

City of Richmond



DWIGHT C. JONES
MAYOR

March 22, 2010

The Honorable City Council of Richmond, Virginia

Dear Colleagues

I respectfully submit amendments to the FY 2010-FY2011 Biennial Fiscal Plan. As I said last year, I take very seriously the responsibility of preparing a fair and balanced budget during these dire economic times.

We continue to look for ways to make Richmond City government a streamlined, efficient and effective organization. We have proposed several additional good business practices for City Council's review and adoption, to continue our efforts to perform at optimal capacity, and become a Tier One City.

Last year, I said that my theme for the biennium was "Making Efficient Decisions in Challenging Economic Times." I will expand upon that theme, and also discuss my Economic Recovery Strategy.

But first, let me express my sincere appreciation to each of you for the courtesies you have shown me and that you continue to show me, as we work together for our mutual goal: the betterment of the City of Richmond. I have been very impressed with your hard work and insights into the complexities of city government – and it is indeed complex. I believe that our hard work together has already made improvements in City Hall, with the Public School system, in the region, and with our state partners. I thank you!

Financial Backdrop

The budget is a two-year plan; however, I am focusing primarily on the second year of the plan FY 2011. In April we will come back to this body to make any needed adjustments to the FY2010 Budget. At that point we will have the benefit of three quarters of financial data.

Richmond is like other localities in that we are seeing slow or no growth in our tax revenues, especially in our real estate, personal property and sales taxes.

School projects have been maintained at \$150 million. While this is less than revised figures discussed last fall, strategies to contain costs have decreased the estimates, back in line with earlier amounts.

The City will build its first fire station in 16 years. This investment is a combination of \$1.4 million in General Fund dollars, and \$3.3 million in stimulating dollars. We have been aggressive and successful in our efforts to secure stimulus funds. To date we have been awarded over \$16 million which will allow us to make important investments City-wide.

Going forward, I have spent a good deal of time discussing what these budget amendments provide; however, I have not touched upon what these budget amendments do not provide.

While I was not able to provide a salary increase in these amendments; I did focus on preserving jobs. These amendments include limited layoffs and no furloughs. While furloughs provide for a shared sacrifice in closing a budget gap, they are one-time in nature and create a structural imbalance for future budgets. The layoffs in this budget are program driven and will create efficiencies in the future.

Conclusion

While we have made significant progress in this biennial budget period to get control of costs, become more efficient and be better stewards of the resources with which we have been entrusted, we still have much more to accomplish. This budget assumes further streamlining of the government and intended savings as a result of the Department of General Services being dissolved. In addition, to the immediate savings resulting from elimination of a director and a deputy director position, we expect that there will be savings associated with efficiencies from operational reviews of services such as fleet, print shop and 311/customer response system.

We also will be working with Richmond Public Schools to evaluate several other areas where consolidation and collaboration can result in savings, cost avoidance and/or efficiencies. The next areas we will explore are fleet services, procurement, financial management systems, and information technology.

Both independent of and in conjunction with our collaborations with RPS we will continue to seek savings and greater efficiencies through optimization of business processes, consolidations, managed competition and outsourcing. Among the services we will examine during FY2011 are leaf collection, refuse collection, job readiness training, and parking operations, all of which are multi-million dollar service elements.

In addition we are still in the process of evaluating the more than 650 ideas generated by employees who participated in the Common Cents program where other savings are certain to be found.

the region. Because of the importance of these organizations, we are providing level funding, at 2010 amounts, for organizations funded through our Non-Departmental accounts.

We will, between now and the time we submit our budget for the FY2012-2013 Biennium, establish performance measures to ensure that the City is purchasing services designed to achieve the City's stated goals; and that we are receiving the intended return on investment of taxpayer dollars. However, just as we are doing with our City operations, we must also assess the goals and outcomes of the outside organizations we fund. We also believe that greater collaboration may be called for among and between the funded entities.

Strategic Investment in our Infrastructure

Lastly, I want to emphasize the importance of addressing the infrastructure needs of the city. During economic downturns, governments often make the mistakes of cutting corners with maintenance, and not investing in infrastructure.

I don't intend to make that mistake.

The administration spent a good deal of time last fall "scrubbing" the CIP to ensure that 1) the balances in previously funded projects were still required, and 2) that projects in the five-year proposed CIP were still priorities. This effort yielded savings strategies and allowed the administration to redirect these funds to higher priorities . . . basic infrastructure; life, health and safety issues, and key economic development initiatives.

For FY 2011, our CIP totals \$90.2 million, and the CIP five-year plan totals some \$351.62 million and includes few new projects.

The FY 2011 CIP includes an additional \$11.1 million for improvements to roads, streets, and bridges. This is more than double the amount of money in the budget for this work and you will see a visible difference. In fact, 25% of neighborhood streets will be repaved over the next 5 years. We will also budget for improvements to major arterials such as Broad Street, Midlothian Turnpike, Hull Street, and Jefferson Davis Highway.

The CIP also includes a continued commitment to infrastructure improvements to the Coliseum, as well as Parks, Recreation Centers, libraries, and other government office buildings. There is \$4.3 million set aside for schools to serve as community assets. With these new funds, the newly constructed and renovated schools will have a funding source to provide for additional amenities.

In addition, this budget continues our commitment to the construction or renovation of four schools which will serve as a community anchors. Two of these schools will break ground this calendar year.

important museum commemorating this nation's African presence); and facilitating the redevelopment of the former Reynolds site near Canal Walk.

We will take key actions to promote increased Downtown development including: 1) working with key stakeholders to complement efforts to make Broad Street a bona fide arts district; 2) pro-actively promoting expansion of hotel "infrastructure"; and 3) working with private sector and civic partners to study the feasibility of redeveloping or constructing a new coliseum.

We will provide tools that will help to develop small and minority-owned businesses, as well as other Richmond-based under-utilized enterprises. I propose to fully fund existing business development programs for the first time in several years. I am also proposing to establish two new revolving loan funds, to support entrepreneurship and business development for local enterprises. One fund will provide seed capital for business expansion, while the other, collateralized by contracts a business has secured, will help subcontractors with cash flow. It is important to note that these two revolving loan funds will be established through reprogramming funds, not new dollars.

These changes will help our City and region recover from this economic downturn, and emerge stronger and more vibrant.

- Family and Individual Economic Stability

In this budget we invest in the health and stability of our families by increased quality early learning opportunities for children from birth to age five. All children must be ready to learn before they enter school.

We also take an intentional approach to youth development to make sure that our young people can develop into healthy adults. We strive to create meaningful work opportunities for young people through our Summer Works Initiative. We also must promote physical health.

I want to point out that the seed money that we put in this budget for our Summer Works Initiative is existing funding re-programmed to establish a comprehensive approach to helping our youth. We are going to need the support of the business community, and the faith-based and non-profit partners to fully succeed with this effort.

Keeping young people on the right track and developing them for future leadership is a strategic investment. If a youth is in detention, we pay in excess of \$7,000 per month or about \$85,000 per year (not including educational costs). This summer program is an investment of only \$600 a month (\$1,200 for eight weeks), and the return on that investment will not only save our City money, but also help to develop the City's leadership for the next generation.

We recognize that the non-profit sector is a critical partner in providing services to the community. Many organizations enhance the quality of life in the City of Richmond and

We are embracing economic development as a core, *foundational* service.

Our City has one of the highest poverty rates in the state – at about 27%. Yet we know that the only way we are going to have a great region is to have healthy core. Richmond is this region’s core. Last Friday, I met with a group of business advisors. In that meeting some members made it clear that a vibrant downtown is not only important to the City, but a vibrant downtown is also important to Henrico, Hanover, Chesterfield, and any of the surrounding localities that call the Richmond metropolitan area home.

We have to take a long view on how we strengthen our core and position ourselves for future growth. We cannot continue to do the same things and expect anything other than the same results. It is time to set things in motion that will bring about change.

Steps I have proposed along these lines have already been evident in the reorganization that was initiated last fall. By combining two integral functions, our Department of Economic and Community Development is now positioned to operate in a more comprehensive fashion. We have already taken strategic steps like initiating the GRTC Cary Street Property acquisition plan, the Comprehensive Economic Development Study (CEDS), and the economic development implementation strategy for Shockoe Bottom.

In this budget, we invest in both retaining and attracting businesses through a plan to develop gateways and commercial corridors as catalysts for both neighborhood and economic revitalization. These corridors include: Nine Mile Road/25th Street in the East End; Jefferson Davis Highway on the Southside; the Boulevard at the edges of the Fan and Museum Districts, Scott’s Addition and into Northside; Hull Street in the Manchester area on Southside; Brookland Park Boulevard in the Northside; and Broad Street from the convention center to Belvidere.

We will develop marketing and outreach strategies that capitalize upon Richmond’s competitive advantages to attract companies in key industry sectors (e.g., health care; professional, scientific and technical services; information; transportation and warehousing; finance and insurance).

We will strengthen the Office of Minority Business Development to become a value-added resource for facilitating access to public and private sector opportunity for disadvantaged businesses.

We will facilitate and support the development and subsidization of residential units for low- and moderate income families (i.e. mixed-income projects, thereby de-concentrating poverty; work with RRHA to advance the Dove Street redevelopment; and develop model policies that encourage private and philanthropic sector involvement in workforce housing).

We will support targeted catalytic projects that will have a transformational impact on the city; these include, but are not limited to, the Cary Street redevelopment; continued build out of Main Street Station (and support efforts to construct on nearby parcels an

The City and Schools are jointly reviewing the responses and have found that savings will result. The City's savings are expected to be \$3 million in FY 2011. By combining all employees and retirees into one plan, buying power is leveraged.

In addition to cost, a decision must be made on whether to be fully insured or self-insured. We expect negotiations to be completed and contracts to be executed in time for the open enrollment period this spring.

✓ *Increasing annual funding for pension liabilities:*

Our financial staff has been working closely with the Richmond Retirement System to pave a way to improve the fiscal picture of our retirement system. This budget reflects an appropriate level of payment. The General Fund alone will increase its contribution to the system by almost \$8 Million. This expenditure is by far the largest expenditure increase in the FY 2011 amendments. However, it is an increase that is necessary if the City wants to be identified as a well managed government. We cannot shun this responsibility.

✓ *Streamlining government through consolidations and elimination of duplication:*

This budget merges the office of Emergency Management into the Department of Fire and Emergency Services. This merger not only forges a closer working relationship between these two emergency services entities, but provides greater synergy between the two as it allows each to better educate first responders and the public regarding how to respond during natural or other emergencies. In addition, over \$100,000 in salaries savings will be realized annually.

The Department of General Services is also being abolished and its functions are being allocated to the Department of Public Utilities (311/Citizen Request System); Department of Information Technology (Print Shop); Department of Public Works (Fleet Services, Facilities, Radio Shop, and Parking). Animal Care and Control (AC&C) will temporarily become a stand-alone office reporting directly to a Deputy Chief Administrative Officer. During the next few months we will examine Animal Care and Control, and each of the other functions being transferred will also be evaluated to determine, using best management practices, the correct program measures, outcome measures, and delivery methods. We will also look for the best agency in which to locate AC&C.

Prosperous Economy

- Economic and Community Development – Developing an Economic Recovery Strategy

Economic development is an essential component of any community's vitality and well-being. To ensure a sound quality of life for local residents, we must pursue a comprehensive set of programs that will build on the city's competitive advantages to create and retain jobs, stimulate investment in neighborhoods and businesses, and generate the revenues necessary to fund vital municipal services.

of this change. However, we will not stop here. We will make additional changes to ensure collections are timely and efficient, and that when Council sets a tax rate during budget deliberations, this tax rate is for the new budget year.

✓ *Implementing a comprehensive tax compliance plan:*

In addition to collecting real estate taxes semi-annually, we need to do a better job of effectively collecting taxes before they become delinquent. Through better training of our staff, improved software and a prioritizing of revenue collections, we plan to increase our collections by one percent each year for the next three years. This action alone will yield an additional \$2.7 million in FY2011.

✓ *Restructuring the Broad Street Community Development Authority (CDA):*

The Broad Street CDA is not financially viable. Because the CDA does not generate sufficient revenue, the City subsidizes the CDA annually from City coffers, and the CDA is unable to re-finance its existing debt (currently at 7.5%). The most direct way to address this situation is for the City to assume and improve the assets (parking decks), restructure the debt (savings of \$3 Million in FY 2011 and approximately \$1 million per year thereafter), and strategically manage the assets in conjunction with other government controlled parking.

✓ *Updating the City's financial management policies and practices:*

The City will revise its financial management polices and practices to broaden their scope to include best practices. The adoption of these practices will bring additional discipline to the City's already strong debt management policies.

This process is already taking place. As you may be aware, last fall your staff and my staff began the process of identifying best practices in the area of financial management and economic development. Last week, my executive staff presented several issue papers in these areas to Council's Finance & Economic Development Standing Committee. I believe this first step was well-received. I look forward to working with the Council committee and staff so that the Administration can implement these needed measures over the next several months.

✓ *Joint Purchase of Health Care Benefits with Richmond Public Schools:*

Combined, the City and Schools will spend close to \$65 million for health care benefits in FY 2010. Assuming the status quo, this cost was expected to increase to more than \$70 million in FY 2011.

Earlier this year, the City and Schools issued a joint request for proposals to provide health care benefits for our employees. The plan is intended to focus on wellness and prevention.

borrow. Perhaps most importantly, a strong bond rating is a clear signal to businesses that our city is well-managed, financially stable, and a great place to do business. This designation is the Gold Standard for a well-managed government. This budget includes good business practices that are necessary to move the pendulum in the direction of a Tier One - AAA bond-rated city.

The key areas are:

1. A Well-managed Government
 - Effectively managing our financial resources
 - Making strategic investments in our infrastructure
2. A Prosperous Economy
 - Investing in economic and community development
 - Investing in family and individual economic stability

Well-managed government

I am pleased to work with City Council to budget for outcomes. Going forward, this will be one of the most important changes we make to the way we budget. There will always be a line-item budget to underpin our programs, so that we can account for spending. But, there also needs to be an outcomes-based framework that determines what we want to achieve and how the money we spend helps to achieve our goals.

President Graziano, Vice President Robertson and I (along with key staff) met with bond rating agencies in New York City last fall about the types of improvements needed. We've kept them informed about our strategies and our priorities and, as a result, they reaffirmed our bond ratings. Sound financial management has to remain at the core of our daily operations.

✓ *Instituting semi-annual real estate tax collections:*

Right now we collect real estate taxes at the end of the budget year, on June 15. More than 40 years ago, this was not the case. The City collected real estate taxes semi-annually which provided a steady cash flow throughout the fiscal year. In the mid sixties, the City changed to once-a-year real estate tax collections as a one-time revenue boost and budget balancer. This one-time action has caused cash flow problems for the City for decades. We are forced to borrow money mid year in order to meet our cash flow needs. This means that each year (around December) we borrow money, through revenue anticipation notes (RAN) to meet payroll and keep operations running. This borrowing costs us almost \$2.0 million annually.

This is a bad business practice that pre-dates us by about forty years. It is time to bite the bullet and make the change to collect the same amount of money in two installments – in January and in June. We will work with residents and businesses alike to find easy ways to make this transition. Some may opt for a monthly payment plan through automatic payments, or other schedules. Our primary objective is to avoid this borrowing and save interest costs with the goal that no one will pay more in real estate taxes simply as a result

Compounding this, our main governmental partner – the Commonwealth of Virginia – has had its own very tight budget. Revenues to localities and the local school systems have been cut more severely than any time I can remember in my three decades of watching the State budget process. This budget is based on the State budget as adopted by the legislature at their regular session. We continue to monitor any amendments to that plan.

First, I must sound a warning bell when it comes to State funding. The State's main funding formula for education – the local composite index – has worked against this City for over two decades. During my tenure on the School Board, in the General Assembly, and now as Mayor, this formula has been a challenge for the City. The formula judges Richmond to be the most affluent in the immediate region. This distinction seems quite odd as we struggle with a poverty rate that hovers around 27% . . . the highest in the state! In addition, more than 75% of our children receive free or reduced lunch. The most recent update to composite index would have cost the City of Richmond school system \$11 million in each of the next two years.

Mercifully, the legislature softened the blow to the City schools in FY 2011, and we are very appreciative of that help. But we face the same problem in FY 2012. Even though no one likes to open up funding formulas, because changes result in winners and losers, it is time for the state to re-examine the local composite index. It has not been substantively changed since its inception in the early 1970s, and it is now seriously flawed. I call on the Governor and the legislature to use this opportunity to review the system of education funding, especially for cities facing the same challenges as Richmond. I ask for City Council's help in this, as well as help from our residents and business leaders.

Closing the Budget Gap

Our challenge has been to determine how to close a \$34 million budget gap for Fiscal Year 2011. That's the difference between our expected revenues and our expected costs.

We are not going to solve our problems by simply cutting services or raising taxes.

We will solve our problems by setting priorities and goals, making sacrifices in the short-term, and making strategic investments for our long-term growth.

I believe that this budget provides a proper framework for the upcoming years. It balances pain and bold improvements. But instead of discussing the budget in ways that we normally do, I want to focus on the outcomes we are going to achieve with the help of this budget plan.

City Council agreed with me last year that Richmond must strive for a AAA bond rating. The City's bond rating is vitally important to our ability to borrow money for important capital projects. Our bond rating also determines the interest rate at which we can

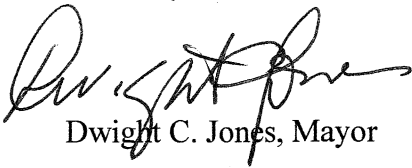
I came into office during the height of one of the worst economic downturns in modern history. I have worked closely with each of you to use this challenge as an opportunity. Together we have been creative in our approach to running this government, and re-assessing our priorities.

I know that the future is bright for our City and this region. I look forward to our continued work together – the City administration, City Council and the Schools, working together to Build a Better Richmond.

I commend my team on their hard work in developing this budget, especially Chief Administrative Officer Byron C. Marshall, Deputy CAOs Marcus D. Jones, Christopher L. Beschler, Peter H. Chapman, and Carolyn N. Graham, and Budget Director Rayford Harris. Their hard work is evident in this document.

Please let me know how I can address your questions in the coming weeks.

Sincerely,

A handwritten signature in black ink, appearing to read "Dwight Jones", written in a cursive style.

Dwight C. Jones, Mayor