



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: APRIL 19, 2021**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: FISCAL YEAR 2021/22 BUDGET DEVELOPMENT – PRESENTATION OF PRELIMINARY DEPARTMENTAL BUDGETS

ISSUE:

Receive presentations of preliminary Fiscal Year 2021/22 departmental budgets.

RECOMMENDATIONS:

That the City Council receive and provide input on preliminary Fiscal Year 2021/22 departmental budget proposals from City departments.

BACKGROUND:

With adoption of the FY 2020/21 budget on June 16, 2020, the City Council directed staff to immediately begin implementation of the Priority Based Budgeting (PBB) methodology. On August 4, 2020, the City Council approved a Professional Services and License Agreement with Resource Exploration, LLC to provide PBB software tools and resources. The citywide PBB project began the same month with a phased-in approach to ensure a successful transition. During FY 2020/21, City Departments have worked to inventory City programs, identify program costs and resources, score programs in alignment with the City’s strategic plan, and begin to develop program insights – ideas of how programs and City operations might evolve to the benefit of the City and community. On March 2, 2021, the City Council received an update on the Priority Based Budgeting project that included the short-term and long-term goals of the project.

The City is currently in the process of developing the Fiscal Year 2021/22 Annual Budget. The FY 2021/22 baseline budgets for the General Fund and Measure Z were presented to the Budget Engagement Commission (BEC) on December 17, 2020 and to the Financial Performance and Budget Committee on January 8, 2021. These baseline budgets provided the foundation for the development of General Fund departmental budgets.

On March 31, April 8, and April 15, 2021, the BEC received presentations of preliminary Fiscal Year 2021/22 departmental budgets from City departments. BEC feedback from those presentations will be provided verbally during the City Council budget workshop.

DISCUSSION:

The City intends to adopt a one-year budget for FY 2021/22 before returning to a two-year budget cycle for FY 2022-2024. Through the adoption of a one-year budget, the City will focus on immediate fiscal challenges and balancing measures while transitioning to a multi-year phase-in PBB process for FY 2022-2024. The PBB budgeting methodology when fully implemented is expected to result in targeted and high-impact actions that will better align the City's limited resources with the City's strategic goals and resident City service needs and priorities. Riverside residents have told us that their City service priorities include public safety and public works services. Residents have also identified the following community priorities:

- Addressing homelessness
- Maintaining 9-1-1 response/police and fire/paramedic services
- Investigating and preventing property crimes
- Preparing for and recovering from public health emergencies
- Retaining local businesses
- Keeping public areas and parks clean and safe
- Preventing and preparing for wildfires

As part of this year's budget process and in accordance with the City's tradition of resident input, the City will be launching "The Riverside Discussion" – a community survey to engage residents during the budget process and collect feedback on their City service needs and priorities.

FY 2021/22 Budget Goals

Two primary goals were established for the FY 2021/22 budget development cycle:

1. Address the General Fund structural deficit and the potential impacts of the pandemic on City finances.
2. Prepare a contingency plan in the event that the General Fund Transfer (GFT) from the Electric Fund is discontinued, in an amount to be determined.

General Fund

Two balancing measures were initially incorporated into the FY 2021/22 baseline budget to address the projected structural deficit of approximately \$14.5 million and potential pandemic impacts, producing a balanced budget with a \$2.8 million surplus prior to contingency planning for the potential loss of the Electric GFT revenue source:

1. \$12 million savings through the suspension of recruitment of vacant positions; and
2. \$6 million additional Measure Z contribution to the General Fund, resulting in a total contribution of \$24.3 million.

The development of the City budget is a dynamic process that results in changes to baseline budget assumptions and refinement of the budget by City departments at the line-item level. For example, City departments will adjust personnel requirements to adapt to changing needs and update non-personnel budgets to reflect contract increases or other necessary items. Throughout this process, departments were required to maintain a flat non-personnel budget in the General Fund and absorb personnel cost increases above the baseline budget within the non-personnel

budget. Cost increases outside of the department's control (e.g. election costs) are presented to the City Manager's team for guidance and funding decisions.

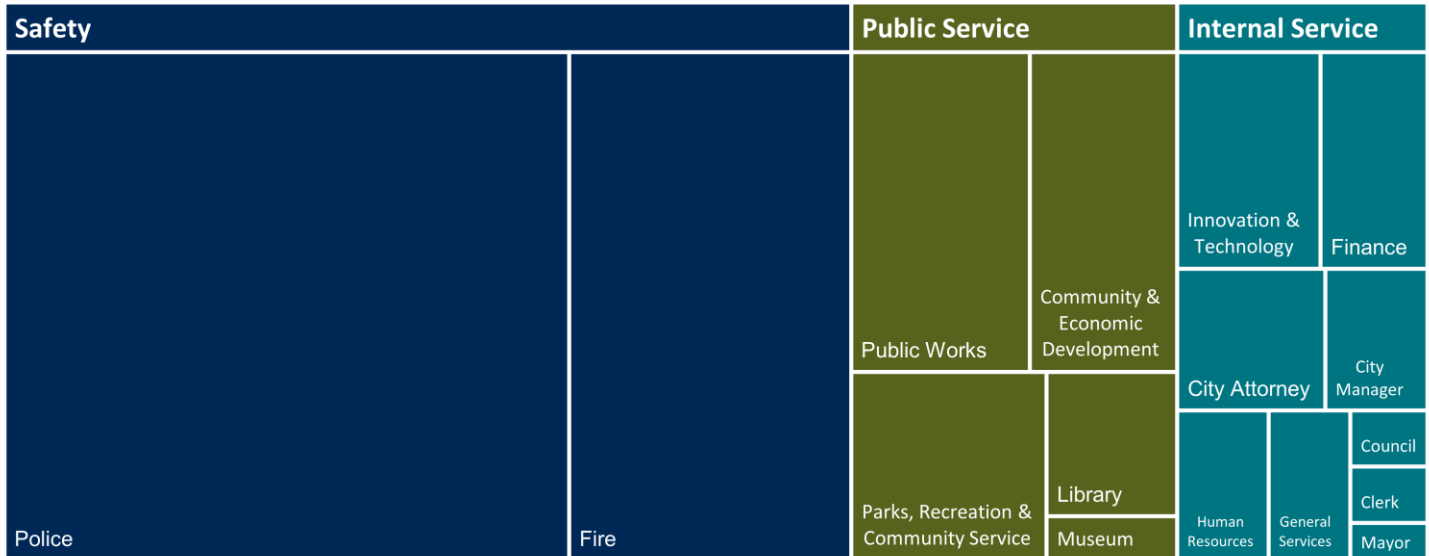
Major changes to baseline budget assumptions include:

1. The BEC recommended that the Measure Z contribution not be included as an assumption in the baseline budget; staff followed this recommendation during budget development.
2. The baseline budget included the assumption of a 2% Consumer Price Index (CPI) increase in personnel costs for unknown potential impacts of ongoing Memorandum of Understanding (MOU) negotiations with the City's bargaining partners. As of the current date, MOUs expiring in FY 2020/21 have been extended one year with a new expiration date of June 30, 2021 or later. The 2% CPI increase assumption was eliminated, and the proposed budget will not include any assumptions for cost increases related to MOUs expiring during FY 2021/22. If such increases do occur, staff will find other means within the budget to address the costs.
3. Based on the changes in the above assumptions and ongoing budget development efforts, staff determined that a \$10 million vacancy savings target will be sufficient to address the projected FY 2021/22 structural deficit.

Vacancy savings targets for General Fund departments were calculated as each department's proportional share of the General Fund's total personnel budget, using direct position salary and benefit costs only (thereby excluding overtime). Positions funded by Measure Z were not included in the calculation. The FY 2020/21 emergency budget adopted a point-in-time vacancy savings target based on existing vacancies and a suspension of recruitment. This caused a highly disproportionate impact on some General Fund departments to compensate for the structural deficit, with workforce reductions in some departments exceeding 20% while others experienced low, single-digit reductions. The workforce reductions resulted in significant and noticeable service level impacts in those departments. The methodology of vacancy savings targets for the FY 2021/22 preliminary budget spreads the impact of the General Fund's structural deficit proportionally to all General Fund departments, relieving the burden of some departments to compensate for other departments and improving the ability of departments to mitigate and strategize on resulting service level reductions. Departments were given the option of identifying current vacant positions to keep unfunded or identifying non-personnel savings to achieve the vacancy savings target. This methodology also provides greater visibility to the citywide operational impact of the existing General Fund structural deficit.

The following chart demonstrates the cost of General Fund personnel by category and department. These proportions apply to the vacancy savings targets. In the Safety and Public Service departments, an unfunded position will result in a savings equal to 100% of the position cost. Personnel in Internal Service departments are allocated to all City funds because they provide citywide support services. A General Fund savings of approximately 40% is realized in the General Fund for an unfunded internal service position, with the other 60% resulting in savings to other supported funds.

General Fund Personnel Budget Allocation by Department



GFT Contingency Planning

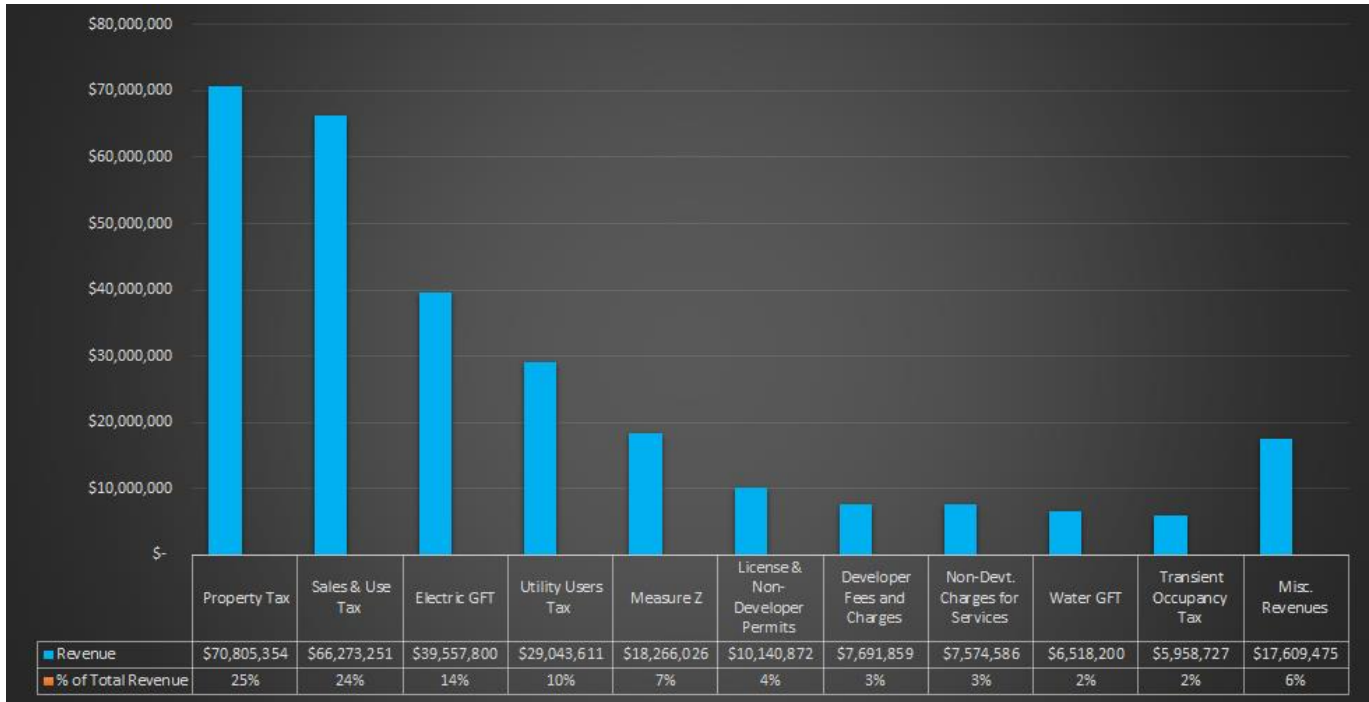
Please note: This section is for informational purposes only to ensure understanding of potential impacts due to the potential loss of some of the Electric GFT.

Riverside Municipal Code Article XII, Section 1204 provides for the payment of 11.5% of gross operating revenues generated by each City utility (i.e. electric and water) to the General Fund. The trial court recently ruled in the first phase of a trial that a portion of the transfer from the Electric Fund to the City’s General Fund is invalid. The trial court has not yet determined damages, which is the subject of the second phase of the trial. The court has tentatively indicated that possibly \$19 million to \$32 million of the estimated \$40 million electric transfer is invalid but has not yet issued a ruling on this issue. The trial court has also not yet determined a remedy. The trial court judgment, once issued, would still be subject to appeal. The City is currently assessing the financial impact of the trial court’s ruling, which will not be certain until the judgment is final. The Electric General Fund Transfer at risk for loss represents between 6.7% and 11.4% of total FY 2019/20 General Fund revenues.

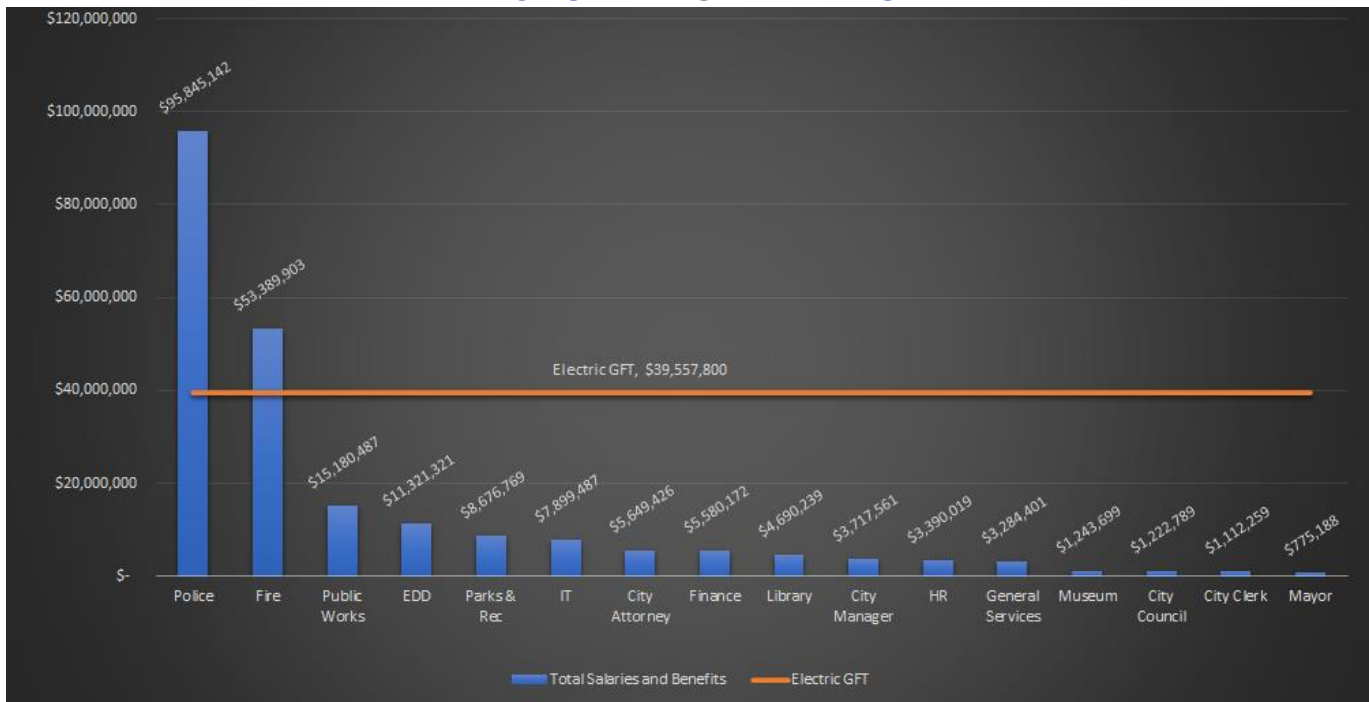
This Electric GFT has been a revenue source funding public infrastructure and services in the City of Riverside since 1907. The City Council referred to the Charter Review Committee’s March 17, 2021 meeting for its review and consideration, a voter affirmation ballot measure to reauthorize the Electric GFT for a potential November 2021 election. Riverside voters have already acted on similar measures on four previous occasions.

A monthly accrual of the ongoing liability of approximately \$2.6 million per month occurs until the issue is resolved. As November 2021 is the next general election at which voters could consider a ballot measure, the City will be well into FY 2021/22 before ballot measure results (should the City Council place a measure on the ballot) are received. Accordingly, the City must contemplate a potential loss of \$32 million in GFT funding in the proposed FY 2021/22 budget. The City is contingency planning to address a loss of the Electric GFT should one occur. As illustrated in the graphs below, the Electric GFT is an integral part of the City’s annual revenue and provides for a significant portion of general fund services.

ELECTRIC GFT AND THE GENERAL FUND FY2019-20



IMPACT ON THE GENERAL FUND



Department Preliminary Budget Presentations

With the General Fund presenting the most significant challenge in the development of the FY 2021/22 budget, department presentations will focus on the General Fund budget, supplemented with succinct presentations on the City’s major enterprise funds (Electric, Water, Refuse, Sewer, and Public Parking) and capital improvement plans. The presentations will include potential impacts to the ability of City departments to remain aligned with the City’s Strategic Plan 2025 (Attachment 18) while addressing the General Fund structural deficit and potential loss of the Electric GFT. Lastly, the presentations will highlight some department insights identified as a result of department efforts on the PBB project.

FY 2021/2022 Mid-Year Budget Adjustment

City staff understands the need for advancing the strategic priorities outlined in the City Council approved Envision Riverside 2025 Strategic Plan. Many of the priorities can be advanced within the scope of the resources currently programmed. Other priorities, for enduring success, will need additional dedicated resources – a permanent Chief Sustainability Officer to advance the City as a sustainable and resilient community; increased legislative affairs assistance to better understand and pursue beneficial opportunities for the City within State and Federal legislation; grants identification and management to increase revenue to the City. Given the uncertainties surrounding the Electric GFT, these needs will be presented for the City Council's consideration as part of a mid-year budget adjustment, after consideration of a potential ballot measure (should the City Council place a measure on the ballot).

Next Steps

The continued development of the budget will incorporate feedback gained during department presentations to the BEC and City Council. Staff will return to the BEC and City Council in May 2021 with a proposed FY 2021/22 budget and to set a public hearing date in June 2021. In June 2021, the City Council will conduct the public hearing and consider adoption of the proposed budget, inclusive of any amendments requested at the May 2021 presentation. The adopted budget will be available to the public via the City's online budget portal no later than July 1, 2021 at <https://riverside.openbook.questica.com>.

FISCAL IMPACT:

There is no immediate fiscal impact as a result of City departments' preliminary FY 2021/22 budget presentations. It should also be noted that the beneficial financial impacts to the City by the American Rescue Plan Act of 2021 is yet to be determined and able to be factored into the FY 2021/22 budget. It is likely that a mid-year budget adjustment will be needed to reflect a number of considerations, including this Act.

Prepared by: Kristie Thomas, Assistant Chief Financial Officer
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer
Approved by: Moises Lopez, Deputy City Manager
Approved as to form: Kristi J. Smith, Interim City Attorney

Attachments:

1. Introductory Presentation
2. Library Presentation
3. Museum Presentation
4. Parks, Recreation & Community Services Presentation
5. Community & Economic Development Presentation
6. Public Works Presentation
7. Police Presentation
8. Fire Presentation
9. Riverside Public Utilities Presentation
10. General Services Presentation

11. Innovation & Technology Presentation
12. Human Resources Presentation
13. Finance Department Presentation
14. City Manager's Office Presentation
15. Mayor's Office Presentation
16. City Clerk's Office Presentation
17. City Attorney's Office Presentation
18. City Strategic Plan 2025