



**MEMORANDUM**

DATE: March 30, 2004  
TO: Honorable Mayor and City Council  
FROM: Jay Corey, City Manager (Interim) *J. Corey*  
SUBJECT: Financial Recovery Report (2.0)

ISSUE

On March 23, 2004, the City Council of the City of Richmond directed the City Manager to return on March 30, 2004 with the second part of a Financial Recovery Plan based on policy direction given by resolution on March 23<sup>rd</sup>.

RECOMMENDATION

It is recommended that the City Council approve the recommendations contained in this report and other related reports that may be confidential in nature, but which describe the specific actions necessary to implement the policy direction of the City Council set forth below.

BACKGROUND

The policy direction given by the City Council to the City Manager on March 23<sup>rd</sup> relates to cost savings and revenue generation as follows:

1. DIRECTING THE CITY MANAGER TO REDUCE THE RICHMOND POLICE DEPARTMENT BUDGET BY \$2.2 MILLION FOR THE PERIOD FROM APRIL 1, 2004 THROUGH JUNE 30, 2005.

On March 23, 2004, the City Council authorized and directed the City Manager, staff and counsel to reduce the Police Department budget by \$2.2 million for the period from April 1, 2004 through June 30, 2005, and to work with the Police Chief on the exact positions to be unfunded, the effect on police operations, the cost savings, the effect of funding from the Federal government and other agencies, and steps to contain overtime.

2. DIRECTING THE CITY MANAGER TO REDUCE THE RICHMOND FIRE DEPARTMENT BUDGET BY \$1.1 MILLION FOR THE PERIOD FROM APRIL 1, 2004 THROUGH JUNE 30, 2005.

On March 23, 2004, the City Council authorized and directed the City Manager, staff and counsel to reduce the Fire Department budget by \$1.1 million for the period from April 1, 2004 through June 30, 2005, and to work with Fire Management on the exact positions to be unfunded, the effect on fire operations, the cost savings, the effect of funding from other sources, and steps to contain overtime.

3. DIRECTING THE CITY MANAGER TO REDUCE THE CITY BUDGET BY \$25 MILLION FOR THE PERIOD FROM APRIL 1, 2004 THROUGH JUNE 30, 2005.

On March 23, 2004, the City Council authorized and directed the City Manager, staff and counsel to report to the City Council at its April 6, 2004, meeting on the sources, costs, benefits and plans to realize \$12.5 million in cost savings and/or increased revenues (one-time revenues or recurring revenues), for the April 1, 2004 through June 30, 2005 period, including cost sharing, deferrals and/or layoffs for exempt management employees and Richmond Management Employees Association (RMEA) employees, and including non-personnel cost savings and other revenue sources.

The City Council further authorized and directed the City Manager, staff and counsel to implement an additional \$12.5 million in cost savings between April 1, 2004 through June 30, 2005, to reduce labor costs for employees represented by Local 790 SEIU (full-time and part-time), which may include reduced compensation and benefits, cost sharing, layoffs, unpaid furloughs, and other steps.

In order to plan in advance for possible layoffs, if savings cannot be realized by collective bargaining agreement, the City Manager is instructed to report back to the City Council on March 30, 2004, on:

1. The steps necessary to implement layoffs so the terminations are effective and all exit payments are made to employees no later than May 30, 2004.
2. The position, department, salary, and collective bargaining unit of each affected employee.
3. For the period from April 1, 2004 to June 30, 2004, the costs of termination (including salary and benefits to be paid during the notice period; severance, vacation and sick leave pay to be paid upon departure; medical insurance tail; and other costs).
4. For the period from April 1 to June 30, 2004, the savings to the City of the salary and benefits no longer paid for the terminated employees.
5. For the period from July 1, 2004 through June 30, 2005, the savings to the City of the salary and benefits no longer paid for the terminated employees.

ANALYSIS

I. Cash Shortfall

As detailed in the Mid-Year Financial Report and Action Plan approved by the City Council on March 9<sup>th</sup>, there will be an estimated cash shortfall of \$7.1 million for the year ending June 30, 2004, unless additional cost cutting actions are taken immediately. There are very few options to increase revenues in the next 90 days and the revenue amounts would be minor.

In addition, the City's General Fund will have a \$21.3 million cash shortfall for the year July 1, 2004 through June 30, 2005, unless actions are taken now to make further cost reductions and to increase revenues.

Whatever portion of the \$7.1 million deficit that remains June 30, 2004 will roll over to the 2004-05 year. Therefore, the aggregate cash shortfall could be as high as \$28.4 million for the next fiscal year.

II. Information on Employees and Current Compensation

The City of Richmond currently has 1,094 employees. About 653 of these are paid from the General Fund. Salaries and benefits constitute approximately 85% of operating costs. The employees in each department and the costs of their salaries and benefits are as follows:

**GENERAL FUND  
 SALARIES & BENEFITS  
Mid-Year Budget 2003-2004**

	<u>Number of Employees</u>	<u>Total Salaries &amp; Benefits</u>	<u>Average Per Employee</u>
Legislative - Mayor & City Council	13	\$488,225	\$37,556
Administrative	58	\$6,754,216	\$116,452
Information Technology	14	\$1,958,428	\$139,888
Public Safety-Police	240	\$36,574,981	\$152,396
Public Safety-Fire	85	\$14,940,196	\$175,767
Public Services	65	\$4,712,630	\$72,502
Recreation & Parks	115	\$4,954,147	\$43,080
Library and Museums	63	\$3,696,809	\$58,680
<b>TOTAL GENERAL FUND</b>	<b>653</b>	<b>\$74,079,632</b>	<b>\$113,445</b>

Note: Of the 240 in the Police Department, about 69 are not sworn officers but perform Code enforcement and other non-public safety functions. Some of these 69 are members of the SEIU Local 790 or RMEA Unions. There are 171 sworn officers in the Police Department.

III. Revenue Generation

There are no magic bullets that will somehow generate enough revenue to avoid significant lay-offs. Management staff has considered the ideas generated at the community meetings and has worked with the unions on these and other ideas for both ongoing and one-time revenue sources. The most viable ideas so far are listed below:

- Sell surplus City property
- Improve collection of fees
- Attract more retail services for sales tax revenue
- Implement business license requirement for landlords
- Bring in a Casino at Point Molate
- Increase revenues at the Convention Center
- Implement various tax increases and assessment districts
  - Remove utility user tax cap
  - Establish park district and assessment
  - Establish library district and assessment

Staff has focused on the ideas that are feasible in the next 15 months based on the City Council's directives. This eliminates the financial impacts of taxes and assessments from this report. Staff will continue to pursue those ideas in the coming weeks. The other ideas on the above list are addressed below:

**Surplus Property.** It is estimated that the City can bring in approximately \$9.6 million to the general fund by June 30, 2005 through the sale of surplus real estate. The biggest single property sale would be Terminal One, which is estimated to net \$7.0 million in June of 2005 under the existing Land Disposition Agreement with Toll Brothers. This and other real properties for near term sale are listed on an attachment to this report.

**Collection of Fees.** It is estimated that the Building Department can cause an additional \$100,000 per year to be collected in business license fees by requiring applicants for building permits to show proof that all subcontractors have a current business license as a condition of permits being issued.

**Retail Services.** Staff is aggressively pursuing retail operations for the City. Unfortunately, the timing of potential new retail revenues cannot be guaranteed. If Wal-Mart and Target follow through with current plans to open stores in Richmond, it is estimated (based on statements by Wal-Mart and Target) that these and other new stores will create approximately \$1 million in additional sales tax revenue to the City each year. At this point, the earliest possible dates that Wal-Mart and Target could open stores in Richmond would be spring of 2005. However, since these projects are not certain to happen, these potential revenues are not considered in this analysis.

**Business Licenses for Landlords.** Staff recommends pursuing the establishment of business licenses for landlords. It has not been determined whether or not this will require a vote of the people. Therefore, this potential revenue source is not considered in this report.

**Point Molate.** No revenues will be generated for the general fund from Point Molate before June 30, 2005. Potential near-term revenues, if realized would only support security and maintenance of the site.

**Convention Center.** Staff is actively pursuing better ways to generate income from the Convention Center. However, significant revenue increases cannot be assumed in the near term.

Additional revenue generating ideas continue to be explored and staff will report out on any new revenue sources that are considered viable.

#### IV. Cost Reductions

Since across the board cost-sharing of CalPERS retirement and health benefits have not been achieved at this writing, lay-offs and other cost reducing measures are being recommended. These recommendations are in accordance with the City Council directives of March 23<sup>rd</sup> and shaped by community input, advice from legal counsel, previous priorities expressed by the City Council and the financial realities of the situation.

Department heads and executive management have identified positions to be eliminated and the list will be provided to the City Council in a separate confidential package. No layoff notices will actually be given until the City Council approves the plan. Due to the significant revenue enhancements (mostly one time actions) required lay-offs of SEIU-790, REMA and exempt employees are estimated to total cost savings of \$12.7 million. The details of these reductions are in the confidential package.

In addition to lay-offs, staff has identified \$2.26 million in non-personnel cost savings by the elimination of certain programs and contracts.

Police and Fire have produced plans that reduce public safety costs by \$3.3 million in accordance with City Council direction. These savings include freezing a number of budgeted positions. The details of these cost cutting measures are part of the separate confidential package.

V. Timeline. If the City Council authorizes the layoffs according to the plan presented, then City staff under the direction of the City Manager will follow this schedule:

- April 1, 2004: Each Department head gives notice to HR Department (with copy to union and effected employee).
- April 2 to April 30: HR Department process layoff notices, exit payments, seniority and bumping rights.
- May 1, 2004: HR Department sends notice to each effected employee and each union.
- May 15, 2004: Last day of work for effected employees.

This analysis constitutes how a \$28.4 million deficit can be erased in 15 months based on the policy direction given by the City Council and shaped by community input. The recommendations contained herein represent 75 days of intensive work by the Financial Recovery Team designed to bring the City back to financial stability. The difficult decisions that must be made at this point are, unfortunately, necessary for the sake of the City. Nothing we can recommend is going to make life easier or better for anyone in the near term. However, these actions are necessary to ensure a stable and vital City that will surely prosper in the future. The best we can do is rise to the challenge that we now face.