



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: DECEMBER 11, 2018

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: FISCAL YEAR 2017/18 FOURTH QUARTER FINANCIAL REPORT AND CARRYOVER REQUESTS, CASH AND INVESTMENT REPORTS, AND DEBT REPORT

ISSUE:

That the City Council receive and provide input on the attached Fiscal Year 2017/18 Fourth Quarter Financial Report, Carryover Requests, Cash and Investment reports, and Debt report.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on the attached Fiscal Year 2017/18 Fourth Quarter Financial Report, Cash and Investment reports, and Debt report for all funds;
2. Approve for carryover into fiscal year 2018/19 the balance of previously appropriated and unspent funds totaling \$23.5 million discretionary and non-discretionary carryovers across all City funds and \$181.7 million in capital projects and grant carryovers across all funds. (See Attachment 2);
3. Direct staff to identify excess funds that are being held on open purchase orders and non-active projects accounts and redirect funds to higher priority initiatives such as the CalPERS Unfunded Accrued Liability (UAL); and
4. Direct staff to set aside \$4.5 million in General Fund savings for long-term management of the CalPERS Unfunded Accrued Liability (UAL).

BACKGROUND:

In December 2015, the City Council approved the move to a two-year budget in the context of a five-year plan. The first biennial budget for FY 2016-2018 was approved by City Council on June 21, 2016. The FY 2017/18 budget, as adopted, was reviewed and updated by City staff, and approved by City Council as amended on June 20, 2017. The amended FY 2017/18 budget included structural changes to the General Fund intended to provide for greater transparency between true General Fund activity and other financial activity that has historically been in the General Fund. New funds were established for Civic Entertainment and Special Districts and all debt-related activity was moved from the General Fund to the Debt Service Fund.

Following the close of each fiscal year, the City’s independent auditor performs an audit of the City’s financial statements. The compilation of the FY 2017/18 Fourth Quarter Financial Report precedes the publication of the audit report and therefore presents unaudited financial projections. The audit report is expected to be completed in December, followed by presentations to the Finance Committee and City Council.

DISCUSSION:

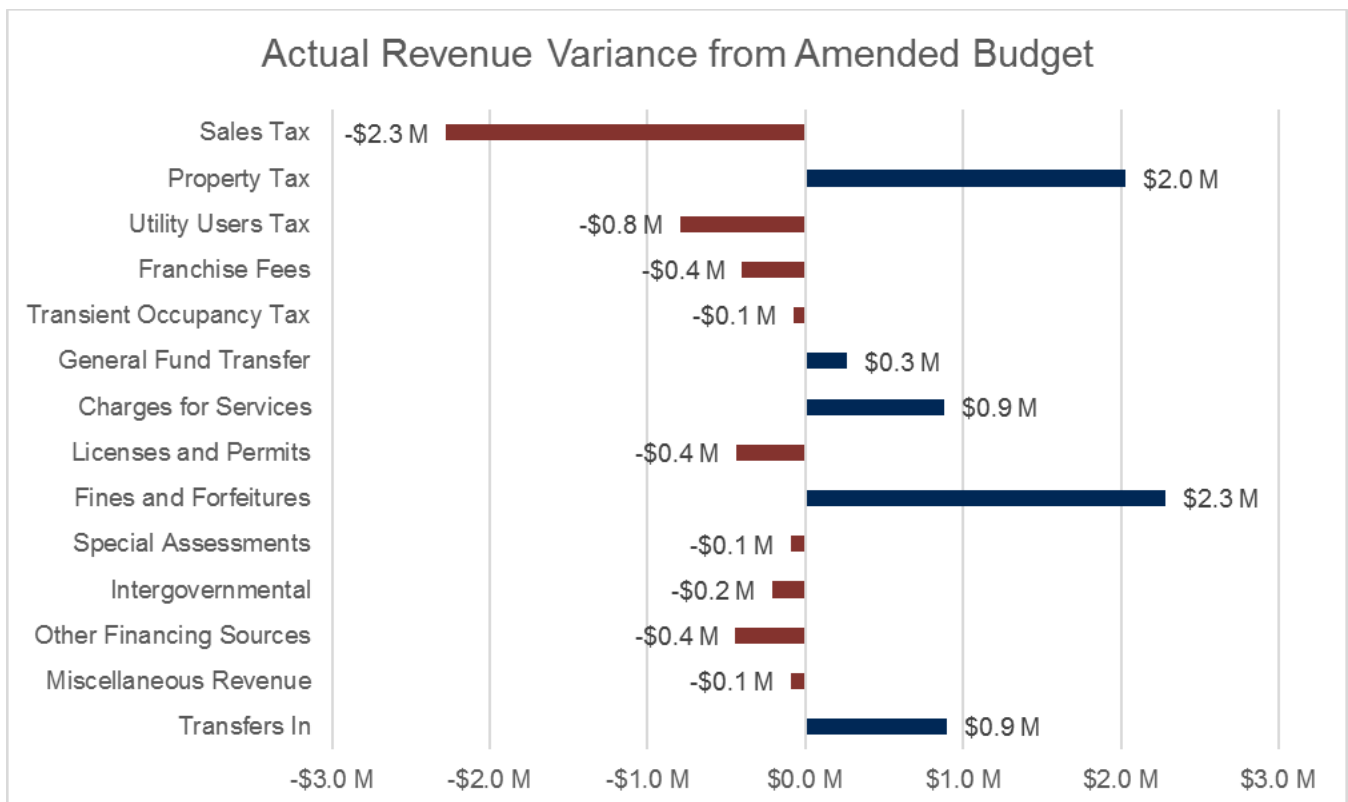
FINANCIAL REPORT

The Fourth Quarter Financial Analysis projects a \$4.5 million savings in the General Fund as a result of strong fiscal management by City departments. This savings is projected after dedicating \$10.8 million to fund balance reserves to achieve a 19% reserve level, and providing \$2 million funding to the Citywide Geographical Information Systems (GIS) project. The \$4.5 million will be set aside for future allocation to the City’s CalPERS UAL.

The following financial analysis focuses on General Fund operations and excludes project and grant revenues and expenditures, intergovernmental reimbursements for Mutual Aid, and Asset Forfeiture activity. These items are not budgeted; their exclusion improves transparency into the actual operating activity of General Fund as compared to the amended budget (revenues) or total budget (expenditures).

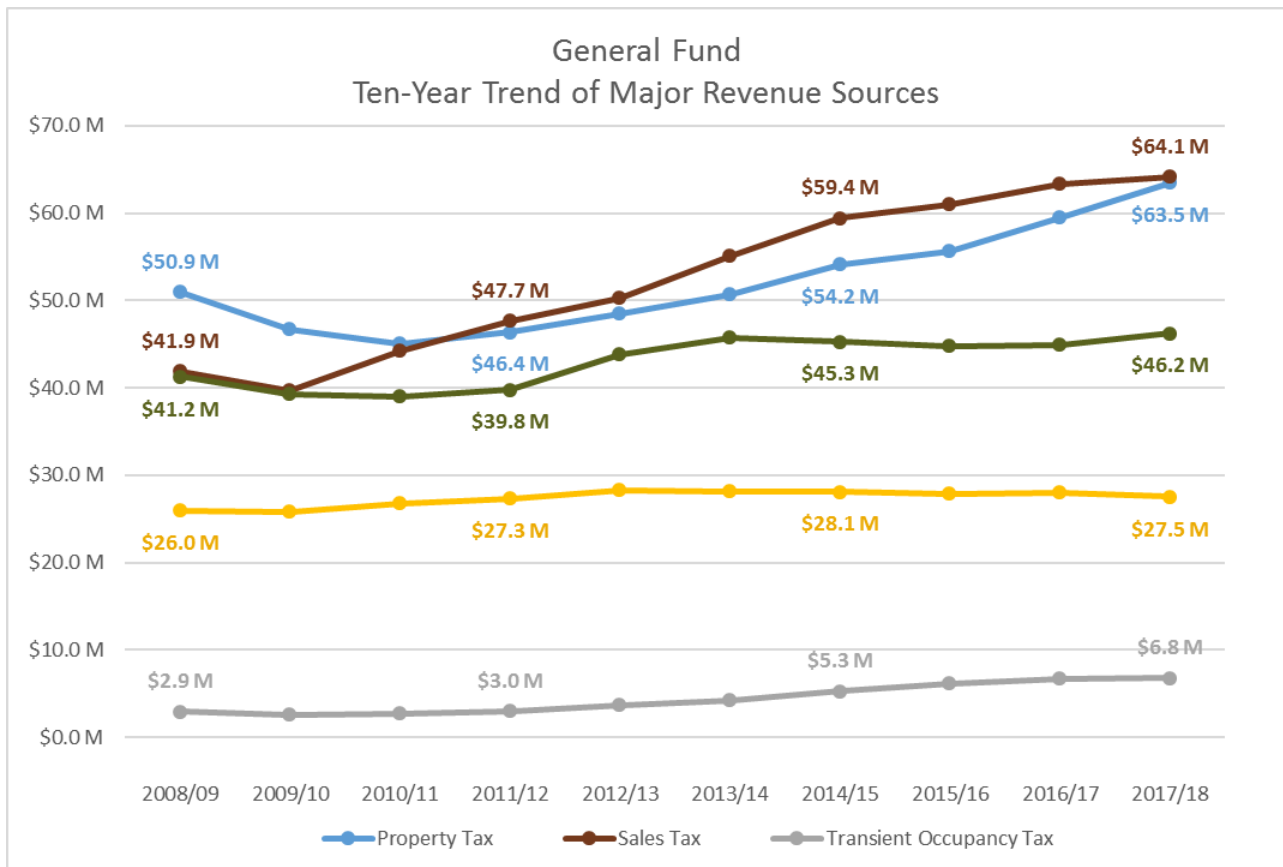
Revenue Analysis

As compared to the FY 2017/18 Amended Budget adopted by City Council in June 2017, total General Fund operating revenues are \$1.5 million higher than budgeted. Budget to Actual variances greater than \$0.5 million are explained below.



- **Sales Tax:** Although sales tax projections were downgraded in the amended FY 2017/18 budget from a 4% growth rate in FY 2016/17 to a projected 2% growth rate in FY 2017/18, actual sales revenue show a more modest 1% growth rate over the previous fiscal year in response to a slowing economy. The difference between projected and actual sales tax revenue amounts to \$2.3 million less to the General Fund.
- **Property Tax:** The sale of Successor Agency properties and their return to the tax roll boosted Property Tax revenue by \$2.7 million; revenue from other properties are slightly lower than projected.
- **Utility Users Tax (UUT):** Revenue from AT&T is \$505,000 less than budgeted. AT&T encourages subscribers to shift to DirectTV which does not pay UUT under the City’s ordinance. UUT from Water and Electric are also slightly less than budgeted as a result of decreased consumption related to weather conditions and continued conservation efforts.
- **Charges for Services:** Revenues are higher than budgeted as a result of an increase in Safety contract services and increased activity in the building sector.
- **Fines & Forfeitures:** Revenues reflect an increase in current year code enforcement activity and recognition of prior year revenues of approximately \$800,000.
- **Transfers In:** Reflects the final repayment of Sewer obligations for sewer-related General Liability Claims initially paid for by the General Fund.

The ten-year trend of major General Fund revenue sources shows a flattening of revenues in most categories as compared to previous years. Property tax reported a 7% increase over prior year revenues for the last two consecutive years and is expected to overtake sales tax as the City’s largest revenue source by FY 2019/20. Sales tax has continued to decline, from 11% growth in FY 2010/11 to a modest 1% growth in FY 2017/18.



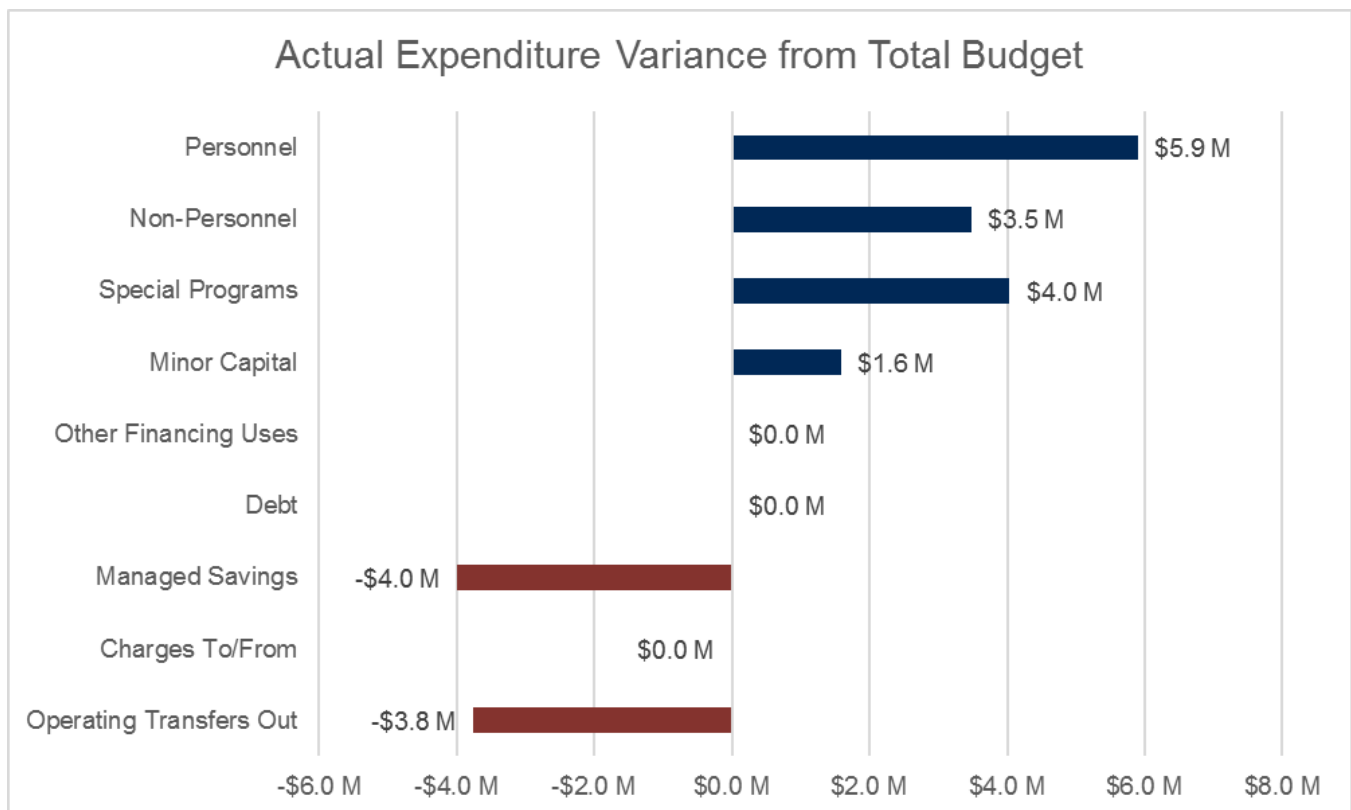
Expenditure Analysis

At the end of each fiscal year, it is common for a portion of the operating budget to remain unexpended due to timing issues, or as a result of intentional efforts to save money. The fiscal year-end process includes:

- Recalculation of General Fund Reserve requirement in compliance with the City’s General Reserve Policy, based on the new fiscal year’s budgeted expenditures.
- Calculation of Unassigned Fund Balance, which represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.
- Amounts required to be carried over, including restricted funds, and project and grant funds.

The Unassigned Fund Balance less carryovers is considered available to be added to next year’s operating budget. Because the calculation of Unassigned Fund Balance is a product of several factors, the ending fund balance will not directly correlate to departmental savings.

Carryovers require the approval of City Council and are added to the new fiscal year’s total available budget. Thus, savings of the current fiscal year may include unexpended carryovers or savings from the previous fiscal year. FY 2017/18 operating expenditure results as compared to Total Budget are shown in the chart below.



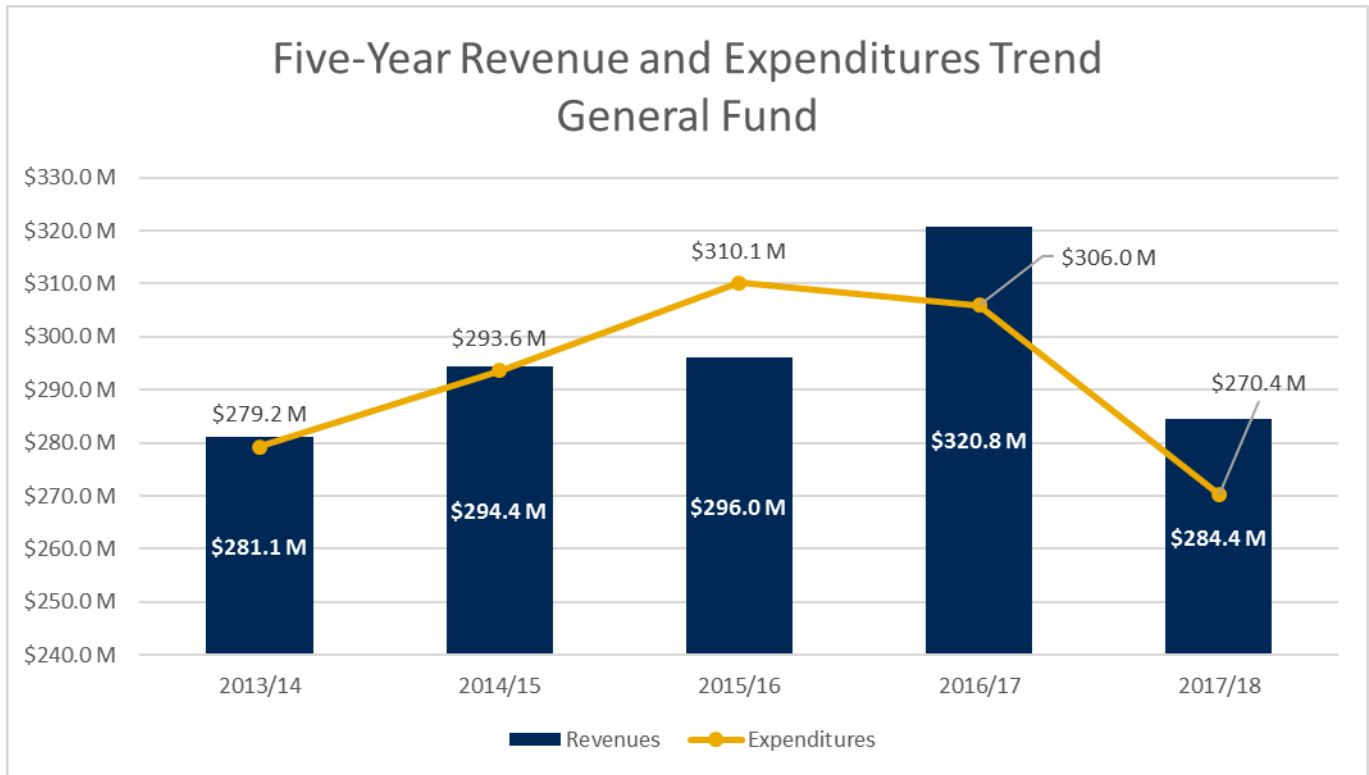
- Personnel: Significant personnel savings were recognized in several departments as a result of vacancies and cumulative savings in benefits or other personnel line items (“Other Categories”). Departments with savings in excess of \$1 million and departments that significantly exceeded their Personnel budget are listed below.

- Finance Department: \$1 million savings (16% of department's Personnel budget) resulting from \$719,000 salary savings due to turnover in 17 of 60 budgeted positions, and \$296,000 savings in Other Categories.
 - Police Department: \$2.5 million savings (3% of department's Personnel budget) resulting from \$2.7 million salary savings due to turnover and recruitment periods, \$1.3 million savings in Other Categories, and \$1.5 million shortfall in leave payoffs.
 - Public Works: \$1.7 million savings (11% of department's Personnel budget) resulting from \$642,000 salary savings due to turnover and recruitment periods of 3-10 months, and \$1.1 million savings in Other Categories.
 - City Manager's Office: \$676,000 shortfall due to turnover and related severance and leave payouts.
 - Fire Department: \$1.8 million shortfall due to significant overtime costs related to mandated staffing levels and Mutual Aid Strike Team assignments. Approximately \$1.6 million of this shortfall is offset by Mutual Aid reimbursements.
- Non-Personnel: Departments will typically seek savings in this category to offset assigned Managed Savings targets. Some savings in this category are a result of timing differences, e.g. purchasing processes not completed prior to fiscal year end, and as a result the unexpended funds will be requested by the department for carryover to the new fiscal year.
 - Special Programs: The items in this category include Council or department initiatives, (e.g. Festival of Lights and ShopRiverside); subsidies to external parties (e.g. art organizations); and restricted funds (e.g. donations). The largest sources of savings in this category include \$289,000 set aside for the Festival of Lights; \$777,000 in City Attorney programs to fund legal activity related to Council initiatives; \$487,000 in Animal Control; and \$590,000 for the development of the Northside Specific Plan that will regulate and guide the development of properties in the Northside Neighborhood and Pellissier Ranch in the City of Colton. Other than the donations or Council approved initiatives, these funds are discretionary.
 - Minor Capital: Represents funding for deferred maintenance or minor capital improvements to City property and vehicles. In FY 2016/17, Council approved \$1 million carryover to fund deferred maintenance of City property; these funds were held by the department pending the completion of a comprehensive facility condition assessment.
 - Managed Savings: Departments were assigned a cumulative \$4 million managed savings target; savings intended to achieve the target are recorded in other expenditure categories. As noted in the savings achieved in other expenditure categories, the managed savings target was met.
 - Operating Transfers Out: The shortfall in this category is a result of the creation of new funds, including the Civic Entertainment and Special Districts funds as well as the consolidation of the Debt Service fund. Unbudgeted fiscal year-end adjustments completed the creation of these funds, including the transfer of assets via operating transfer.

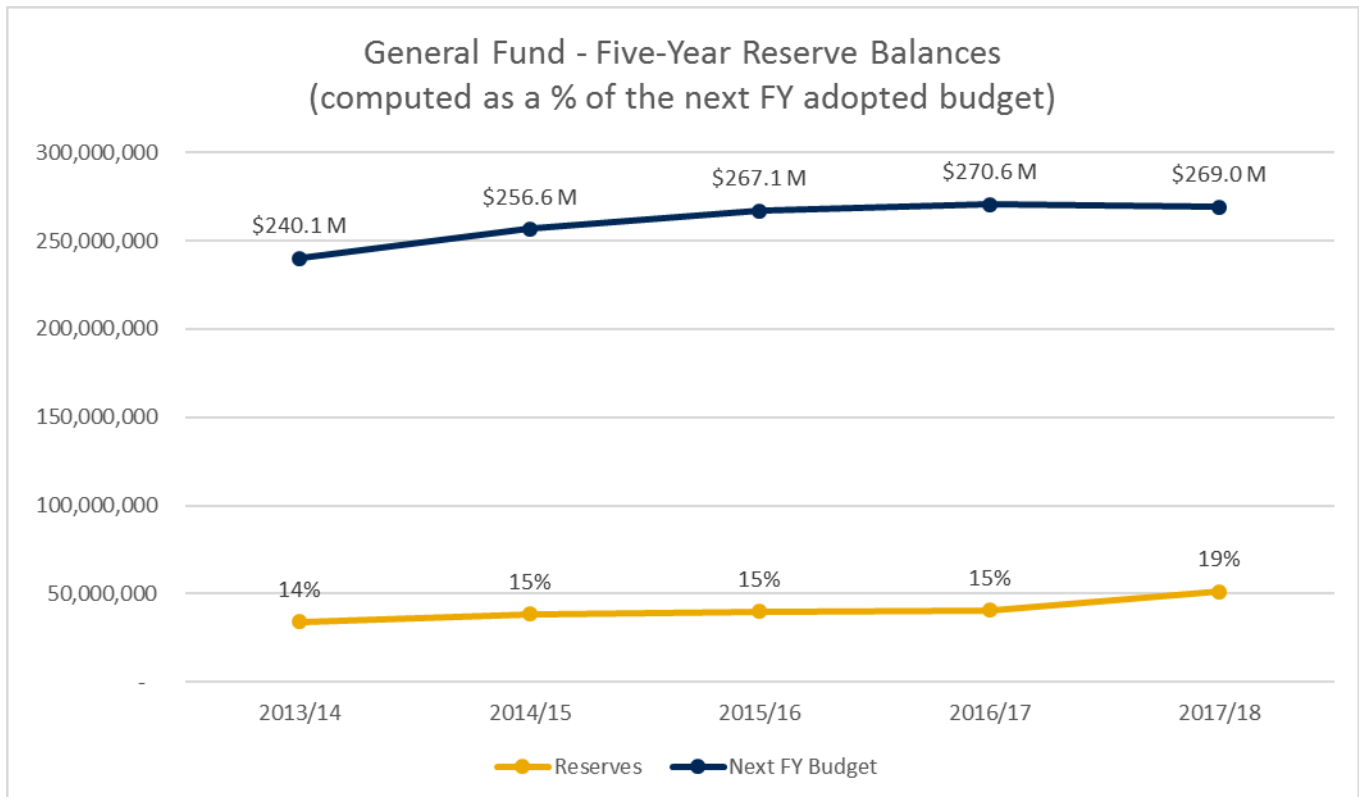
General Fund Reserves and Carryovers

The following chart provides a visual representation of actual General Fund revenues and expenditures over a five-year period. FY 2016/17 shows the beginning of a concerted effort to manage costs and increase fund reserves. FY 2017/18 reflects the extraction of revenues and expenditures for the new Civic Entertainment and Special District funds, as well as the consolidation of debt service activity to the Debt Service Fund. More importantly, FY 2017/18 demonstrates the City's commitment to fiscal responsibility and transparency, as we reduce costs

and bolster General Fund reserves.



General Fund reserves are projected to be at a 19% reserve level at June 30, 2018, which is on-track with the policy reserve target of 20% by FY 2019/20. Following the carryover of project and grant funds and restricted funds, approximately \$7.2 million of unexpended funds are available for carryover. The City Manager recommends \$2.7 million in carryovers to Council, including \$2 million for the General Fund’s share of the Citywide Geographical Information System (GIS) project. The remaining balance of \$4.5 million is recommended for allocation toward long-term management of the CalPERS UAL.



The City currently has a balanced FY 2018-2020 Two-Year budget, but significant shortfalls are expected in subsequent years, largely attributable to rising CalPERS costs. City staff meets regularly to address the CalPERS Challenge and strategize long-term management of the CalPERS UAL. More information about the ongoing efforts can be obtained at the City’s CalPERS Challenge website: <https://www.riversideca.gov/citymanager/calperschallenge>.

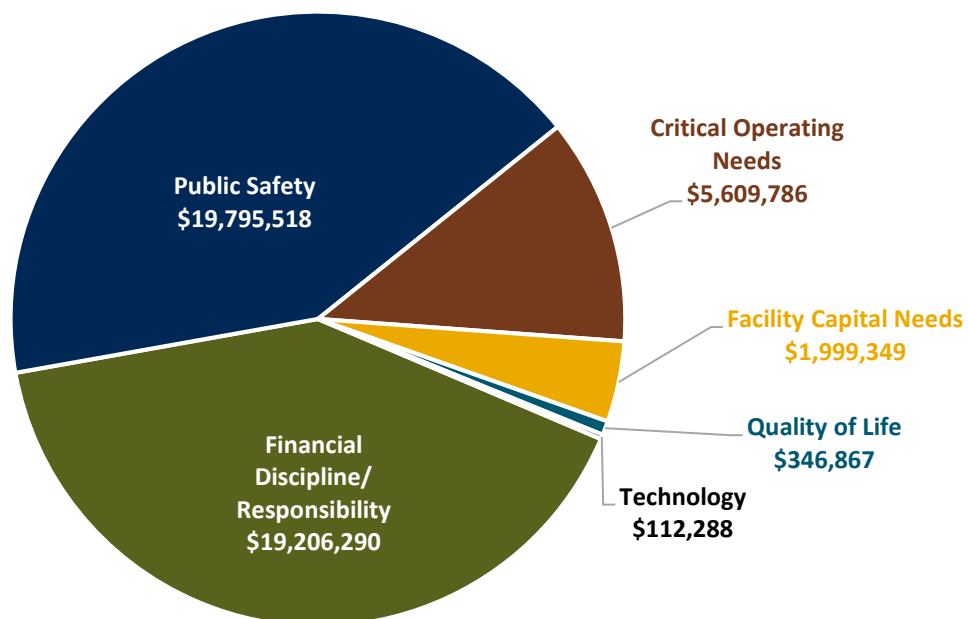
Measure Z

The collection of the additional one-cent transaction tax authorized by voters through Measure Z began on April 1, 2017. The City started receiving these revenues in May-June 2017, with the anticipated collection of \$51.5 million in FY 2017/18. 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 Five-Year 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.

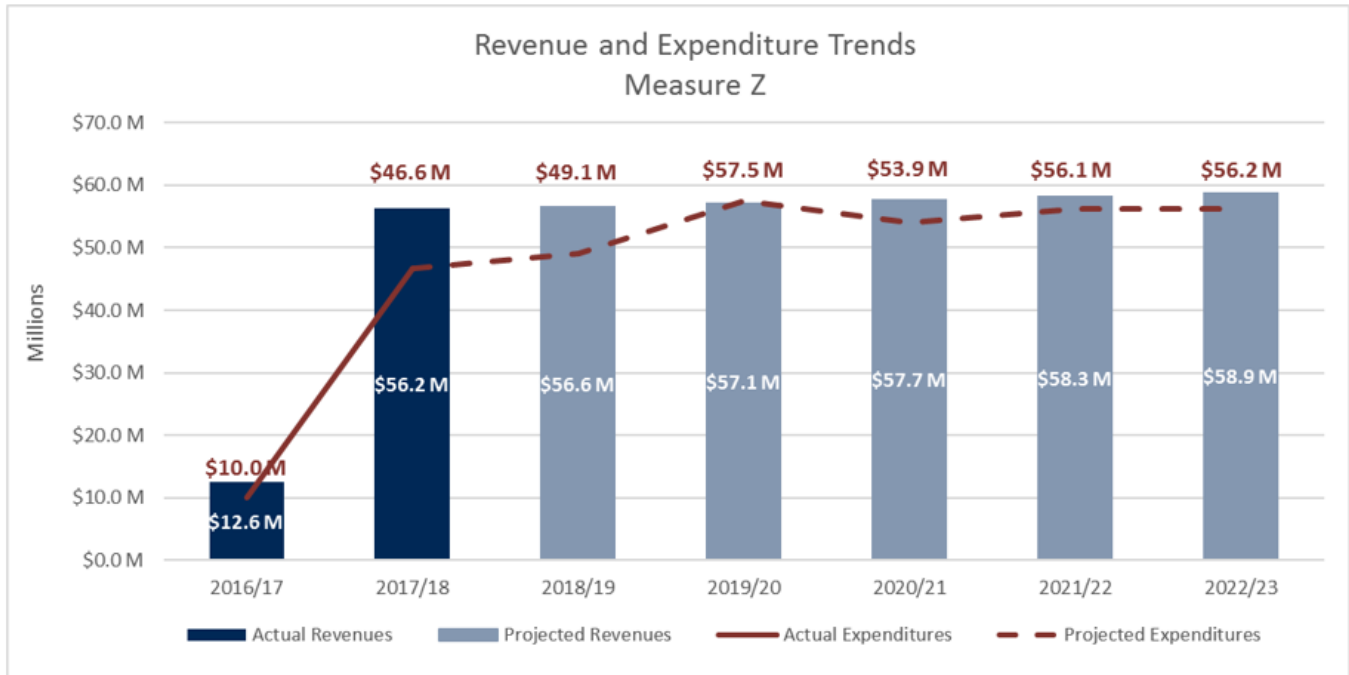
Based on better than expected performance in Measure Z sales tax revenue, the revenue projection was upgraded to \$54 million in the FY 2017/18 Third Quarter Financial Report. Following fiscal year-end accounting entries, actual revenues for FY 2017/18 are projected to be \$56.2 million.

Measure Z spending totaled \$47 million in FY 2017/18 across all spending categories, including \$10.9 million in capital lease proceeds for Fire vehicle replacement and maintenance. Approximately \$11.1 million in unexpended funds are projected at fiscal year-end for the 33 funded initiatives; approximately \$10.5 million will be requested for carryover in the dedicated Measure Z funds. The remaining \$0.6 million is recommended for return to Measure Z fund balance for allocation to future initiatives or to increase reserves. Additionally, \$3.6 million in capital lease proceeds remains available in the Debt Service Fund for Fire vehicle replacement and maintenance; this amount is anticipated to be used in FY 2019/20 to fund the purchase and outfitting of Fire vehicles.

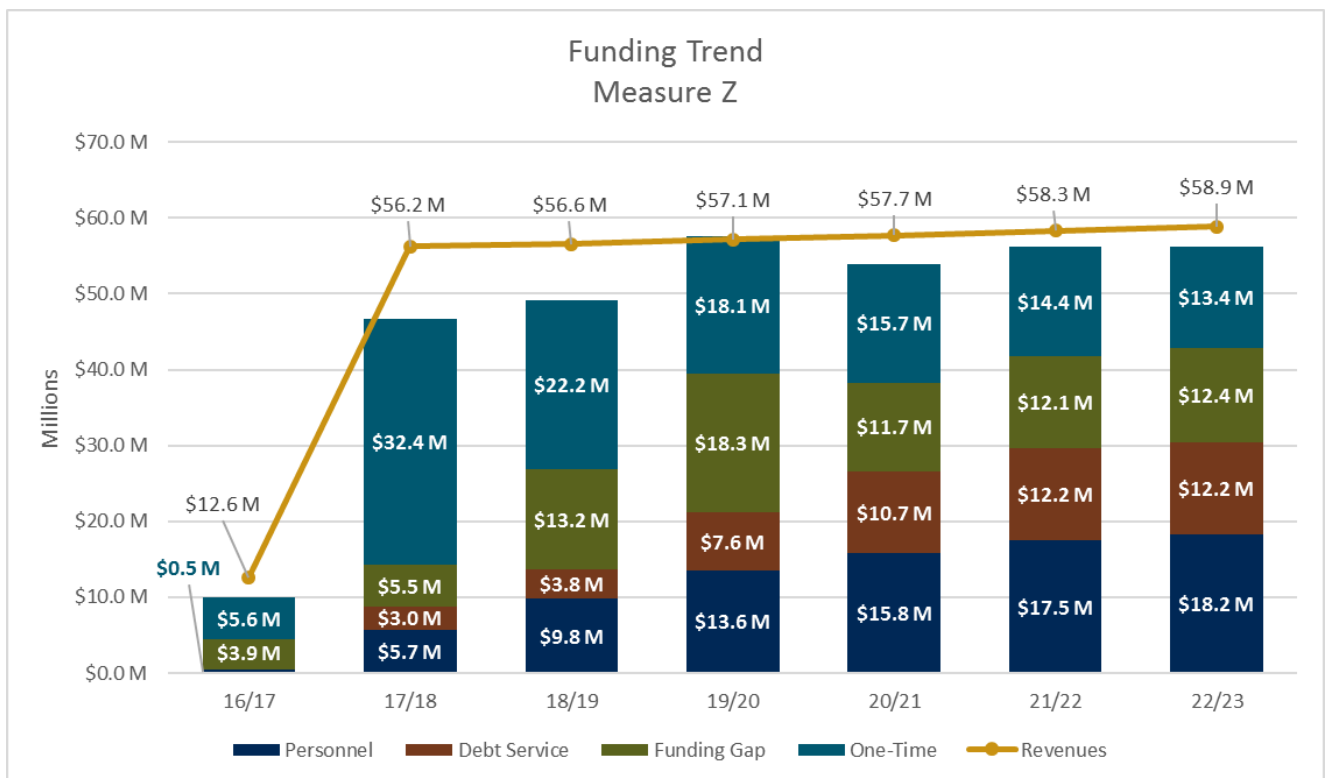
Measure Z Spending - FY 2017/18



Measure Z ending Budgetary Fund Balance is projected at \$12.2 million, and is currently unallocated for specific purposes. Measure Z actual and projected use of allocated funds, including unspent funds anticipated to be carried forward to FY 2018/19, is shown in the chart below. Expenditure of capital lease proceeds are excluded; related debt service is included.



The long-term outlook of Measure Z funding indicates that increases in personnel costs for positions funded by Measure Z will outpace projected revenue growth. Revenue growth is projected at a 1% growth rate (\$0.3 to \$0.6 million per year in FY 2018-2023), but is subject to economic conditions; a slowing economy may degrade this revenue base. Increases in personnel costs are offset in future years by a decrease in funding for discretionary spending initiatives, including Measure Z contributions to the General Fund. In FY 2019/20, Measure Z is projected to operate in a deficit position relative to Measure Z revenue, with a draw of approximately \$0.4 million from fund balance (Attachment 1).



Carryover of FY 2017/18 Unexpended Funds

Per the City Charter, all appropriations lapse at fiscal year-end except for capital projects. Therefore, City Council action is required to carry over the balance of appropriations for all ongoing special programs, grants, restricted balances, and other non-capital accounts.

Fiscal Year 2017/18 marked the second year of the City's first two-year budget. FY 2017/18 available funding included a carryover of 100% of unexpended funds from FY 2016/17 in addition to the adopted FY 2017/18 budget, as amended on June 20, 2017. \$1.3 million was further allocated from FY 2017/18 General Fund savings to fund capital needs at entertainment venues and deferred facility maintenance.

The City's Manager's Budget Message included in the FY 2016-2018 Two-Year Budget detailed a carryover plan for the balance of previously appropriated and unspent funds that were not separately approved by the Budget Resolution for the City's General Fund:

“At the end of the second year, barring any significant unforeseen revenue shortfalls, departments with savings will be able to retain 50% of the unused funds for capital or other one-time needs. The other 50% will be used to balance the General Fund, or returned to the General Fund reserves.”

Over the last year, future fiscal challenges were identified during the development of the FY 2018-2020 Two-Year budget and Five-Year Financial Plans – most notably: rising CalPERS costs; flattening General Fund revenues; and revenues not keeping pace with operating and capital costs in some enterprise funds. Although the City has made significant strides toward fiscal conservation over the past two years, these issues require urgent attention and financial planning. In light of actual fiscal performance, the desire to achieve fund balance reserve policy targets, and the need to plan for future fiscal challenges, the City Manager has rescinded the previously defined carryover plan (i.e. 50% of total available carryovers automatically rolled over from year FY 2017/18 to FY 2018/19) and has instead performed a comprehensive evaluation of all departmental carryover requests in alignment with City strategic priorities and in context of the fiscal challenges at hand.

One of the most significant carryover priorities is the upgrade of the City's GIS system. The GIS system upgrade is an ongoing priority project that has faced funding challenges over the last decade. This project is mission critical because it serves as a foundation for all systems throughout City. In anticipation of this project, carryover funds totaling \$3.2 million across all applicable City funds have been identified to fund the project, which was not budgeted in the FY 2018-2020 Two-Year budget.

A detailed listing of carryovers is included in Attachment 2. A summary of carryover requests by fund and category is as follows:

Fund	Discretionary	Non-Discretionary	Net Projects/Grants	Total
101 General Fund	\$ 2,701,786	\$ 2,017,608	\$ 2,630,368	\$ 7,349,762
110 Measure Z	7,623,149			7,623,149
205 UASI			(69,404)	(69,404)
220 CDBG		755,761	2,870,596	3,626,357
221 Home Investment Partnership Program		3,173,206		3,173,206
222 Housing Opportunities for Persons w/ Aids		73,805		73,805
223 Development Grants		961,944	1,310,423	2,272,367
225 Neighborhood Stabilization Program		113,969	33,030	146,999
230 Gas Tax			7,978,987	7,978,987
240 AQMD	20,000		270,550	290,550
260 NPDES Storm Drain	441,475		287,662	729,137
280 Housing Authority			934,869	934,869
291 Special District		186,789	441,938	628,727
390 Debt Service	119,169			119,169
410 Storm Drain			358,650	358,650
413 Regional Park Special Capital			(55,663)	(55,663)
420 Measure Z Capital			3,895,720	3,895,720
430 Capital Outlay Grants			(4,205,669)	(4,205,669)
431 Transportation Projects			-	-
432 Measure A			14,432,563	14,432,563
433 Transportation Development Impact Fees			2,535,539	2,535,539
480 RDSA 2007 Bonds			9,836,231	9,836,231
510 Electric	1,063,396		101,297,289	102,360,685
511 Electric Public Benefit	2,109,658			2,109,658
520 Water	539,715		9,053,946	9,593,661
540 Refuse	205,672		159,450	365,122
550 Sewer	438,390		27,213,146	27,651,536
560 Special Transit			-	-
570 Public Parking	10,870			10,870
650 Central Garage	957,498		467,500	1,424,998
Total Citywide Carryovers	\$ 16,230,778	\$ 7,283,082	\$ 181,677,720	\$ 205,191,580

Carryovers are separated into three categories:

- **Discretionary:** This category represents \$16.2 million in operating and special program appropriations that are funded by operating revenues and are not legally bound to be expended for particular purposes.

Of the \$2.7 million requested in the General Fund, \$2 million will fund the General Fund’s share of the Citywide GIS project. \$7 million requested for Measure Z will allow multi-year initiatives to continue as planned, such as previously approved technology projects and the update of the City’s General Plan.

- **Non-discretionary:** These items represent the carryover of funding restricted for a specific purpose, including planned expenditures associated with donated or endowment revenues, grant revenues, and other restricted funding. The total amount requested for carryover is \$7.3 million.
- **Projects and grants:** Projects and grants are items previously approved by Council and are restricted for the approved purpose. The amount of carryover for these items is significant, at \$181.7 million, due to the multi-year nature of capital projects and grants.

Additionally, there exists an opportunity to review in greater detail open purchase orders and non-active projects that could potentially garner additional savings back to the general fund. The City issues thousands of purchase orders and hundreds of projects each year that have the potential for savings to the general fund. At times, the purchase orders and projects are requested as placeholders and simply fail to gain traction through completion. An extensive time consuming analysis is needed to identify additional opportunities to return these encumbered funds back to the general fund for reallocation to higher priority items such as the CalPERS UAL.

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 June 30, 2018, the City's pooled investment portfolio's market value was \$668 million, with the market value of investments held by fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$153 million. The weighted average yield of the pooled investment portfolio is 1.722%. 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 3. 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. Housing Opportunities for Persons with AIDS (\$250,192), which is fully offset by outstanding grant receivables.
2. Certificates of Participation Projects (\$289,852), Capital Outlay (\$2,540,308), and Transportation Uniform Mitigation Fees (\$3,169,752) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.
3. Civic Entertainment Fund (\$574,570) which is fully offset by an outstanding receivable.

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 4) 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 fourth quarter, the City's outstanding principal balance decreased by \$82,753,326.

FISCAL IMPACT:

Carryover requests represent unexpended FY 2017/18 budgeted amounts, and have no fiscal impact in FY 2018/19 unless they are rescinded which would then increase available fund balance. If carryover funds are not approved, departments will be required to use FY 2018/19 funding to pay for purposes previously budgeted but unaccomplished tasks in FY 2017/18; doing so may negatively impact programs or services.

The City is projected to end FY 2017/18 in a good financial position while remaining on-track to meet the General Fund policy reserve target of 20% in FY 2019/20. Through prudent fiscal management, fiscal year-end savings have produced sufficient funding for a critical Citywide GIS project and provided flexibility to manage other critical and unfunded needs such as the CalPERS UAL. Measure Z revenues performed stronger than initially projected and have allowed the City to fund five new initiatives approved with the adoption of the FY 2018-2020 Two-Year Budget.

The City's adopted General Fund budget projects a \$1.2 million savings in FY 2018/19 which will be necessary to balance a projected \$1.2 million shortfall in FY 2019/20. Operating deficits of \$15 million to \$18 million are projected beginning FY 2020/21 through FY 2022/23 due in large part to escalating UAL pension payments. A concerted effort by all City stakeholders will be necessary to ensure the long-term financial solvency of the City. Riverside's commitment to fiscal responsibility through a comprehensive and participatory process will enable the City to navigate these challenges. The following efforts are currently underway:

- Addressing the CalPERS Challenge, defined in a presentation to the Finance Committee on October 10, 2018, including: identification of options for long-term management of the CalPERS UAL; monthly updates to the Finance Committee; presentation to the Budget Engagement Commission on November 29, 2018; and community engagement through the city's website at <https://www.riversideca.gov/citymanager/calperschallenge>.
- Departmental identification and evaluation of opportunities for operational efficiencies.
- The City Manager's Office continues to meet regularly with City staff to identify and discuss options to reduce costs, enhance revenues, and improve operational efficiencies.

All available efforts will be employed to set the foundation for the City's next budget cycle and to ensure the City's long-term fiscal health.

Prepared by: Edward Enriquez, Interim Chief Financial Officer/City Treasurer
Certified as to availability of funds: Edward Enriquez, Interim 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 Update and Spending Plan
2. Fiscal Year 2017-18 Carryover Requests
3. Fiscal Year 2017-18 Fourth Quarter Cash and Investment Report
4. Fiscal Year 2017-18 Fourth Quarter Debt Report
5. Presentation