



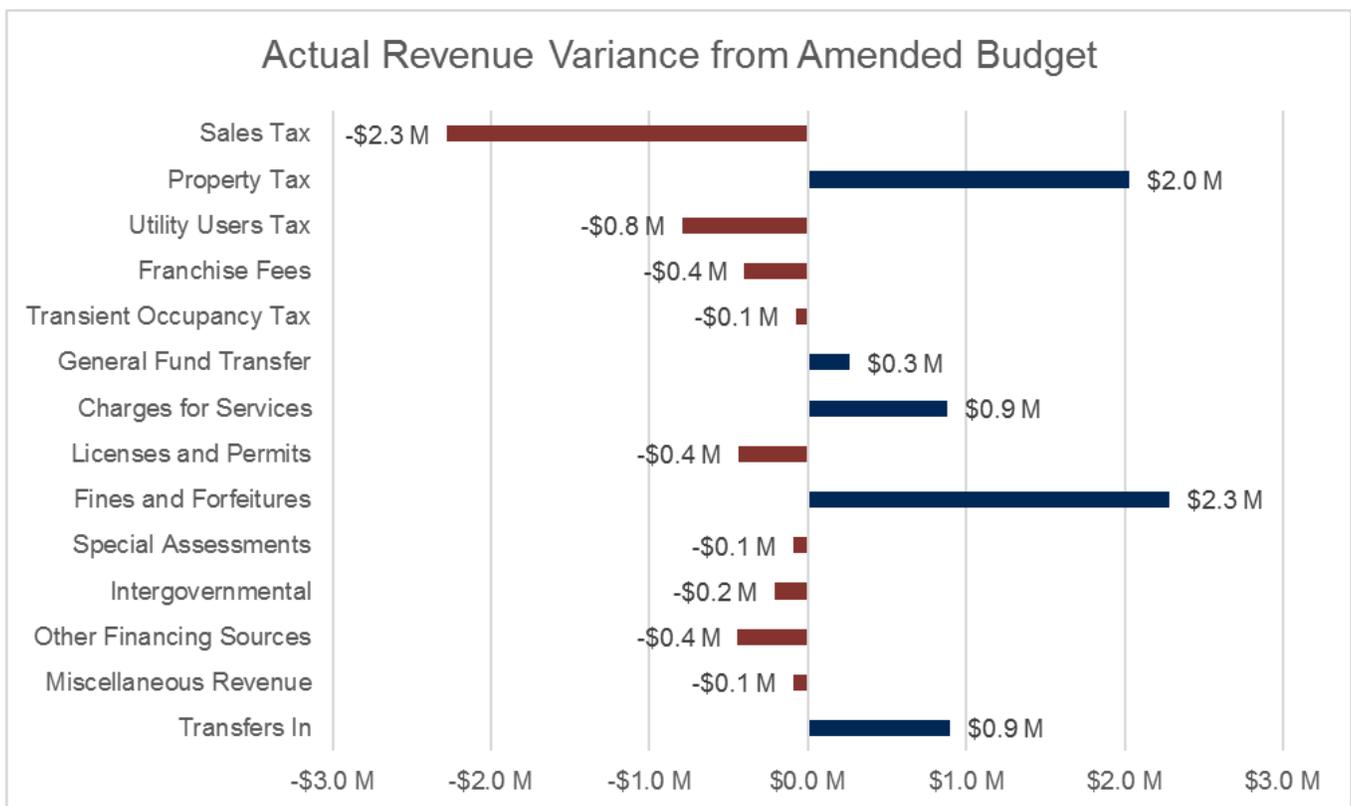
**DISCUSSION:**

**General Fund Financial Analysis**

The following financial analysis focuses on General Fund operations and excludes project and grant revenues and expenditures, intergovernmental reimbursements for Mutual Aid, and Asset Forfeiture activity. These items are not budgeted; their exclusion improves transparency into the actual operating activity of General Fund as compared to the amended budget (revenues) or total budget (expenditures).

*Revenue Analysis*

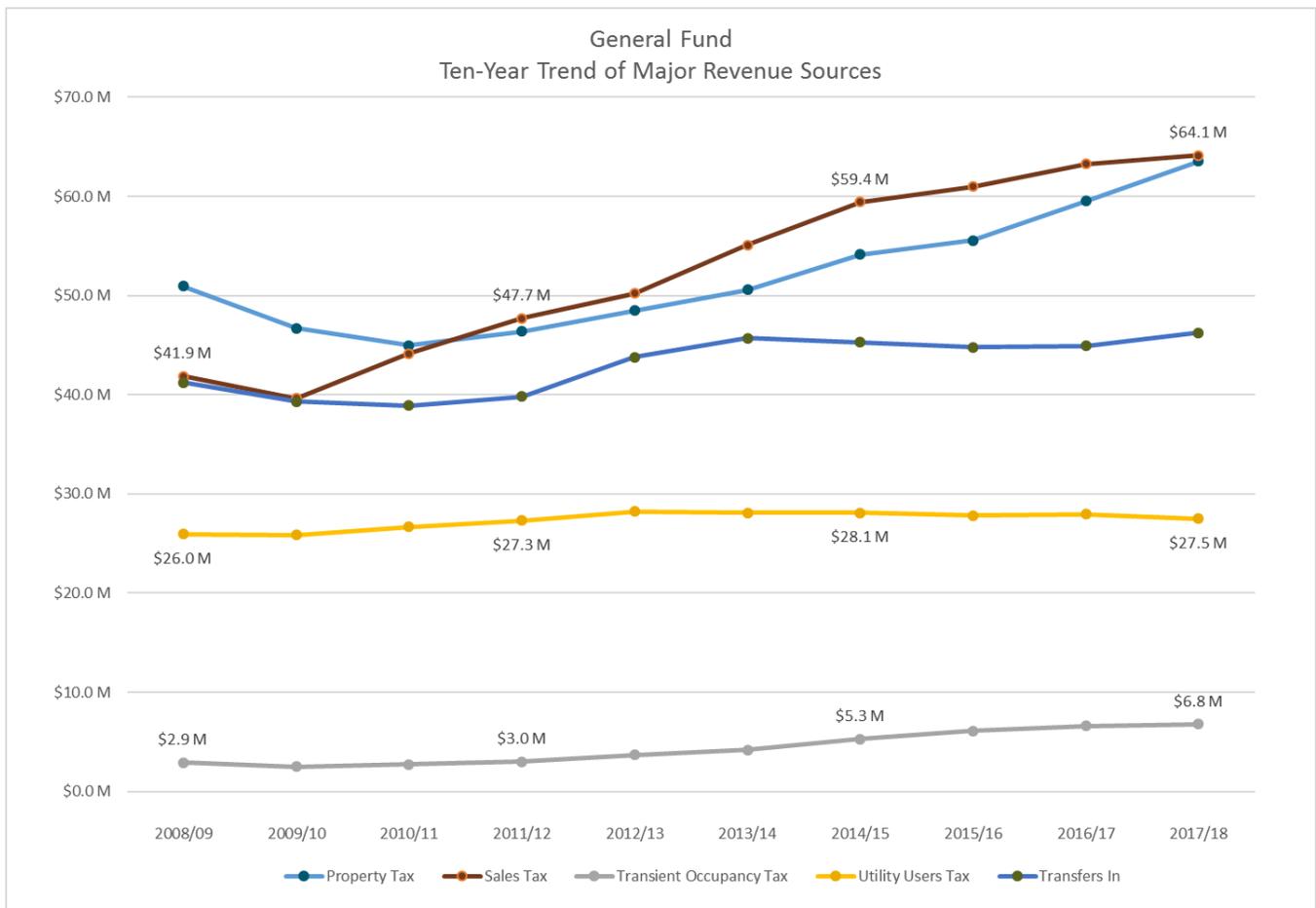
As compared to the FY 2017/18 Amended Budget adopted by City Council in June 2017, total General Fund operating revenues are \$1.5 million higher. Explanation of variances greater than \$0.5 million are explained below.



- **Sales Tax:** Although sales tax projections were downgraded in the amended FY 2017/18 budget from a 4% growth rate in FY 2016/17 to a projected 2% growth rate in FY 2017/18, actual sales revenue show a more modest 1% growth rate over the previous fiscal year in response to a slowing economy.
- **Property Tax:** The sale of Successor Agency properties and their return to the tax roll boosted Property Tax revenue by \$2.7 million; revenue from other properties are slightly lower than projected.
- **Utility Users Tax (UUT):** Revenue from AT&T is \$505,000 less than budgeted. AT&T encourages subscribers to shift to DirectTV which does not pay UUT under the City’s ordinance. UUT from Water and Electric are also slightly less than budgeted as a result of decreased consumption related to weather conditions and conservation efforts.

- Charges for Services: Revenues are higher than budgeted as a result of an increase in Safety contract services and increased activity in the building sector.
- Fines & Forfeitures: Revenues reflect an increase in current year code enforcement activity and recognition of prior year revenues of approximately \$800,000.
- Transfers In: Reflects the final repayment of Sewer obligations for sewer-related General Liability Claims initially paid for by the General Fund.

The ten-year trend of major General Fund revenue sources shows a flattening of revenues in most categories as compared to previous years. Property tax reported a 7% increase over prior year revenues for the last two consecutive years and is expected to overtake sales tax as the City’s largest revenue source. Sales tax has continued to decline, from a high of 11% growth in FY 2010/11 to a modest 1% growth in FY 2017/18.



### Expenditure Analysis

At the end of each fiscal year, it is common for a portion of the operating budget to remain unexpended due to timing issues, or as a result of intentional efforts to save money to either return to fund reserves or to strategically plan for critical unfunded needs. The fiscal year-end process includes:

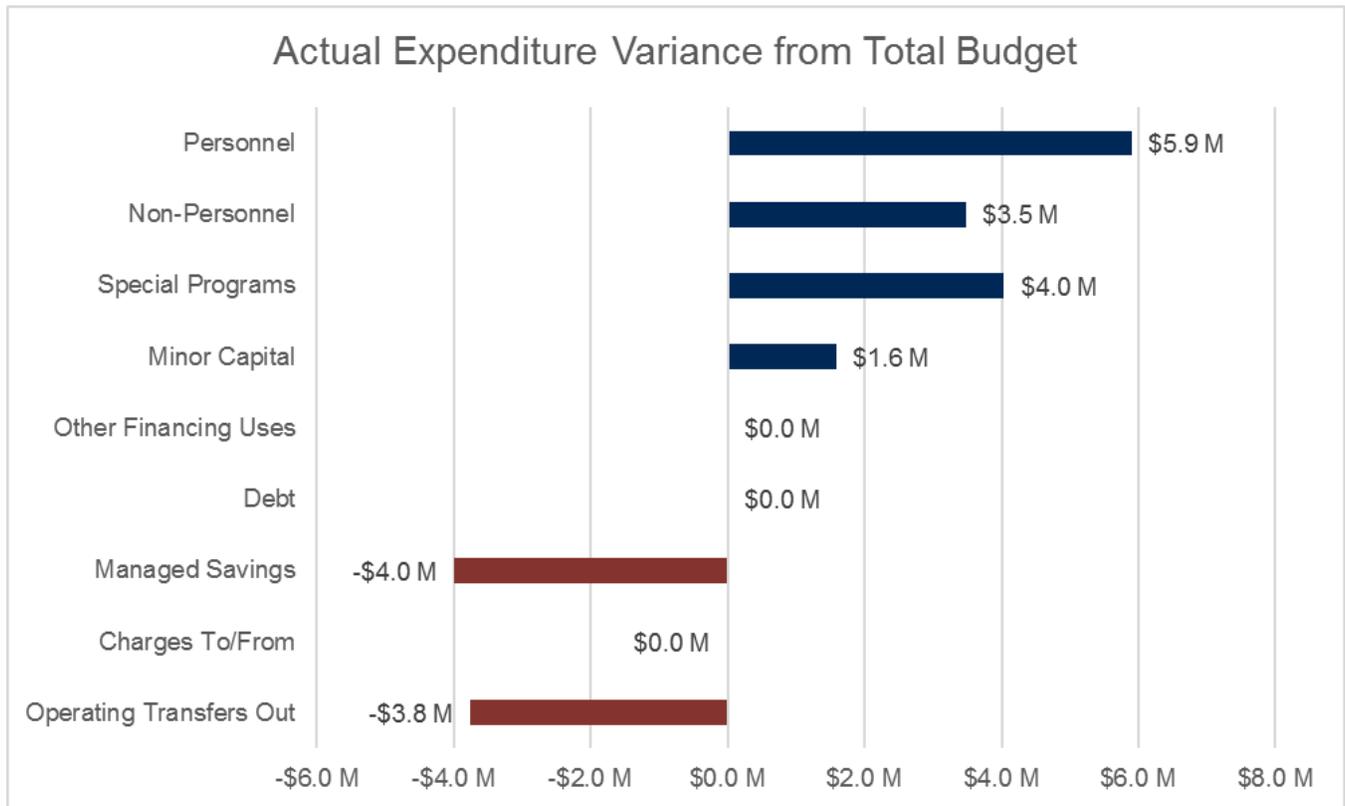
- Recalculation of General Fund Reserve requirement in compliance with the City’s General Reserve Policy, based on the new fiscal year’s budgeted expenditures.
- Calculation of Unassigned Fund Balance, represents fund balance that has not been

assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

- Amounts required to be carried over, including restricted funds, and project and grant funds.

The Unassigned Fund Balance less carryovers is considered available to be added to next year’s operating budget. Because the calculation of Unassigned Fund Balance is a product of several factors the ending fund balance will not directly correlate to departmental savings.

Carryovers require the approval of City Council and are added to the new fiscal year’s total available budget. Thus, savings of the current fiscal year may include unexpended carryovers or savings from the previous fiscal year. FY 2017/18 operating expenditure results as compared to Total Budget, including prior year carryovers, are shown in the chart below.



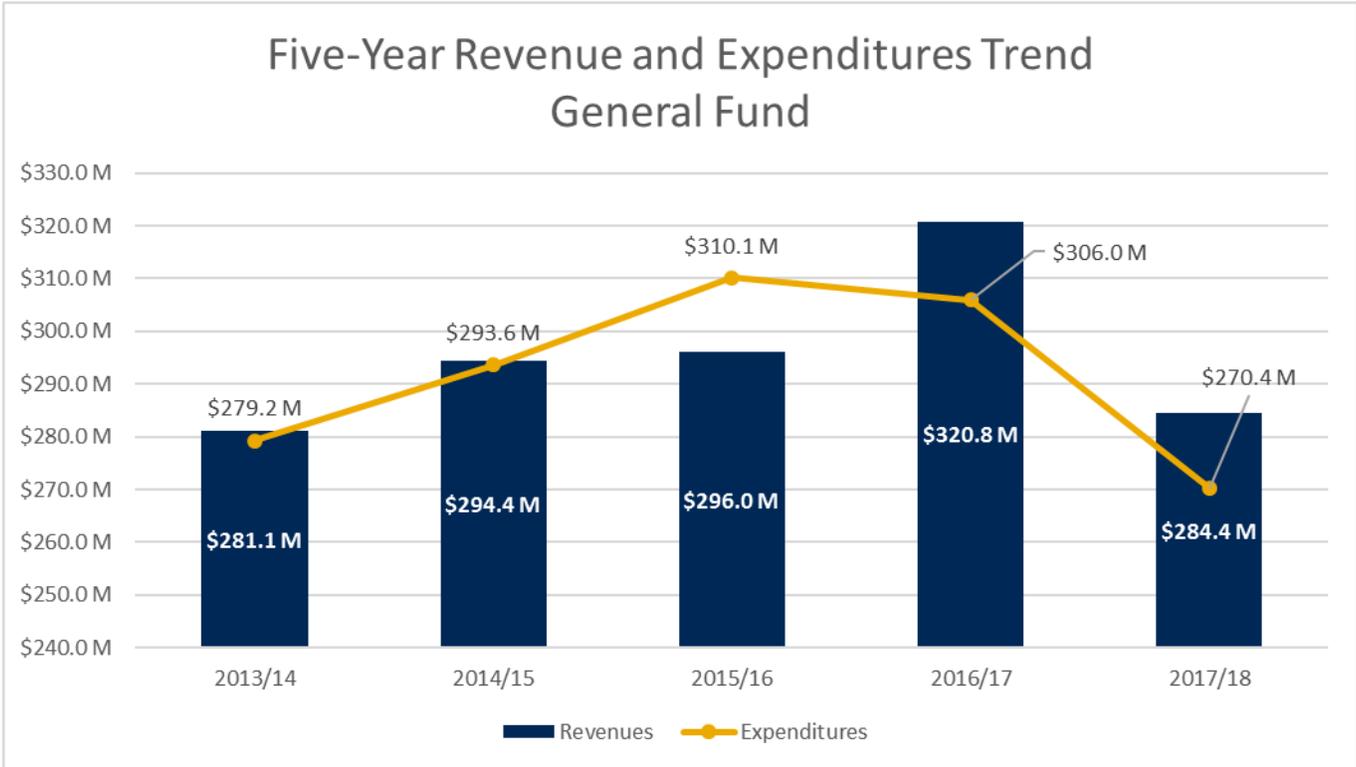
- Personnel: Significant personnel savings were recognized in several departments as a result of vacancies and cumulative savings in benefits or other personnel line items (“Other Categories”). Departments with savings in excess of \$1 million and departments that significantly exceeded their Personnel budget are listed below.
  - Finance Department: \$1 million savings (16% of department’s Personnel budget) resulting from \$719,000 salary savings due to turnover in 17 of 60 budgeted positions, and \$296,000 savings in Other Categories.
  - Police Department: \$2.5 million savings (3% of department’s Personnel budget) resulting from \$2.7 million salary savings due to turnover and recruitment periods, \$1.3 million savings in Other Categories, and \$1.5 million shortfall in leave payoffs.
  - Public Works: \$1.7 million savings (11% of department’s Personnel budget)

resulting from \$642,000 salary savings due to turnover and recruitment periods of 3-10 months, and \$1.1 million savings in Other Categories.

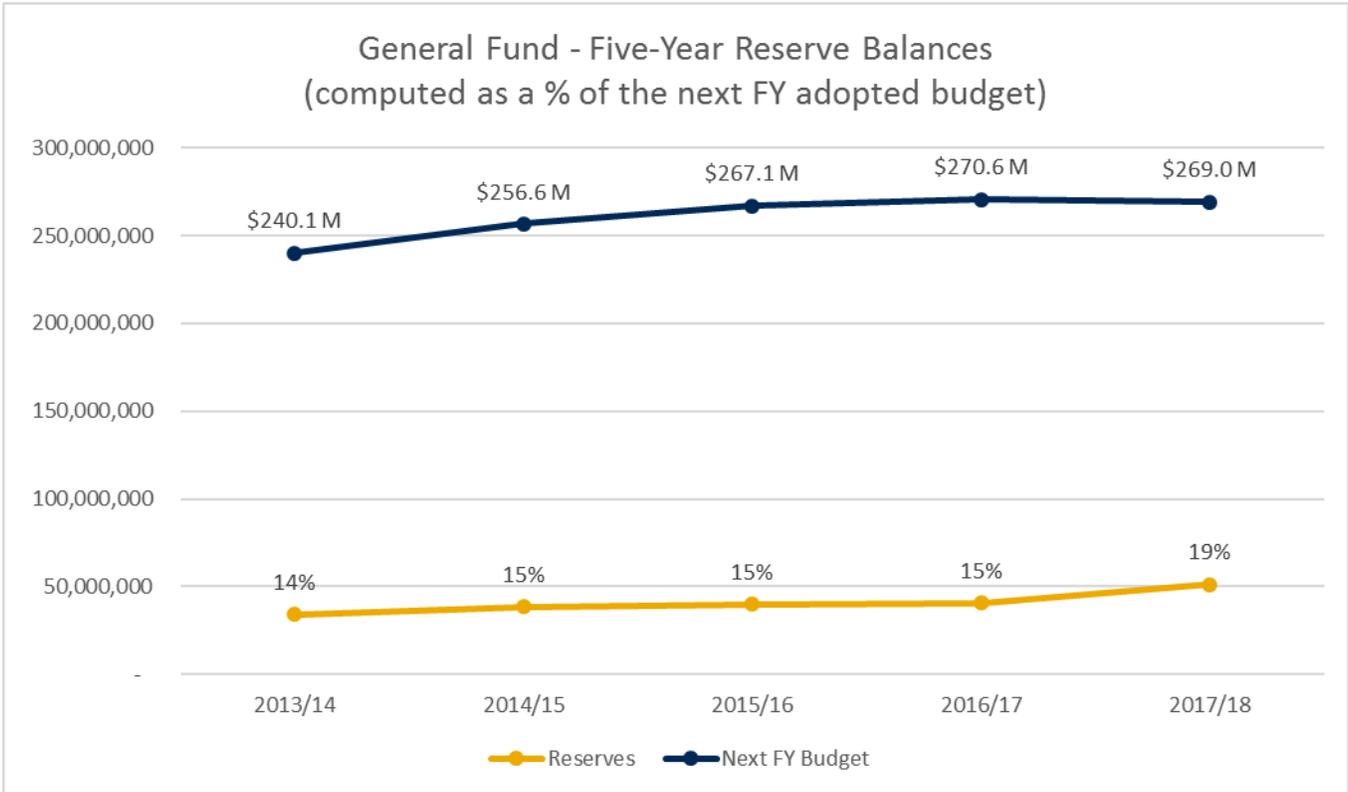
- City Manager's Office: \$676,000 shortfall due to turnover and related severance and leave payouts.
- Fire Department: \$1.8 million shortfall due to significant overtime costs related to mandated staffing levels and Mutual Aid Strike Team assignments.
- Non-Personnel: Departments will typically seek savings in this category to offset assigned Managed Savings targets. Some savings in this category are a result of timing (e.g., purchasing processes not completed prior to fiscal year end), and the unexpended funds will be requested by the department for carryover to the new fiscal year.
- Special Programs: The items in this category include Council or department initiatives, (e.g. Festival of Lights and ShopRiverside); subsidies to external parties (e.g. art organizations); and restricted funds (e.g. donations). The largest sources of savings in this category include \$590,000 in CEDD programs related to General Plan 2025 Northside neighborhood development; \$289,000 set aside for the Festival of Lights; \$777,000 in City Attorney programs to fund legal activity related to Council initiatives; and \$487,000 in Animal Control. Other than the donations or Council approved initiatives, these funds are discretionary.
- Minor Capital: Represents funding for deferred maintenance or minor capital improvements to City property and vehicles. In FY 2016/17, Council approved \$1 million carryover to fund deferred maintenance of City property; these funds were held by the department pending the completion of a comprehensive facility condition assessment.
- Managed Savings: Departments were assigned a cumulative \$4 million managed savings target; savings intended to achieve the target are recorded in other expenditure categories. As noted in the savings achieved in other expenditure categories, the managed savings target was met.
- Operating Transfers Out: The shortfall in this category is a result of the creation of new funds, including the Entertainment and Special Districts funds as well as the consolidation of the Debt Service fund. Unbudgeted fiscal year-end adjustments completed the creation of these funds, including the transfer of assets via operating transfer.

### *General Fund Reserves and Carryovers*

The following chart provides a visual representation of actual General Fund revenues and expenditures over a five-year period. FY 2016/17 shows the beginning of a concerted effort to manage costs and increase fund reserves. FY 2017/18 reflects the extraction of revenues and expenditures for the new Entertainment and Special District funds, as well as the consolidation of debt service activity to the Debt Fund. More importantly, FY 2017/18 demonstrates the City's commitment to fiscal responsibility, as we reduce costs and bolster General Fund reserves.



General Fund reserves are projected to be at 19% reserve level at June 30, 2018, which is on-track with the policy reserve target of a 20% by FY 2019/20. Following the carryover of project and grant funds and restricted funds, approximately \$7.2 million of unexpended funds are available for carryover. The City Manager’s Office will recommend \$2.7 million in carryovers to Council, including \$2 million to fund the Citywide Geographical Information System (GIS). The remaining balance of \$4.5 million will be recommended for allocation toward long-term management of the CalPERS Unfunded Accrued Liability (UAL).



The City currently has a balanced FY 2018-2020 Two-Year budget, but significant shortfalls are expected in subsequent years, largely attributable to rising CalPERS costs. City staff meets regularly to address the CalPERS Challenge and strategize long-term management of the CalPERS Unfunded Accrued Liability (UAL). More information about the ongoing efforts can be obtained at the City’s CalPERS Challenge website:  
<https://www.riversideca.gov/citymanager/calperschallenge>.

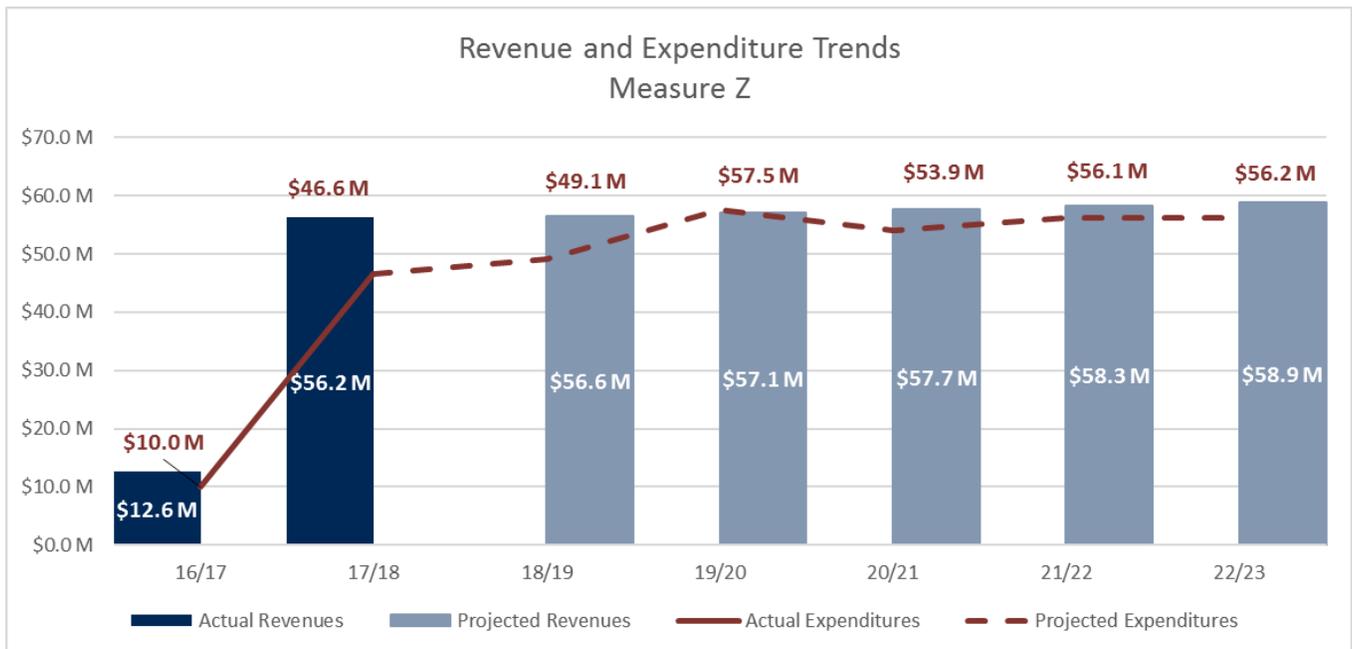
**Measure Z**

The collection of the additional one-cent sales tax authorized by voters through Measure Z began on April 1, 2017. The City began receiving these revenues in May-June 2017, with the anticipated collection of \$51.5 million in FY 2017/18. After hearing recommended Measure Z spending options from City staff and the Budget Engagement Commission (BEC), on May 16, 2017, the City Council approved the Five-Year Measure Z Spending Plan, which appropriated \$47.2 million in FY 2017-18 for 33 initiatives covering public safety, financial discipline/responsibility, critical operating needs, facility capital needs, quality of life, and technology.

Based on better than expected performance in Measure Z sales tax revenue, the revenue projection was upgraded to \$54 million in the FY 2017/18 Third Quarter Financial Report. Following fiscal year-end accounting entries, actual revenues for FY 2017/18 are projected to be \$56.2 million.

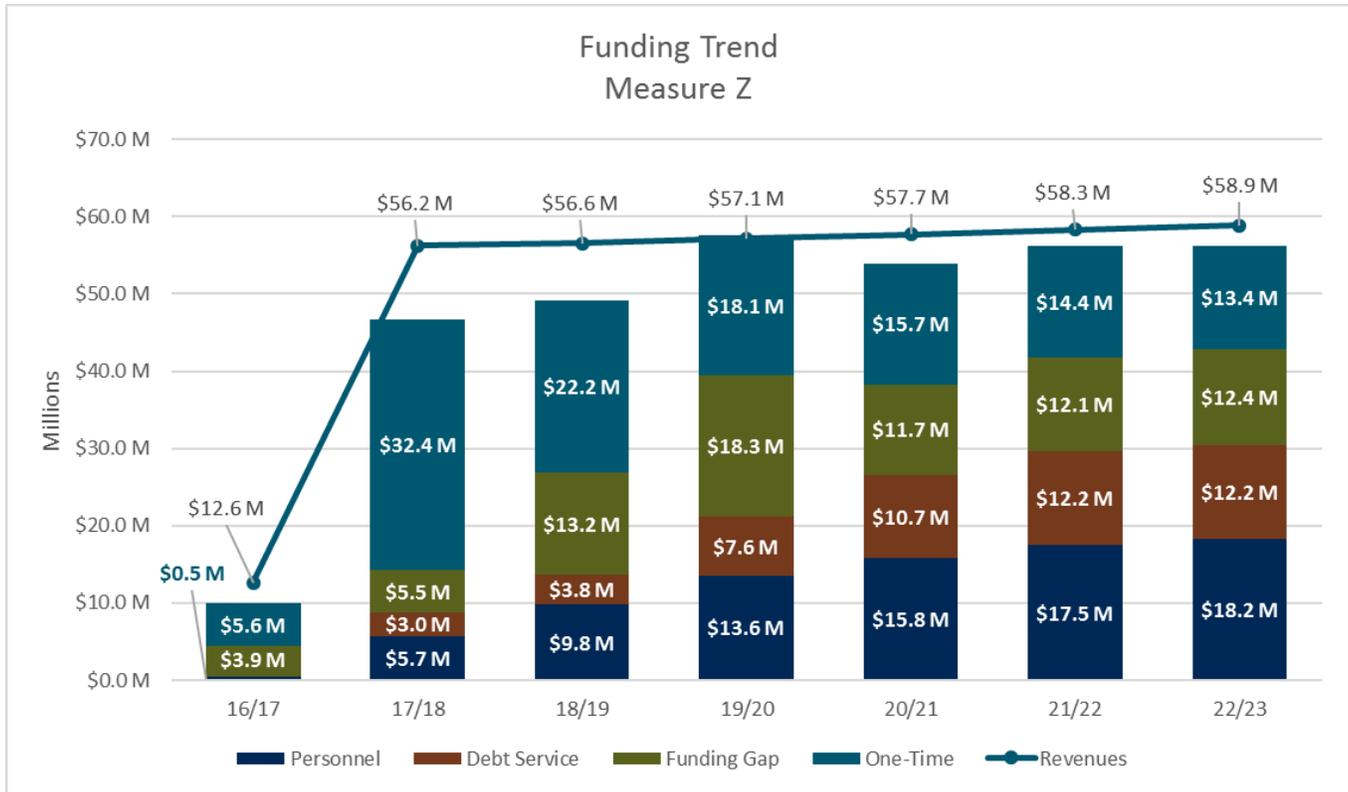
Approximately \$11.1 million in unexpended funds are projected at fiscal year-end for the 33 funded initiatives; approximately \$10.5 million will be requested for carryover. The remaining \$0.6 million is recommended for return to fund balance for allocation to future initiatives or to increase reserves.

Measure Z ending Budgetary Fund Balance is projected at \$12.2 million.



The long-term outlook of Measure Z funding indicates that increases in personnel costs for positions funded by Measure Z will outpace projected revenue growth. Revenue growth is projected with a 1% growth rate (\$0.3 to \$0.6 million per year in FY 2018-2023), but is subject to economic conditions; a slowing economy may degrade this revenue base. Increases in personnel costs are offset in future years by a decrease in funding for discretionary spending initiatives,

including contributions to the General Fund. FY 2019/20 is projected to operate in a deficit position, with a draw of approximately \$0.4 million from fund balance (Attachment 1).



**FISCAL IMPACT:**

The City is projected to end FY 2017/18 in a good financial position while remaining on-track to meet the General Fund policy reserve target of 20% in FY 2019/20. Through prudent fiscal management, fiscal year-end savings have produced sufficient funding for a critical Citywide GIS project and provided flexibility to manage other critical and unfunded needs such as the CalPERS UAL. Measure Z revenues are performing strongly and have allowed the City to fund five new initiatives with the adoption of the FY 2018-2020 Two-Year Budget. With continued attention to responsible spending and financial planning, the City leadership will leverage the City’s strong financial foundation to address the CalPERS Challenge: managing rising CalPERS costs and the City’s UAL.

Prepared by: Kristie Thomas, Budget Manager  
 Approved as to availability of funds: Edward Enriquez, Interim Chief Financial Officer/City Treasurer  
 Approved by: Lea Deesing, Assistant City Manager

- Attachments:
1. FY 2016-2023 Measure Z Spending Plan
  2. Presentation