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City of Richmond
Review of Ordinance Proposals
2016-137; 139; 140

July 21, 2016



Mayor Dwight C. Jones

Selena Cuffee-Glenn, CAO

Proposed Ordinances

1. Ordinance 2016 – 137:

1/6th Meals Tax Collected Designated to School Operating Reserve

2. Ordinance 2016 – 139:

75% Year End Surplus Designation to School Operating Budget

3. Ordinance 2016 – 140:

60.8% Annual Real Estate Tax Designation to School Operating Budget



Proposed Ordinance Intentions Are Good however...

- **A multi-year School Investment Plan (SIP) has been developed** by the Administration.
 - Team members included representatives from RPS, Administration, and the Business Community
- The SIP was a **collective effort of stakeholders to research and identify sustainable funding sources** to address the needs of schools and the city.
- The plan **holistically addresses**:
 - the critical long term financial impacts to all services
 - City financial policy parameters
 - debt capacity and affordability

Ordinances 2016 – 137 & 140 Historic Scenarios

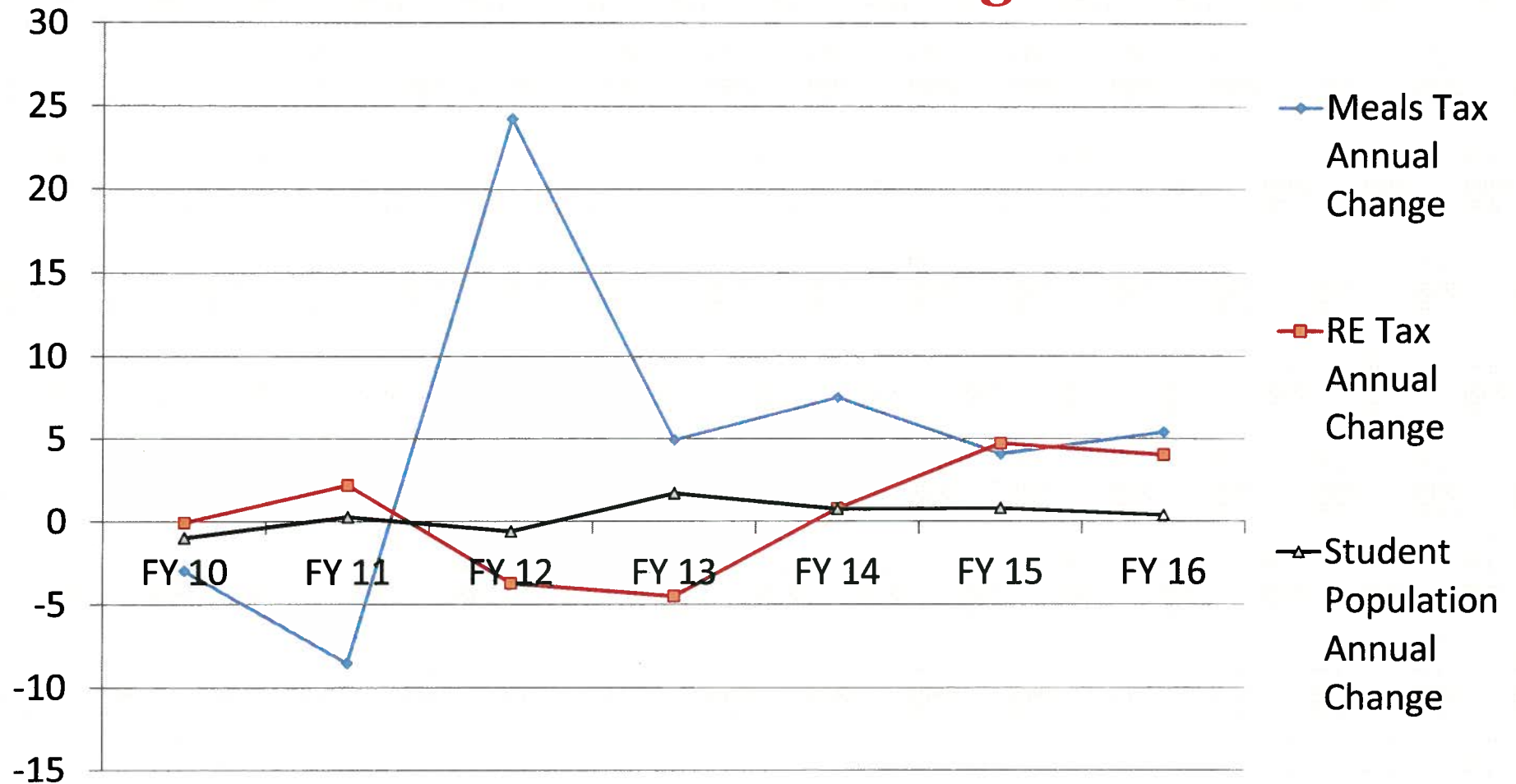
- # 137 – 1/6 of Meals Tax Collected to School Operating Reserve
- # 140 – 60.8% Annual Real Estate Tax Designation to School Operating Budget

| | Actual FY 2009 | Actual FY 2010 | Actual FY 2011 | Actual FY 2012 | Actual FY 2013 | Actual FY 2014 | Actual FY 2015 | Projected FY 2016 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
| Local School Contribution (excludes State Sales Tax & Debt) | \$ 133,843,810 | \$ 126,388,544 | \$ 124,670,967 | \$ 124,245,076 | \$ 129,532,337 | \$ 130,654,669 | \$ 137,067,989 | \$ 145,999,657 |
| | | -5.57% | -1.36% | -0.34% | 3.90% | 0.87% | 5.82% | 6.52% |
| 61% Real Property: | \$ 138,576,107 | \$ 138,465,714 | \$ 141,478,755 | \$ 136,190,508 | \$ 135,090,408 | \$ 136,132,217 | \$ 141,449,368 | \$ 147,134,957 |
| | | -0.08% | 2.18% | -3.74% | -4.52% | 0.77% | 4.71% | 4.02% |
| 1/6 of Collected Meals Tax: | \$ 4,082,326 | \$ 3,960,196 | \$ 3,621,835 | \$ 4,499,479 | \$ 4,721,046 | \$ 5,075,061 | \$ 5,282,211 | \$ 5,567,395 |
| | | -2.99% | -8.54% | 24.23% | 4.92% | 7.50% | 4.08% | 5.40% |
| Student Population: | 21,560 | 21,344 | 21,399 | 21,267 | 21,626 | 21,786 | 21,958 | 22,035 |
| | | -1.00% | 0.26% | -0.62% | 1.69% | 0.74% | 0.79% | 0.35% |



Ordinances 2016 – 137 & 140

Historic Scenarios Demonstrate that Funding Would Not Correlate to Annual Changes In Needs



**Ordinances 2016 –
137 (1/6th Meals Tax) & 140 (60.8% R.E. Tax) Designation**

Single Revenue Designation Concerns Include:

- 1. Does not correlate to TOTAL General Fund revenues** or the City's affordability annually.
- 2. Does not provide consistent & dependable funding** (large swings experienced annually).
- 3. May result in over or under funding school needs annually.**
Does not consider State or Federal funding streams provided to Schools.
- 4. Does not consider City service population changes** (students or general population) impacting annual financial servicing needs.
- 5. Will require tax increases or additional cuts to other City services to replace the designated funding:**
 - **\$.03 Real Estate Tax** Increase for 1/6th Meals Tax Designation of \$5.5M
 - **\$.01 Real Estate Tax** Increase for R.E. Tax Designation of \$2M



**Ordinances 2016 –
137 (1/6th Meals Tax) & 140 (60.8% R.E. Tax) Designation**

Single Revenue Designation Concerns Include:

- **If Tax Increases are not an option then - Will require additional cuts** to other City services to replace the designated funding:
 - **1/6th of Meals Tax Designation** of \$5.5M
 - Several departments would need to be **eliminated**. Examples of Departments with less than \$5M budget in FY17 include:
 - City Assessor - \$3,123,355
 - Library - \$5,492,382
 - Economic and Community Development - \$4,076,795
 - Emergency Communications - \$4,396,961
 - Health Department - \$3,781,490



**Ordinances 2016 –
137 (1/6th Meals Tax) & 140 (60.8% R.E. Tax) Designation**

Single Revenue Designation Concerns Include:

- **If Tax Increases are not an option then - Will require additional cuts** to other City services to replace the designated funding:
 - **R.E. Tax Designation** of \$2M
 - Several departments would need to be **eliminated**. Examples of Departments with less than \$2M budget in FY17 include:
 - City Auditor - \$1,902,628
 - Budget - \$1,258,226
 - City Council - \$1,308,232
 - Council Chief of Staff - \$1,164,839
 - Human Services - \$1,816,721
 - Office of Community Wealth Building - \$1,280,355
 - Procurement - \$1,156,879
 - Minority Business Development - \$661,731



RPS Funding & Per Pupil Spending

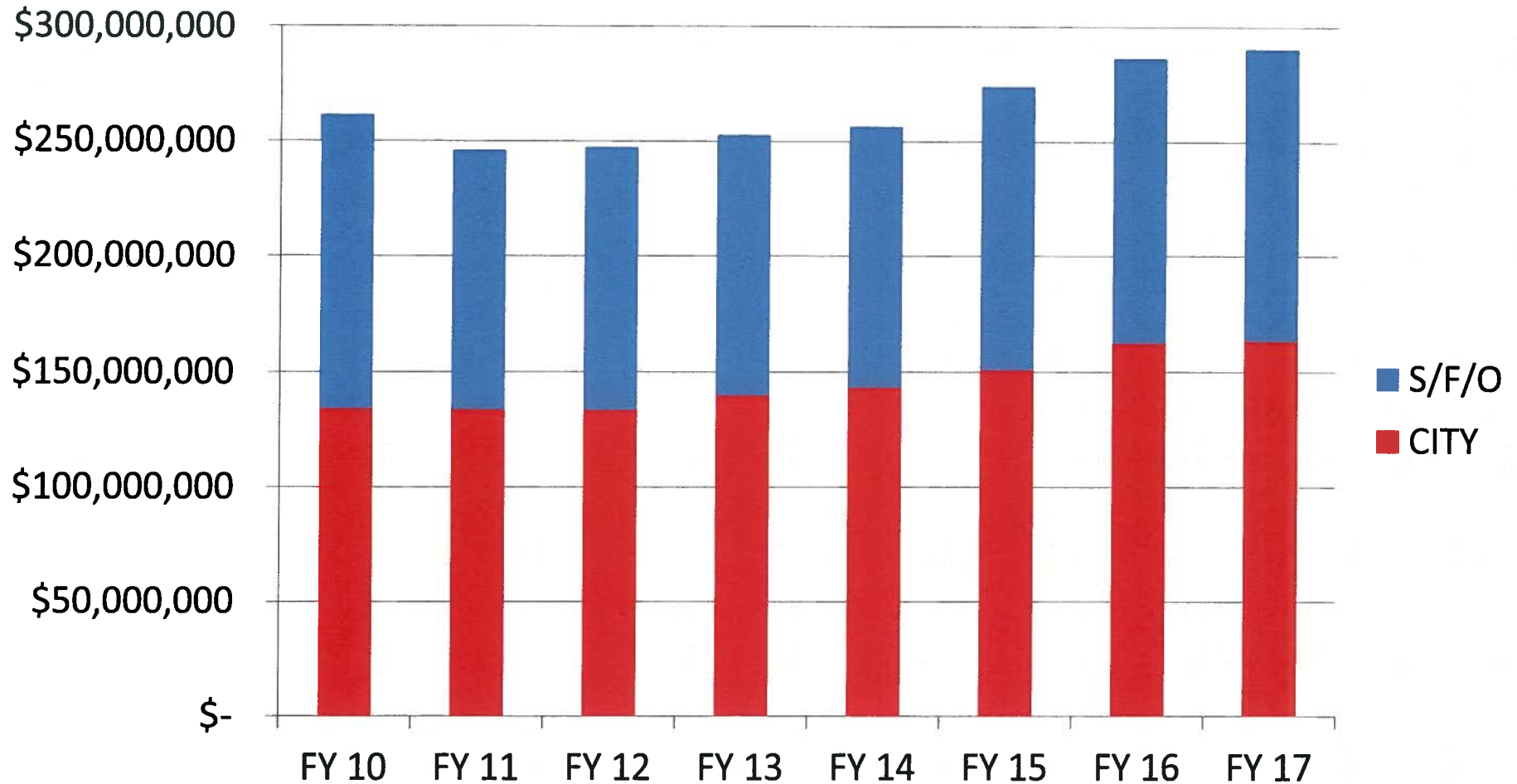
Better method is to benchmark funding to per pupil needs.

| | FY2010 Actual | FY2011 Actual | FY2012 Actual | FY2013 Actual | FY2014 Actual | FY2015 Actual | FY 2016 Adopted | FY2017 Approved | % Change |
|-----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------|
| City Operating Contribution: | \$ 126,388,544 | \$ 124,670,967 | \$ 124,245,076 | \$ 129,532,337 | \$ 130,654,669 | \$ 137,067,989 | \$ 145,999,657 | \$ 145,999,657 | 16% |
| City Debt Contribution: | 7,756,038 | 8,960,439 | 9,223,838 | 10,214,517 | 12,518,667 | 13,679,467 | 16,394,048 | 17,279,652 | 123% |
| TOTAL CITY CONTRIBUTION: | \$ 134,144,582 | \$ 133,631,406 | \$ 133,468,914 | \$ 139,746,854 | \$ 143,173,336 | \$ 150,747,456 | \$ 162,393,705 | \$ 163,279,309 | 22% |
| State/Fed/Other: | 127,383,760 | 112,396,503 | 113,873,015 | 113,131,602 | 113,472,673 | 123,357,775 | 124,014,248 | 127,166,580 | 0% |
| TOTAL SCHOOL FUNDING: | \$ 261,528,342 | \$ 246,027,909 | \$ 247,341,929 | \$ 252,878,456 | \$ 256,646,009 | \$ 274,105,231 | \$ 286,407,953 | \$ 290,445,889 | 11% |
| # of Students: | 21,344 | 21,399 | 21,267 | 21,626 | 21,786 | 21,958 | 22,035 | 21,992 | 3% |
| True Spending Per Student: | \$ 12,253 | \$ 11,497 | \$ 11,630 | \$ 11,693 | \$ 11,780 | \$ 12,483 | \$ 12,998 | \$ 13,207 | 8% |

Sources: RPS Budget Documents, City of Richmond CAFR documents, & City Investment & Debt Manager



RPS Historic Funding Sources



Ordinances 2016 – 139 Historic Scenarios

- # 139 – 75% Year End Surplus Designation to School Operating Budget

| | Actual FY 2009 | Actual FY 2010 | Actual FY 2011 | Actual FY 2012 | Actual FY 2013 | Actual FY 2014 | Actual FY 2015 |
|----------------------------|-------------------|-------------------|-------------------|--------------------------------|-------------------|-------------------|-------------------------------|
| Annual Surplus/ (Deficit): | (13,808,630) | 15,115,954 | 20,595,256 | 66,302,653 (\$62M from RMA) | (34,982,025) | (680,947) | (21,668,260) (preliminary) |
| Unassigned GF Balance: | 48,644,484 | 59,423,096 | 64,062,309 | 72,908,854 | 75,000,000 | 80,393,997 | 83,893,710 (preliminary) |



Ordinances 2016 – 139 (75% Surplus) Designation

Surplus Dedication Concerns Include:

- 1. Inconsistent** from year to year & **unpredictable source** – no guarantee annually
- Any surplus is a “one-time” revenue that **should NOT BE USED for recurring annual operational needs** (policy requirement)
- 3. Surplus is best served to:**
 - Provide adequate fund balance for cash flow and/or emergency reserves
 - Provide “pay-as-you-go” funds for capital spending
 - Reduce debt or pension obligations
 - Other “one-time” expenses



Proposed Ordinances Are Premature Given SIP Status

- **A multi-year School Investment Plan (SIP) has been developed** by the Administration.
- The SIP is a **collective effort of stakeholders to research and identify sustainable funding sources** to address the needs of schools and the city.
- The plan **holistically addresses**:
 - the critical long term financial impacts to all services
 - City financial policy parameters
 - debt capacity and affordability

Review of Best Budgeting Practices in Funding Annual City Services

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OPERATING BUDGETS:

1. Balance Budgets with **SUSTAINABLE, RECURRING, and DIVERSIFIED** Revenues where possible
2. Develop budgets that **CORRELATE to ANNUAL NEEDS & PRIORITIES** (data driven decisions)
3. Prepare revenue & expense estimates based on **CONSERVATIVE TRENDS & REALISTIC** expectations
4. Provide **ADEQUATE ANNUAL MAINTENANCE FUNDING** for physical assets and human resources

Review of Best Budgeting Practices in Funding Annual City Services

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OPERATING BUDGETS:

5. **BUILD HEALTHY FUND BALANCES** for annual cash flow and emergency needs
6. **ESTABLISH OPERATING RESERVES** for fund cyclical occurrences such as claims expenses or revenue declines
7. **LIMIT ANNUAL DEBT PAYMENTS TO MODERATE RATIO CAPS** of recurring revenues (10 to 12%)
8. **INCLUDE ANNUAL “PAY-AS-YOU-GO” FUNDING** for capital needs (min. 3% of recurring revenues)

Review of Best Budgeting Practices in Funding Annual City Services

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CAPITAL BUDGETS:

9. Prepare 5 Year, **REALISTIC & DEPENDABLE** Capital Improvement Plans.
10. **LIMIT DEBT REPAYMENT YEARS** to the life of the assets financed.
11. **DISCLOSE & PLAN FOR OPERATING IMPACTS OF CAPITAL** projects constructed to prepare for cost increases
12. **PROVIDE QUARTERLY PERFORMANCE REPORTS** to monitor & provide time to react to unforeseen financial circumstances