



# City Council Memorandum

*City of Arts & Innovation*

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**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: DECEMBER 12, 2017**

**FROM: FINANCE DEPARTMENT      WARDS: ALL**

**SUBJECT: FISCAL YEAR 2017-18 FIRST QUARTER FINANCIAL REPORT, ANALYSIS OF MEASURE Z, CASH AND INVESTMENT REPORTS, AND DEBT REPORT**

**ISSUES:**

Receive and provide input on the fiscal year 2017-18 First Quarter Financial Report for the General Fund, analysis of Measure Z, cash and investment reports, and debt report for all funds.

**RECOMMENDATIONS:**

That the City Council receive and provide input on the attached fiscal year 2017-18 First Quarter Financial Report for the General Fund, analysis of Measure Z, cash and investment reports, and debt report for all funds.

**BACKGROUND:**

In December 2015, the City Council approved the move to a two-year budget in the context of a five-year plan. The fiscal year (FY) 2016-2018 Two-Year Budget was adopted by the City Council on June 21, 2016.

On June 20, 2017, the City Council adopted the FY 2017-18 Mid-Cycle Update, which took assumptions from the FY 2016-17 Third Quarter Financial Update and combined them with proposed budgetary, staffing and capital changes. As the City is on a biennial budget, Mid-Cycle budget adjustments to the second fiscal year were intentionally minimal and cost-neutral, and mainly included the necessary funding for restructuring and strategic staffing changes in a few departments.

Based on first quarter projections, the \$20.5 million contribution from Measure Z to the General Fund, previously approved by the City Council, will result in an increase to the General Fund Reserve of \$17.5 million. The difference of \$3 million represents the General Fund operational shortfall that is funded through the Measure Z Five-Year Spending Plan. Staff originally projected a General Fund operational shortfall of \$5.5 million in FY 2017-18; however, management action and fiscal discipline measures enacted at the close of FY 2016-17 and carried through FY 2017-18 have reduced this total by approximately \$2.5 million. Staff projects the FY 2017-18 General Fund Reserve to be approximately \$59 million or 23.2% of budgeted

General Fund operational expenditures.

## **DISCUSSION:**

### **General Fund Financial Analysis**

This First Quarter Financial Report for FY 2017-18 provides an update on the revenues and expenditures based on actuals from July 1, 2017 through September 30, 2017 (Attachment A). **The FY 2017-18 First Quarter analysis projects the City to be in a surplus position by year-end of approximately \$2.3 million.** The surplus of \$2.3 million is generally attributable to cost sharing on the 2017A pension obligation bond (POB) with Measure Z.

### **General Fund Revenues**

Compared to the Mid-Cycle FY 2017-18 projections, the First Quarter Financial Report General Fund revenues are approximately \$100,000 lower than anticipated (Attachment A-3). Differences of \$500,000 or more between the Mid-Cycle projections and first quarter are explained below.

- *Sales Tax* was approximately \$1.5 million lower than anticipated in the FY 2017-18 Mid-Cycle budget, based on slower growth experienced during FY 2016-17. Historically, sales tax revenues have been the most subjective General Fund revenue to economic conditions and the hardest to predict.
- *Property Tax* revenue was \$750,000 higher than anticipated in the FY 2017-18 Mid-Cycle budget based on Successor Agency properties being sold and placed back on the County roll.
- *Franchise Fee* revenue was approximately \$600,000 lower than anticipated due to Southern California Gas Company changing its franchise fee calculation methodology due to recent litigation.
- *General Fund Transfers* are \$900,000 higher than anticipated based on a cost recovery for past due sewer expenditures borne by the General Fund and not by the Sewer Fund. For a number of years, the City's Liability Fund (and, by extension, the General Fund) were utilized to pay for claims related to sewer laterals from the sewer main to the resident's property line. Effective FY 2016/17, the Sewer Fund has begun to pay these costs, estimated at \$450,000 per year. In addition, the General Fund will recover the \$1.35 million incorrectly charged there for these claims over the past three-year period (\$450,000 per year). In FY 2017/18 and FY 2018/19, the total savings to the General Fund will be approximately \$900,000 per year.
- *Fines and Forfeits* revenue was approximately \$630,000 higher than anticipated due to Code Enforcement activities, including administrative citations, rehabilitation reimbursements, and receipt of deferred revenues.

### **General Fund Expenditures**

Compared to the FY 2017-18 Mid-Cycle budget projections, the First Quarter General Fund expenditures are approximately \$2.4 million lower (Attachment A-4). Differences of \$500,000 or more between the Mid-Cycle FY 2017-18 projection and FY 2017-18 first quarter projection are explained below.

- *Fire Department:* Due to the constant staffing requirement of 211 of the department's 242 full-time equivalent positions, the Fire Department is not expected to meet its managed savings target of \$750,000.
- *Public Works:* Public Works realized operational savings of \$640,000 in FY16/17, due to vacancies in personnel and efforts to reduce spending overall. Those savings were carried forward to FY 17/18 but are not expected to be fully expended.
- *Debt* expenditures are lower than estimates by approximately \$2 million. The decrease is associated with the Bond Anticipation Note (BAN) refinancing into a 2017A Pension Obligation Bond (POB); approximately \$2 million of debt service will be paid by Measure Z, as previously approved by Council.

## **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 2017-2018. 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 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. To date, staff anticipates both expenditures and revenues to meet projections (A-5). Attachment D includes a detailed update on the implementation status of the Measure Z initiatives.

## **General Fund Reserve**

The City's General Fund Reserve Policy, adopted by the City Council on September 6, 2016, requires maintaining the General Fund reserve at 15%. The City Council set an aspirational goal of the General Fund Reserve at 20%; this goal was recently reaffirmed through adoption of the "Responsible Spending Vision Pledge" on October 4, 2016.

With transfers from Measure Z to the General Fund to cover operational shortfalls and to build up reserves (previously approved by City Council), the General Fund reserve is projected to be \$59 million or approximately 23.2% of operational expenditures by the end of FY 2017-18 (Attachment A-2).

## *Quarterly Investment and Cash Report*

Sound investment practices are an essential component of the City's strong fiscal management. The Finance Department is responsible for managing the City's investment portfolio, focusing first on the safety of investments, and then on liquidity and an appropriate rate of return. The investment results and portfolio composition are summarized and reported to the City Council each quarter. As of September 30, 2017, the City's pooled investment portfolio's market value was \$557 million, with the market value of investments held by fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$233 million. The weighted average yield of the pooled investment portfolio is 1.25%. Through prior City Council approval, the Chief Financial Officer/Treasurer has the authority to invest/reinvest funds and to sell or exchange purchased securities, consistent with the City's adopted investment policy. This approval is a requirement of State law and is presented to City Council at the start of each fiscal year.

The Investment Report, including a listing of cash balances by fund, is included in Attachment

B. These cash balances reflect each fund's share of the City's pooled investment portfolio. Also shown are interfund loan receivables, which are treated as available cash due to the Finance Director/Treasurer's authorization to move loan receivables to other funds as needed.

All listed funds have a positive cash balance with the exception of the following funds:

1. Housing Opportunities for Persons with AIDS (\$1,321,273), which is fully offset by outstanding grant receivables.
2. Certificates of Participation Projects (\$494,052), Capital Outlay (\$2.6 million), and Transportation Uniform Mitigation Fees (\$1.85 million) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.
3. Debt Service – General Fund (\$13,051,246) which is fully offset by bond reimbursement drawdowns that were in process at the end of the quarter.
4. The Self-Insurance Liability Trust Fund has a negative cash balance of approximately \$850,194 as of September 30, 2017, and is consolidated with the positive cash balances of the Workers Compensation Insurance Trust Fund (\$15.7 million) and Unemployment Insurance Trust Fund (\$414,949) for financial reporting purposes. The City Council approved a \$2.5 million contribution to the Self-Insurance Liability Trust Fund on November 14, 2017, using General Fund balance from FY 2016-17. Further, the City Council approved a total of \$5 million from Measure Z over the next two fiscal years to improve the condition of the the Liability Insurance Trust Fund over the next five years.

### Quarterly Debt Report

The Finance Department is responsible for managing the City's debt portfolio, which includes issuing new debt and monitoring opportunities to refinance existing debt as opportunities to reduce interest costs arise. The Quarterly Debt Report (Attachment C) summarizes the composition of the City's debt portfolio, details the revenue sources utilized to pay the debt service associated with each outstanding debt, and provides detailed information regarding the total principal and interest payments due in the current fiscal year by Fund. There are no changes to the Quarterly Debt Report for this quarter.

### FY 2018-2020 Two-Year Budget and Five-Year Plan

Staff is committed to preserving services and finding additional efficiencies to ensure the City's continued financial success and achievement of its Riverside 2.1 strategic initiatives. While the City has made great financial strides in FY 2016-17 and through the first quarter of FY 2017-18, a changing economy and increasing CalPERS costs will pose challenges in future years.

The City Manager's Office and Finance Department have already begun preparation of the FY 2018-2020 Two-Year Budget and FY 2018-2023 Five-Year Plan. Staff will present the baseline FY 2018-2023 Five-Year Plan to the City Council on January 16, 2018. This presentation will be followed by several public meets with the BEC (January 24, 30, and 31), and Ward specific community budget workshops in late January through February 2018. Staff is currently working with the Marketing Division to develop a webpage for the FY 2018-2020 Two-Year Budget process to provide information and encourage participation from the public.

**FISCAL IMPACT:**

The City of Riverside continues to make tremendous fiscal progress. The new financial foundation for the City has resulted in estimated FY 2017-18 financial results that leave the City with a General Fund Reserve of \$59 million (23.2%). Further, Measure Z revenue and expenditure projections are on target with the Five-Year Spending Plan adopted by the City Council in May 2017. The projections and initiatives funded through Measure Z are making an impact on the safety and quality of life for the Riverside community.

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availability of funds: Adam Raymond, Chief Financial Officer/Treasurer  
Approved by: Marianna Marysheva, Assistant City Manager  
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

- A. FY 2017-18 First Quarter General Fund and Measure Z Financial Report
- B. FY 2017-18 First Quarter Cash and Investment Report
- C. FY 2017-18 First Quarter Debt Report
- D. Riverside 2.1 Strategic Plan – Measure Z Update
- E. Presentation