



City of Arts & Innovation

Budget Engagement Commission

TO: HONORABLE COMMISSIONERS

DATE: FEBRUARY 23, 2017

FROM: FINANCE DEPARTMENT

WARDS: ALL

SUBJECT: MEASURE Z SPENDING PRIORITIES

ISSUES:

The issue for the Budget Engagement Commission is to receive, provide input and develop recommendations to the City Council on Measure Z spending priorities, in time for the May 9, 2016 Joint Budget Engagement Commission and City Council meeting.

RECOMMENDATIONS:

That the Budget Engagement Commission:

1. Receive and provide input on Measure Z spending priorities; and
2. Develop recommendations to the City Council on Measure Z spending priorities in time for the May 9, 2016 Joint Budget Engagement Commission and City Council meeting.

BACKGROUND:

Approved by the residents of Riverside on November 8, 2016, Measure Z is a one-percent transaction and use tax (sales tax), estimated to generate approximately \$10 million in revenues in Fiscal Year (FY) 2016-17 and \$48-\$52 million annually beginning in FY 2017-18. Measure Z will sunset in 20 years unless it is approved again in a mandatory election in November 2036.

During the FY 2016-2018 Budget Process in February-June 2016, staff presented to the community, City employees and unions, and the City Council a listing of the City's critical unfunded operational and capital needs. The operational needs alone (excluding new capital facilities) totaled more than \$225 million over five years, or approximately \$45 million per year. The most critical examples of highly critical unfunded needs are presented on Attachment 1A. In addition to these totals, the Two-Year Budget and Five-Year Capital Improvement Plan (CIP) approved by the City Council on May 17, 2016 identified more than \$1.1 billion of long-term unfunded projects (e.g. new facilities, road projects, etc.). See Attachment 1B.

In addition to the unfunded needs analysis, the City Council approved approximately \$11 million in annual General Fund reductions to balance the FY 2016-2018 Budget (Attachment 2). The reductions have impacted services to residents/business and have hampered public safety response times.

To help address the service cuts as well as a portion of the City's critical unfunded needs, at staff's recommendation, the Mayor and the City Council placed a measure on the November 8, 2016, ballot for a one-percent increase in the City's sales tax rate. The residents of Riverside approved Measure Z with almost a 60% approval. Effective April 1, 2017, the City's sales tax rate will increase from the current 7.75% to 8.75%.

On December 20, 2016, the City Council authorized Measure Z revenues and expenditures to be tracked in Fund 110, and appropriated Measure Z funding for the restoration of a Fire Squad. (The cost of the Fire Squad is \$450,000 in FY 2016-17 and \$800,000 in FY 2017-18).

On January 31, 2017, staff presented the Proposed Measure Z Spending Plan to the City Council for comment and direction. The City Council provided their commentary/direction (Attachment 5) and directed staff to work with the Budget Engagement Commission (BEC) to refine the five-year spending plan for Measure Z in time for the May 9, 2016 City Council meeting.

On February 21, 2017, the City Council will vote on appropriating Measure Z funds for one position in the City Attorney's Office (Community Prosecutor/Deputy City Attorney II) for future establishment of the Ward Action Teams. The second position in the City Manager's Office, as proposed on January 31, will require additional research. The printing of this agenda will happen prior to the February 21, 2017 City Council Meeting and staff will verbally update the BEC on the City Council's action.

DISCUSSION:

How the Sales Tax Revenue is Calculated?

Sales tax revenue is remitted to the City by the State Board of Equalization on a monthly basis. A certain percentage of the monthly funds are "held-back" based on a formula determined by the State; thus, the City receives the majority but not all revenue collected by local retailers. Every third month, the State transmits to the City an additional "true-up" payment to fully account for the held-back amounts in the preceding three monthly payments.

In Fiscal Year 2016-17, the City expects to receive from the State approximately \$10 million of Measure Z revenue. Beginning July 1, 2017, annual Measure Z revenue is expected to total over \$48 million. Staff's projections include a 1% growth rate for Measure Z revenues.

Proposed Measure Z Spending Priorities

Based on the City's fiscal needs outlined during the budget process, which ultimately led to the placement of Measure Z on the ballot, the following spending priorities were recommended for Measure Z. Attachment 3 provides preliminary details in the format of a five-year spending plan for Measure Z.

Fiscal Discipline: It is imperative for the City to continue strengthening its financial position, increasing reserves and paying off debt / liabilities.

- Maintain Healthy General Fund Reserve: Increase the General Fund Reserve to the 20% aspirational goal approved by the City Council by the end of FY 2017/18.
- Pay Off Most Risky Debt / Liabilities:

1) Over a 10-year term, pay off the \$31.1 million Pension Obligation Bond.

In 2004 and 2005, the City made a decision to issue Pension Obligation Bonds (POBs)

to prefund its unfunded retirement liability as calculated by the State CalPERS system. On June 29, 2004, \$89,540,000 of fixed-rate POBs were issued for the public safety retirement obligation, and on 6/30/2005, an additional \$60,000,000 in POBs were sold related to non-sworn employees. In plain terms, the City of Riverside had accumulated \$150 million in pension liability without setting aside funds to cover this debt. This pension liability means that the cost of public safety and other services supplied by the City of Riverside before 2004 was not fully paid for at the time the service was provided – hence, it was “unfunded”.

Half of the 2005 POBs were financed using a fixed-rate bond, and the other half was issued at a variable rate, with principal “balloon payments” in the final five years of its 20-year term. In February 2008, the variable-rate \$30 million POB that carried a balloon payment was further restructured into an annual bond, which requires remarketing every year. The current outstanding principal amount on this variable-rate annual POB is \$31,145,000. **The current annual POB instrument leaves the principal unpaid indefinitely.** Unless this debt is paid off soon, it will continue to create an unsustainable and unfair burden for future generation of taxpayers in the City.

- 2) Increase funding for claim and settlement liabilities from the current 33% level to a 50% level. The industry standard is 100% - however, the City can only afford a 50% funding at this time.

Critical Non-Safety Service Needs: These items represent critical, non-public safety related items, that are necessary to avoid reducing services to the public.

- **General Fund Shortfall:** The Proposed Measure Z Spending Plan includes funding for the General Fund’s estimated annual shortfalls. Continued revenue weakness in the City’s key revenues sources (primarily the base sales tax, property tax and utility consumption tax) leads to projected – and growing – gaps in funding necessary to pay for **existing** critical services. The projected gaps, unless addressed with Measure Z revenues, would lead to service cuts. The projections are based on the actual revenues and spending during July-December 2016, as detailed in the First Quarter Financial Report (see Attachment 4).
- **Replenishment of Contingency Funding:** The FY 2016-18 budget initially contained \$500,000 in annual contingency funding, to address critical needs during the year. The funding has been almost completely used, mainly to create a formal Budget Office.
- **Principal Analyst:** During the FY 2016-2018 Two-Year Budget, the City Manager’s Office eliminated two Principal Analyst positions. Staff recommends restoring one of these two analyst positions.

Critical Public Safety Needs:

- **Additional Sworn Officers:** The Riverside Police Department, with the current sworn staffing of 350, is 234 officers below an average of other similar West Coast cities. The Police Department believes that instead of 234, 60 additional new police officer positions should be sufficient to significantly improve public safety response and outreach in the Riverside community. Increasing the staffing level of the Department will be accomplished by first reinstating the Police Department’s FY 2016-2018 4% reductions (17 positions) in FY 2017/18, with the additional 43 employees added incrementally in the next three fiscal years.

- **Additional Civilian Positions:** The additional sworn officers will require a parallel increase in civilian positions in the form of nine new dispatchers and reinstatement of all other civilian cuts (a total of 20 additional positions).
- **Fire Personnel:** The proposed spending plan includes funding for the fire squad that was returned to service in December 2016, along with the reinstatement of two Fire Captain positions and one Battalion Chief position reduced during the FY 2016-2018 Budget process.
- **Police and Fire Vehicles:** Currently, the City does not set aside funding for repair and replacement of police and fire vehicles. The proposed spending plan includes the necessary annual amounts- i.e., \$2 million for police and \$1.6 million for fire, annually, for the first five years, later decreasing to \$400,000 for police and \$320,000 for fire.

Quality of Life Issues: The Proposed Measure Z Spending Plan includes funding for streets, tree trimming and personnel to address quality of life issues in the community. Riverside made a significant investment in its infrastructure during the Renaissance, and needs to continue building on that momentum.

- **Street Maintenance and Repair:** The proposed plan more than doubles the annual street funding set aside in the General Fund, from \$2 million annually to an average of \$4.3 million annually. Additional significant funding is available through federal and state sources. These new funds will not place all of the City's streets and sidewalks in an excellent condition – however, they should help to significantly improve the current quality of pavement in the city. Public Works staff estimates that the additional \$2.3 million in annual funding will allow paving or preserving approximately 15 additional miles per year, compared to the current annual cycle of 28 miles.
- **Tree Trimming:** \$2 million in additional tree trimming funding is recommended over the next five years, or an average of \$400,000 per year. This represents a 44% increase from the current annual funding of \$900,000. Public Works staff estimates that this additional funding would double the number of trees trimmed each year, reducing the tree trimming cycle from the current 8-9 years to six years starting in 2019.
- **Community Advocate and Prosecutor:** These two positions (one in the City Manager's Office and the other in the City Attorney's Office) are necessary to effectively support the multi-functional Ward Action Teams – which, upon City Council approval, will be deployed throughout the City to attack and resolve quality of life issues such as homelessness and vandalism.
- **Quality of Life Survey:** No funding currently exists for the biennial Quality of Life survey, to gauge the residents' satisfaction with the quality of life in the City, and identify any concerns that require corrective action.

Critical Infrastructure Needs: The Riverside Renaissance capital improvement project successfully revitalized the City. However, it has been over 10 years since that significant capital investment was made. The City has significant additional capital needs, which must be addressed. The most critical capital investment needs include:

- **New and Expanded City Facilities:** Funding from Measure Z could support issuance of approximately \$165 million in an infrastructure bond, to pay for new police headquarters, new Downtown Main Library, two new downtown parking garages, expansion of the Convention Center, and renovation, expansion and improvement of the Metropolitan Museum. Measure Z was approved by voters for a 20-year term, and the capital bond to

construct the additional facilities would be issued for the same term.

- **Facility Repair and Maintenance:** The City has many facilities that are in need of repair and improvements, including but not limited to police and fire stations, libraries and recreation centers, and government offices. Currently, very limited funding exists to properly maintain and repair these facilities. An additional \$4.2 million over the next five years will help improve the condition of many of the City’s facilities, thereby avoiding unsustainable major repair or replacement costs. This funding, however, is insufficient to address all facility repair needs, and over \$1.5 million annually will remain unfunded.
- **Ward Specific Capital Projects:** Staff proposes to provide the Mayor and each City Council ward with \$250,000 per year in funding for capital projects throughout in the City. This will allow the Mayor and each Council member to improve existing capital facilities, purchase equipment or address other critical needs existing in specific City neighborhoods. Multiple years of funding could be combined to pay for larger projects, and/or Mayor and Council members could pool their individual funding allocations for joint projects. Unspent funds will be carried over into future years.

These proposed funds are in addition to the already approved capital projects included in the City’s five-year Capital Improvement Program (CIP). The approved CIP projects are located throughout the City, in various wards. A summary of these projects are listed below by dollar amount.

Ward	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
1	5,477,300	3,082,500	3,626,000	1,265,000	1,285,000
2	2,350,000	2,950,000	-	-	-
3	9,495,556	5,003,433	3,771,900	4,000,500	36,000
4	30,000	240,000	100,000	-	-
5	13,325,000	-	-	10,000	-
6	22,000	25,000	-	-	-
7	10,000	-	-	-	-
<i>Multiple Wards</i>	<i>6,901,130</i>	<i>5,075,000</i>	<i>6,327,500</i>	<i>1,304,800</i>	<i>1,328,900</i>
<i>All Wards</i>	<i>54,838,000</i>	<i>48,393,000</i>	<i>62,124,000</i>	<i>52,185,000</i>	<i>53,547,000</i>
TOTALS	92,448,986	64,768,933	75,949,400	58,765,300	56,196,900

Technology Needs: A quick review of the national news in the past several months provides ample evidence of the need to improve technology, especially in the field of cybersecurity. The City has many needs for critical technology items, such as a new enterprise resource planning (ERP) system to effectively manage financial and personnel resources, cyber security tools, and hardware replacements (servers, storage, network, etc.). While the City’s unfunded needs in the area of technology are much more significant, staff recommends setting aside a total of \$3.75 million over five years to address the most critical technology requirements.

Additional Consideration for Measure Z Spending Priorities

At the January 31, 2017 City Council Special Meeting, the City Council provided input on staff’s proposed Measure Z Spending Plan. In addition to the City Council’s input, the Budget Engagement Commission will be asked to consider further Measure Z spending priorities. These items will include, but are not limited to, a senior human resources analyst to assist with the hiring of police department employees, hiring incentives to attract the best public safety

employees, and additional mechanics and facility improvements needed to assist with public safety vehicles. These items are included in Attachment 5 for your review.

What Remains Unfunded

During presentation of critical unfunded needs in early 2016, and subsequent conversations regarding Measure Z, staff has repeatedly pointed out that the \$50 million annual Measure Z revenue would be insufficient to address all of the City's critical needs. The Measure Z proposed spending priorities discussed above reflect staff's recommendations on the needs that must be addressed immediately, i.e. in the first five years. However, this leaves a number of other critical needs unaddressed. These are summarized in Attachment 3, and include the following:

- FY 2016-18 Budget Cuts: Approximately \$11 million in annual budget reductions were made during the FY 2016-18 budget. Currently no funds remain to restore other budget reductions, such as Community Livability Programs totaling \$900,000, City Manager's Office staffing of \$200,000, Innovation and Technology staffing of \$320,000, Code Enforcement Abatement of \$160,000 and Community and Economic Development professional services of \$200,000.
- Volunteer and Intern Coordinator: The City requires a designated professional to effectively engage in City government the next generation of employees through internships, and City residents and businesses through volunteer opportunities. Unfortunately, funds are currently not available for this critical position.
- Excess Vacation Liability: The City has traditionally allowed employees to accrue vacation in excess of annual maximum amounts. On a going forward basis, this issue will need to be resolved in collaboration with employees and employee unions. However, even with a prospective solution in place, the City currently owes approximately \$1 million to its employees for earned but unused vacation. The City has never set aside funds to address this ongoing liability.
- Additional Needed Facility Repair and Maintenance: As discussed above, additional \$1.5 million-\$2.0 million is needed annually to fully address all of the City's current facility repair needs – which traditionally have been grossly underfunded.
- Additional Needed Street and Tree Maintenance: The funding recommended above will make significant improvements in street and tree maintenance. However, additional funding is required to fully address the City's needs in these categories.
- Additional Critical Technology Investments: Similar to streets, trees and facilities, additional funds are needed for critical technology investments.

Timeline:

The timeline below reflects various related meetings and actions, by the City Council and the BEC, for planning purposes. As needed, the BEC may schedule additional meetings to discuss Measure Z spending priorities.

- February 14, 2017 - City Council Meeting: Appointment of BEC members by the City Council.
- February 23, 2017 – BEC Meeting: Introduction, Rules of Order and Measure Z planning. Discuss agendas for future meetings (Attachment 3 and Attachment 5).
- March 9, 2017 – BEC Meeting: Measure Z five-year spending plan, with a focus on Public

Safety and Capital Investment (Attachment 3 and Attachment 5).

- April 6, 2017 – BEC Meeting: Second Quarter financial report (FY 16/17) and Measure Z, with focus on Quality of Life, Fiscal Discipline, Operating Needs, and Technology (Attachment 3 and Attachment 5).
- April 11, 2017 – City Council Meeting: Second Quarter financial report (FY 16/17).
- May 4, 2017 – BEC Meeting: Riverside 2.0 Goals, Performance Measures and Measure Z.
- **May 9, 2017 – Joint City Council and BEC Meeting: Measure Z Recommendations.**
- June 8, 2017 – BEC Meeting: Third Quarter financial report (FY 16/17) and FY 17/18 Mid-Cycle proposed adjustments.
- **June 13, 2017 – City Council Meeting: Third Quarter financial report (FY 16/17) and FY 17/18 Mid-Cycle proposed adjustments.**

Sunshine Ordinance:

On October 6, 2015, in order to provide the public with adequate time to review information, the City Council adopted Ordinance 7301, which expanded the notice requirements of Government Code section 54950, et seq. providing for a twelve-day notice requirement for regular meetings of the City Council, City Council Standing Committees, Planning Commission, Board of Public Utilities, and Community Police Review Commission. Special meeting notice extended from 24 hours to five days. On February 7, 2017, the City Council approved an ordinance adding these requirements to the Budget Engagement Commission.

City staff is dedicated to providing the BEC with as much information as possible to fulfill the Commission's requests within the twelve-day public noticing requirement as required by the Sunshine Ordinance.

FISCAL IMPACT:

There is no fiscal impact associated with the preliminary discussion on Measure Z spending priorities.

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Attachments:

- 1A Critical Unfunded Needs
- 1B Capital Improvement Plan – Unfunded Projects
- 2 FY 2016-2018 General Fund Reductions
- 3 Proposed Measure Z Spending Priorities (five years)
- 4 FY 2016/17 First Quarter Financial Report
- 5 January 31, 2017 – City Council Direction
- 6 Presentation