



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JANUARY 22, 2019

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: FISCAL YEAR 2018/19 FIRST QUARTER FINANCIAL REPORT AND MEASURE Z UPDATE, CASH AND INVESTMENT REPORTS AND DEBT REPORT

ISSUE:

That the City Council receive and provide input on the attached Fiscal Year 2018/19 First Quarter Financial Report and Measure Z Update, accompanied by the Cash and Investment reports as well as the Debt report.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on the attached Fiscal Year 2018/19 First Quarter Financial Report and Measure Z Update, Cash and Investment reports, and Debt report for all funds;
2. Approve the supplemental carryover into Fiscal Year 2018/19 the balance of previously appropriated and unspent funds approximating \$6.0 million as detailed in Attachment 2;
3. Approve interfund and interdepartmental transfers of appropriations as detailed in Attachment 3;
4. Approve supplemental appropriations as detailed in Attachment 3, recording net resources of \$204,200 in the General Fund; and net use of resources of \$204,200 in the Capital Projects Fund; and
5. Approve the transfer of grant, capital projects, and other restricted fund appropriations previously accounted for in the General Fund from the General Fund to the new Grants and Restricted Programs Fund (Fund 215) and other funds as appropriate, according to generally accepted accounting principles (GAAP); approve the appropriation of offsetting "Charges To" and "Charges From" related to the transfers; and direct staff to report transfers and additional appropriations that result from the establishment of a new Grants and Restricted Programs Fund and other restructuring efforts in applicable quarterly financial reports.

BACKGROUND:

On June 12, 2018, the City Council adopted Resolution No. 23316 approving the Fiscal Year 2018-2020 Two-Year Budget, balanced over two years. Within the General Fund, the adopted budget included a projected \$1.2 million savings in Fiscal Year (FY) 2018/19 intended to offset a projected shortfall of \$1.2 million in FY 2019/20. FY 2018/19 adopted appropriations in the General Fund total \$268.8 million.

On December 11, 2018, the City Council approved the carryforward of \$2.0 million in unexpended FY 2017/18 appropriations to FY 2018/19 to fund the Citywide Geographical Information System (GIS) project, and a set-aside of \$4.5 million for the long-term management of CalPERS costs. On the same date, Council approved an increase in General Fund reserves to 19%, approximating \$51.1 million.

On December 11, 2018, the City Council also received an updated Measure Z spending plan which reflected actual FY 2017/18 revenues recorded and new Measure Z uncommitted fund balance projections.

DISCUSSION:

FINANCIAL REPORT

City departments and the Budget Office monitor and analyze all City funds for potential issues that require attention and mitigating action. The first quarter financial analysis resulted in no recommended changes to revenue projections. City departments analyzed financial status for all funds and appropriations under their purview and reported no areas of immediate concern; as of the First Quarter, all departments expect to remain within their approved appropriation limits.

Update: Potential Fiscal Impacts Resulting from Federal or State Legislative/Judicial Actions

Legislative or judicial items are monitored for financial impacts; recent developments or open items are described below.

- **Proposition 68:** On June 5, 2018, California voters passed Proposition 68, the Parks, Environment and Water Bond. Proposition 68 authorizes \$4 billion in State-issued general obligation bonds for state and local parks, environmental protection projects, water infrastructure projects, and flood protection projects. The Parks, Recreation and Community Services Department has identified three grants the department would qualify for, and is pursuing the funding opportunities.
- **Proposition 6,** a repeal of gas and vehicle taxes levied following the passage of the Road Repair and Accountability Act (SB 1), was included on California's November 2018 ballot. The repeal of the taxes would have resulted in a loss of revenue available for City transportation projects. The proposition was rejected by California voters, and the revenue source remains intact, with no impact to planned City projects.
- **CalPERS "California Rule":** The California Supreme Court heard oral arguments on December 5th for *Cal Fire Local 2881 v. CalPERS* on airtime, interpreted by some as a right under the California Rule. "Airtime" refers to an employee's purchase of service credits to boost their retirement benefit. The California Rule is a series of state court decisions that interprets public pensions as a vested right that cannot be unfavorably changed, meaning

that any proposed reduction in pension benefits must be offset by a comparable new benefit. This interpretation precludes participating CalPERS agencies from adjusting employee pension benefits to address rising CalPERS costs, without incurring offsetting costs that would accompany the comparable new benefits. A Supreme Court ruling is expected within ninety days of the hearing.

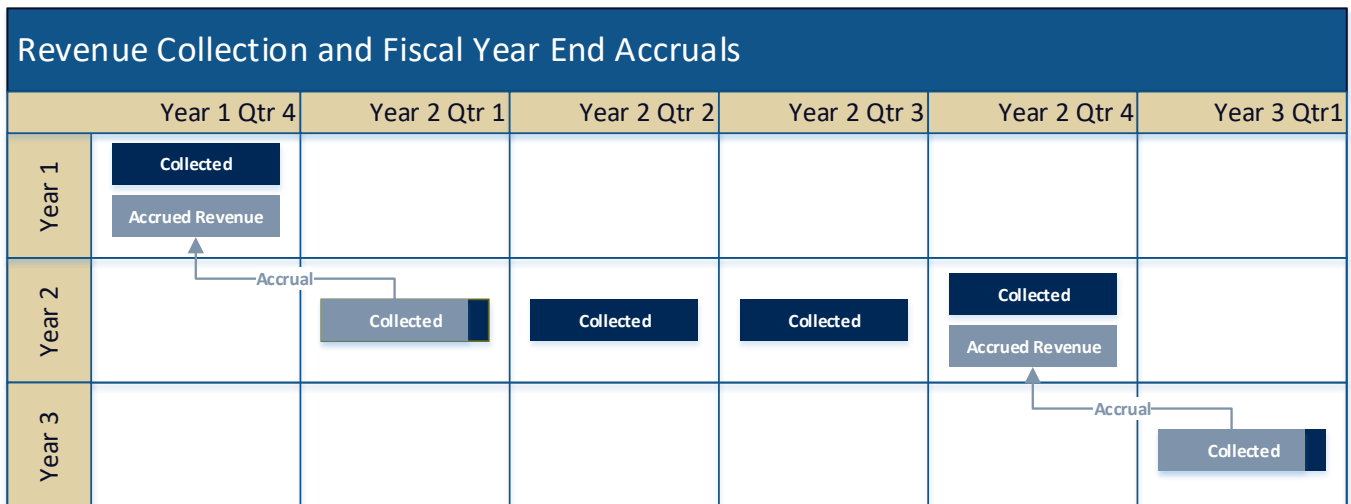
- Wayfair Ruling:** In June 2018, the United States Supreme Court ruled in *South Dakota v. Wayfair, Inc.* that a company’s physical presence in a state is not necessary to assess tax on the sale of goods. California has expressed the intent to require online and out-of-state retailers to pay sales tax, targeting early 2019 to begin collection. While other states have set tax obligation thresholds at \$100,000 in annual sales or 200 annual transactions, California has not yet provided similar guidelines. If tax collection begins in 2019, the City would likely see the impacts of new revenue collection in FY 2019/20.

General Fund

As of June 30, 2018, the General Fund carries a 19% reserve balance. The First Quarter analysis of General Fund revenue and expenditures has not resulted in any proposed adjustments to budget projections and appropriations.

Revenue Analysis

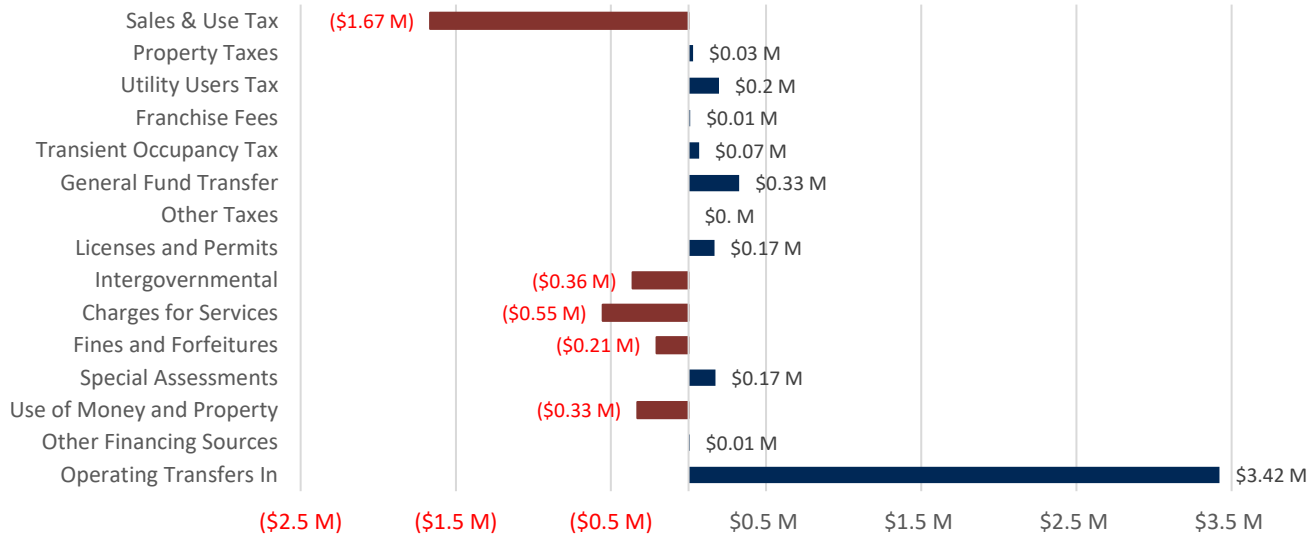
First Quarter tax and fee revenues are heavily influenced by the timing of revenue collection and reporting, and are further impacted by prior year revenue accruals. First Quarter collections often include revenues applicable to the previous fiscal year, which are then accrued back through fiscal year end processes. As demonstrated in the graphic below, in some revenue categories this leaves very little revenue in the first quarter, but revenues balance out when fourth quarter accruals are recorded. In this regard, budget to actual comparisons are of limited use, but comparisons to prior year actuals can reveal deviations in typical revenue collection trends.



At First Quarter end, General Fund operating revenues are 13.4% of total budgeted revenues, as compared to 12.5% for the same period in the prior year, and \$1.3 million higher than the amount reported for the same period in the previous fiscal year, excluding grant and project revenues.

General Fund - First Quarter

Current Year Revenues vs. Prior Year Revenues



Deviations from prior year trends greater than \$500,000 are described below.

- Sales Tax:** Sales Tax comprises 24% of total General Fund revenue projections. As of September 30, 2018, \$2.9 million of projected revenues were received, as compared to \$4.5 million in the prior year for the same period. Changes in tax reporting processes and timelines at the State level have presented significant challenges for taxpayers, and as a result, revenues are being remitted later than usual. The City’s sales tax consultant (HdL) expects to be able to provide more accurate projections in the second quarter; therefore, no revenue adjustments are proposed at this time. Overall, HdL does not expect a decline in annual sales tax revenue.
- Charges for Services:** This category reflects the impact of FY 2017/18 revenue accruals. As compared to the prior year, FY 2017/18 included settlement revenues resulting from litigation; similar activity has not occurred in the first quarter of FY 2018/19. As a whole, no concerns were identified in this revenue category in the first quarter.
- Operating Transfers In:** Transfers In are \$3.4 million higher than the same point last fiscal year, with the variation attributable to the timing in which the transfers were recorded. Generally, transfers between funds are recorded evenly throughout the year by transferring one-twelfth of the budgeted amount between funds each month. In FY 2017/18, Measure Z transfers to the General Fund as allocated in the adopted Spending Plan began the second quarter of the fiscal year.

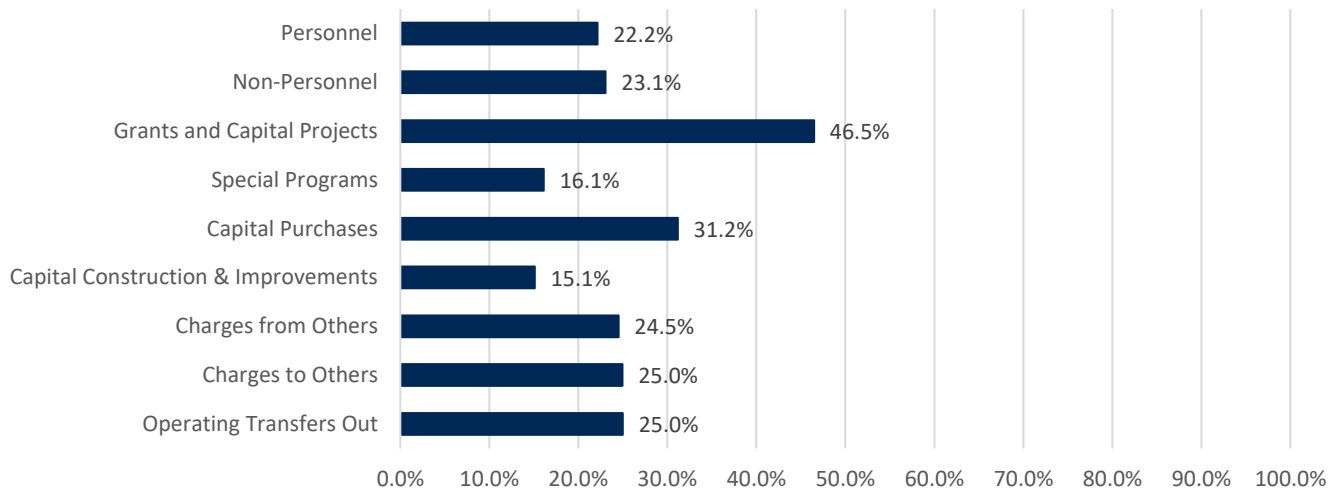
Expenditure Analysis

Each quarter, departments perform an internal analysis of budget to actuals and report areas of concern and mitigating actions to the Budget Office. The Budget Office also performs an independent analysis which focuses on anomalies or deviations from historical trends. Currently, no areas of concern have been reported or identified that require intervention.

At the end of the first quarter, spending in the General Fund is less than 25% of the total budget, excluding projects and grants. “Total Budget” includes the adopted budget, open FY 2017/18 purchase orders carried forward to FY 2018/19, and Council-approved supplemental

appropriations, if any. Carryover of unexpended FY 2017/18 funds were not recorded as of the date of First Quarter report compilation and are therefore not reflected in this analysis.

General Fund - First Quarter Expenditures Spent % of Total Budget



Spending in two categories, Grants & Capital Projects and Capital Purchases, exceed twenty-five percent of their total appropriations at first quarter end. The expenditures in these categories include development agreement payments and large purchases that are not paid evenly throughout the year. These accounts have been reviewed and no adjustments are recommended at this time, as the spending trend appears reasonable.

General Fund Restructuring

The Finance Department is currently assessing and revising current accounting practices to enhance the transparency of City finances and improve financial accountability. As part of this effort, all grants, restricted funds, and capital projects will be moved out of the General Fund into new or existing funds, including the new Grants and Restricted Programs Fund. Such transfers may require the supplemental appropriation of “Charges To” one City fund and offsetting “Charges From” another City fund; however, the Citywide net impact of these appropriations will be zero.

The accounting entries required for the restructuring will result in a reallocation of fund balance, as associated cash balances or other assets and liabilities are moved to appropriate funds. The restructuring will continue throughout the fiscal year; total impact to fund balance will be reported at the end of the fiscal year. While the calculation of the General Fund reserve percentage is not expected to change (target reserve percentage multiplied by adopted appropriations), the actual fund balance of the General Fund will likely change. At this time, the nature of the change (increase or decrease) cannot be projected.

Grants: The City receives several million dollars in operating grants each fiscal year. Currently, grants are recorded in the recipient fund, and the level of external funding for operations is not readily apparent. Required matching funds are also not readily apparent. All grant revenues and direct expenditures will be moved to a new Grants and Restricted Programs Fund (Fund 215). Matching requirements will continue to be appropriated in the fund that provides the grant match. In some cases, a “Charge To” and a reciprocal “Charge From” will be necessary to accommodate transfers between City Funds related to grant match funds or the reimbursement of indirect costs.

Restricted Funds: The City receives or collects revenues that are legally bound to be expended for a specific purpose. The revenue and associated expenditures will be moved to the Grants and Restricted Programs Fund. In some cases, a “Charge To” and a reciprocal “Charge From” will be necessary to accommodate transfers between City Funds related to the reimbursement of indirect costs.

Capital Projects: The nature of large appropriations and expenditures in the General Fund will be reviewed. Items identified as capital in nature and reportable as capital expenditures in accordance with GAAP will be moved to the appropriate capital project fund for improved tracking and financial reporting of the capital project activity.

Carryovers

On December 11, 2018, City Council approved the carryforward of FY 2017/18 unexpended appropriations for all City funds. City staff advised City Council that additional review of carryover recommendations was being performed, and that new carryforward requests would be included in the FY 2018/19 First Quarter Report. The carryover review has concluded, and additional carryovers are recommended as detailed in Attachment 2. A summary of new carryover recommendations is summarized below:

Fund		Discretionary	Non-Discretionary	Net Projects/Grants	Total
101	General Fund	\$0	\$0	\$25,000	\$25,000
510	Electric	\$66,280	\$0	\$2,939,105	\$3,005,385
520	Water	\$2,263,958 ¹	\$0	\$685,000	\$2,948,958
Total		\$2,330,238	\$0	\$3,649,105	\$5,979,343

¹ Carryover approved by City Council as a verbal addendum to the December 11, 2018, published recommendation, and affirmed in this report.

Interfund and Interdepartmental Transfers and Supplemental Appropriations

The following budget transfers and appropriations are recommended for approval. The line-item detail of the proposed adjustments is provided in Attachment 3.

Interfund and Interdepartmental Transfers

Riverside Municipal Code Sec. 1104 requires the affirmative vote of at least five City Council members to authorize the transfer of appropriations between City funds or departments, or to appropriate funds not included in the adopted budget. Certain interfund or interdepartmental transfers are required to effectuate the intent of previous actions of the City Council, the impacts of which may not be known at the time the action is taken. Other transfers are requested by departments for operational purposes. The items recommended for Council approval are summarized below; the fund and department-level details are provided in Attachment 3.

- **Adjustments to FY 2018/19 Cost Allocation Plan allocations** included in the Proposed FY 2018/19 Two-Year Budget necessary to reflect adjustments incorporated into the final FY 2018/19 Two-Year Budget adopted by the City Council on June 12, 2018. The entry affects multiple City funds and departments as listed in Attachment 3. The Citywide impact is net zero; impact to the General Fund is an increase in appropriations of \$111,308.
- **Transfer \$223,831 within the General Liability Self Insurance Fund from the Finance Department to the City Attorney’s Office:** The handling of general liability claims includes sensitive data and communications that are subject to disclosure in the event of litigation. The transfer of Claims Management employees from the Risk Management

Division of the Finance Department to the City Attorney's Office (CAO) allows internal discussions relating to claims management to fall under the umbrella of client-attorney privilege. In August 2018, Claims Management employees moved to the City Attorney's Office; this budget transfer will move the associated personnel budget from the Finance Department to the City Attorney's Office.

- **Transfer \$4,743 related to SmartRiverside administration:** Administration of the SmartRiverside program has shifted from the Innovation and Technology department (IT) to the Community & Economic Development Department (CEDD); this transfer shifts the appropriations associated with this program to CEDD.

Supplemental Appropriations

- **Return unexpended FY 2017/18 funds totaling \$204,200 to the General Fund from the Capital Projects Fund:** These unexpended funds were originally part of Museum's FY 2017/18 General Fund operating budget and were transferred in May 2018 from the General Fund to the Capital Projects Fund under the authority of the previous Chief Financial Officer; however, the funds were unexpended at the end of the fiscal year and were not recommended for carryover by the City Manager's Office. The unexpended funds are recommended to be returned to the General Fund to be allocated to the long-term management of CalPERS costs. An appropriation recording a Transfer from the Capital Project fund and Transfer to the General Fund is requested to enable the return of the unexpended funds to the General Fund.

Measure Z

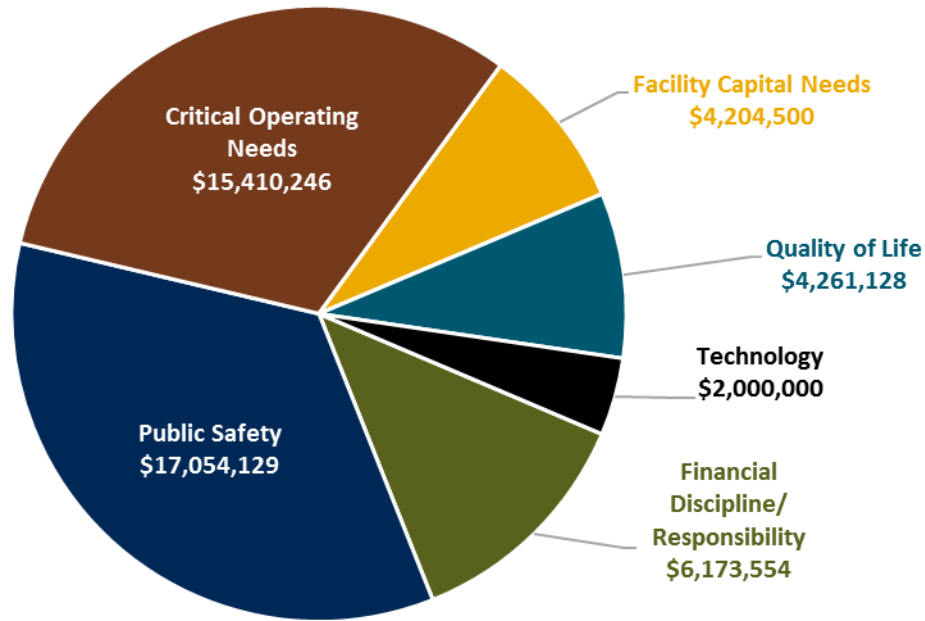
The FY 2018-2023 Measure Z Spending Plan was approved by the City Council on June 12, 2018, with the adoption of the FY 2018-2020 Two-Year Budget. The spending plan continued the tenets and spending items of the original spending plan adopted in May 2017 and added funding for Fire personnel and equipment; furnishing, fixtures and equipment for the Arlington Youth Innovation Center (AYIC); and funding for the City's recreational swimming pools.

The Spending Plan (Attachment 1) was updated in November 2018 to reflect actual FY 2017/18 tax revenues recorded, and was included in the FY 2017/18 Fourth Quarter Financial Report to Council on December 11, 2018. Although Measure Z sales tax revenue is also impacted by the reporting changes described earlier in this report, revenues are expected to perform as budgeted, at a 1% annual growth rate.

Measure Z ending fund balance is projected at \$19.7 million by the end of FY 2018/19, and is currently unallocated for specific purposes. City staff recommends preserving a prudent level of reserves in Measure Z to offset cost increases associated with positions funded by Measure Z which are projected to outpace revenue growth, and to provide a buffer for a potential economic downturn and underperforming revenues. In the near future, staff will return to City Council to discuss and seek guidance on a Measure Z reserve policy.

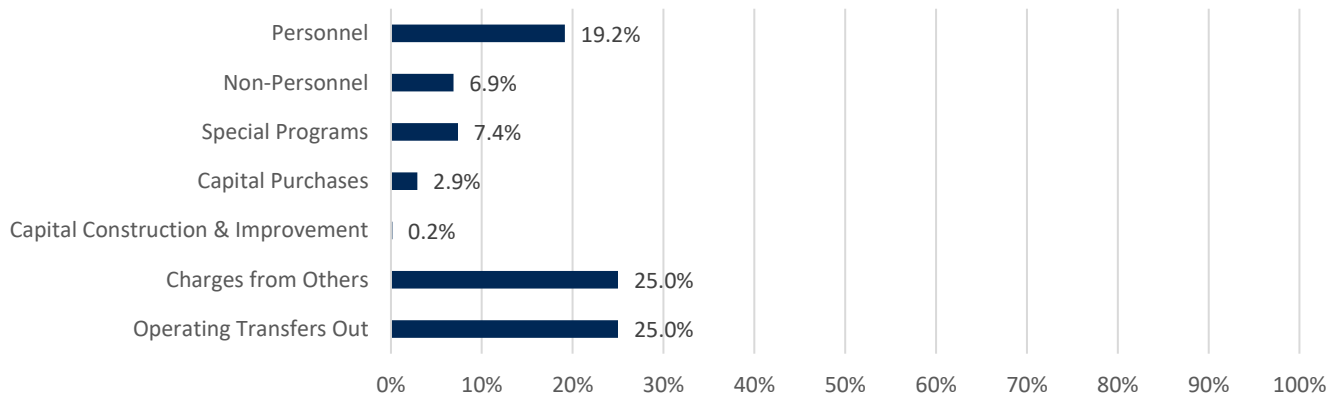
The FY 2018/19 Spending Plan includes the allocation of \$49 million of the FY 2018/19 projected \$56.6 million tax revenue, as shown in the chart on the next page. Not reflected in the chart is the \$11.5 million carryover of FY 2017/18 unexpended funds (including capital lease proceeds for Fire vehicles) approved by City Council on December 11, 2018.

Measure Z Spending Plan - FY 2018/19



Measure Z spending is inconsistent due to the nature of the items funded. Accomplishments reported in the Quarterly Performance Report published by the City Manager’s Office provide an informative picture of the use of Measure Z funds and progress of the spending items (Attachment 1). A chart of actual spending as compared to total budget is presented below.

Measure Z Funds - First Quarter Expenditures Spent % of Total Budget



Currently, the City’s financial system is not designed to correlate directly to the Measure Z spending plan in terms of segregating costs by spending item. The Finance department is reviewing the functionality of the City’s accounting system to determine whether the system can be structured to report on two separated bases: by Spending Item and as required by GAAP for purposes of the City’s Comprehensive Annual Financial Report (CAFR). If this can be accomplished, City staff can eliminate the numerous hours required to compile the data by spending item and can provide more timely and meaningful quarterly reports on Measure Z expenditures.

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, 2018, the City's pooled investment portfolio's market value was \$568 million, with the market value of investments held by fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$190 million. The weighted average yield of the pooled investment portfolio is 1.885%. 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 Cash and Investment Report, including a listing of cash balances by fund, is included in Attachment 4. 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 Chief Financial Officer/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. Civic Entertainment Fund (\$468,420), Urban Areas Security Initiative (\$415,691), Housing Opportunities for Persons with AIDS (\$489,656), and Special Districts (\$369,435) have negative cash balances which are fully offset by outstanding receivables.
2. Certificates of Participation Projects (\$289,852), Capital Outlay (\$3,103,486), and Transportation Uniform Mitigation Fees (\$1,564,790) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.
3. Debt Service Fund – General (\$25,856,253) which is fully offset by outstanding cash transfers from all funds related to their share of the Pension Obligation Bond (POBs) payments made by the Debt Service Fund (\$17 million). In addition, the Debt Service Fund is pending receipt of lease proceeds currently held with fiscal agent for the reimbursement of fire vehicle purchases (\$10 million).
4. Central Stores (\$743,089) which is fully offset by inventory assets that will be recouped when charged out for usage to various departments.

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 5) 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. As of the first quarter, the City's outstanding principal balance is expected to decrease \$126,119,913 by the end of the fiscal year if no additional debt is issued. This principal reduction includes \$41,995,000 related to the Sewer Revenue Bonds 2009 Series B Build America Bonds defeasement by the 2018 Sewer Revenue Bonds Series A. \$16,125,000 is related to the refunding of the RPFA 2007 Series A, B, C, and D Tax Allocation Bonds by the Successor Agency 2018 Series A and B Tax Allocation Refunding Bonds.

FISCAL IMPACT:

The City's General Fund is currently operating under an adopted FY 2018/19 Two-Year Budget, balanced over two fiscal years. Operating shortfalls of \$15 million to \$18 million are projected in FY 2020/21 through FY 2021/23, with the expectation that shortfalls will continue in future years if no mitigating actions are taken. Under leadership of the City Manager, the Executive Leadership Team and subject matter experts from various City departments meet regularly to:

- Strategize and identify opportunities to enhance non-tax revenues;
- Improve business processes to become more efficient;
- Identify and implement cost-saving measures;
- Strategize the long-term management of the CalPERS Unfunded Accrued Liability (UAL); and
- Discuss any and all ideas related to ensuring fiscal stability for the City of Riverside.

The Measure Z Fund is operating within the framework of the Council-approved Measure Z Spending Plan, and is fulfilling the promises made to City residents. Quarterly performance updates reported by the City Manager's Office provide residents with meaningful measures of the impact of Measure Z funding upon City services, operations, and infrastructure. It is important to note that no Measure Z funds are currently being used, nor are they planned to be used, for the long-term management of the CalPERS UAL.

Prepared by: Kristie Thomas, Budget and Revenue Manager
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Lea Deesing, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Measure Z Spending Plan and Quarterly Performance
2. Carryover Requests
3. Budget Transfers and Adjustments
4. Cash and Investment Report
5. Debt Report
6. Presentation