



AGENDA REPORT

Finance Department

DATE:	December 6, 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
SUBJECT:	Fiscal Year 2021-2022 Year-End Clean-Up
FINANCIAL IMPACT:	The financial impact to the General Fund under Option 1 is \$6,668,816 and Non-General Funds is \$4,825,437. Financial impact under option 2 to the General Fund is \$7,636,868 and Non-General Fund is \$1,111,363.
PREVIOUS COUNCIL ACTION:	June 29, 2021, October 26, 2021, January 25, 2022, February 1, 2022, February 15, 2022, March 1, 2022, March 22, 2022, October 18, 2022
STATEMENT OF THE ISSUE:	As part of the FY 2021-2022 fiscal close, City Council approval is requested before using the Operating Surplus to clear the historic negative cash in non-general fund accounts.
RECOMMENDED ACTION:	DISCUSS and DIRECT City staff about the use of the estimated Operating Surplus to clear the negative cash and other administrative budget adjustments 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.

BACKGROUND:

On October 18, 2022, City staff proposed clearing of negative cash from Fund 1051-Engineering Cost Recovery, Fund 4006-Stormwater, Fund 6999-Payroll Liabilities, and transfer to Fund 4501-Richmond Housing Authority (RHA) Administration from the estimated FY 2021-22 General Fund operating surplus. City staff also proposed to transfer 50 percent of the remaining surplus into Other Post-Employment Benefits (OPEB) 115 trust totaling \$6,102,459. In addition, City staff presented several administrative budget adjustments in the proposed resolution and the release of General Fund commitments and assignments to the Unassigned Fund Balance. After discussion during the City Council meeting, the proposed resolution was amended to only approve the \$6,102,459 transfer into the OPEB 115 trust and release of commitments and assignments. The City Council directed City staff to provide analysis before the City Council could decide about clearing the negative cash from the General Fund operating surplus. This agenda item provides additional detail regarding the funds with negative cash balances and proposes two options to clear those fund balances.

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 City Council approval is acquired before using Operating Surplus to clear the historic negative cash in non-general funds.

The staff report also discusses several negative cash clearing items which accumulated over many years. City staff have initiated a detailed Quarterly Budget Review process with each department to monitor all funds' revenue and expenditures. City staff believe that the current review process will address any potential negative funds proactively and the chances of having similar situation of accumulated negative cash fund balances are slim in future given the additional due diligence in progress.

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 taxes, sales and use tax, utility user tax, and other taxes. Total expenditures are below budget by 10 percent. Major source of the positive variance are salary and benefits, professional services, and operating transfers out. Table 1 below shows unaudited preliminary FY2021-22 revenue and expenditure amounts (subject to change). Table 1: FY 2021-22 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 XFERS 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 XFERS 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. The 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 incurred deficit spending between the years of 2014 through 2019, which totaled \$3,489,599. The major revenue source for the fund was Charge for Services which captured reimbursement of staff costs from capital projects and grants. Another source of revenue were receipts from licenses, permits, and fees. These two revenue sources were never able to cover the operating expenditures in the fund which resulted in negative cash. Effective FY 2020-2021, the City Council approved a reclass of this activity to be tracked in the General Fund. There has not been any activity in the fund in the last two fiscal years. Table 2 shows revenue and expenditures for Fund 1051 from FY 2015 through FY 2022.

Table 2: Fund 1051-Engineering Cost Recovery History

	2015	2016	2017	2018	2019	2020	2021	2022	Cumulative
Beginning Cash Balance	(1,388,382)	(2,002,925)	(2,069,399)	(2,212,446)	(2,298,974)	(2,959,041)	(2,980,633)	(2,910,905)	1,584,835
Character Code Description									
LICENSES PRMITS&FEES	470,879	59,457	74,424	20,632	21,920	7,036	-	-	1,213,130
USE OF MONEY&PROPRTY	-	-	-	-	-	-	-	-	3,417
CHARGES FOR SERVICES	457,798	603,336	156,802	189,400	278,021	388,687	-	-	3,147,250
OTHER REVENUE	5,950	4,664	-	45,357	-	-	-	-	71,527
SALARIES AND WAGES	(790,304)	(521,255)	(347,725)	(422,700)	(420,499)	(346,123)	-	-	(3,810,502)
PYRLL/FRINGE BENEFIT	(389,099)	(239,157)	(290,201)	(247,461)	(274,561)	(231,998)	-	-	(2,114,159)
PROF & ADMIN	(49,423)	(61,515)	(118,723)	(148,046)	(150,801)	(89,564)	-	-	(673,057)
OTHER OPERATING	(7,442)	(3,986)	(4,558)	(34,535)	31,346	(45,598)	-	-	(76,957)
UTILITIES	(4,349)	(3,661)	(2,699)	(2,599)	(5,269)	(6,380)	-	-	(31,292)
EQPT & CONTRACT SVCS	(1,594)	-	-	-	(35,040)	-	-	-	(62,529)
COST POOL	(1,745,823)	(1,220,576)	(931,392)	(639,272)	(793,735)	(742,934)	-	-	(7,859,824)
ASSET/CAPITAL OUTLAY	-	-	(27)	(1,250)	-	-	-	-	22,750
OPER XFERS IN	1,408,129	1,320,576	1,272,049	1,084,897	756,583	1,028,209	-	-	7,653,942
OPER XFERS OUT	-	-	-	-	-	-	-	-	(1,968,161)
Revenues over (under) expenditure	(645,278)	(62,117)	(192,050)	(155,577)	(592,035)	(38,664)	-	-	(4,484,467)
Change in receivables (collections)	2,375	18,835	(1,025)	33,037	(33,537)	40,936	360	500	60,250
Change in payables and deposits (disbursements)	28,360	(23,192)	50,028	36,013	(34,496)	(23,864)	69,368	55,408	(15,615)
Sewer bonds/customer deposits									(634,603)
Ending Cash Balance	(2,002,925)	(2,069,399)	(2,212,446)	(2,298,974)	(2,959,041)	(2,980,633)	(2,910,905)	(2,854,997)	(3,489,599)

- **Fund 4006-Stormwater:** The fund has significant liability due to an advance payment from the Risk Management Reserve Fund (Fund 5003) for \$2,654,027. Richmond's stormwater tax rate has not been sufficient to cover the operating expenditures in the program and a rate increase requires voter approval. The advance payment liability has been growing annually due to interest accrual per the original agreement. Although Fund 4006 has been gradually improving 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 fund. Another possible solution is to have a stormwater rate increase which would require voter approval and will take years to implement. City Public Works staff are preparing a request for proposal to

commence with the analysis and community engagement required for a potential Stormwater rate increase. A Professional Services item will be brought to the City Council for discussion in early 2023.

- 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 has agreed to transfer \$307,650 equivalent to fair market value for the building to RHA.
- Fund 6999-Payroll Liabilities: Payroll related charges are tracked in this fund. When the City was administering flexible spending account in-house, the activity was tracked in this fund between the FY 2009-2010 and FY 2013-2014. The balance is the remaining charges that could not be cleared when the program was outsourced to a provider. The charges belong to many different funds; however, about half the total amount is due to General Fund related payroll amounts. City staff members recommend reclassing the entire balance of \$104,908 to General Fund. The table 3 below shows the breakdown of the activity adding up to \$104,908.10.

Table 3: Payroll Liabilities Recommended to be Cleared

Description	Amount
FSA Claim (Medical and Dependent Care) reimbursements that were not directly charged to the Employee Department (Note: This is during the time the City Administered the flexible spending program)	123,106.39
Long Term Disability (LTD) employer expenses that were not directly charged to the Employee Department	129.78
PERS employer expenses that were not charged directly to the Employee Department	924.52
Miscellaneous adjustments to balance AP liability (699-202101) with AP Invoice List	100.76
Military Leave Adjustments that were not reclassified to the Employee Department	(19,353.35)
Grand Total	104,908.10

Options for Clearing Negative Fund Balances

Based on the information provided above, City staff propose the following two options for clearing the negative fund balances:

- Option 1 (City Staff Recommendation): Clear all the four line-items (Funds 1051, 4006, 4501 and 6999) in the total amount of \$6,556,184 and avoid a potential audit finding. This is the most prudent option.

Table 4: Negative Cash Clearing Option 1

Line Item	FY2021-22
Fund-1051 Engineering Cost Recovery	3,489,599
Fund-4006 Stormwater fund	2,654,027
Fund 4501 Richmond Housing Authority Debt Reduction	307,650
Fund 6999 Payroll Liabilities Reclass	104,908
Total	6,556,184

Option 2: Spread the clearing of Fund 1051- Engineering Cost Recovery and Fund 4006-Stormwater over three years. This option may still affect the auditor's opinion about the financials and has economic risk. The potential loss of revenues due to upcoming economic recession may impact the City's ability to fulfill the proposed payment plan. Also, additional payment into the OPEB trust of \$1,940,874 will be required since the operating surplus will be larger than surplus available under Option 1.

Table 5: Negative Cash Clearing Option 2

Line Item	FY2021-22	FY2022-23	FY2023-24	Total
Fund-1051 Engineering Cost Recovery	1,163,200	1,163,200	1,163,200	3,489,599
Fund-4006 Stormwater fund (4% interest rate)	956,375	956,375	956,375	2,869,124
Fund 4501 Richmond Housing Authority Debt Reduction	307,650			307,650
Fund 6999 Payroll Liabilities Reclass	104,908			104,908
*Additional Payment to OPEB Trust	1,940,874			
Total	4,473,006	2,119,574	2,119,574	8,712,155
*This is additional OPEB Trust transfer to \$6,102,459 approved on October 18, 2022				

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). Under option 1, total General Fund adjustments including the negative cash write-off, OPEB trust contribution, and administrative adjustments equate to \$6,668,816. The Non-General Fund adjustments total \$4,825,437. Under option 2, total General Fund adjustments including the negative cash write-off, OPEB Trust contribution, and administrative adjustments equate to \$4,585,638. The Non-General Fund adjustments total \$1,111,363.

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 a 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. The City Council approved transfer of \$6,102,459 from its General Fund to the OPEB trust on October 18, 2022. If the City Council approves the proposed option 2 (Table 5), the City will be required to make an additional payment of \$1,940,874 into the OPEB trust. The option 2 will bring the total FY 2021-22 OPEB transfer to \$8,043,333. Table 6 below shows the additional OPEB contribution under the Option 2.

Table 6: Additional OPEB Trust Contribution

	10/18/2022	11/22/2022	Variance
OPEB Trust Contribution	6,102,459	8,043,333	1,940,874

Under option 1, after all the adjustments (i.e., clearing negative cash balances and transfer to the OPEB trust), Table 7 shows a preliminary estimated reserve level of about \$47,428,915, which is about 22.95% of the originally adopted FY 2022-2023 General Fund expenditure budget of \$206,632,248. Under option 2, with negative cash clearing payment plan and additional OPEB trust payment, Table 8 shows a preliminary estimated reserve level of \$49,369,788, which is about 23.89% of the of the originally adopted FY 2022-2023 General Fund expenditure budget of \$206,632,248.

Table 7: Option 1: 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
Remaining Operating Surplus	20,938,654
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)
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
Transfer to OPEB Trust (approved on 10/18/22)	(6,102,459)
Ending Unassigned Fund Balance (Reserve 22.95%)	47,428,915

Table 8: Option 2: General Fund Estimated Reserve as of June 30, 2022 (Unaudited Preliminary Amounts, Subject to Change)

General Fund Reserve	Amounts
General Fund Operating Surplus	27,041,113
Remaining Operating Surplus	27,041,113
1051-Engineering Cost Recovery	(1,163,200)
4006-Stormwater Fund Advance Write-off	(956,375)
RHA Debt Reduction in lieu of Admin Building	(307,650)
Historic Payroll Liability Correction	(104,908)
Total Transfer to OPEB(Including \$6,102,459 approved	(8,043,333)
FY2021-22 Net Operating Surplus	16,465,648
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	6,416,547
FY2021-22 Net Operating Surplus	16,465,648
Ending Unassigned Fund Balance (Reserve 23.89%)	49,369,788

Technicalities around Reserve Calculation:

The calculation of reserve depends on the balance in Unassigned category of the General Fund Fund-Balance, and the balance is dependent on several accounting technicalities, rules, and regulations. It is important to keep in mind that the exact balance in each fund-balance category is an estimated amount as the annual audit is in the process, all the amounts in each fund-balance category are subject to change. In some cases, it may impact the Unassigned fund-balance and may have a domino impact on the OPEB trust contribution calculation. The staff report is primarily to attain the City Council's approval for the negative cash clearing and other administrative adjustments. Final amounts in the fund-balance and the transfer to OPEB trust will be

presented to the City Council once Annual Comprehensive Financial Report (ACFR) is published.

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 January/February 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