funds below:

- Fund 1051-Engineering Cost Recovery: This fund is currently inactive but had deficit spending between 2014 and 2019, which totaled \$3,489,599.
- Fund 4006-Stormwater: The fund has significant liability due to an advance payment from the 5003-Risk Management Reserve Fund of \$2,654,027. The advance payment liability has been growing annually due to interest accrual. Although Fund 4006 has gradually improved over time due to a strict control on expenditures, it is not likely that the fund will be able to pay-off the loan from the Risk Management Reserve Fund. Another possible solution to cure this negative balance is to have a stormwater rate increase which would require voter approval.
- Fund 4501-Richmond Housing Authority (RHA) Administration: The City acquired a building on 360 S. 27th Street from RHA and as part of the repayment agreement dated January 25, 2022 (Resolution 21-53), the City will transfer \$307,650 equivalent to fair market value for the building to RHA.
- Fund 6999-Payroll Liabilities: Various payroll related liabilities were posted to this fund. The charges belong to many different funds; however, about half the total amount is due to General Fund related payroll amounts. City staff recommends making a correction by clearing the entire balance of \$104,908 by using the FY 2021-22 General Fund operating surplus.

Year-End Clean-Up Administrative Budget Adjustments

As part of the year-end fiscal close, the City staff identified several General Fund and Non-General Fund budget adjustments. A complete list of the budget adjustments is listed in the attached Resolution (Attachment 1). Total General Fund adjustments including the negative cash write-off, OPEB Trust contribution, and administrative adjustments equate to \$12,771,275. The total Non-General Fund adjustments total \$4,825,437.

Fund Balance

The Governmental Accounting Standards Board Statement No. 54 (GASB 54) defines five distinct classifications of fund balances, applicable to governmental funds only, as follows:

CLASSIFICATION

NATURE OF DESIGNATION

Non-Spendable

Cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to remain intact

Restricted

Restriction either externally imposed or imposed by law through constitutional provisions or enabling legislation

Committed

Reserved for specific purposes pursuant to constraints imposed by formal action of the City Council

Assigned

Reserved by the City Council or City Manager for specific purposes, but neither restricted nor committed

Unassigned

Residual balance not classified in any of the above categories and has not been restricted, committed, nor assigned to specific purposes

Committed and Assigned Fund Balance (Set-Asides)

The fund balance in the City's General Fund currently has set-asides in Committed and Assigned designations of the Fund Balance. The set asides were created to assure funding availability for specific reasons at the time of creation. However, due to better-than-expected revenues and savings in expenditures, most of the expenditures were covered by the FY2021-2022 revenues, hence, City staff recommends releasing the following set asides from the Committed and Assigned section and moving those funds to the Unassigned (Reserve) section of the fund balance (See table 2).

- Resolution No. 25-20, COVID-19, \$1,332,367: The original purpose of the commitment was to cover COVID-19 related expenses. The City's significant COVID-19 related expenditures were covered from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) monies. Now that the pandemic appears to be winding down and it is unlikely to have significant fiscal impact due to COVID, City staff recommends releasing this commitment.
- Resolution No. 78-21, Reimagining Public Safety, YouthWORKS, \$233,934: The Reimagining Public Safety programs were funded through the ongoing revenues and the fund balance assignment is no longer needed.
- Resolution No. 78-21, One-time Staff Payments, \$406,667: The amount is the remaining balance from the originally appropriated amount of \$2,300,000. All of the one-time staff bonuses were paid and the balance is recommended to return to the Unassigned fund balance.
- Resolution No. 126-21, Measure U Shortfall, \$2,000,000: Actual Measure U revenue exceeded the projections contrary to the expected shortfall; therefore, the assignment is recommended to return to Unassigned fund balance.
- Resolution No. 126-21, Additional Expenditures, \$229,000: Additional personnel costs resulting from miscellaneous employees bargaining units' final contracts

were covered by the operating revenues contrary to the expectation in the beginning of the FY 2021-2022.

After release of the above-mentioned commitments, the only remaining committed balance for Resolution No. 78-21 is for Community Facility Improvements in the amount of \$1,410,485. The commitment is recommended to stay since the improvement projects are still underway and are expected to continue in FY 2022-2023.

There are other categories resulting from financial accounting in these designations that are technical and are not subject to the City Council approval. The Table 2 below lists the City Council approved Commitments and Assignments.

Table 2: Committed and Assigned Fund Balances (Unaudited Preliminary Amounts, Subject to Change)

Descriptions	Resolution	June 30, 2021	Changes	June 30, 2022	Releasing Assignments & Commitments	FY 21/22 Projected Year-End
COVID-19	25-20	(1,500,000)	167,633	(1,332,367)	1,332,367	-
Reimaging Public Safety	78-21	(1,300,000)	1,066,066	(233,934)	233,934	-
Community Facility Improvement	78-21	(1,700,000)	289,515	(1,410,485)	-	(1,410,485)
One-time Staff Compensation	78-21	(2,300,000)	1,893,333	(406,667)	406,667	-
Contribution to Reserve	78-21	(3,000,000)	3,000,000	-	-	-
Committed Fund Balance		(9,800,000)	6,416,547	(3,383,453)	1,972,968	(1,410,485)
Measure U Shortfall	126-21	(2,000,000)	-	(2,000,000)	2,000,000	-
FY 21/22 Additional Expenses	126-21	(229,000)	-	(229,000)	229,000	-
Assigned Fund Balance		(2,229,000)	-	(2,229,000)	2,229,000	-
Grand Total		(12,029,000)	6,416,547	(5,612,453)	4,201,968	(1,410,485)

Reserve Level

According to Government Finance Officers Association (GFOA), to determine an adequate reserve level, an agency should review and analyze the unique circumstances that can impact its funding sources. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher than minimum of two months (17%) of the General Fund operating expenditures as reserve. City of Richmond's analysis around its unique circumstances is continuously being monitored; however, on September 20, 2022, the Council approved an increase to the General Fund minimum required for the reserve level from fifteen percent (15%) to a range of fifteen percent to twenty percent (15%-20%) of the next year's budgeted total expenditures, including transfers out, which is above the GFOA minimum required of 17 percent.

According to the FY 2021-2022 approved Other Post-Employment Benefits (OPEB) Policy, the City needs to place half of year-end operating surplus after meeting the City's Minimum Reserve Policy into the OPEB Trust. City staff calculated that under the

OPEB policy, the City is required to transfer \$6,102,459 from its General Fund at the end of FY2021-2022.

After all the adjustments (i.e., clearing negative cash balances and transfer to the OPEB trust), Table 3 shows a preliminary estimated reserve level of about \$47,428,915, which is about 22.95 percent of the originally adopted FY2022-2023 General Fund expenditure budget of \$206,632,248.

Table 3: General Fund Estimated Reserve as of June 30, 2022 (Unaudited Preliminary Amounts, Subject to Change)

General Fund Reserve	Amounts
General Fund Operating Surplus	
Operating General Fund Surplus	27,041,113
1051-Engineering Cost Recovery	(3,489,599)
4006-Stormwater Fund Advance Write-off	(2,654,027)
RHA Debt Reduction in lieu of Admin Building	(307,650)
Historic Payroll Liability Correction	(104,908)
Transfer to OPEB Trust	(6,102,459)
FY2021-22 Net Operating Surplus	14,382,470
General Fund Unassigned Fund Balance (Reserve)	
Beginning Unassigned Fund Balance (Reserve)	22,285,626
Released Commitments and Assignments	4,201,968
Adjustments to other Fund Balance Categories	6,558,851
FY2021-22 Net Operating Surplus	14,382,470
Ending Unassigned Fund Balance (Reserve 22.95%)	47,428,915

Next Step

City staff are continuing to prepare for financial headwinds, which include but are not limited to rising inflation, significant interest rate increases, and real estate market corrections. During the last recession, the City of Richmond experienced significant property tax assessment reductions. As such, City staff recommend that the City Council begin preparing for potential property tax decreases. In addition, since the City of Richmond was incorporated in 1905, there are unprecedented built environment needs City-wide that require additional major investments (i.e., buildings, sidewalks, streets, lighting, and parks). Therefore, it is important that we remain strategic regarding spending and saving to ensure we can address essential current and future City needs.

City staff will continue to work on the Annual Audit and prepare an Annual Certified Financial Report (ACFR) and present to the City Council in December 2022 or January 2023.

City staff will also perform analysis around an adequate reserve level considering the risk factors shown below under the GFOA Fund Balance Guidelines for General Fund and bring back a recommendation for the City Council in the coming months. The risk factors are:

- The predictability of its revenues and the volatility of its expenditures
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts)
- The potential drain upon general fund resources from other funds, as well as the availability of resources in other funds
- The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

DOCUMENTS ATTACHED:

Attachment 1 – Resolution