



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: APRIL 18, 2022**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: FISCAL YEAR 2022-2024 BUDGET DEVELOPMENT: PRIORITY BASED BUDGETING UPDATE; GENERAL FUND, MEASURE Z, AND CRITICAL UNFUNDED NEEDS OVERVIEW; DEPARTMENTAL PRELIMINARY BUDGET PRESENTATIONS

ISSUES:

Receive an update on Priority Based Budgeting; provide input on the development of the Fiscal Year 2022-2024 Biennial Budget including a General Fund and Measure Z overview; provide direction on critical unfunded needs; and receive and provide input on departments' presentations of their preliminary budget proposals.

RECOMMENDATIONS:

That the City Council:

1. Receive an update on Priority Based Budgeting;
2. Receive and provide input on the General Fund preliminary budget and updated five-year Measure Z Spending plan;
3. Receive and provide direction on critical unfunded needs; and
4. Receive and provide input on the preliminary budget proposals of City departments.

COMMISSION RECOMMENDATION:

On March 31, April 7, and April 14, 2022, the Budget Engagement Commission (BEC) received departments' preliminary budget presentations and critical unfunded needs. On April 14, 2022, after the date of publication of this report, the BEC made recommendations to City Council regarding the incorporation of critical unfunded needs in the FY 2022-2024 Biennial Budget, as well as provided feedback on the General Fund preliminary budget, updated five-year Measure Z Spending plan, and departments' preliminary budget presentations. This City Council report will publish prior to the April 14, 2022, BEC meeting. The results of the BEC recommendations regarding critical unfunded needs will be requested to be accepted on the dais for consideration at the April 18, 2022, City Council Budget Workshop. BEC recommendations related to the

General Fund preliminary budget, updated five-year Measure Z Spending plan, and departments' preliminary budget presentations will be presented to the City Council verbally during the applicable presentations at the April 18, 2022, City Council Budget Workshop.

Additional public meetings occurred during or after the development of this report, and meeting minutes were not available for publication with this report. Feedback from the following meetings will be presented verbally during the respective departments' preliminary budget presentations at the April 18, 2022, City Council Budget Workshop:

- On March 21, 2022, the Park and Recreation Commission received the preliminary budget proposal of the Parks, Recreation and Community Services Department.
- On March 23, 2022, the Museum of Riverside Board received the preliminary budget proposal of the Museum of Riverside.
- On April 11, 2022, the Board of Library Trustees received the preliminary budget proposal of the Riverside Public Library.
- On April 11, 2022, the Board of Public Utilities received the preliminary budget proposal of Riverside Public Utilities.

BACKGROUND:

City staff is currently engaged in the development of the Fiscal Year (FY) 2022-2024 Biennial Budget, encompassing FY 2022/23 and FY 2023/24. Budget Development began in October 2021 and will continue until City Council adoption of the budget in June 2022.

Priority Based Budgeting (PBB) is a budget-decision methodology and data-analytics software created by Resource Exploration (ResourceX). PBB creates a link between strategic planning and long-term financial planning, and picks up where the strategic plan leaves off by using "results" or priorities stated in the strategic plan as a basis for formulating a City's long-term financial plan and upcoming budget. PBB supports the decision-making process to assign resources to programs and services that align with the City's strategic plan and helps to ground the decision-making process for the upcoming budget cycle within the constraints of the existing fiscal environment.

On December 9, 2021, the baseline budgets for the General Fund and Measure Z were presented to the Budget Engagement Commission. On December 10, 2021, the baseline budgets for the General Fund and Measure Z were presented to the Financial Performance and Budget Committee. The General Fund baseline budget served as the starting point for the development of the General Fund budget and the basis of budget targets established for City departments' General Fund budget proposals.

DISCUSSION:

Internal review of departments' preliminary budget proposals has concluded, and staff now seeks the feedback of various Boards, Commissions, and the City Council, as well the public at large through engagement at the various meetings, on the preliminary budget proposals of City departments. Feedback will be incorporated into the preliminary budget as directed by City

Council and will result in a Proposed FY 2022-2024 Biennial Budget that will be presented to the BEC and City Council in May 2022, followed by BEC review and City Council adoption of the final proposed budget in June 2022.

Priority Based Budgeting

The PBB Year 2 process kicked off in August 2021 with a four-month timeline for targeted completion by the end of November 2021. This timeline was crucial to achieving all steps of the PBB process and to have updated PBB data available for the FY 2022-2024 budget development. The primary tasks for Year 2 included review and refinement of the program inventory, updating program costs, re-scoring, and peer reviewing programs to determine alignment with the strategic plan. It also included a more comprehensive insights process to identify data about programs for decision-making purposes.

The PBB team identified “lessons learned” from the Year 1 process and developed goals for Year 2 to address these lessons. The Year 2 goals are as follows:

1. Greater involvement and engagement with Executive Sponsor team
2. Improve communication and tie-in PBB with strategic plan and budget process
3. Refine scoring criteria for greater consistency
4. Help enterprise funds discover the value of PBB
5. Reduce/eliminate department silos
6. Utilize PBB data for FY 2022-2024 budget development process

Through the Year 2 process, all goals were accomplished resulting in the refinement of the program inventory, costing, scoring, and insight development. With an increased involvement of the Executive and Deputy Leadership teams, peer review, costing workshops, and insight workshops were completed. This added an additional layer of review/perspective from subject matter experts throughout the PBB process. The PBB Year 2 model resulted in an inventory of 523 City programs spread amongst 17 departments (a decrease of 83 programs compared to Year 1). This demonstrates the refinement and/or consolidation of programs identified Citywide. As completed in Year 1, each program identified in the Year 2 process was scored and peer-reviewed in alignment with the City’s strategic priorities, cross-cutting threads, and basic program attributes, and a final program score was calculated. Based on the final scores, each program was placed into one of four quartiles to determine how closely they aligned with the strategic plan. A summary of the number of programs in each quartile for Year 2 is provided in the table below.

CITY PROGRAM ALIGNMENT WITH STRATEGIC PLAN	
Number of Programs	Quartile Definition
76 programs	MOST aligned with strategic plan
214 programs	MORE aligned with strategic plan
151 programs	LESS aligned with strategic plan
82 programs	LEAST aligned with strategic plan
523 Total Programs	

The Year 2 goal established for the insights process was to identify opportunities for new revenue generation or expenditures savings in the General Fund that could provide funding for critical unfunded needs as part of the FY 2022-2024 biennial budget development process. The insights process was a cross-departmental effort which allowed participants to recommend insights for other departments as well as their own department. A total of 38 insights were voted to move forward by the Executive and Deputy Leadership teams. The 38 insights were reviewed for feasibility and fiscal impact by applicable departments. Departments identified seven (7) insights that could be pursued and may generate new revenue or savings for a potential fiscal impact of \$682,000 in FY 2022/23 and \$1,001,000 in FY 2023/24. However, it was also determined that the insights will require implementation processes and timelines that prevent the fiscal impact from being incorporated into the current FY 2022-2024 biennial budget development process. Therefore, PBB insights implementation will continue separately of the budget development process. Progress on the insights will be reviewed as part of the mid-cycle update for potential inclusion of their fiscal impact in the FY 2023/24 budget year.

As outlined in the established goals for PBB, transitioning the way people think about budgeting and shifting the mindset to make decisions based on priorities of the entire City, not just one department, will take time. With Year 1 and Year 2 of the PBB process completed, a strong foundation has been established with a refined program inventory, updated costing and scoring that has been peer reviewed by subject matter experts, and the development of a prioritized list of insights. These data layers will be used for reference and consideration during future budget cycles.

Lessons learned from the Year 2 PBB process include:

1. **Costing** improvements needed:
 - Including overhead in program costing gives the incorrect impression that elimination of a program would result in savings equal to program cost, but overhead would likely remain.
2. **Scoring** improvements needed:
 - Programs that are clearly a Council and community priority may not score well.
3. **Insights** improvements needed:
 - Future ELT/DLT workshops require modifications to improve efficiency and outcomes.
 - Insights take time to implement, and some will require Council input, so immediate financial impact is not feasible.
 - Add opportunities for community engagement and feedback.

These items will be addressed in the Year 3 PBB process and set as goals for improvement of the process.

General Fund

Two primary goals were established for the FY 2022-2024 budget development cycle:

1. **Leverage PBB to identify and reallocate funding to critical unfunded needs.**

Process: A simultaneous process of identifying funding through the PBB insights and identifying and ranking critical needs through the lens of PBB was conducted during a series of workshops through December 2021. All subsequently identified unfunded needs were also reviewed through the lens of PBB.

Status: During budget development and departments’ evaluation of their operational and financial needs, departments identified additional critical unfunded needs. Those needs were described through the lens of PBB, including relating the requests to existing programs, and answering fundamental questions to assess the level of criticality of the need:

- How is this a critical unfunded need?
- What is the impact to operations should this budget request not be approved?
- How does this request benefit City stakeholders?

Departments were granted CPI increases in their discretionary budgets of 4.5% for FY 2022/23 and 3% in FY 2023/24. Some of the previously identified critical needs were able to be funded by the CPI increases and rebalancing of resources. Refer to Attachment 3 for a final listing of critical unfunded needs. Staff requests City Council direction on the funding of the critical unfunded needs in the FY 2022-2024 Biennial Budget.

During a review of PBB Insights (the process by which staff identified potential resources for the funding critical unfunded needs), it became apparent that the implementation of the insights will not be timely enough to produce resources for the FY 2022-2024 budget. Numerous insights require additional research, initial investment funding, and/or are sensitive topics that will require City Council direction on their implementation. Therefore, the formal proposal and implementation of insights will be pursued separately of the budget development process.

2. Implement a financing strategy of planned contributions and withdrawals to/from the Section 115 Trust to smooth the annual fiscal impact of the combined CalPERS UAL and 2020 Pension Obligation Bond payments.

Process: Staff analyzed the unfunded accrued liability (UAL) payment schedule per the CalPERS actuarial report and the pension obligation bond (POB) payment schedule and determined a feasible amount and optimal series of Section 115 Trust contributions and withdrawals to smooth the fiscal impact of the payment obligations. The proposed smoothing will result in level payments of \$37,925,000 annually for a period of 12 years, from FY 2024/25 through FY 2035/36. Without this smoothing effect, the payment obligation will exceed \$38 million beginning in FY 2026/27 and eventually exceed \$42 million annually from FY 2029/30 through FY 2034/35.

Status: The proposed smoothing will result in level payments of \$37,925,000 annually for a period of 12 years, from FY 2024/25 through FY 2035/36. The City Council approved a \$10 million contribution to the Section 115 Trust from FY 2020/21 excess reserves, contingent upon the certification of Measure C (General Fund Transfer election). Contributions totaling nearly \$12 million are incorporated into the preliminary FY 2022-2024 Biennial Budget, with \$11 million occurring in FY 2023/24 made possible by the payoff of the 2004 Safety POB in FY 2022/23. The combination of current reserves and the proposed contributions will build the Section 115 Trust Fund to a balance of approximately \$40 million which is projected to be sufficient to smooth the volatile required liability payments over the course of 12 years.

While PBB provides data that can guide decision making related to the allocation of finite City resources, the General Fund baseline budget provides the overall constraints within which the budget must be developed. Due almost entirely to the robust sales tax revenue estimates, the FY 2022-2024 biennial budget is expected to be balanced, with no requirement for balancing measures. Departments’ discretionary budget targets included an increase over their FY 2021/22

budget of 4.5% in FY 2022/23 and an additional 3.0% in FY 2023/24, consistent with increases in the Consumer Price Index (CPI). The increase applies to discretionary budgets including professional services, materials, supplies, maintenance, fuel, utilities, training, special projects, etc. These modest increases provided some relief to departments following two years of no budget increases and adopted vacancy savings targets. The discretionary budget is approximately 16.4% of the total preliminary General Fund budget.

The preliminary General Fund budget (Attachment 1) includes small surpluses in each fiscal year which may be considered for allocation to critical unfunded needs. However, it is important to note that the preliminary budget does not include any personnel increases which may result from ongoing labor negotiations for Memorandums of Understanding (MOUs) which have expired or will be expiring soon. Additionally, the City is currently awaiting a ruling on a legal challenge to the certification of Measure C (General Fund Transfer election) results. If Measure C is not certified, the budget will need to be revised to address revenue losses in excess of \$40 million annually. The initial action would be to eliminate the contributions to the Section 115 Trust to minimize the immediate impact on City operations, such as police and fire, street repair, building maintenance, and community programs and services. A ruling is due from the court before May 2022.

GENERAL FUND PRELIMINARY BUDGET FY 2022-2024

(\$ in millions)

	FY 2018/19 Actuals	FY 2019/20 Actuals	FY 2020/21 Actuals	FY 2021/22 Projections	FY 2022/23 Preliminary	FY 2023/24 Preliminary
Revenue	\$278.67	\$279.45	\$298.03	\$300.65	\$310.63	\$318.23
Expenditures	271.38	280.48	262.14	287.55	305.86	311.27
Surplus/(Deficit)	\$7.29	\$(1.03)	\$35.89	\$13.10	\$4.77	\$6.96

Measure Z

The preliminary five-year Measure Z Spending Plan for FYs 2022/23 through 2026/27 assumes the continuation of spending items that were not initially adopted with a defined end date (Attachment 2). Other one-time items, such as Library security guards and a portion of street improvement funding, were adopted for a specific period of time; those items have not been assumed to continue in the updated spending plan. The BEC’s formal recommendations for spending plan revisions, if any, will be communicated to the City Council on April 18, 2022, at the City Council Budget Workshop.

Measure Z unallocated fund reserves are projected to be \$44.79 million at the end of FY 2021/22. This amount is available for allocation to new or enhanced spending items. Additionally, annual projected surpluses are available for allocation. However, as with the General Fund, it is important to note that the preliminary budget does not include any personnel increases which may result from ongoing labor negotiations for Memorandums of Understanding (MOUs) which are expiring. Measure Z currently funds 135.0 FTE within previously approved spending items.

MEASURE Z SPENDING PLAN – PRELIMINARY BUDGET
(\$ in millions)

<i>(in millions)</i>	2022	2023	2024	2025	2026	2027
Revenue	\$74.65	\$76.80	\$79.02	\$80.91	\$82.12	\$83.35
Expenditures	(68.64)	(66.03)	(66.63)	(65.71)	(67.75)	(69.13)
Encumbrances & Carryovers	-	-	-	-	-	-
Net Change in Fund Balance	\$6.01	\$10.77	\$12.39	\$15.20	\$14.37	\$14.22
Beginning Fund Reserves	\$38.78	\$44.79	\$55.56	\$67.94	\$83.14	\$97.51
Net Change in Fund Balance	6.01	10.77	12.39	15.19	14.37	14.22
Policy Reserve Set-Aside	-	-	-	-	-	-
Ending Unallocated Reserves	\$44.79	\$55.56	\$67.94	\$83.14	\$97.51	\$111.73

Yellow highlight indicates funding available for allocation to new or enhanced spending items.

Critical Unfunded Needs

To the extent possible, departments used CPI increases to fund critical unfunded needs; however, all needs could not be funded, and additional needs were identified. Critical needs were assessed through the lens of the City’s strategic plan and PBB which are summarized in Attachment 3. Departments will discuss their critical unfunded needs during their budget presentations and seek City Council direction on whether these items should be funded, and the funding source, for incorporation in the proposed budget. Recommendations for critical unfunded needs by the City Council should be taken in context of the Measure C challenges faced by the City.

Both General Fund and Measure Z are potential resources for funding critical unfunded needs. Resources available from the General Fund include projected surpluses of \$4.77 million in FY 2022/23 and \$6.96 million in FY 2023/24. Resources available from the Measure Z fund are highlighted in the preceding Measure Z Table.

Decisions related to the critical unfunded needs include whether to incorporate the item into the proposed budget, the fiscal year in which to begin funding the item, as well as the funding source. Critical unfunded needs have been categorized into several types that may facilitate decision-making:

- Annual, ongoing: Requests for a fixed amount with no specified end date.
- Annual, limited duration: Requests for a fixed amount of limited duration.
- One-Time: Requests for a one-time, fixed amount. These items are time sensitive to the year in which they are requested.
- Ongoing, escalating costs: These requests include position enhancements or FTE increases. Personnel costs are expected to increase annually with merit increases and increases per the applicable Memorandum of Understanding (MOU). MOU increases are not included in the cost estimate because the MOUs are expiring and are subject to negotiation. These requests may also include a one-time cost component (e.g., equipment expense) as well as ongoing non-personnel costs (e.g., training, fuel, etc.).

SUMMARY OF CRITICAL UNFUNDED NEEDS

Funding Request Type	FY 2022/23	FY 2023/24
Annual, Ongoing	\$ 6,318,438	\$ 6,319,438
Annual, limited duration	2,650,000	2,650,000
One-Time	1,505,000	875,000
Ongoing, escalating costs		
Personnel (25.25 FTE)	\$ 2,135,555	\$ 2,215,676
Non-Personnel	1,372,826	945,896
Total Ongoing, escalating costs	\$ 3,508,381	\$ 3,161,572
Total Requested*	\$ 13,981,819	\$ 13,005,010

Near-Term Future Budget Items for BEC Consideration

There is an incomplete financial picture facing the City of Riverside due to such considerations as the Measure C legal challenge, ongoing/future negotiations with the City’s bargaining groups, inflation, and other economic factors. While uncertainty exists, it remains important to identify needs of the City (and their financial impacts) in order to advance quality of life improvements, address issues and City Council priorities. While the business of the City includes a steady stream of roadblocks and pitfalls, including financial challenges, it also has a duty to carefully communicate needs while still being fiscally responsible. In addition to unfunded critical needs presented by departments, two additional items are of particular importance to maintain in the forefront of public policy and budgetary consideration by the City Council in the near-term future:

1. **Office of Sustainability:** The City Council directed the City Manager to establish an Office of Sustainability with a dedicated budget to cover staffing and operational costs. The direction was originally provided on March 10, 2020, and reinforced on April 27, 2021, by City Council action. Sustainability was presented as a triple bottom line approach based on: environmental stewardship, social responsibility, and economic prosperity. Refer to Attachment 4a for a full description and analysis of this initiative.
2. **Establishment of a PSET Wildland Team:** This program is the implementation arm of an anti-camping ordinance that is being prepared for environmentally sensitive and hazardous areas in wildland areas of the City as defined by sourced and cited Geographic Information Systems mapping data. Through its work, the PSET Wildland Team will also provide homeless encampment clean-up, outreach services, and homeless engagement resources to all wildland areas in the City of Riverside including the Santa Ana River, Sycamore Canyon Wilderness Park, Hole Lake, and other areas, seven days a week including early morning and late evening engagements. Refer to Attachment 4b for a full description and analysis of this initiative.

STRATEGIC PLAN ALIGNMENT:

The topics included in this report align with **Strategic Priority 5: High Performing Government and Goal 5.4:** Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

The report item aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – The development of the FY 2022-2024 Biennial Budget is an inclusive and transparent process that incorporates community engagement, involvement of City Boards & Commissions, and timely and reliable information.
2. **Equity** – The Riverside community at large is invited to participate in community engagement efforts and public meetings related to the development of the FY 2022-2024 Biennial Budget. Equity is a major component of the strategic plan and is a primary consideration in determining how programs score during the PBB process.
3. **Fiscal Responsibility** – The thoughtful and deliberate nature of the City’s budget development process and assessment of critical unfunded needs through the lens of PBB align the allocation of City resources with the strategic plan demonstrates the City’s commitment to responsible management of the City’s financial resources while providing quality public services to all.
4. **Innovation** – PBB and the methodologies applied to the vetting and presentation of critical unfunded needs is an innovative approach to decision-making and combines technology with a collaborative working approach to allocate resources during the budgeting process.
5. **Sustainability & Resiliency** – The budget development process and application of PBB methodology facilitate the balancing of current and future needs, thereby supporting the ultimate goal of long-term fiscal stability for the City.

FISCAL IMPACT:

There is no immediate fiscal impact related to this report. Council direction on the critical unfunded needs will be incorporated into the proposed budget which will then be presented to the City Council for review and input on May 17, 2022. The proposed budget will then be submitted for a public hearing and adoption by the City Council on June 21, 2022.

Prepared by: Kristie Thomas, Assistant Chief Financial Officer
Approved as to availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Kris Martinez, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. General Fund Preliminary Budget
2. Measure Z Preliminary Five-Year Spending Plan
3. Critical Unfunded Needs
4. Near-Term Future Budget Items for City Council Consideration
 - a. Office of Sustainability

b. Establishment of a PSET Wildland Team

5. Presentation – Priority Based Budgeting Update
6. Presentation – General Fund and Measure Z Preliminary Budgets
7. Presentation – Office of the Mayor
8. Presentation – Office of the City Clerk
9. Presentation – Office of the City Attorney
10. Presentation – Office of the City Manager
11. Presentation – Finance Department
12. Presentation – Innovation and Technology Department
13. Presentation – Human Resources Department
14. Presentation – General Services Department
15. Presentation – Community and Economic Development
16. Presentation – Public Works Department
17. Presentation – Parks, Recreation and Community Development Department
18. Presentation – Museum of Riverside
19. Presentation – Riverside Public Library
20. Presentation – Fire Department
21. Presentation – Police Department
22. Presentation – Riverside Public Utilities Department