

Attachment 1: General Fund Revenue and Expenditures Detail Analysis

REVENUE

Of the City's General Fund revenues, Sales and Use Tax, Property Tax, Utility Users Tax, Transient Occupancy Tax, and the General Fund Transfer comprise nearly 80% of all General Fund revenues. During the development of the FY 2018-2020 Budget, signs of a slowing economy led to the assumption that these major revenue sources were expected to continue the 1% decline in growth rate seen in FY 2017/18 as compared to FY 2016/17. The Adopted Budget projected a 2% growth in FY 2018/19 and 1% growth in FY 2019/20. In comparison, the General Fund's major revenues are estimated to end FY 2018/19 with a 5% growth over FY 2017/18.

The following table provides a five-year historical view of the actual revenues generated by each of these sources by year.

GENERAL FUND MAJOR REVENUES FIVE-YEAR HISTORY (in millions)							
Fiscal Year	Property Tax	Sales Tax	Transient Occupancy Tax	Utility Users Tax	General Fund Transfer	Total	Growth over Prior Year
FY 2014/15	\$54.2 M	\$59.4 M	\$5.3 M	\$28.1 M	\$45.3 M	\$192.2 M	5%
FY 2015/16	55.5 M	61.0 M	6.1 M	27.8 M	44.8 M	195.2 M	2%
FY 2016/17	59.5 M	63.3 M	6.6 M	28.0 M	44.9 M	202.3 M	4%
FY 2017/18	63.5 M	64.1 M	6.8 M	27.5 M	46.2 M	208.2 M	3%
FY 2018/19	69.3 M	68.4 M	7.2 M	28.0 M	46.5 M	219.3 M	5%

In FY 2018/19, Sales Tax posted a 7% growth rate over FY 2017/18, as compared to a 1% growth rate in FY 2017/18 over the prior year. A change in sales tax reporting at the State level resulted in FY 2017/18 revenues being delayed and reported in FY 2018/19. However, the two-year increase (FY 2016-2018) constitutes an average 4% annual growth since FY 2016/17, which is 3% higher than the projected annual increase in sales tax at the time of budget adoption. When smoothing out the Sales Tax effect, the General Fund's major revenue sources still present a strong 4% growth rate over FY 2017/18.

In June 2019, the City Council approved amendments to the FY 2019/20 Adopted Budget based on analysis performed as of December 31, 2018. Due to the uncertainty in Sales Tax trends and consultant projections of a decline in FY 2019/20, the Sales Tax revenue estimate was not adjusted. The \$2 million net adjustment to other FY 2019/20 major revenue sources resulted in a 0% increase over FY 2018/19 actuals; further adjustments based on FY 2018/19 actual results may be recommended in the FY 2019/20 quarterly financial reports.

FY 2019/20 BUDGET ADJUSTMENTS TO MAJOR REVENUE SOURCES		
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Revenue Category	% Adjustment	Basis for Adjustment
Property Tax	3.9%	Based on strong trends in RPTTF receipts through the second quarter of FY 2018/19.
Transient Occupancy Tax	-6.1%	Based on known hotel renovations and building timeline of new hotels.
General Fund Transfer	-0.7%	Based on audited FY 2017/18 revenues.

Staff is currently preparing revenue and expenditure estimates for the FY 2020-2022 Two-Year Budget. These estimates will consider new trends in revenues through FY 2018/19, as well as trends to date in FY 2019/20. Based on the strong growth of FY 2018/19 major revenue sources, preliminary analysis indicates a modest improvement in projected revenues for future fiscal years as compared to revenue estimates presented in June 2019 update of the General Fund Five-Year Plan.

GENERAL FUND REVENUES					
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Revenue Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Property Tax	\$65,279,094	\$67,448,094	\$69,343,002	\$1,894,908	2.8%
Sales Tax	65,504,489	67,004,489	68,359,219	1,354,730	2.0%
General Fund Transfer	47,289,000	46,470,000	46,470,700	700	0.0%
Utility Users Tax	28,088,440	28,088,440	28,009,294	(79,146)	-0.3%
Charges for Services	17,395,143	16,530,256	16,290,662	(239,594)	-1.4%
Measure Z	13,238,623	13,238,623	13,238,623	(0)	0.0%
Licenses and Permits	10,188,247	10,188,247	10,357,495	169,248	1.7%
Transient Occupancy	7,300,447	6,950,447	7,163,420	212,973	3.1%
Use of Money/Property	5,732,349	5,498,937	6,166,439	667,503	12.1%
Franchise Fees	4,726,826	4,726,826	5,256,478	529,652	11.2%
Intergovernmental	1,856,184	3,701,359	3,465,870	(235,489)	-6.4%
Fines and Forfeitures	1,808,500	1,208,500	2,077,376	868,876	71.9%
Other Transfers In	900,000	1,209,092	1,833,406	624,314	51.6%
Special Assessments	504,727	504,727	535,490	30,763	6.1%
Other Financing Sources	68,040	68,040	101,060	33,020	48.5%
Total Revenues	\$269,880,109	\$272,836,077	\$278,668,535	\$5,832,458	2.1%

FY 2018/19 ended with a 2.1% increase (\$5.8 million) in total General Fund revenues.

- Property Tax: Property Tax excluding the RPTTF grew 5.8% over the prior year in response to a healthy housing market; actual revenues are \$831,000 higher than projected. The RPTTF is \$2.5 million (38.9%) higher than prior year, consistent with the growth rates of the previous two years. RPTTF revenues are \$1.1 million higher than projected.

RPTTF revenues are comprised of:

- ▶ Tax increment – The amount of property tax generated from the current assessed value of the property as compared to the valuation when the property was under the Redevelopment Agency (RDA).
- ▶ City ROPS (Required Obligation Payment Schedule) – As the obligations of the City’s Successor Agency to the RDA are paid down, revenues that were previously needed to pay these obligations are released to the County pool and redistributed resulting in larger distributions of residual tax increment.

- Sales Tax: Sales tax projections were upgraded 2.3% during the fiscal year in response to strong revenue performance through the second quarter. By fiscal year end, actual sales revenue returned a more robust 7% growth rate over the previous fiscal year. Part of the unanticipated growth is attributable to “catch-up” payments resulting from the State’s prior year change in the reporting system, although the total impact of this issue is not readily identifiable.
- Franchise Fees: Franchise fees were projected to remain relatively flat based on historical trends and a decline in AT&T Cable; actual revenues are up 5.7% over the prior year, with an 8.2% increase in other Cable TV and refuse collections offsetting an 11% decrease in AT&T Cable.
- Fines & Forfeitures: Customary revenue reductions related to citations and neglected property abatement were not recorded this year due to a lack of information available from the County. The County upgraded a financial system and have been unable to provide adequate reporting. The write-offs may be deferred to FY 2019/20, reducing next year’s revenues by as much as \$500,000.
- Use of Money/Property: Interest revenue came in higher than projected due to rebalancing of the investment portfolio. This category also includes a \$427,000 accounting adjustment of investments to market value; this type of adjustment is not budgeted because the revenue is not realized until investments are sold.
- Operating Transfers In: Revenues are higher in this category due to the unbudgeted transfer in of capital lease proceeds to reimburse allowable equipment expenditures.

EXPENDITURES

General Fund operating expenditures are \$9 million less than the total budget; approximately \$4.5 million of unexpended funds will be requested to be carried forward to FY 2019/20. “Adjusted Budget” includes the adopted budget, prior year carryovers and encumbrances, budget transfers, and Council-approved supplemental appropriations. Supplemental appropriations approved during FY 2018/19 had no net effect to the General Fund; all supplemental appropriations were fully offset by increased revenues or transfers (Attachment 1). “Unaudited Actuals” includes encumbrances (open purchase orders).

GENERAL FUND EXPENDITURES					
Expenditure Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Personnel	\$217,743,582	\$218,798,756	\$216,641,695	(\$2,157,061)	-1.0%
Non-Personnel	49,472,435	54,441,304	51,313,267	(3,128,038)	-5.7%
Grants and Capital	1,402,000	3,713,884	1,859,144	(1,854,740)	-49.9%
Special Programs	6,878,627	8,827,476	7,261,073	(1,566,403)	-17.7%
Capital Purchases	231,042	2,945,094	2,495,929	(449,165)	-15.3%
Capital Constr & Improv	173,358	286,305	272,859	(13,446)	-4.7%
Charges to/from Others	(17,059,830)	(18,932,254)	(19,213,852)	(281,597)	1.5%
Operating Transfers Out	9,992,937	13,833,509	14,324,969	491,461	3.6%
Total Expenditures	\$268,834,151	\$283,914,074	\$274,955,083	\$(8,958,990)	-3.2%

- Personnel: The adopted personnel budget represents approximately 81% of the General Fund budget. Actual personnel costs for FY 2018/19 are 79% of total General Fund spending, with a total savings of \$2.2 million.

GENERAL FUND PERSONNEL BY PERSONNEL CATEGORY					
Expenditure Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Salaries	\$128,349,520	\$128,302,157	\$122,229,742	\$(6,072,415)	-4.7%
Overtime	13,284,304	14,386,841	15,516,545	1,129,704	7.9%
Leave Payouts	3,643,365	3,643,365	5,511,099	1,867,734	51.3%
Insurances	22,587,995	22,587,995	20,608,155	(1,979,840)	-8.8%
Retirement	47,073,668	47,073,668	49,822,373	2,748,705	5.8%
Other	2,804,730	2,804,730	2,953,781	149,051	5.3%
Total Personnel	\$217,743,582	\$218,798,756	\$216,641,695	\$(2,157,061)	-1.0%

- Salaries savings resulted in \$6.1 million savings as a result of the City Manager’s managed hiring initiative and vacancies. All vacant non-sworn positions are subject to review and justification prior to recruitment.
- Leave payouts are a result of transition or retirements and are difficult to anticipate. Vacancy savings offset payout overages throughout the year.
- Retirement costs include a distribution of the CalPERS Unfunded Accrued Liability (UAL) across all budgeted City positions; actual UAL costs are distributed based on the Normal rate for filled positions. The General Fund had a lower vacancy ratio as compared to the position budget ratio, which caused the General Fund to be allocated higher UAL costs than budgeted.

GENERAL FUND PERSONNEL BY DEPARTMENT CATEGORY					
Expenditure Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Internal Service	\$33,331,951	\$33,312,208	\$31,217,656	\$(2,094,552)	-6.3%
Public Service	44,880,764	44,859,144	40,933,847	(3,925,298)	-8.8%
Public Safety	139,530,867	140,627,404	144,490,192	3,862,789	2.7%
Total Expenditures	\$217,743,582	\$218,798,756	\$216,641,695	\$(2,157,061)	-1.0%

- Internal Service Departments saved \$2.1 million, including \$580,000 savings in the City Manager’s Office (13.2% of department’s Personnel budget) and \$916,000 savings in the Innovation and Technology department (11.4% of department’s Personnel budget) as a result of vacancy savings and lower negotiated salaries for new hires.
- Public Service Departments saved \$3.9 million, including \$1.8 million savings in Community & Economic Development (14.3% of department’s Personnel Budget) and \$1.4 million savings in Public Works (8.6% of the department’s Personnel budget) due to vacant positions and underfills (filling journey level positions at a lower classification in the journey series).
- Public Safety exceeded budget by \$3.9 million, including a \$1.2 million shortfall in the Police Department (1.3% of the department’s Personnel budget) due to leave payouts and a \$2.7 million shortfall in the Fire Department (5.5% of the department’s Personnel budget) due to overtime costs related to mandated staffing levels and higher than anticipated CalPERS costs.
- Non-Personnel: City departments saved \$3.5 million (5.7%) of the total non-personnel budget in FY 2018/19, primarily due to an intensive review and closure of outstanding purchase orders.
- Special Programs: The items in this category include Council or department initiatives, (e.g. Festival of Lights and ShopRiverside); support to external parties (e.g. art organizations); and restricted funds (e.g. donations). Funds that are not restricted are considered discretionary, and savings will roll to fund reserves. The largest sources of unrestricted savings in this category are listed below. The CalPERS fiscal contingency will be directed to the Pension Stability Fund.

Special Program Name	Savings
Community Livability Advocacy	\$225,116
Audit Program	185,000
Fiscal Management	133,538
Fiscal Contingency - CalPERS	132,853
Riverside County Animal Control	114,028
Total	\$790,535

- Operating Transfers Out: Subsidies to the Entertainment Funds were \$399,000 higher than budgeted. Although revenues came in higher than projected, actual spending outpaced the revenue growth, requiring a higher operating subsidy.

Fund Balance and Reserves

General Fund reserves are calculated as a percentage of the following year’s adopted budget. The FY 2019/20 adopted budget, as amended and approved by City Council on June 18, 2019, is \$280,372,427.

At fiscal year ending June 20, 2018, \$4.5 million in fund reserves was designated for the Pension Stabilization Fund for investment in a Section 115 Trust. Approximately \$416,000 has been contributed directly to Pension Stabilization Fund reserves during the fiscal year, bringing that reserve balance to \$4.9 million.

GENERAL FUND BALANCE AND RESERVES	
	Year-End Projection
Beginning Fund Balance (Audited)	\$68,387,813
FY 2018/19 Activity:	
Revenues	278,668,535
Expenditures	(271,380,616)
Encumbrances	(3,574,467)
Capital Project & Grant Carryovers	(394,609)
Increase in Other Required Reserves	(595,756)
Projected Change in Fund Balance	\$2,723,087
Projected Ending Fund Balance	\$71,110,900
Fund Balance Reserves:	
Policy Reserve Requirement (15%)	\$(42,055,864)
Aspirational Reserve (5%)	(14,018,621)
Pension Stabilization Reserve	(4,915,801)
FY 2019/20 Budgeted Use of Reserves	(1,236,012)
Total Reserves	\$(62,226,298)
Available Fund Balance	\$8,884,602
Requested Carryovers:	
Discretionary	\$(3,003,563)
Restricted Funds	(1,517,335)
Total Carryovers	\$(4,520,898)
Projected Surplus Reserves	\$4,363,704

Approximately \$4.5 million of unexpended funds is requested for carryover into fiscal year 2019/20, including \$3 million in discretionary funds and \$1.5 million in restricted funds. Staff recommendations are Of the \$3 million in requested discretionary funds, approximately

- \$662,000 is requested to correct projected budgeting shortfalls due to budget system errors at the time of budget development; and

- \$2.2 million is requested to fund salary increases that were not projected at the time of budget development. General Fund revenues came in higher than projected, increasing projected salary raises tied to revenue performance known as the Partnership Compensation Model (PCM).