



November 10, 2022

Shasa Curl, City Manager  
City of Richmond  
450 Civic Center Plaza, Suite 300  
Richmond, CA 94806

Subject: **2021-806**—Audit of the city of Richmond

Dear Ms. Curl:

Enclosed please find our report titled *City of Richmond: Anticipated Deficits, High Pension Debt, and Mismanagement of Its Housing Authority Cause the City to Be High Risk* and an accompanying Fact Sheet that highlights the report's key issues.

California Code of Regulations, title 2, section 61140, requires that you provide to us within 60 days—**by January 9, 2023**—a corrective action plan that identifies how you will address the deficiencies identified in our report. The law also requires you to submit subsequent updates every six months from the issuance of this report to report on your efforts to implement the plan. Your first update will be due by **May 10, 2023**.

Richmond's corrective action plan should include the following:

1. The specific actions the city will perform to address the deficiencies we identified.
2. A timetable for implementing those actions.
3. The names of the individuals who will be responsible for implementation.

Do not include any confidential or sensitive information in your corrective action plan because the plan will be publicly available after we review and evaluate it.

Every six months after you have submitted the corrective action plan—and until you have satisfactorily addressed the conditions we identified in the report—you will submit to us an update about your efforts to implement the corrective action plan. To demonstrate your actions and progress, you should provide any available supporting documentation, such as the rules, memoranda, or other relevant materials that prove either your implementation of recommendations or the steps you have taken to rectify the problems discussed in our report. Because this documentation is subject to disclosure under the California Public Records Act, be sure to clearly identify any specific information that may be confidential, and provide us with the legal authority for nondisclosure.

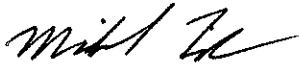
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It is imperative that you provide sufficient evidence for us to evaluate your corrective action plan and the progress you make toward implementing it. We will use what you provide to determine when or if you have satisfactorily addressed deficiencies and whether to retain or remove the city's designation as *high risk*.

You should submit the corrective action plan, subsequent updates, and supporting evidence or documentation in **PDF** or **Word** formats via encrypted, secure email addressed to Nicholas Phelps, team leader, [nickp@auditor.ca.gov](mailto:nickp@auditor.ca.gov). Our encrypted secure email protocols are enclosed.

Once we have determined that Richmond has satisfactorily implemented necessary corrections, we will notify you of our conclusion in writing.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael S. Tilden".

MICHAEL S. TILDEN, CPA  
Acting California State Auditor

Enclosure(s)

## Instructions for Submitting Responses to the California State Auditor

### Please note the following important information regarding your responses

- Responses should have all necessary departmental and agency approvals before you submit them to the State Auditor.
- Responses should include both a timetable for implementing our recommendations and the name of the person or people who will be responsible for implementation.
- Responses will be available to the public after our review and evaluation; therefore, you should not include any confidential or sensitive information.
- Responses should be copied and pasted from a source document into the website's entry fields.
- Responses should be entered in plain text only—formatting (bullets, italics, bolding, or underlining) is not available.
- Responses are limited to 250 words for each recommendation.

1. Login to [www.auditor.ca.gov/responses/login](http://www.auditor.ca.gov/responses/login) using the username and password provided in the cover letter.

**After each of the following steps of this process, select *Next* at the bottom of the screen.**

2. Select the report for which you are submitting responses or updates. Please note that only reports with recommendations currently outstanding will be available.
3. Select the **6 month** response type.
4. Select the recommendation for which you are submitting a response.
5. Select implementation status from the following options:
  - Fully Implemented
  - Not Fully Implemented
  - Will Not Implement
6. Provide the additional information required by whichever option you selected in Step 5:
  - Fully Implemented
    - Date of Completion.
    - Brief description of how your agency fully implemented the recommendation.
    - Name, email, and phone number of the person we should contact if we have any follow-up questions regarding the recommendation.
  - Not Fully Implemented
    - Brief reason for not fully implementing the recommendation. Name, email, and phone number of the person we should contact if we have any follow-up questions regarding the recommendation.
  - Will Not Implement
    - Your agency's reason(s) for not implementing the recommendation.
    - Name, email, and phone number of the person we should contact if we have any follow-up questions regarding the recommendation.
7. Review your response and select *Edit* to make changes or correct any errors.
8. Select *Submit* when you are ready to submit the response.
9. Complete the above steps for each remaining outstanding recommendation.
10. Provide any supporting documentation, such as the rules, memorandums, and other relevant materials that document either your implementation of the recommendations or the steps you have taken to rectify those problems discussed in our report. Submit this information by either U.S. mail or encrypted email attachments to the email address in the cover letter and include the report number in the subject line of your correspondence. Because this documentation is subject to disclosure under the California Public Records Act, you should identify and mark as confidential any specific information that is exempt from disclosure and provide us with the legal authority for nondisclosure.





Michael S. Tilden, CPA *Acting State Auditor*

CONTACT: Public Affairs Office | (916) 445-0255

## City of Richmond

### *Anticipated Deficits, High Pension Debt, and Mismanagement of Its Housing Authority Cause the City to Be High Risk*

#### Summary

Richmond has a long-standing history of financial challenges, which contributed to the State Auditor's Office rating it as at high fiscal risk from fiscal year 2016–17 through fiscal year 2019–20. In our most recent local high-risk dashboard assessment, Richmond demonstrated some improvement in certain risk indicators—moving from the 9th to the 10th California city at greatest risk. However, Richmond retains many high-risk characteristics, including the risk of significant projected deficits, which may critically deplete its reserves. In fact, Richmond's projections—which may be too optimistic—indicate that it may have less than two weeks of expenses in reserve by fiscal year 2027–28. The risks Richmond faces and the totality of our audit findings led us to designate Richmond as high risk.

#### Key Risks

Despite recent improvements, Richmond's long-term financial stability remains uncertain.

- Richmond forecasts a significant long-term deficit, which recent financial trends may worsen.

- The city's debt burden remains high at \$250 million as of June 2021.

Addressing its poorly funded retirement benefits and below-market employee compensation will increase Richmond's expenses.

- Richmond's retirement costs were more than \$35 million in fiscal year 2020–21, almost a quarter of its \$162 million in general fund expenditures for the year. CalPERS anticipates that the city's annual pension costs will increase to \$53 million by fiscal year 2028–29.

- Increased expenses related to cost-of-living adjustments to employee wages—which Richmond deferred for up to seven years—will result in additional costs to the city.

The city has mismanaged the Richmond Housing Authority for a decade.

- As a result of numerous instances of mismanagement, the federal government is directing the housing authority to transfer its direct public housing responsibilities to other entities.
- The authority has missed 11 of 26 deadlines associated with this transfer of responsibilities.



#### **Risk Designation:** **HIGH RISK**

- Population: 116,000
- Median Household Income: \$72,463
- Unemployment Rate: 8% (annual average 2021)

- The housing authority may owe \$1 million or more in federal taxes and penalties.

The city has not consistently followed its contracting policies or updated its fees.

- In at least two instances, Richmond could not demonstrate that it followed its own procurement policies, or it made errors or omissions that could affect its management of contracts.
- The city has not updated its fee schedules as required, and it risks incurring costs for services its fees should cover.

#### Key Recommendations

Richmond should do the following:

- Review the city's reserve policy and determine whether a higher target is appropriate.
- Propose actions that would help ensure balanced budgets and eliminate projected deficits.
- Implement policies for funding its pension and retiree benefit trust funds.
- Devote sufficient resources to the housing authority to resolve all past-due requirements and meet remaining deadlines to comply with the agreement to transfer public housing responsibilities to other entities.
- Resolve the housing authority's past tax liabilities and prevent unnecessary new liabilities.
- Comply with its municipal code and contracting policies when entering into contracts.
- Determine a cost-effective frequency to update its fee schedules to reflect all allowable costs.