



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: FEBRUARY 11, 2020**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: FISCAL YEAR 2019/20 FIRST QUARTER FINANCIAL REPORT AND MEASURE Z UPDATE, AND RELATED INTERFUND TRANSFERS AND SUPPLEMENTAL APPROPRIATIONS

ISSUES:

That the City Council receive and provide input on the attached Fiscal Year 2019/20 First Quarter Financial Report and Measure Z update; approve miscellaneous interfund transfers (\$2,368,736) and supplemental appropriations (\$7,500); and approve a \$4.4 million allocation of General Fund Surplus reserves to the Section 115 Pension Liability Trust.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on the attached Fiscal Year 2019/20 First Quarter Financial Report and Measure Z update;
2. Approve General Fund interfund and interdepartmental transfers in the amount of \$2,368,736;
3. Approve a supplemental appropriation in the amount of \$7,500 from the Special Deposits Fund to the General Fund; and
4. Approve the allocation of General Fund surplus reserves in the amount of \$4.4 million to the Section 115 Pension Liability Trust.

BACKGROUND:

On June 12, 2018, the City Council adopted Resolution No. 23316 approving the Fiscal Year (FY) 2018-2020 Two-Year Budget. On June 18, 2019, the City Council adopted Resolution No. 23457 approving amendments to the Fiscal Year (FY) 2019/20 Budget.

DISCUSSION:

FINANCIAL REPORT

Throughout the fiscal year, City departments and the Budget Office monitor and analyze all City funds for potential issues that require attention and mitigating action. For the first quarter report, City departments analyzed financial status for all funds and appropriations under their purview. The results of the City's major funds as well as areas of concern in other funds (if any) are reported in the quarterly financial report.

General Fund

The General Fund's FY 2018-2020 Two-Year budget is balanced over two (2) years, with a projected shortfall of \$1.2 million in FY 2019/20 funded by savings realized in FY 2018/19. As of June 30, 2019, the General Fund carries a 20% reserve balance and \$4.4 million (1.6%) in surplus reserves. \$1.2 million is separately reserved to offset the adopted FY 2019/20 shortfall. \$4.9 million is reserved for Pension Stability and investment in the Section 115 Pension Trust. On January 16, 2020, the Budget Engagement Commission voted to recommend to the City Council that the surplus reserves of \$4.4 million be allocated to the Section 115 Pension Liability Trust.

The FY 2019/20 First Quarter analysis projects total General Fund revenues to come in as estimated. As of September 30, 2019, all General Fund departments, with the exception of the Police Department, expect to end the fiscal year within their appropriation limits. The Police Department is projecting a budget shortfall of approximately 7.6% (\$4.4 million) of the department's total budget. The overage is attributable to overtime trends due to an increase in significant criminal events. If no mitigating actions or offsetting savings are identified, the budget shortfall will reduce General Fund reserves by 1.6%.

Supplemental appropriations recorded in the first quarter total \$8,117 and are entirely related to donations received and appropriated by City Departments in compliance with the City's donation policy.

Measure Z

The FY 2018-2023 Measure Z Spending Plan was approved by the City Council on June 12, 2018, with the adoption of the FY 2018-2020 Two-Year Budget. Subsequent updates to the Spending Plan include the allocation of funding for the Public Safety and Engagement Team Program, security guards at City libraries, and increased allocations for street projects. As of June 30, 2019, Measure Z held \$18.7 million in unallocated fund reserves. Separately, \$5 million is held in reserves to ensure sufficient funding for ongoing costs in the event of under-performing revenues.

Measure Z's FY 2018/19 revenue outperformed expectations; however, the City's sales tax consultant projects a potential 2% to 3% decrease in revenue in FY 2019/20. At this time, no revenue adjustments for FY 2019/20 are recommended. Staff will continue to work with the City's consultant to track sales tax trends, economic factors, and actual revenues received, and may recommend adjustments in future quarterly reports.

Measure Z expenditures are 15% of total budget at September 30, 2019, reflective of large projects that have yet to ramp up and record significant expenditures, such as technology projects, the update of the General Plan, and street projects.

MEASURE Z SUMMARY				
Category	FY 2016/17 Actuals	FY 2017/18 Actuals	FY 2018/19 Actuals	FY 2019/20 Allocations
Revenue	\$12,606,428	\$56,222,806	\$62,692,745	\$59,000,000
Spending Allocations	9,973,447	36,134,811	61,702,430	62,360,436
Carryovers			(20,714,281)	20,714,281
Net Change in Fund Balance	2,632,981	20,087,995	21,704,596	(24,074,717)
Fund Balance Reserve	-	-	5,000,000	-
Fund Balance	\$2,632,981	\$22,720,976	\$39,425,572	\$15,350,855

Sewer Fund

The overall financial position of the Sewer Enterprise fund is good and operating in accordance with the 2016 Sewer Fund Reserve Policy objectives. Revenue and expenditures are tracking in line with the Sewer Fund financial model and five-year plan projections. Staff projects total revenues will exceed expenditures by the end of FY 2019/20.

Refinancing of the 2009A Sewer Revenue Bonds bolstered the Sewer Fund's financial stability in FY 2018/19. The Public Works Wastewater Division is in the process of completing a Wastewater Treatment and Collection Master Plan Update project, which includes a comprehensive financial and cost of service analysis and evaluation of various rate structure alternatives for consideration. The outcome of this study will inform future rate discussions.

Refuse Fund

The Refuse Fund is operating at a deficit, as projected in the FY 2018-2020 Two-Year Budget. The most recent projections predict a \$4.1 million use of fund reserves in FY 2019/20 and ending fund reserves of \$4.2 million at fiscal year ending June 30, 2020. Public Works has retained a consultant to perform a comprehensive review of refuse operations to optimize services and cash flow; the results of the study were presented to City Council in January 2020.

Refuse Fund revenue and expenditures are tracking at 23% and 19% respectively in the first quarter. Expenditures are artificially low in the first quarter due fluctuating expenditure requirements during the fiscal year, including debt and contract payments. The fund is expected to end the fiscal year in line with budget.

Revenue projections have been reduced by approximately \$800,000 as a result of lower than expected parking citations and curbside materials. Parking citations were temporarily suspended during a sign replacement project; revenue activity is expected to return to normal in the third quarter as signs are replaced and the routes are scheduled for enforcement. Curbside revenue represents revenue received in excess of the cost of recycling services. This residual revenue is no longer expected to be received due to a decline in market demand for recyclables. Projections for other revenues remain unchanged.

Electric Fund

The first quarter analysis of the Electric Fund shows operating revenues and expenses trending

on target. Overall, Electric revenues are trending at 28% of total budget at September 30, 2019 due to higher retail sales in the first quarter of the fiscal year and higher interest revenue as a result of rebalancing the investment portfolio. Weather can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2019/20.

At September 30, 2019, Electric Fund expenditures, excluding capital projects, are trending slightly lower than 25% of the total budget. Capital projects are progressing consistently with the Capital Improvement Program (CIP). The Electric Fund's completed capital improvements during the first three months of FY 2019/20 included projects in the Substation, Underground and Recurring categories which are part of the Utility 2.0 initiative. Completed projects in these categories benefit system reliability and mitigate the potential for widespread, prolonged customer outages, as well as fulfil the City's obligation to expand facilities to meet customer needs.

Water Fund

The first quarter analysis of the Water Fund shows operating revenues and expenses trending on target. Overall, Water revenues are trending at 29% of total budget at September 30, 2019, which is more than anticipated primarily due to higher interest revenue resulting from rebalancing the investment portfolio. Retail sales are typically higher during the summer months but are 3.6% lower than expected for the first quarter due to milder temperatures. Weather, including precipitation, can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2019/20.

At September 30, 2019, Water Fund expenditures, excluding capital projects, are trending less than 25% of the total budget, primarily due to the timing of debt service payments. Capital projects are progressing consistently with the CIP and include:

- Installation of recycled water infrastructure which benefits all Water customers by freeing up water supply through making recycled water available for landscaping and irrigation needs.
- Installation of new mains which provides water to new customers and supports the City's development and growth.
- Pipeline and distribution facilities replacements along with well rehabilitations which help address aging infrastructure and improve system reliability to maintain a high level of service to Water customers.

Interfund and Interdepartmental Transfers; Supplemental Appropriation Requests

Riverside Municipal Code Sec. 1104 requires the affirmative vote of at least five City Council members to authorize the transfer of appropriations between City funds and to authorize supplemental appropriations. The following transfers and supplemental appropriations are recommended for Council approval:

- **General Fund \$2,200,043 Interfund Transfer to the Debt Service Fund:** As part of the General Fund restructuring to remove non-operating activity out of the General Fund, property tax revenue collected to pay the Fire and Emergency Facilities Bond (Measure G) will be recorded in the Debt Service fund. The fund reserves attributable to property taxes designated for bond payments must be transferred from the General Fund to the Debt Service Fund.
- **General Fund \$7,500 Interfund Transfer and Supplemental Appropriation:** A drawdown of \$7,500 in funds on hand is requested from Special Deposits Fund 720,

account 225087 (Debt Administration Fees) to cover staff training costs for the Debt & Treasury Administration Division. The training ensures that staff are up-to-date and able to ensure City compliance with requirements for debt disclosures, debt issuances, and other mandatory reporting.

- **General Fund \$161,193 Interdepartmental Transfer:** A Senior Performance Analyst position was transferred from the City Manager's Office to the Innovation & Technology department to assist with software licensing compliance and other needs corresponding to the position's job responsibilities.
- **General Fund \$4.4 Million Supplemental Appropriation to Section 115 Pension Liability Trust:** The Budget Engagement Commission recommends the appropriation of \$4.4 million in General Fund surplus reserves to the Section 115 Pension Liability Trust. The Chief Financial Officer concurs with this recommendation.

FISCAL IMPACT:

The City's General Fund is currently operating under an adopted FY 2018-2020 Two-Year Budget, balanced over two fiscal years. The fund reserve goal of 20% has been achieved as of June 30, 2019. Fund reserves of \$1.2 million are intact to balance the projected FY 2019/20 shortfall. The potential shortfall resulting from excess Police overtime costs could present a \$4.4 million draw on fund balance at fiscal year-end, in the absence of offsetting savings.

If approved by City Council, the allocation of \$4.4 million to the Section 115 Pension Liability Trust (Trust) will bring the Trust amount to approximately \$9.3 million. Amounts in the Trust are legally restricted for use to pay the City's pension obligations and can be used to offset growing pressure on the General Fund in future fiscal years as needed, and as approved by City Council.

The Enterprise Funds (Electric, Water, Refuse and Sewer) are all expected to remain within their appropriation limits. Planned operational analyses for both Refuse and Sewer will incorporate long-term financial outlooks for the respective funds.

Prepared by: Kristie Thomas, Budget Manager
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Carlie Myers, Deputy City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Quarterly Financial Report
2. Measure Z Financial Summary
3. Presentation