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City of Richmond

Anticipated Deficits, High Pension Debt, and Mismanagement of Its Housing Authority Cause the City to Be High Risk

Summary

Richmond has a long-standing history of financial challenges, which contributed to the State Auditor's Office rating it as at high fiscal risk from fiscal year 2016–17 through fiscal year 2019–20. In our most recent local high-risk dashboard assessment, Richmond demonstrated some improvement in certain risk indicators—moving from the 9th to the 10th California city at greatest risk. However, Richmond retains many high-risk characteristics, including the risk of significant projected deficits, which may critically deplete its reserves. In fact, Richmond's projections—which may be too optimistic—indicate that it may have less than two weeks of expenses in reserve by fiscal year 2027–28. The risks Richmond faces and the totality of our audit findings led us to designate Richmond as high risk.

Key Risks

Despite recent improvements, Richmond's long-term financial stability remains uncertain.

- Richmond forecasts a significant long-term deficit, which recent financial trends may worsen.
- The city's debt burden remains high at \$250 million as of June 2021.

Addressing its poorly funded retirement benefits and below-market employee compensation will increase Richmond's expenses.

- Richmond's retirement costs were more than \$35 million in fiscal year 2020–21, almost a quarter of its \$162 million in general fund expenditures for the year. CalPERS anticipates that the city's annual pension costs will increase to \$53 million by fiscal year 2028–29.

- Increased expenses related to cost-of-living adjustments to employee wages—which Richmond deferred for up to seven years—will result in additional costs to the city.

The city has mismanaged the Richmond Housing Authority for a decade.

- As a result of numerous instances of mismanagement, the federal government is directing the housing authority to transfer its direct public housing responsibilities to other entities.
- The authority has missed 11 of 26 deadlines associated with this transfer of responsibilities.



Risk Designation: **HIGH RISK**

- **Population: 116,000**
- **Median Household Income: \$72,463**
- **Unemployment Rate: 8%** (annual average 2021)

- The housing authority may owe \$1 million or more in federal taxes and penalties.

The city has not consistently followed its contracting policies or updated its fees.

- In at least two instances, Richmond could not demonstrate that it followed its own procurement policies, or it made errors or omissions that could affect its management of contracts.
- The city has not updated its fee schedules as required, and it risks incurring costs for services its fees should cover.

Key Recommendations

Richmond should do the following:

- Review the city's reserve policy and determine whether a higher target is appropriate.
- Propose actions that would help ensure balanced budgets and eliminate projected deficits.
- Implement policies for funding its pension and retiree benefit trust funds.
- Devote sufficient resources to the housing authority to resolve all past-due requirements and meet remaining deadlines to comply with the agreement to transfer public housing responsibilities to other entities.
- Resolve the housing authority's past tax liabilities and prevent unnecessary new liabilities.
- Comply with its municipal code and contracting policies when entering into contracts.
- Determine a cost-effective frequency to update its fee schedules to reflect all allowable costs.