



# AGENDA REPORT

Finance Department

<b>DATE:</b>	May 2, 2023
<b>TO:</b>	Mayor Martinez and Members of the City Council
<b>FROM:</b>	Shasa Curl, City Manager Nickie Mastay, Deputy City Manager, Internal Services LaShonda White, Deputy City Manager, Community Services Mubeen Qader, Deputy Director of Finance Antonio Banuelos, Revenue Manager
<b>Subject:</b>	Acknowledge receipt of Fiscal Year 2023-2024 Proposed First Draft Budget and Government Finance Officers Association's General Fund Fund-Balance Guidelines and Government Finance Officers Association's General Fund Fund-Balance Guidelines
<b>FINANCIAL IMPACT:</b>	There is no financial impact as a result of this agenda item. Based on the information provided, the General Fund budget is balanced. The agenda item is also presenting Government Finance Officers Association's (GFOA) General Fund Fund-Balance Guidelines
<b>PREVIOUS COUNCIL ACTION:</b>	December 20, 2022
<b>STATEMENT OF THE ISSUE:</b>	In accordance with Richmond Municipal Code Section 2.61.010, the City Manager is submitting the first draft of the Fiscal Year 2023-24 Annual Operating Budget and Capital Improvement Budget. The purpose of this item is to provide the City Council with an overview of the budget documents, and for City Council to establish and approve the review process and schedule for the annual budget adoption. In addition, in accordance with the California State Auditor's Recommendations Corrective Action

	Plan, the City staff is presenting GFOA Fund-Balance Guidelines.
<b>RECOMMENDED ACTION:</b>	ACKNOWLEDGE receipt of the first draft of the Fiscal Year 2023-2024 Annual Operating Budget and Fiscal Year 2023-2028 Five-Year Capital Improvement Plan Budget; ESTABLISH the review process and schedule for their review and adoption; and RECEIVE Government Finance Officer Association (GFOA) General Fund Fund-Balance Guidelines as part of City's Corrective Action Plan – City Manager's Office/Finance Department (Shasa Curl/Nickie Mastay/Mubeen Qader 510-412-2077).

## DISCUSSION:

This budget item is not intended to be a substantive review of Fiscal Year ("FY") 2023-2024 Annual Operating Budget or the Five-Year Capital Improvement Plan Budget; rather, it is an opportunity for City staff to provide an overview of both budgets as they are currently being submitted. Prior to the end of FY 2022-23 (June 30, 2023), City staff will receive and incorporate City Council direction into various iterations of both budgets, and will bring final budgets before City Council for approval by June 20, 2023.

The City of Richmond's initial draft FY 2023-2024 budget focuses primarily on supporting community resilience. In collaboration with the Mayor's Office, leveraging community needs assessments, and input to support our diverse City, initial draft budget framework invests heavily to improve the built environment. For example, renovation of the Richmond Main Library, sidewalk repairs, stormwater drainage and wastewater infrastructure, and the Port. Continuing the development of new affordable housing and rehabilitating existing affordable housing, as well as thoughtful support for our unhoused neighbors. Resident resilience also features prominently through the continued investment in the Community Crisis Response Program; strategic resource alignment to support "Development Services," which aims to improve small and medium business development division; and commence the strategic review and updates to the City's rental property inspection policies.

Upon the conclusion of the City's State Audit in October 2022, the California State Auditor issued 11 recommendations for the City of Richmond. One of the 11 recommendations is about determining the City's appropriate reserve level through the best practices provided by the Government Finance Officers Association (GFOA). This agenda item also introduces the GFOA best practices for determining appropriate reserve level.

## **Budget Process**

The Finance Department initiated the FY 2023-2024 budget development process on January 26, 2023, with a budget kick-off meeting. Finance staff provided the City departments with budget instructions and timelines for document submission related to the budget entry window (January 30, 2023, through February 26, 2023).

Following the submission of the departmental budget requests, and preparation of the revenue estimate, the City Manager, and the Finance staff held budget hearings with department heads and their respective staff. Budget hearings allowed the City staff to clarify budget requests, review the proposed departmental organization charts, discuss performance measures, and understand the level of cost recovery, as appropriate. Finance also held four (4) community budget meetings in April 2023, including budget meetings with the labor unions and Richmond Neighborhood Coordinating Council.

At the conclusion of budget hearings, the Finance Department compiled a preliminary draft budget based on their initial revenue estimates and the departmental operating budgets as submitted. From this preliminary draft, the City Manager's Office and Finance staff worked collectively with departments, to prepare a draft budget to begin the review process at the City Council level.

### **Budget Meeting with Mayor's Office**

Per the Richmond Charter, the City Manager, along with the Deputy City Manager and the Deputy Director of Finance, held a series of meetings with the Mayor and his staff to discuss the FY 2023-2024 budget. The Mayor's Office put forth several priority budget items. Some of the items discussed included renovating our Main Library, rental inspections, wastewater system/storm drainage, sidewalk repairs, emergency shelter for unhoused during inclement weather, high priority vacancies, Community Crisis Response program, launching a new City website, and "Development Services" to better support small business development. These high priority budget items will continue to be discussed throughout the FY 2023-2024 budget development process during the City Council meetings in the coming weeks.

### **Vacancy Savings**

The current year budget used a 6 percent vacancy rate or \$8.3 million as estimated vacancy savings. The FY 2023-2024 budget is expected to use the same vacancy rate of 6 percent.

### **American Rescue Plan Act**

Congress passed the American Rescue Plan Act (ARPA) in 2021, to provide a variety of economic incentives to address the impacts of COVID-19. The City of Richmond was allocated \$27.74 million. To-date, the Richmond City Council committed approximately \$16 million in ARPA funds for various project, leaving approximately \$11.7 million remaining to be invested (see Table 1). City staff plan to present findings from the

ARPA community needs assessment and strategic investment plan to City Council at a meeting in May 2023 to provide additional direction to staff on spending priorities.

Table 1: American Rescue Plan Act Funding

<b>AMERICAN RESCUE PLAN ACT BUDGET</b>	
<b>REVENUE</b>	
<b>TOTAL</b>	<b>\$ (27,740,723)</b>
<b>EXPENDITURES</b>	
MAIN LIBRARY - HEATING, VENTILATION, AND AIR CONDITIONING (HVAC) SYSTEM IMPROVEMENTS	\$ 500,000
NEVIN COMMUNITY CENTER - HVAC IMPROVEMENTS	\$ 500,000
RECREATION CENTER ADMINISTRATION - HVAC IMPROVEMENTS	\$ 500,000
RICHMOND MUSEUM - HVAC IMPROVEMENTS	\$ 500,000
COMMUNITY BEAUTIFICATION	\$ 1,000,000
ARPA COMMUNITY NEEDS ASSESSMENT	\$ 250,000
ENVIRONMENTAL PLANNING CONSULTANT - BLUE/GREEN NEW DEAL	\$ 300,000
RICHMOND RAPID RESPONSE FUND (DIRECT DISBURSEMENTS, RENT RELIEF, GUARANTEED INCOME)	\$ 1,000,000
RECOVERY OF LOST REVENUE (FY2020-21) APPLIED TO BALANCE FY2021-22 GF BUDGET	\$ 4,000,000
NORTH RICHMOND PUMP STATION	\$ 1,800,000
MARTIN LUTHER KING, JR PARK TURF FIELD PROJECT	\$ 150,000
UNHOUSED FLEX FUNDS	\$ 50,000
LIBRARY INFRASTRUCTURE GRANT MATCH	\$ 3,656,490
NEVIN HOUSING PROJECT (RICHMOND HOUSING AUTHORITY)	\$ 1,750,000
<b>TOTAL: CITY COUNCIL-APPROVED ARPA ALLOCATIONS</b>	<b>\$ 15,956,490</b>
<b>REMAINING ARPA REVENUE</b>	<b>\$ (11,784,233)</b>

### Draft Budget

City staff is submitting the first draft of the FY 2023-2024 Annual Operating Budget and FY 2023-2024 through 2027-2028 Five-Year Capital Improvement Plan to initiate the City Council's review and approval process. At this point, the operating budget is balanced with approximately \$221.3 million in both revenues and in expenditures (Attachments 1 and 2).

Currently, the City has several unfunded high priority items that are not currently included in the budget (See Table 2). City staff will continue to refine the revenue projections and review expenditure as the budget development process moves forward.

Table 2: Unfunded High Priority Items

	<b>Pending/Unfunded Budget Request</b>
<b>15,000,000</b>	Investment in Paving Index improvement
<b>TBD</b>	Fire Training Center Predevelopment Costs
<b>15,000,000</b>	Library renovation
<b>1,500,000</b>	Measure U loss due to pending litigations
<b>5,000,000</b>	Terminal 1 cleanup costs

In addition to the draft FY 2023-2024 Annual General Fund Operating budget, the City staff is also presenting the Non-General Fund Revenue and Expenditures by Fund report (Attachment 3), the Capital Improvement Projects Listing (Attachment 4), and Multi-Year Comparative Position Listing (Attachment 5) for consideration and review. All these documents are drafts and include the best budget estimates available at this time based on current projections and information.

#### Proposed FY 2023-2024 Budget Process and Schedule

City staff is proposing the process and schedule outlined in Table 3 for the City Council's review and adoption of the Fiscal Year 2023-2024 Annual Operating Budget and FY 2024-2028 Five-Year Capital Improvement Plan Budget.

Table 3: Key Budget Development Dates

Action/Activity	Date
Receive the Draft Fiscal Year 2023-2024 Annual Operating Budget and Fiscal Year 2023-2024 to 2027-2028 Five-Year Capital Improvement Plan and establish the budget process and schedule	May 2, 2023
City staff to provide additional budget-related information	May 16, 2023
City Council to receive Revised Proposed Budget Continue City Council review and discussion of draft operating and capital budgets. City Council direction on Budget Checklist and changes to the proposed budget	June 6, 2023
Council to adopt 2023-2024 Operating Budget, FY2023-2024 to FY2027-2028 Capital Improvement Plan, and GANN Limit	June 20, 2023

During the review process, the City staff will continue to work with the City Council to develop a balanced budget for FY 2023-2024.

#### **General Fund Reserve Level - GFOA Best Practices**

On April 4, 2022, the City of Richmond was notified by the California State Auditor that they will be conducting an audit of the City as approved by the Joint Legislative Audit Committee on June 30, 2021. The State Auditor's local audit program identifies and supports local government agencies that might be at high risk based upon analysis of the City's audited financial statements. Richmond's risk assessment was conducted in February 2021 based upon the City's June 2020 financial statements.

At the conclusion of the audit, the State Auditors formalized 11 recommendations that were presented to the City Council at the December 20, 2022, City Council meeting. City staff incorporated the Auditor's recommendation into a Corrective Action Plan (Attachment 7). The first recommendation regarding the Review/Update Fund Balance Reserve Policy was described as follows:

"To help ensure that Richmond maintains appropriate reserves for times of fiscal uncertainty, City staff should, by June 2023, review Richmond's reserve policy to determine whether a higher reserve target is appropriate. As part of the review, staff should consider all the factors the Government Finance Officers' Association (GFOA) recommends for setting a reserve target. Once that review is complete, City staff should present proposals to the City Council for modifying the City's policy."

Per the state audit recommendation and the City's Corrective Action Plan, below are the highlighted "excerpts" from a published article regarding GFOA's Fund Balance Guidelines for the General Fund (Attachment 6).

"The adequacy of unrestricted fund balance in the general fund should consider each government's own unique circumstances. 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 level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances. Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or

- if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
  3. The potential drain upon general fund resources from other funds, as well as the availability of resources in other funds;
  4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds; and
  5. 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). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.” (GFOA General Fund Fund-Balance Guidelines, Attachment 6).

## **NEXT STEPS**

Over next few weeks, in conjunction with redefining the FY 2023-2024 Operating budget and the Five-Year CIP budget, the City staff will bring back to the City Council, a revised General Fund Reserve Policy under the GFOA Guidelines (Attachment 6) and per the City's California State Audit Correction Action Plan (Attachment 7).

## **DOCUMENTS ATTACHED:**

Attachment 1 – General Fund Revenue and Expenditure Summary  
Attachment 2 – General Fund Revenue and Expenditures by Department  
Attachment 3 – Non-General Fund Revenue and Expenditures by Fund  
Attachment 4 – Capital Improvement Projects  
Attachment 5 – Multi-Year Comparative Position Listing  
Attachment 6 – GFOA General Fund Fund-Balance Guidelines  
Attachment 7 – Corrective Action Plan