



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS **DATE: MARCH 12, 2020**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: FISCAL YEAR 2019/20 SECOND QUARTER FINANCIAL REPORT AND MEASURE Z UPDATE

ISSUE:

That the Budget Engagement Commission receive and provide input on the attached Fiscal Year 2019/20 Second Quarter Financial Report and Measure Z update.

RECOMMENDATION:

That the Budget Engagement Commission receive and provide input on the attached Fiscal Year 2019/20 Second Quarter Financial Report and Measure Z update.

BACKGROUND:

On June 12, 2018, the City Council adopted Resolution No. 23316 approving the Fiscal Year (FY) 2018-2020 Two-Year Budget. On June 18, 2019, the City Council adopted Resolution No. 23457 approving amendments to the Fiscal Year (FY) 2019/20 Budget. On February 13, 2020, the Budget Engagement Commission (BEC) received the 2019/20 First Quarter Financial Report and Measure Z update.

DISCUSSION:

FINANCIAL REPORT

Throughout the fiscal year, City departments and the Budget Office monitor and analyze all City funds for potential issues that require attention and mitigating action. For the second quarter report, City departments analyzed financial status for all funds and appropriations under their purview. The results of the City's major funds as well as areas of concern in other funds (if any) are reported in the quarterly financial report.

General Fund

The General Fund's FY 2018-2020 Two-Year budget is balanced over two (2) years, with a projected shortfall of \$1.2 million in FY 2019/20 funded by savings realized in FY 2018/19. As of June 30, 2019, the General Fund carries a 20% reserve balance. \$1.2 million is separately

reserved to offset the adopted FY 2019/20 shortfall.

On February 11, 2020, City Council approved the allocation of \$4.4 million in surplus General Fund reserves to the Section 115 Pension Liability Trust. With the additional \$4.4 million, a total of \$9.4 million is now invested in the Section 115 Pension Trust.

The FY 2019/20 Second Quarter analysis projects total General Fund revenues to come in as estimated. As of December 31, 2019, all General Fund departments expect to end the fiscal year within their appropriation limits. In the first quarter, the Police Department estimated an overage in overtime by approximately \$4.4 million. After further analysis, their revised estimated overage in overtime is \$655,000. This amount is expected to be absorbed by vacancy savings without impacting the department's overall ability to end the year within budget and overtime will continue to be monitored.

Supplemental appropriations recorded through the second quarter total \$161,118 and are related to donations (\$8,067), the March 3, 2020 election (\$150,000), and revenue generated from vending machines to be used on park supplies and services (\$3,051).

Measure Z

The FY 2018-2023 Measure Z Spending Plan was approved by the City Council on June 12, 2018, with the adoption of the FY 2018-2020 Two-Year Budget. Subsequent updates to the Spending Plan include the allocation of funding for the Public Safety and Engagement Team Program, security guards at City libraries, and increased allocations for street projects. As of June 30, 2019, Measure Z held \$18.8 million in unallocated fund reserves. Separately, \$5 million is held in reserves to ensure sufficient funding for ongoing costs in the event of under-performing revenues.

Measure Z's FY 2018/19 sales tax revenue outperformed expectations, coming in at approximately \$62.3 million; however, the City's sales tax consultant projects a slight decrease in revenue in FY 2019/20 as compared to FY 2018/19. Although there are signs revenue is flattening, actuals are on track to exceed the current estimate of \$59.0 million. Additionally, significant interest revenue is being generated due to the large amount of cash on hand pending the commencement of capital projects funded by Measure Z. Sales tax revenue estimates have been increased by \$2.3 million and interest earned from investments increased by \$900,000 for total projected FY 2019/20 revenues of \$62.3 million.

Measure Z expenditures are 29% of total budget at December 31, 2019, reflective of large projects that have yet to ramp up and record significant expenditures, such as technology projects, the update of the General Plan, and street projects. Two (2) new allocations of Measure Z funding were approved by Council in the second quarter:

- On December 17, 2019, the City Council approved an allocation of \$2.4 million for the purchase of additional beds at the Emergency Shelter located at 2840 Hulen Place; augmented funding for the Tenant Based Rental Assistance Program; and related operating costs (Spending Item #41).
- On December 17, 2019, the City Council approved a supplemental appropriation of \$95,953 for a Police Headquarters Siting, Facilities Optimization, and Operational Study (Spending Item #25).

Following the increase in revenue estimates and the incorporation of new spending allocations, unallocated Measure Z reserves are \$16.3 million as of December 31, 2019.

MEASURE Z SUMMARY				
Category	FY 2016/17 Actuals	FY 2017/18 Actuals	FY 2018/19 Actuals	FY 2019/20 Allocations
Revenue	\$12,606,428	\$56,222,806	\$62,692,745	\$62,300,000
Spending Allocations	9,973,447	36,134,811	61,605,561	64,820,389
Carryovers			(20,617,412)	20,617,412
Net Change in Fund Balance	2,632,981	20,087,995	21,704,596	(25,104,904)
Fund Balance Reserve	-	-	5,000,000	-
Fund Balance	\$2,632,981	\$22,720,976	\$39,425,572	\$16,287,771

Sewer Fund

The overall financial position of the Sewer Enterprise fund is good and operating in accordance with the 2016 Sewer Fund Reserve Policy objectives. Revenue and expenditures are tracking in line with the Sewer Fund financial model and five-year plan projections, at 52% and 49%, respectively. Two (2) capital projects were completed in the second quarter: the Tequesquite to Arroyo trunk line replacement and the upgrade of the Sewer’s collection system.

The Public Works Wastewater Division is in the process of completing a Wastewater Treatment and Collection Master Plan Update project, which includes a comprehensive financial and cost of service analysis and evaluation of various rate structure alternatives for consideration. This item will be presented to the Utility Services/Land Use/Energy Development Committee on April 13, 2020. The outcome of this study will inform future rate discussions.

Refuse Fund

The Refuse Fund is operating at a deficit, as projected in the FY 2018-2020 Two-Year Budget. The most recent projections predict a \$4.1 million use of fund reserves in FY 2019/20 and ending fund reserves of \$4.2 million at fiscal year ending June 30, 2020. Public Works retained a consultant to perform a comprehensive review of refuse operations to optimize services and cash flow; the results of the study were presented to City Council in January 2020.

Refuse Fund revenue and expenditures are at 50% and 40% respectively in the second quarter. Revenues at second quarter end are approximately \$1,090,743 higher than the same period last fiscal year. This increase is a direct result of a rate adjustment which went into effect on January 1, 2019. Overall, projected expenditures are tracking at 99% of total budgeted and demonstrate the Refuse Fund is on track to meet budgeted expenditure targets.

Electric Fund

The second quarter analysis of the Electric Fund shows operating revenues and expenses trending on target. Overall, Electric revenues are trending at 53% of total budget at December 31, 2019, which is slightly more than anticipated primarily due to higher interest revenue resulting from rebalancing the investment portfolio. Actual retail sales are trending with budget as expected, with a higher percentage of retail sales occurring in the summer months as projected. Weather

can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2019/20.

At December 31, 2019, Electric Fund expenditures, excluding capital projects, are trending slightly lower than 50% of the total budget, primarily due to personnel vacancies. Capital projects are progressing consistently with the Capital Improvement Program (CIP). The Electric Fund's completed capital improvements during the first six (6) months of FY 2019/20 includes projects in the Substation, Overhead, Underground and Recurring/Obligation to Serve categories which are part of the Utility 2.0 initiative. Completed projects in these categories benefit system reliability and mitigate the potential for widespread, prolonged customer outages, as well as fulfil the City's obligation to expand facilities to meet customer needs.

Water Fund

The second quarter analysis of the Water Fund shows operating revenues and expenses trending on target. Overall, Water revenues are trending at 53% of total budget at December 31, 2019, which is slightly more than anticipated primarily due to higher interest revenue resulting from rebalancing the investment portfolio. Actual retail sales are 2% lower than expected due to milder temperatures and higher than anticipated precipitation. Weather, including precipitation, can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2019/20.

At December 31, 2019, Water Fund expenditures, excluding capital projects, are trending slightly less than 50% of the total budget, primarily due to the timing of other operating expenses. Capital projects are progressing consistently with the CIP and include:

- Installation of an interconnection between Riverside and Norco to exchange potable water in emergencies.
- Installation of a new booster station and distribution pipeline to improve water pressure and fire flow, and address issues of operational deficiencies within a portion of the Downtown Neighborhood.
- Replacement of pipeline and distribution facilities which help address aging infrastructure and improve system reliability to maintain a high level of service to Water customers.
- Rehabilitation of wells and pumps to extend the life of assets, improve system reliability and maintain a high level of service to Water customers.

FISCAL IMPACT:

The City's General Fund is currently operating under an adopted FY 2018-2020 Two-Year Budget, balanced over two fiscal years. The fund reserve goal of 20% has been achieved as of June 30, 2019. Fund reserves of \$1.2 million are intact, separately of the 20% reserve, to balance the projected FY 2019/20 shortfall.

On February 11, 2019, City Council approved the allocation of \$4.4 million to the Section 115 Pension Liability Trust (Trust) bringing the Trust amount to \$9.4 million. Amounts in the Trust are legally restricted for use to pay the City's pension obligations and can be used to offset growing pressure on the General Fund in future fiscal years as needed, and as approved by City Council.

The Enterprise Funds (Electric, Water, Refuse and Sewer) are all expected to remain within their appropriation limits. Planned operational analyses for both Refuse and Sewer will incorporate

long-term financial outlooks for the respective funds.

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availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
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Attachments:

1. Quarterly Financial Report
2. Measure Z Financial Summary
3. Presentation