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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

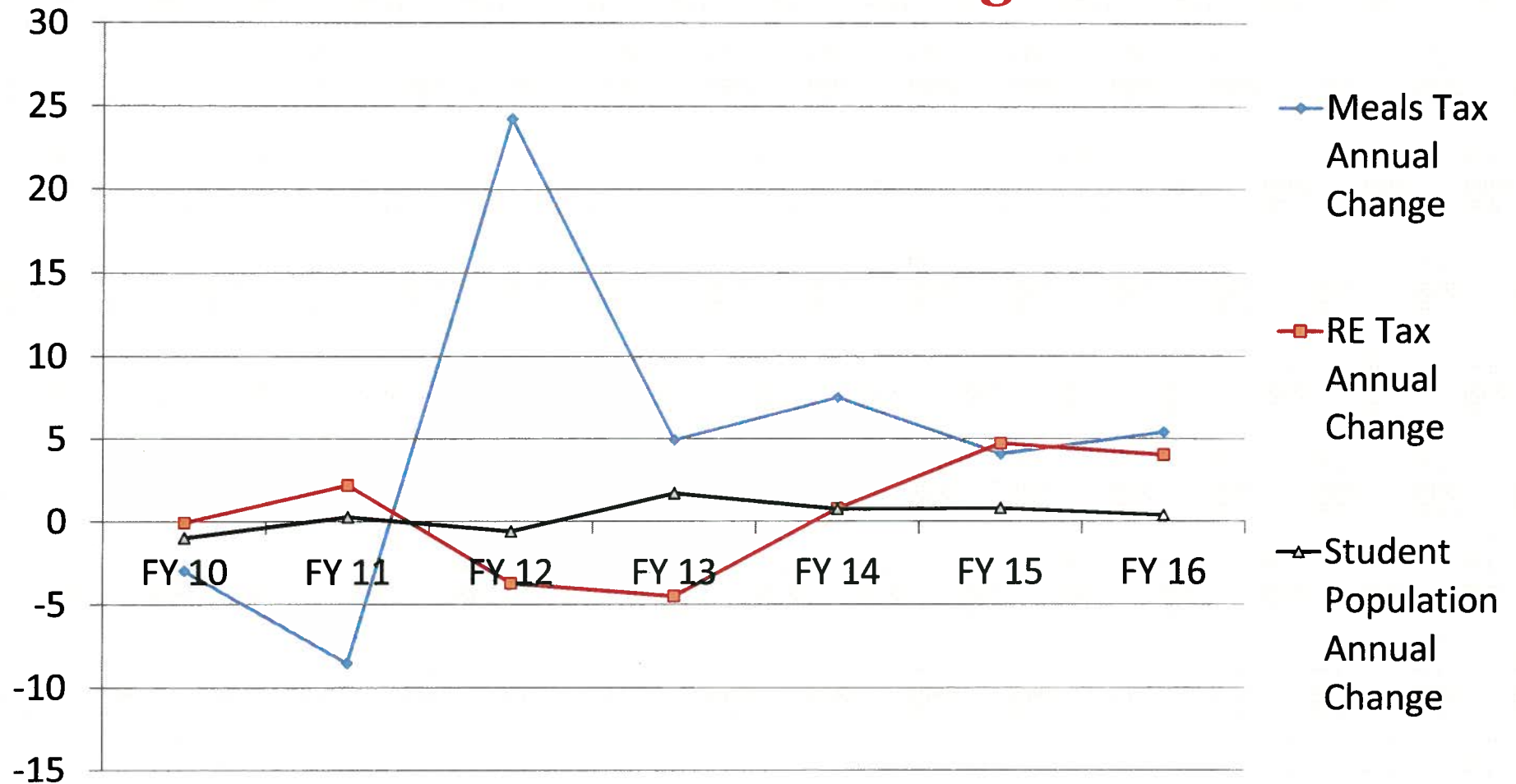
- # 137 – 1/6 of Meals Tax Collected to School Operating Reserve
- # 140 – 60.8% Annual Real Estate Tax Designation to School Operating Budget

	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

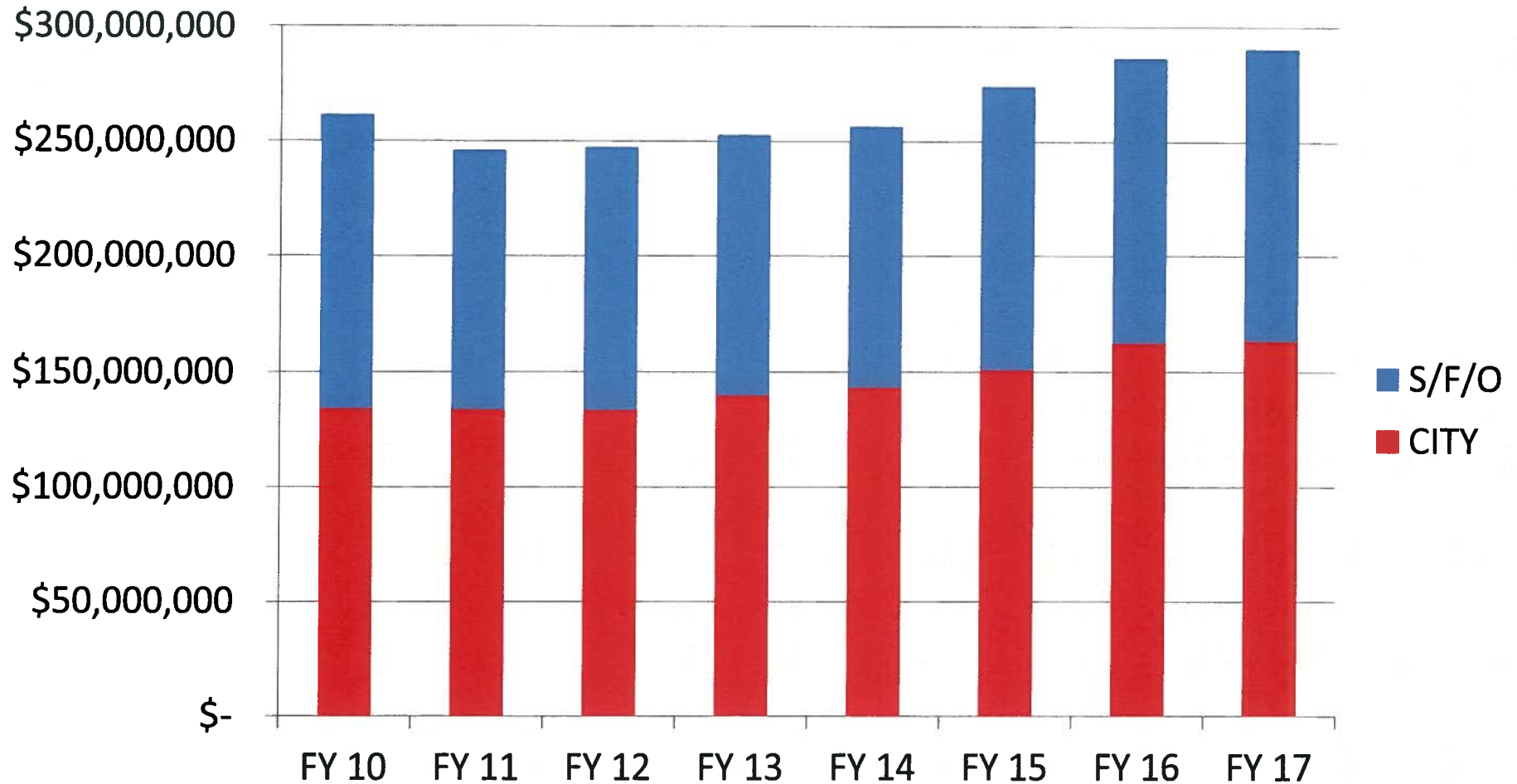
Better method is to benchmark funding to per pupil needs.

	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
2. 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
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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