



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 22, 2021**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: PUBLIC HEARING; RESOLUTION – PROPOSED FISCAL YEAR 2021/22 ANNUAL BUDGET; DELEGATION OF INVESTMENT AUTHORITY

ISSUE:

Conduct a public hearing on the proposed Fiscal Year 2021/22 Annual Budget and proposed Fiscal Year 2021/22 Capital Improvement Plan; adopt a resolution approving the Proposed Annual Budget for Fiscal Year 2021-2022 totaling \$1,224,268,952; and delegate investment authority to the Chief Financial Officer/Treasurer for a period of one year beginning July 1, 2021 and ending June 30, 2022.

RECOMMENDATIONS:

That the City Council:

1. Conduct a public hearing on the proposed Fiscal Year 2021/22 Annual Budget and proposed Fiscal Year 2021/22 Capital Improvement Plan;
2. Adopt a resolution approving the Proposed Annual Budget for Fiscal Year 2021-2022 totaling \$1,224,268,952; and
3. Delegate investment authority to the City’s Chief Financial Officer/Treasurer for a period of one year beginning July 1, 2021 and ending June 30, 2022.

LEGISLATIVE HISTORY:

Several City Charter sections provide the procedural requirements for adoption of the budget by the City Council:

- **Article IV, Section 601(a-c)** requires the City Manager to keep the City Council advised of the financial condition of the City and annually prepare the City’s budget and capital improvement plan (CIP) for review and adoption by the City Council.
- **Article VIII, Sec. 806(c):** Planning Commission; Make recommendations concerning proposed infrastructure improvements and redevelopment activities in support of planned land uses.

- **Article VIII, Section 808(c)** requires the Board of Library Trustees to consider the annual budget for library purposes during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.
- **Article VIII, Section 809(b)** requires the Park and Recreation Commission to consider the annual budget for parks, recreation, parkways and street tree purposes during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.
- **Article XI, Section 1101** requires that the City Manager shall provide the City Council with a proposed budget at least thirty-five calendar days prior to the beginning of each fiscal year. After review, the City Council shall determine the time for the holding of a public hearing for the budget adoption; the public notice of the budget hearing shall be published no less than twenty days prior to said hearing. Additionally, copies of the proposed budget shall be available for inspection by the public in the office of the City Clerk and on the City's website at least twenty days prior to the public hearing.
- **Article XI, Section 1102 and 1103** requires the City Council to hold the public hearing for the proposed budget adoption, seek public input, and make any revisions to the budget it deems necessary. The City Council may adopt the budget after the public hearing or postpone the date of adoption no later than July 1st.
- **Article XII, Section 1202(a)** requires the Board of Public Utilities to consider the annual budget for the Department of Public Utilities during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.

BACKGROUND:

The City adopted a biennial budget and five-year planning process in 2016 to provide a more informative, long-term outlook on City finances. Several circumstances have prompted the City to adopt a one-year budget for Fiscal Year (FY) 2021/22:

- The unprecedented and unpredictable impacts of the COVID-19 on City finances;
- The pending outcome of the legal challenge to the General Fund Transfer (GFT) from the Electric Fund and ongoing contingency planning efforts; and
- The planned implementation of Priority Based Budgeting (PBB) in the FY 2022-2024 biennial budget.

Through the adoption of a one-year budget, the City will focus on immediate fiscal challenges and balancing measures while fully 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

The budget development cycle begins in October with the preparation of baseline revenue and expenditure assumptions. Active Memorandums of Understanding (MOU) and a snapshot in time of personnel demographics are used to formulate the personnel expenditure budget, which is the largest expenditure in the General Fund. Baseline budgets for the General Fund and Measure Z are developed and provide the foundation for budget direction to City departments. The City Manager's direction to departments for the FY 2021/22 budget was to maintain a flat budget in non-personnel costs; exceptions included increases approved by the City Council during the current fiscal year and non-discretionary items such as election costs.

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. Additional public meetings were or will be conducted as listed in the following table; these meetings provide numerous opportunities for community input in the budget process.

Date	Time	Meeting Body	Subject Matter
March 15	6:30 PM	Parks & Recreation Commission	Parks, Recreation & Community Services Dept preliminary budget
March 22	6:30 PM	Board of Public Utilities	Riverside Public Utilities preliminary budget
March 24	3:00 PM	Museum of Riverside Board	Museum Department preliminary budget
March 31	5:00 PM	Budget Engagement Commission	Department Presentations - Library; Museum; Parks, Recreation & Community Services; General Services; and Riverside Public Utilities departments
April 8	5:00 PM	Budget Engagement Commission	Department Presentations - Community & Economic Development; Public Works; Fire; and Police departments
April 12	5:00 PM	Board of Library Trustees	Library Department preliminary budget
April 15	5:00 PM	Budget Engagement Commission	Department Presentations - Mayor's Office, City Clerk's Office, City Attorney's Office, City Manager's Office, Finance, Human Resources, and Innovation & Technology departments
April 19	8:00 AM	City Council Budget Workshop	General Fund Overview and Department Presentations (all departments)
May 13	5:00 PM	Budget Engagement Commission	FY 2021-2022 Proposed Budget
May 18	1:00 PM	City Council – Afternoon Session	FY 2021-2022 Proposed Budget
May 27	9:00 AM	Planning Commission	Review proposed capital projects and their conformity with the City's General Plan 2025
June 10	5:00 PM	Budget Engagement Commission	FY 2021-2022 Final Budget
June 22	6:15 PM	City Council – Evening Session	Public Hearing and Adoption of the FY 2021-2022 Annual Budget

On June 10, the BEC received the final proposed budget. Due to the timing of this report, BEC feedback from the June 10, 2021 meeting will be shared with the City Council on June 22, 2021 verbally during the proposed budget presentation.

On April 19, 2021, the City Council received an overview of the preliminary budget for the General Fund and preliminary department budget presentations from each City Department. Members of the City Council identified several priorities which were subsequently incorporated into the proposed budget.

On May 18, 2021, the City Council received the proposed FY 2021/22 budget with recommended adjustments and made no additional recommendations for changes. As a result, the recommended adjustments have been fully incorporated into the proposed budget schedules and the total which is presented for adoption. The City Council was also informed of ongoing staff efforts to formulate a Park and Neighborhood Specialist program and related program budget to be presented with the final budget for City Council adoption. The Park and Neighborhood Specialist program summary and proposed budget is included in Attachment 5, and the amounts are incorporated into the proposed budget for adoption. Lastly, the City Council set a public hearing on June 22, 2021 for adoption of the budget.

On May 27, 2021, the Planning Commission reviewed the projects included in the proposed FY 2021/22 Capital Improvement Program budget and unanimously determined that the projects are consistent with the General Plan 2025 pursuant to California Government Code Section 65401 (Attachment 3).

DISCUSSION:

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.

Budget Overview – Citywide

The proposed FY 2021/22 annual budget totals approximately \$1.2 billion, comprised of \$1.1 billion in operating expenses and \$115.9 million in planned capital projects. These totals include proposed budget adjustments presented at the May 18, 2021 City Council meeting and the budget for the proposed Park and Neighborhood Specialist program. Attachment 4 details the FY 2021/22 proposed budget for all City funds, departments, and capital projects, with changes incorporated since the May 18, 2021 meeting, highlighted in yellow. The changes are also identified in the following budget summary table.

CITYWIDE BUDGET SUMMARY - OPERATING
Proposed FY 2021/22 Annual Budget

	Proposed May 18, 2021	Adjustments	Proposed June 22, 2021
Revenues & Transfers In			
Taxes	\$267,327,887		\$267,327,887
Licenses & Permits	13,476,723		13,476,723
Intergovernmental	37,169,822		37,169,822
Charges for Services	653,249,800		653,249,800
Fines & Forfeits	4,498,926		4,498,926
Special Assessments	12,357,034		12,357,034
Miscellaneous	24,742,148		24,742,148
Rents	2,409,000		2,409,000
Other Financing Sources	1,586,000		1,586,000
Operating Transfers In	127,532,449		127,532,449
Total Revenues & Transfers In	\$1,144,349,789	\$-	\$1,144,349,789
Expenditures & Transfers Out			
Personnel Services	\$370,890,223	159,513	\$371,049,736 (1)
Non-personnel Expenses	396,167,368	1,845,000	398,012,368 (2)
Special Projects	51,339,128		51,339,128 (3)
Equipment Outlay	4,871,599	2,165,000	7,036,599
Debt Service	218,610,092		218,610,092
Capital Outlay	1,509,760		1,509,760
Charges from Others	96,529,322	20,000	96,549,322 (4)
Charges to Others	(123,702,112)	(159,513)	(123,861,625) (5)
Operating Transfers Out	85,778,149		85,778,149
Park and Neighborhood Specialist Program	-	2,393,098	2,393,098 (6)
Total Expenditures & Transfers Out	\$1,101,993,529	\$6,423,098	\$1,108,416,627
Net Operating Budget	\$42,356,260	\$(6,423,098)	\$35,933,162

Explanation of Adjustments:

- (1) Reclassify Deputy City Manager to Intergovernmental Relations Officer in General Fund; add Principal Management Analyst to Grants and Restricted Projects Fund to act as citywide grant manager.
- (2) Increase Measure Z Fund for Parks & Recreation: \$250,000 Mt. Rubidoux Trail Surface Rehabilitation; \$800,000 Fairmount Park Wier Dam and Storm Drain Project; \$750,000 swimming pool maintenance; and for the Police Department: On May 25, 2021, the City Council approved an annual Measure Z allocation of \$45,000 for motorhome removal and disposal costs.

- (3) Increase Measure Z Fund for: \$2,000,000 for Public Works – Streets vehicle replacement and equipment needs; \$165,000 for Parks & Recreation tractor purchase.
- (4) Increase Electric Fund contribution to the General Fund for legislative affairs from \$80,000 to \$100,000.
- (5) Record offset for new Principal Management Analyst in Grants and Restricted Projects Fund: position will be charged to qualifying grants; increase Electric Fund contribution to the General Fund for legislative affairs from \$80,000 to \$100,000.
- (6) Refer to Attachment 5 for the proposed budget for the Park and Neighborhood Specialist program, to be incorporated into category line items with the adopted budget if approved by the City Council. Personnel: \$1,847,863; other categories to be determined: \$545,236.

Capital projects are funded through available operating revenues, bond proceeds, grants, fund reserves, and other funding sources. Bond and grant revenues are not included in the proposed budget but are budgeted when the bond is issued or when a grant is awarded and approved by the City Council for use on a capital project. Internal controls exist to ensure that capital projects do not commence until funding is received or assured to become available.

Refer to *Capital Improvement Plan* in Attachment 4 for detailed listing of capital projects.

CITYWIDE BUDGET SUMMARY - CAPITAL FY 2021/22 Proposed Capital Budget	
Funding Sources	
Electric Utility	\$48,309,930
Water Utility	21,501,562
Transportation Funds	18,265,833
Measure Z Capital	5,375,000
Sewer	22,000,000
Other	400,000
Total Funding Sources	\$115,852,325
 Funding Uses	
Electric	\$48,309,930
Municipal Buildings and Facilities	1,000,000
Parks, Recreation, and Community Services	300,000
Railroad	788,200
Sewer	22,000,000
Storm Drain	600,000
Transportation	21,352,633
Water	21,501,562
Total Funding Uses	\$115,852,325

Budget Overview – General Fund

The proposed FY 2021/22 General Fund budget totals approximately \$287 million with the incorporation of a \$10 million balancing measure spread proportionally among City departments

as vacancy savings targets. The proposed budget is balanced, with total projected revenues equal to total proposed expenditures. The General Fund budget accounts for approximately 26% of the citywide operating budget.

Revenues and Transfers In: Total Revenues and Transfers In are projected approximately \$5.8 million (2.2%) higher than the FY 2020/21 pre-pandemic projections and balancing measures. When developing revenue projections, staff considered the ongoing impact of the pandemic and potential recovery period for individual revenues, projecting some revenues below FY 2018/19 actuals – the City’s most recent “normal” year. Other revenues have remained steady or demonstrated growth despite the pandemic, such as sales tax which is currently up nearly 4% as compared to FY 2019/20. The Measure Z transfer to the General Fund is maintained at \$18.3 million for the third consecutive year. Utility Users Tax and the General Fund Transfer (GFT) are based on electric and water revenue projections with no contingencies for the legal challenge to the Electric GFT. Contingency planning will continue separately from this budget process pending the placement of a measure on the November 2021 ballot.

Expenditures and Transfers Out: Proposed Expenditures and Transfers Out are approximately \$15.2 million higher than the FY 2020/21 budget primarily due to the reduction or elimination of expenditure balancing measures that had been adopted in the FY 2020/21 budget. Personnel costs are \$6 million higher primarily due to the reduction of the vacancy savings balancing measure from \$15.6 million in FY 2020/21 to \$10 million in FY 2021/22. Non-Personnel costs are \$7 million higher than FY 2020/21, which included a \$7 million managed savings target for anticipated cost savings from the issuance of a Pension Obligation Bond. The other significant change to the expenditure budget as compared to the prior year budget period is a reduction of Charges to Others. Charges to Others represents General Fund costs charged to other funds or capital projects for services rendered by General Fund personnel or for other reimbursable General Fund costs. Charges to Others was reduced by \$2.6 million based on historical trends and known factors.

Balancing Measure: A \$10 million vacancy savings target has been incorporated into the proposed budget to address the General Fund’s structural deficit. Departments were given the option to reduce non-personnel budgets in lieu of vacancy savings to meet their target. The change in departments’ vacancy savings targets in the FY 2020/21 adopted emergency budget as compared to the FY 2021/22 proposed budget are shown in the table below, as well as vacancies as of May 17, 2021 with their associated FY 2021/22 budget value. This vacancy snapshot from the City’s Human Resources system counts positions that are in the process of recruitment or finalizing new employee onboarding as vacancies.

GENERAL FUND DEPARTMENTAL SAVINGS TARGETS						
Department	FY 2020/21		FY 2021/22			
	Amount	FTE Reduction	Amount	FTE Reduction	Other Methods	Vacancies as of May 17, 2021 with 2022 Budget \$
Mayor	\$105,864	1.00	\$-	-	\$-	\$-
City Council	-	-	-	-	-	-
City Manager	646,414	5.00	214,084	3.00	-	6.00 485,478
City Clerk	-	-	60,853	-	60,853	-
City Attorney	302,349	2.50	298,094	3.00	70,470	3.50 632,484
Human Resources	158,331	2.00	181,179	2.00*	-	4.00 263,411
General Services	222,649	3.00	175,207	3.00*	-	6.00 438,669
Finance	1,184,789	12.00	322,060	4.00	-	13.00 1,125,727
Innovation & Technology	1,094,486	8.00	434,094	5.00*	-	6.00 722,944
Community & Economic Development	2,272,556	21.00	660,881	7.00*	-	23.75 2,485,185
Police	4,260,438	35.00	4,012,599	31.00	806,573	59.00 7,480,720
Fire	1,928,713	14.00	2,006,427	-	2,006,427	9.00 1,560,575
Public Works	1,559,811	16.00	785,296	12.00*	-	28.00 2,702,800
Library	757,995	8.00	265,500	3.00	-	14.00 1,097,711
Parks, Recreation, & Community Services	857,662	9.00	507,293	6.00	-	20.25 1,621,214
Museum	302,441	3.00	76,433	3.00*	-	3.00 214,946
Totals	\$15,654,498	139.50	\$10,000,000	82.00	\$2,944,323	195.50 \$20,831,864

*Includes partial unfunding of some or all FTE via delayed recruitment.

Positions identified to be unfunded are indicated in *Citywide Personnel* in Attachment 4. Partial savings intended to be achieved by other methods are described below.

Mayor's Office: The Mayor's Office was not assigned a vacancy savings target due to the ongoing transition to a new Mayor during departmental budget development. Incoming staff analyzed the goals and staffing needs of the new Mayor, resulting in a personnel reorganization and updated employee demographics (changes in compensation and benefits as compared to previous staff) that saved approximately \$40,000 which has been incorporated into the proposed budget.

City Clerk: The City Clerk has no current vacancies, but some staff have turned over since the development of the personnel budget. The difference in compensation and benefit elections of the new employees as compared to those included in the proposed budget will result in sufficient savings to meet the department's target.

City Attorney's Office: The City Attorney's Office terminated the lease of a portion of their office space for annual savings of \$70,470.

Police: The Police Department will manage overtime and other costs to achieve the balance of the vacancy savings target (20%) not accommodated through vacancies. Based on historical vacancy rates within the department, the majority of vacancy savings are expected to be naturally achieved through officer turnover without a deliberate reduction in total Police Officer staffing levels.

Fire: Due to the mandated staffing level requirement present in the Riverside Firefighters'

Association MOU, the Fire Department was unable to meet its proportional General Fund vacancy savings target of approximately \$2 million. The Department recommended reallocating Measure Z fire vehicle replacement funding for this purpose. As a result, fourteen (14) firefighter positions have been moved from the General Fund to Measure Z in the proposed FY 2021/22 budget, fully offset by the reallocation of funding.

Future Considerations: Contingency funds of \$1.8 million have been budgeted to offset potential ongoing impacts of the pandemic on General Fund subsidies to the Convention Center Fund, Entertainment Fund, and other funds should the need arise. The proposed budget does not include contingency funding for the potential impacts of expiring and renegotiated Memorandums of Understanding (MOUs). As of the date of this report, the MOUs for all of the City's bargaining groups will expire in FY 2021/22; any cost increases will require mid-year balancing measures. The proposed budget does not include contingency funding for the potential loss of the Electric GFT; contingency planning is ongoing, and outcomes will require a mid-year budget adjustment.

Other Considerations-Citywide: The Electric rate plan has been delayed until July 1, 2021 which coincides with the FY 2021/22 budget cycle. Any additional delay in approving the third year of the Electric rate plan could have a material impact on the Electric Fund and advancing the City Council's Strategic Priority of **Infrastructure, Mobility & Connectivity**: Ensure safe, reliable infrastructure that benefits the community and facilitates connection between people, place and information. The current six-month delay in the rate plan will result in an approximately \$4.4 million reduction in retail sales in the Electric Fund in FY 2020/21 with a compounding impact to General Fund: Utility User Tax in the amount of \$239,000 in FY 2020/21 and GFT revenue in the amount of \$507,000 in FY 2021/22. Further delays beyond July 1, 2021 could result in the need to reduce programmed infrastructure projects which are important to ensuring reliable service delivery; the rate plan as structured already accounts for a reduced level of requisite infrastructure improvements in order to keep the rate increase to a minimum.

The need for the Electric rate increase also has ties to the City Council's Cross-Cutting Threads of **Fiscal Responsibility** (i.e., it is incumbent upon the utility to incorporate approved minimum rate increases needed to invest in infrastructure and power supply while maintaining financial metrics and reserve levels) and **Sustainability & Resiliency** (i.e., investments in infrastructure and power supply are needed to ensure reliability of the system for our customers). Any change to the percentage of the rate increase is expected to necessitate a revised Electric rate plan. It is understood that the pandemic has presented challenges to many Electric customers; programs have been developed to assist those experiencing economic hardship as result of the pandemic. In addition to the recent Federal program for Emergency Rental and Utility Assistance, Riverside Public Utilities provides low-income customer utility assistance and an emergency bill credit for customers that have experienced financial impacts due to COVID:

- **SHARE Sharing Households Assist Riverside Energy Program**
This program is an income-qualified program (200% Federal Poverty Guidelines) and provides emergency/deposit and monthly bill credit assistance. On March 8, 2021, and March 22, 2021, the Board of Public Utilities and City Council respectively approved the SHARE emergency/deposit assistance increase from \$150 to \$250.
- **ERAP – Emergency Recovery Assistance Program**
This program was established in response to the COVID pandemic, providing a \$400 bill credit (assistance) for residential customers whose incomes have been negatively impacted due to the pandemic. Consistent with its approval, this program will remain in operation until three months after the local emergency has been terminated. Since May 20, 2020, 4,699 customer accounts have benefitted with a total value of \$1,879,600.

- **Emergency Rental Assistance (ERA) Program**

This program was established through funding provided by the United States Treasury to pay the past due rent and utility balances to qualifying residents whose incomes were negatively affected due to the pandemic. The City's program funds were exhausted on April 16, 2021, and applicants in need of assistance can continue to apply through United Lift (the County's emergency rental assistance program). During the duration of the program, 59 customer utility accounts have benefitted with a total value of \$60,346.

GFT Contingency Planning

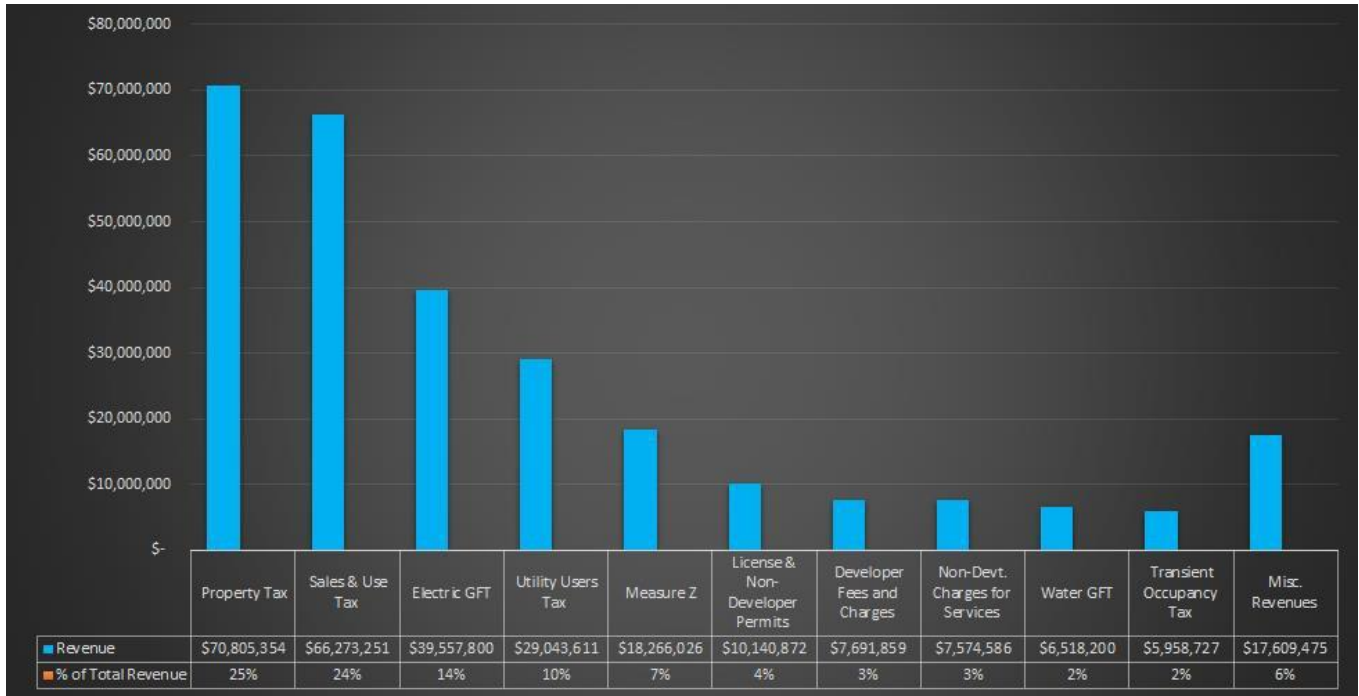
Please note: This section is for informational purposes only to ensure understanding of potential impacts due to the potential loss of some of the Electric GFT.

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 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 tentatively indicated that possibly \$19 million to \$32 million of the estimated \$40 million electric transfer is invalid but had 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 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 proposed Charter amendment to reauthorize the Electric GFT for a potential November 2021 election. Riverside voters have already acted on similar measures on four previous occasions.

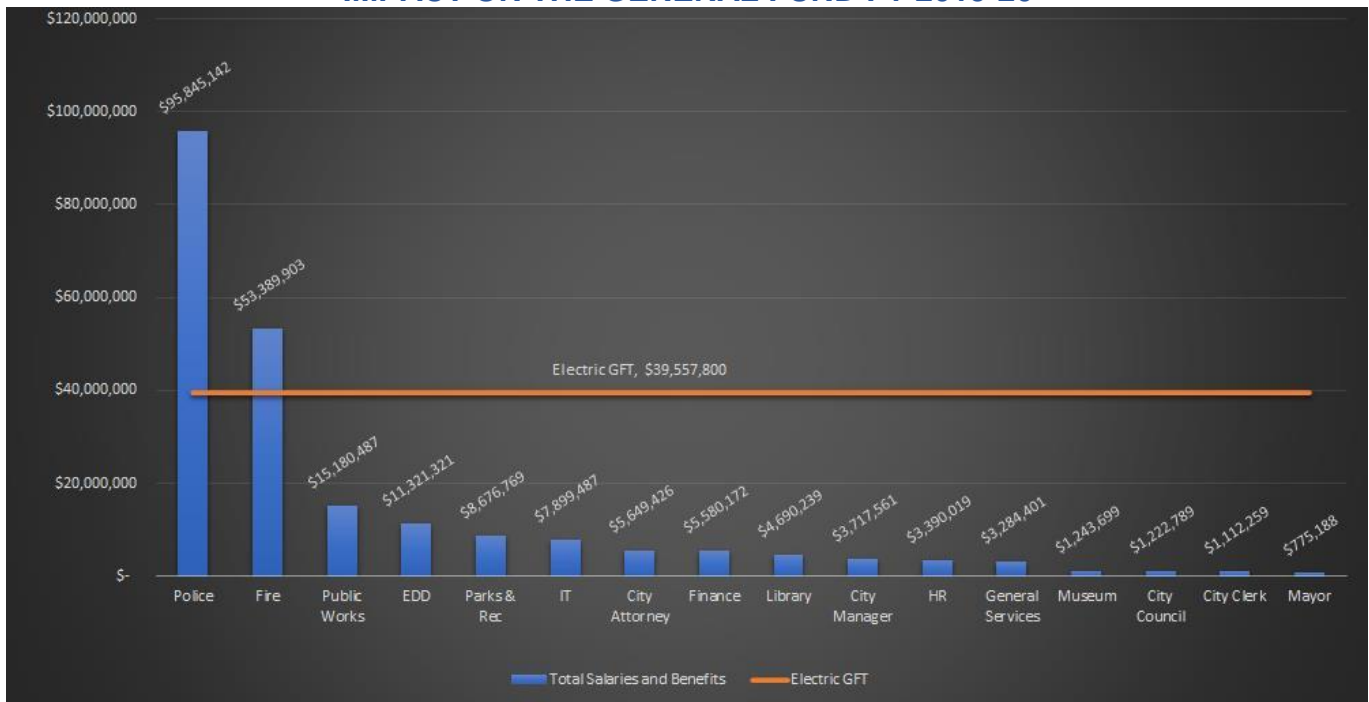
A monthly accrual of the ongoing liability of approximately \$2.6 million per month occurs until the issue is resolved. As November 2021 is the next general election at which voters could consider a ballot measure, the City will be well into FY 2021/22 before ballot measure results (should the City Council 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.

On May 19, 2021, the City announced a settlement in the matter of Parada v. City of Riverside regarding the general fund transfer. The settlement is contingent upon the passage of a ballot measure in November 2021. Once the results of the ballot measure are known and in accordance with standard budgeting practice, staff will formulate a plan and prepare a mid-cycle budget update to address the impact of the final results of the ballot measure as well as any other financial impacts facing the City at that time.

ELECTRIC GFT AND THE GENERAL FUND FY 2019-20



IMPACT ON THE GENERAL FUND FY 2019-20



Budget Overview – Measure Z

Measure Z is budgeted in two funds: an operating fund and a capital fund. The traditional line-item budget includes the planned expenditure of debt proceeds and other accounting requirements, while the spending plan combines the two funds and only lists items utilizing Measure Z’s operating revenues. The spending plan provides a transparent program-budgeting based view of the allocation of operating revenues to individual spending initiatives. In the FY 2021/22 proposed budget in the Spending Plan, projected revenues exceed proposed expenditures by approximately \$764,000. The five-year Spending Plan has been extended to FY 2025/26 (see *Measure Z Spending Plan* in Attachment 4) and applies the assumption that items not specifically identified

as one-time costs when approved would continue through FY 2025/26.

Revenue: Measure Z Transaction & Use Tax revenue is projected at approximately \$64.5 million, a conservative 1% growth rate over FY 2020/21 revenue projections based on revenue performance through February 2021. The prior year budget included a 10% contingency revenue reduction, but FY 2020/21 revenues have remained stable throughout the pandemic and are currently trending 2.3% higher than FY 2019/20 actuals.

Expenditures: Proposed expenditures in the Measure Z Spending Plan total approximately \$64 million and are approximately \$632,000 lower than the adopted FY 2020/21 budget. The FY 2020/21 spending plan included a \$6 million one-time transfer to the General Fund; this was a one-time balancing measure to offset the impacts of the pandemic on General Fund revenues and is not included in the FY 2021/22 proposed budget. The primary changes in the Measure Z Spending Plan as compared to the prior year are:

- A \$1 million (50%) reduction in the Technology line item; this reduction was programmed into the spending plan published with the City's 2016-2018 Biennial Budget.
- The Spending Plan includes a FY 2021/22 reallocation of approximately \$2 million from Spending Item #14 - Fire Vehicle Replacement Plan to Spending Item #9 which has been retitled from "Reinstate Fire Squad" to "Maintain Firefighter Staffing Level" to meet the Fire Department's proportional General Fund vacancy savings target of approximately \$2 million. The impact of this item was to shift the vehicle replacement plan forward one year with no long-term effects: there were no planned vehicle replacements in FY 2024/25 prior to this shift.
- Addition of Spending Item #43 – Public Works Street Vehicle & Equipment Needs in the amount of \$2,000,000 in FY 2021/22 and extending through FY 2024/25 for a total addition to the plan of \$5,230,000 over four years.
- Addition of Spending Item #44 – Parks & Recreation Infrastructure, Vehicles, and Equipment needs for \$1,965,000 in FY 2021/22.
- Addition of Spending Item #45 – Motorhome Removal & Disposal for \$45,000 occurring annually as approved by City Council on May 25, 2021.
- Addition of Spending Item #46 – Park and Neighborhood Specialist Program for \$2,393,098 in FY 2021/22 and extending through FY 2024/25 for a total addition to the plan of \$10,437,471 over five years. This spending item includes funding for 20 full-time benefitted positions.

As with the General Fund, the proposed budget for Measure Z does not include contingency funding for the potential impacts of expiring and renegotiated Memorandums of Understanding (MOUs). Any increases affecting the 89 Safety and 44.26 non-Safety full-time equivalent (FTE) personnel funded by Measure Z and subject to MOU provisions will reduce the annual surplus and unallocated fund reserves projected in the Spending Plan.

Major Enterprise Funds

The proposed operating budgets for the City's major enterprise funds listed in the following table account for 53% of the citywide operating budget. The Refuse and Public Parking funds are

projected to operate in a deficit position in FY 2021/22.

MAJOR ENTERPRISE FUNDS – OPERATING			
Proposed FY 2021/22 Annual Budget			
	Revenue	Expense	Surplus / (Deficit)
Electric	\$404,115,800	\$401,889,290	\$2,226,510
Water	85,043,500	77,863,871	7,179,629
Refuse	29,894,417	30,855,904	(961,487)
Sewer	71,086,253	66,443,526	4,642,727
Public Parking	6,196,851	7,119,830	(922,979)

Refuse Fund: The Refuse Fund is projected to operate at a deficit in FY 2021/22. Unanticipated cost increases for the processing and disposal of recycled materials due to changes in the recycling market are expected to present a permanent increase in the funds' operating expenditures. Anticipated revenue increases from the commercial and residential solid waste rate increase approved by the City Council on September 15, 2020 have also been included in the proposed budget's revenue projections. Staff anticipates that the residential and commercial collection rates approved through 2025 will generate sufficient revenue to maintain waste hauler operations and offset increased recycling costs beginning in FY 2023/24. There are sufficient fund reserves to cover the projected deficit in FY 2021/22.

Public Parking Fund: The Public Parking Fund is projected to operate at a deficit in FY 2021/22 due to the lingering effects of the COVID-19 pandemic. Although the Regional Stay at Home Order was lifted on January 25, 2021, downtown parking operations have not experienced significant increases that would help offset lost revenues. Business closures and the cancellation of large gatherings have resulted in less traffic in the downtown area. However, as more vaccines are administered and the COVID-19 restrictions are lifted, business and visitor traffic in the downtown area may return to pre-pandemic levels as early as the second quarter of FY 2021/22. There are insufficient fund reserves to cover the projected FY 2020/21 and FY 2021/22 operating deficits; however, the American Rescue Plan Act (ARPA) includes local government relief that may help offset revenue losses resulting from the pandemic. If ARPA funding is cannot be allocated to the Public Parking Fund, the General Fund will need to subsidize the operating losses via an interfund loan until parking rates are adjusted to make the fund fiscally sustainable. The General Fund's proposed budget includes a \$1.8 million contingency for ongoing effects of the pandemic on fund subsidies.

Personnel

The FY 2021/22 budget includes 2,576.91 FTE, an increase of 27.26 FTE as compared to the FY 2020/21 budget. Refer to *Citywide Personnel* in Attachment 4 for a comprehensive listing of personnel schedules and explanation of changes from the prior year. The following summarizes net increases and decreases in total FTE at the fund and department level:

- **General Fund: 14.25 decrease in FTE**
 - *Mayor (Add 0.50 FTE):* An International Affairs & Protocol Officer (0.50 FTE) has been added, funded by a department reorganization with no net increase to the department's budget. The net salary and benefit savings resulting from the department's reorganization is approximately \$40,000.

- *City Manager's Office (Delete 1.00 FTE)*: The Performance and Audit Manager (1.00 FTE) position has been deleted and the budget transferred to non-personnel to outsource this function.
- *City Clerk (Add 1.00 FTE)*: In FY 2020/21, a Deputy City Clerk (1.00 FTE) was added to the City Clerk's Office to assume clerk responsibilities of the Budget Engagement Commission and Board of Public Utilities. In FY 2021/22, the position will also assume the clerk duties of the Airport Commission funded by the Airport Fund and several other meeting bodies funded by the General Fund. The position is allocated based on the historical number of agenda items, with 12% of the costs remaining in the General Fund.
- *Human Resources (Add 1.0 FTE)*: Add Employee Relations Officer (1.00 FTE) funded by Public Utilities.
- *Community & Economic Development (Add 0.25 FTE)*: A Real Property Agent (0.25 FTE) has been added, funded by a department reorganization with no impact to the department's budget.
- *Police (Delete 1.0 FTE)*: Delete a Police Detective (1.00 FTE) that was funded by the Riverside Auto Theft Interdiction Detail (RAID) grant which the department no longer receives.
- *Fire (Transfer Out 14.00 FTE, Delete 1.00 FTE)*: Fourteen (14) firefighters were transferred from the General Fund to Measure Z to meet the Fire Department's General Fund vacancy savings target. An Inventory Control Specialist (1.00 FTE) that was approved by the City Council as a partially funded grant position has now moved to a fully funded Urban Search & Rescue (USAR) grant position. Grants are not budgeted through the annual budget process but are appropriated upon receipt of the grant award.
- **Measure Z: 38.26 Increase in FTE**
 - *Fire (Transfer In 14.00 FTE)*: Fourteen (14) firefighters were transferred from the General Fund to Measure Z to meet the Fire Department's General Fund vacancy savings target.
 - *Parks, Recreation and Community Services (Add 4.26 FTE)*: In FY 2019/20, the City Council approved the reallocation of Youth Innovation Center furniture, fixtures and equipment funding to operating costs of the Youth Innovation Center which included 4.26 FTE comprised of: Recreation Leaders (2.13 FTE) and Instructors (2.13 FTE). As a result of the pandemic and closure of the Youth Innovation Center, the unused funding allocation will be requested to be carried over to fund these positions in FY 2021/22, resulting in no fiscal impact in the FY 2021/22 proposed budget.
 - *Police (Add 20.00 FTE)*: Add twenty (20) Park and Neighborhood Specialists for the proposed Park and Neighborhood Specialist program, if approved by the City Council.
- **Grants & Restricted Programs Fund: 1.0 Increase in FTE**
 - *City Manager*: Add Principal Management Analyst (1.0 FTE) to act as citywide grants administrator; the position will be fully reimbursed by qualifying grants.

- **Electric Funds: 2.25 Increase in FTE**
 - *Administration:* Delete net 0.75 FTE as a result of a minor reorganization; refer to *Citywide Personnel* in Attachment 4 to review the multiple positions impacted.
 - *Electric:* Add net 3.00 FTE to focus on critical engineering distribution activities and to support the increased pace and number of substation equipment infrastructure replacement projects; refer to *Citywide Personnel* in Attachment 4 to review the multiple positions impacted.
- **Sewer Fund: 1.00 Increase in FTE**
 - *Public Works:* Add Environmental Compliance Inspector II (1.00 FTE) that will be 50% funded by the Sewer Fund and 50% funded by National Pollutant Discharge Elimination System (NPDES) Fund.
- **Central Garage Fund: 1.00 decrease in FTE**
 - *General Services:* Delete Building Services Manager (1.00 FTE) as a result of a reorganization.
- **Central Stores Fund: Net zero change in FTE** with oversight of Central Stores transferred from Public Utilities to Finance – Purchasing Division.
 - *Finance Department:* Increase 8.00 FTE
 - *Public Utilities-Central Stores Department:* Decrease 8.00 FTE

American Rescue Plan Act

On March 11, 2021, President Biden signed the American Rescue Plan Act (ARPA) which provided additional relief to both individuals and businesses suffering from the impact of the pandemic. The City expects to receive one-time restricted funding of approximately \$73 million from ARPA, subject to audit and validation that the funds are used for approved purposes as outlined in the ARPA and implementing guidelines issued by the United States Department of the Treasury (US Treasury). Funds may be used to offset revenue losses resulting from the pandemic as compared to FY 2018/19 actual revenues, as well as expenditures incurred as a result of the City's response to the pandemic. The guidelines stated within ARPA for local government relief are as follows:

- For costs incurred to respond to the public health emergency with respect to COVID-19 or its negative economic impacts.
- To respond to workers performing essential work during the pandemic by providing premium pay to eligible workers.
- For the provision of government services to the extent of the reduction in revenue due to COVID-19 relative to revenues collected in the most recent full fiscal year. (FY 2018/19 will be the baseline year for the City.)
- To make necessary investments in water, sewer, or broadband infrastructure.

A proposed expenditure plan for the one-time ARPA funds will be developed and considered by

the City Council separate from consideration of the proposed FY 2021/22 budget, taking into account all eligible expenditures.

Next Steps

On June 22, 2021, the City Council will hold a public hearing on the FY 2021/22 budget proposed for adoption. Following adoption of the budget, the line-item budget will be uploaded to the City's Budget Portal for public access by July 1, 2021. The development of formal budget publications will follow; when complete, those publications will be made available in hard-copy format in the City Clerk's Office and City libraries, and in electronic format at the City's Budget website (<https://riversideca.gov/finance/budget.asp>). Immediately following the conclusion of the current budget process, staff will turn their attention to transitioning the City to a Priority Based Budget methodology for the next budget cycle.

FISCAL IMPACT:

The proposed FY 2021/22 annual budget totals approximately \$1.2 billion, comprised of \$1.1 billion in operating expenses and \$115.9 million in planned capital projects.

The proposed budget incorporates the potential ongoing impacts of the pandemic on City revenues. In March 2021, the American Rescue Plan Act (ARPA) was passed by Congress and includes funding for state and local governments. ARPA funding may improve the outlook for several City funds that required either balancing measures or are projected to operate at a deficit in the proposed FY 2021/22 budget, including the General Fund, Refuse, and Public Parking funds.

The proposed FY 2021/22 budget does not include the potential fiscal impacts of two significant issues that will affect the City's FY 2021/22 budget:

1. Potential impacts of MOU negotiations which will affect all City funds with personnel budgets; and
2. The potential loss of the Electric GFT, the amount and impacts of which are yet to be determined.

These two major issues will need to be addressed during the budget year and may require mid-year adjustments to the adopted budget and the implementation of additional balancing measures in the General Fund should they materialize.

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. Budget Resolution
2. Public Notice
3. Planning Commission Draft Minutes

4. Proposed FY 2021/22 Annual Budget
5. Proposed Park and Neighborhood Specialists Program
6. Presentation - Proposed Fiscal Year 2021/22 Annual Budget
7. Presentation - Proposed Park and Neighborhood Specialists Program