



Finance Committee Memorandum

City of Arts & Innovation

TO: FINANCE COMMITTEE **DATE: OCTOBER 30, 2019**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: GENERAL FUND RESTRUCTURING - DIRECT SUBMITTAL

ISSUE:

Receive an update on the restructuring of the General Fund.

RECOMMENDATION:

That the Finance Committee receive an update and provide input on the restructuring of the General Fund.

BACKGROUND:

The General Fund (GF) is the primary operating fund of the City and is supported by a large variety of revenue sources including taxes, license fees, permit fees, charges for services, fines, forfeitures, investment earnings, and a variety of other miscellaneous sources. It is through these revenues that the General Fund supports Public Safety (Police and Fire), Public Works, Community Services (Libraries, Parks and Recreation, Planning & Community Development), and Administration (City Manager's Office, City Attorney, City Clerk, Finance, Human Resources). The City's General Fund is the primary fund used by the City. This fund records all resource inflows and outflows that are not associated with special-purpose funds. The activities paid by the General Fund constitute the core administrative and operational task of the City.

Historically, the General Fund has been the catch all fund for activity that on its face did not readily identify with any other governmental or non-governmental fund. As a result, the General Fund became a melting pot of activity, some of which by its nature should have been recorded and tracked in a more appropriate fund. During fiscal year 2017-18, the Finance Department reviewed the General Fund activity in detail and determined that a restructuring of the General Fund was required in order to provide for greater transparency of all activity.

DISCUSSION:

2017-18 RESTRUCTURING

As a result of the General Fund restructuring, two new funds were created in fiscal year 2017-18:

The Civic Entertainment Fund (Enterprise Fund), and the Special Districts Fund (Special Revenue Fund).

The Civic Entertainment Fund (CEF) is an Enterprise fund. An Enterprise fund is a self-supporting government fund that sells goods and services to the public for a fee. For example, the Riverside Public Utility is a government-owned power generating facility that provides electricity to local homeowners in exchange for a fee. The fiscal activities of the Convention Center, Fox Theater, the Box, the Showcase, and Riverside Municipal Auditorium were moved from the General Fund to the Civic Entertainment Fund. Moving the activity to the Civic Entertainment Fund where it closely aligns allows for greater transparency by showing the detail activity in the CEF and the ability of the fund to be fiscally sustainable. If the fund is unable to meet all its obligations, a subsidy from the General Fund would be required to make the fund whole which is the current situation of the CEF. In fiscal year 2017-18 the subsidy from the GF to the CEF was \$8.0 million and in fiscal year 2018-19 it was \$8.7 million.

The Special Districts Fund, a Special Revenue fund, was also created in fiscal year 2017-18. The fiscal activities for Loving Homes, Village at Canyon Crest, Sycamore Highlands, Riverwalk, Riverwalk Parks Project, and Street Lighting districts were moved from the General Fund to the Special Districts Fund. In fiscal year 2017-18 and fiscal year 2018-19, the subsidy from the General Fund to the Special Districts Fund was \$1.1 million.

As part of the General Fund restructuring in fiscal year 2017-18, activities related to the Pension Obligation Bonds (POBs) were moved out of the General Fund. The City's Taxable Pension Obligation Bonds were all recorded in the City's General Fund even though the liability is shared via an allocation citywide to all funds. The City's GF held the entire liability and made the necessary debt service payments. Subsequently, all other funds reimbursed the City for their share of POB debt service. Accounting for the activity in this manner made the tracking and reporting of the activity difficult. For greater transparency and efficiency, the non-GF share of the POB obligations were removed from the GF and allocated directly to other funds, eliminating previously recorded Advances in the General Fund due from other funds. Each fund now records its share of the POB liability, with debt service obligations clearly reflected on each fund's balance sheet and income statement activity. This change cleaned up the accounting of the POB transactions without the need to establish a new fund.

Lastly, during fiscal year 2017-18, all other debt related expenditures previously recorded directly in the General Fund (Capital Leases, 2004 POB, and the 2003 General Obligation Bond), are now reflected with all other General Fund debt in the Debt Service Fund. The General Fund's proportional share of the debt service expenditures are now reflected as a transfer to the Debt Service Fund.

2018-19 RESTRUCTURING

The General Fund activity review continued into fiscal year 2018-19. During fiscal year 2018-19, the Grants and Restricted Programs Fund (Special Revenue Fund) was created. Special Revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. The Grants and Restricted Programs Fund provides an extra level of accountability and transparency to taxpayers that their tax dollars are spent on its intended purpose. As a result, all federal, state, and local grants that were previously recorded in the General Fund were moved to the new Grants and Restricted Programs Fund. Since grants and special programs are self-supporting, there was no net impact to the General Fund and no resulting subsidy before or after the move. The change was completed in order to track and better

align the activity to a more appropriate fund and provide greater transparency for the activity.

Lastly, during fiscal year 2018-19, all other non-POB debt restructuring was completed. Debt related to the 2008 Certificates of Participation, 2012 Lease Revenue Bonds, Fox Entertainment Plaza Loan, and 2013 Bank of America Capital Lease was allocated to the appropriate funds to properly reflect its proportional share of the obligations, and fixed assets associated with such debt was also transferred to the corresponding fund. The funds impacted during the non-POB debt restructuring process include the General Long-Term Debt and Fixed Asset Account Group (\$1.8 million positive fund balance impact), the Civic Entertainment Fund (\$8.6 million positive fund balance impact), the Public Parking Fund (\$8.0 million negative fund balance impact), and the Successor Agency Fund (\$2.4 million negative fund balance impact). Although the transfer of assets and liabilities had an impact to fund balance, the transfer did not affect the working capital/operating fund balance representing available resources.

All these transfers and accounting corrections had an impact to the General Fund. It has cleaned up and eliminated non-general fund activity; it has enhanced transparency of activity in the General Fund as well as the other funds that now show their activity in much greater detail; and it shows clearly how much the General Fund subsidizes the activities of other funds.

2019-20 RESTRUCTURING

Restructuring will continue into fiscal year 2019-20 in which other restricted program activities recorded in the General Fund will be moved to the Grants and Restricted Programs Fund and capital projects currently reported in the General Fund will be transferred to the Capital Outlay Fund, if any.

FISCAL IMPACT:

There is no General Fund impact in receiving this report.

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Approved as to form:	Gary Geuss, City Attorney

Attachment:	Presentation
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