



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL                      DATE: MAY 21, 2019**

**FROM: FINANCE DEPARTMENT    WARDS: ALL**

**SUBJECT: PROPOSED MID-CYCLE AMENDMENT TO FISCAL YEAR 2019/20 OF PREVIOUSLY ADOPTED FISCAL YEAR 2018-2020 TWO-YEAR BUDGET**

**ISSUE:**

Receive and provide input on the proposed mid-cycle update to Fiscal Year 2019/20 of the previously adopted Fiscal Year 2018-2020 Two-Year Budget.

**RECOMMENDATIONS:**

That the City Council:

1. Receive and provide input on the proposed mid-cycle update to Fiscal Year 2019/20 of the previously adopted Fiscal Year 2018-2020 Two-Year Budget; and
2. Set a public hearing for adoption of the Amended Fiscal Year 2019/20 Budget for June 18, 2019.

**BOARD RECOMMENDATIONS:**

This report is published on May 9, 2019, for the May 21, 2019 City Council meeting.

On May 13, 2019, the Board of Public Utilities will hear this item for consideration to recommend that the City Council approve the Electric Funds proposed FY2019/20 budget amendments comprising of a \$3,309,0000 reduction in revenue and a \$7,266,300 increase in expenditures, authorize the use of the Electric Fund Designated Capital Repair/Replacement Reserve for heavy duty vehicle replacements in the amount of \$2,400,000 and approve the Water Funds proposed FY2019/20 budget amendments comprising of a \$7,830,088 increase in expenditures.

If the Board of Public Utilities approves to forward this to City Council, it is respectfully requested that the City Council consider the item at the May 21, 2019 City Council meeting.

**BACKGROUND:**

On June 12, 2018, the City Council approved the Fiscal Year (FY) 2018-2020 Two-Year Budget (Budget) and FY 2018-2023 Capital Improvement Plan (CIP). Since budget adoption, financial and operational needs not accommodated by the current adopted budget have been identified and need to be incorporated into the FY 2019-20 Budget to adjust the budget to better reflect program costs for the benefit of the community.

## **DISCUSSION:**

A mid-cycle update for a multi-year budget is necessary to ensure the City's responsiveness to the constantly changing financial and operational environment. The mid-cycle adjustments to the second fiscal year of the City's biennial budget are marginal, and focus on the following:

- Reviewing and adjusting forecasts of major revenue sources;
- Incorporating financial impacts of City Council approved actions;
- Addressing new and significant changes in operating needs of City departments; and
- Reviewing and re-prioritizing capital project funding.

### **Citywide Overview**

The City's FY 2019/20 Adopted Budget across all City funds totals \$1.12 billion in appropriations. Incoming resources include use of designated reserves in the General Fund and the planned issuance and use of bond proceeds for capital projects in the Electric and Water funds.

Across all City funds, net mid-cycle adjustments for FY2019/20 are approximately (\$467,000), including revenue increases of approximately \$8.7 million and supplemental appropriations of approximately \$13.3 million. Upon approval of the recommended adjustments, the Proposed FY 2019/20 Amended Budget across all City funds will total \$1.13 billion in appropriations.

<b>Citywide Budget Summary</b>			
<b>Category</b>	<b>Adopted Budget</b>	<b>Proposed Adjustments</b>	<b>Amended Budget</b>
Revenues & Transfers In	\$1,038,488,538	\$8,679,789	\$1,047,168,327
General Fund: Use of Designated Fund Reserves for General Plan 2025	194,101	-	194,101
Budgeted Use of Bond Proceeds - Electric	27,586,000	-	27,586,000
Budgeted Use of Bond Proceeds - Water	12,899,000	5,098,000	17,997,000
<b>Total Incoming Resources</b>	<b>\$1,079,167,639</b>	<b>\$13,777,789</b>	<b>1,092,945,428</b>
<b>Expenditures &amp; Transfers Out</b>	<b>1,115,893,012</b>	<b>13,310,544</b>	<b>1,129,203,556</b>
<b>Increase (Decrease) of Fund Balance<sup>1</sup></b>	<b>\$(36,725,373)</b>	<b>\$467,245</b>	<b>\$(36,258,128)</b>

<sup>1</sup> For information on the Use of Fund Reserves and discussion related to specific City Funds, refer to FY 2018-2020 Biennial Budget Book.

Major updates to the General Fund, Measure Z, and the City's largest Enterprise Funds (Electric, Water, Sewer, Refuse, and Parking) are discussed below. A citywide Proposed FY 2019/20 Amended Budget Summary is provided in Attachment 1. A comprehensive listing and description of proposed adjustments for all City funds is provided in Attachment 2.

General Fund (Fund 101)

The General Fund adopted FY 2018-2020 Two-Year Budget is balanced over two years, with a projected \$1.2 million savings in FY 2018/19 offsetting a projected \$1.2 million deficit in FY 2019/20:

General Fund Adopted Budget	FY 2018/19	FY 2019/20
Revenues & Other Resources	\$270,070,218	\$280,999,020
Expenditures & Transfers Out	268,834,151	282,235,032
<b>Surplus/(Deficit)</b>	<b>\$1,236,067</b>	<b>\$(1,236,012)</b>

Proposed FY 2019/20 adjustments to the General Fund will result in no change to the FY 2019/20 projected deficit of \$1.2 million.

Summary of FY 2019/20 Proposed Mid-Cycle Adjustments				
Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Revenues and Other Resources	\$280,999,020	\$(1,862,605)	\$279,136,415	(0.7%)
Expenditures and Transfers Out	282,235,032	(1,862,605)	280,372,427	(0.7%)
<b>Total</b>	<b>\$(1,236,012)</b>	<b>\$-</b>	<b>\$(1,236,012)</b>	<b>- %</b>

*General Fund Restructuring*

Two items moved from the General Fund to the appropriate funds, with a net negative impact to the General Fund of \$196,376 due to revenues budgeted and collected in advance of related expenditures:

- Fire Bond (Measure G): Measure G property taxes are in the General Fund; however, these revenues are fully dedicated to repayment of the Fire Bond, as required by Measure G. The revenue (\$1,739,903) and debt obligations (\$1,725,716) will be moved to the Debt Service Fund (Fund 390), with a net negative impact to the General Fund of \$14,187 because revenues were budgeted higher than expenditures.

Riverside voters approved measure G in November 2003, authorizing the issuance of \$20 million in general obligation bonds. On May 18, 2004, the City Council approved the issuance of the bonds. The bond issuance financed fire station improvements, the rebuilding of existing fire stations, and a new Emergency Operations Center and Training Facility. The new Sycamore Canyon, Canyon Crest and Northside Fire Stations opened in June 2007. Annual debt service is financed by property tax levy; the bond will be fully paid in 2023/24 and the property tax will be discontinued. Because this revenue source is restricted for use for the payment of the debt obligations, the imminent loss of these funds has no impact on General Fund operations.

- Certified Unified Program Agencies (CUPA): This revenue source comes from Hazardous Materials fees collected by the City. The use of CUPA revenues is restricted to Fire Prevention activities and is subject to oversight and approval by the County of Riverside.

The revenue (\$577,844) and budgeted expenditures (\$395,655) will be moved to Grants and Restricted Funding (Fund 215), with a net negative impact to the General Fund of \$182,189 because revenues were budgeted higher than the expenditures.

## Revenue

The mid-cycle review process included a review and adjustment of major revenues based on revenue performance to date. Although some revenues in the General Fund are flattening at a faster pace than forecasted at the time of Budget development, other revenues are performing better than expected. Despite adjustments to individual revenue categories, total General Fund revenues are expected to meet the original projections presented in the adopted Budget.

The following table summarizes net revenue adjustments in the General Fund, inclusive of the impacts from the General Fund restructuring and all revenue adjustments included in Attachment 2. Major revenues and individual adjustments greater than \$500,000 are discussed below.

Summary of FY 2019/20 Revenue Adjustments				
Revenue Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Taxes	\$174,819,861	\$2,295,830	\$177,115,691	1.3%
Licenses & Permits	10,531,009	-	10,531,009	- %
Intergovernmental	2,085,079	114,094	2,199,173	5.5%
Charges for Services	17,825,452	(596,141)	17,229,311	(3.3%)
Fines & Forfeits	1,831,885	(641,551)	1,190,334	(35.0%)
Special Assessments	504,727	-	504,727	- %
Miscellaneous	5,945,779	(1,279,537)	4,666,242	(21.5%)
Other Financing Sources	1,769,101	(1,423,000)	346,101	(80.4%)
Operating Transfers In	65,492,026	(332,300)	65,159,726	(0.5%)
Use of Designated Reserves <sup>1</sup>	194,101	-	194,101	- %
<b>Total</b>	<b>\$280,999,020</b>	<b>\$(1,862,605)</b>	<b>\$279,136,415</b>	<b>(0.7%)</b>

<sup>1</sup>Use of Designated Fund Balance Reserves relates to General Plan Surcharge reserves that will be applied to updating the City's General Plan 2025.

- **Sales Tax:** No adjustment for sales tax is recommended. Updated projections from HdL, the City's sales tax consultant, are consistent with the forecasted revenues of \$66 million presented in the adopted Budget.
- **Property Tax:** Property Tax has trended higher than forecasted, primarily due to strong performance in Successor Agency property tax revenue. FY 2018/19 revenues were adjusted upward by \$2.2 million in the FY 2018/19 Second Quarter Financial Report to reflect updated projections; additional growth of \$2.3 million is anticipated in FY 2019/20. The cumulative adjustment to FY 2019/20 to bring property tax revenues in line with the revised projections is \$4.5 million.
- **Transient Occupancy Tax (TOT):** As discussed in the FY 2018/19 Second Quarter Financial Report presented to Council on March 26, 2019, TOT revenues are trending

lower than forecasted. This downward trend shows the effect of reduced hotel room availability in FY 2018/19 due to renovations and an increase in long-term stays (more than thirty consecutive days) that are not subject to TOT. A FY 2019/20 reduction of approximately \$434,000 is recommended to bring TOT in line with revised projections of 3% growth over the FY 2018/19 adjusted forecast. City staff will continue to monitor this revenue source with hotel owners and provide updates in quarterly reports to Council.

- **Charges for Services:** This line item includes the \$578,000 reclassification of CUPA expenditures to Grants and Restricted Funding (Fund 215).
- **Fines and Forfeitures:** A reduction of \$600,000 is proposed for administrative citation revenue, reflecting a significant change in citation activities for the City's Code Enforcement Division. In recent years, high revenue in this category reflected a downturn in the housing market and the resulting increase in foreclosed properties and citations issued for unkept properties. Now that the housing market has stabilized, property owners are keeping property in better aesthetic condition resulting in less citations being issued.
- **Miscellaneous Revenue:** Miscellaneous revenue was forecasted based on historical trends; however, this revenue category includes many one-time revenues that are not certain to repeat each fiscal year, e.g., the receipt and transfer of revenue deposits, donations, grants, and Asset Forfeiture funds. Based on FY 2018/19 activity and projected activity for FY 2019/20, these revenues will be adjusted downward by \$1 million.
- **Other Financing Sources:** This line item included a revenue projection of \$1.7 million for the sale of city property; however, the timing of such sales varies greatly, subject to development studies by the City, marketing of available properties, market demand, and negotiation and escrow periods. A reduction of \$1.4 million is recommended to remove all revenue projections for this line item other than amounts for properties currently in escrow and expected to close by the end of FY 2019/20 (approximately \$300,000).
- **Operating Transfers In:** The General Fund Transfer (GFT) is based on prior year audited revenues of the water and electric utility. FY 2018/19 water revenues are coming in lower than forecasted due to unusually high rain levels resulting in reduced water usage. Revised revenue forecasts from Public Utilities have resulted in a recommended reduction in the forecasted FY 2019/20 GFT of \$332,300.

### *Expenditures*

A total expenditure reduction of approximately \$1.9 million is recommended in the General Fund mostly due to the General Fund restructuring. Approximately \$551,000 in supplemental appropriations is requested, with \$385,000 offset by related revenue and expenditure reductions. The supplemental appropriations listed below do not have offsets, but revised General Fund revenue forecasts are sufficient to prevent the use of reserves to fund these items.

- **City Attorney's Office:** On October 9, 2018, the City Council approved the expansion of the City Attorney's Office space. The City Attorney's Office is requesting a supplemental appropriation of \$75,050 for expenses related to the expansion of office space.
- **Mayor's Office:** The Mayor's Office is requesting an additional appropriation of \$5,000 for travel related to the Mayor's new involvement in two organizations: Big City Mayors

and the Inland Rising Task Force. Since the submission of the FY 2018-20 Budget, Riverside is now a member of the Big City Mayors, a coalition of mayors across California's thirteen largest cities formed to address critical policy issues, such as homeless, with California's legislative leaders. In addition, the City has joined the Inland Rising Task Force (coordinated by the University of California, Riverside and funded by the Irvine Foundation) that brings together Inland Cities to educate state officials about the importance of equitable funding between coastal and inland cities. These additional obligations will require increased travel commitments for the Mayor and staff; however, it is anticipated that this small investment will yield additional allocations of state funds to support vital solutions to critical issues, such as homelessness.

- **Community & Economic Development Department (CEDD):** A budget correction of \$84,876 is necessary to fund a position that was inadvertently omitted from the adopted FY 2018-2020 Two-Year Budget.

The following table summarizes net expenditure adjustments in the General Fund, inclusive of the impacts of General Fund restructuring and all expenditure adjustments included in Attachment 2.

<b>Summary of FY 2019/20 Expenditure Adjustments</b>				
<b>Expenditure Category</b>	<b>Adopted Budget</b>	<b>Proposed Adjustments</b>	<b>Amended Budget</b>	<b>% Amended</b>
Personnel Services	\$233,512,174	\$266,836	\$233,779,010	0.1%
Non-personnel Expenses	51,675,554	257,094	51,932,648	0.5%
Special Projects	7,105,549	(130,000)	6,975,549	(1.8%)
Equipment Outlay	264,388	-	264,388	- %
Capital Outlay	323,358	-	323,358	- %
Charges to/from Others	(20,609,499)	(2,445,581)	(23,055,080)	11.9%
Operating Transfers Out	9,963,508	189,046	10,152,554	1.9%
<b>Total</b>	<b>\$282,235,032</b>	<b>\$(1,862,605)</b>	<b>\$280,372,427</b>	<b>(0.7%)</b>

### *Cost Allocation Plan*

The City's Cost Allocation Plan (CAP) distributes the cost of General Fund internal service departments to other General Fund departments and funds, based on logical allocation bases. Following the approval of recommended mid-cycle budget adjustments, the CAP will be recomputed and the resulting budget adjustment will be incorporated into the FY 2019/20 Amended Budget presented for Council adoption on June 18, 2019. Because the CAP is simply a redistribution of approved internal service fund budgets, the City's total amended budget as approved by City Council with the current report will remain unchanged. Individual City fund and department budgets expect to change following the CAP re-computation by an amount immaterial to each specific fund and department.

During a mid-cycle review of the CAP and FY 2018/19 actuals recorded to date, City staff identified a need to reduce budgeted General Fund allocations to certain capital project funds by approximately \$600,000 due to a shift in funding sources for capital projects and restrictions on the use of those funds. This amount will be redistributed to other City funds and departments

according to the established allocation bases; an immaterial impact to each fund and department is expected as a result of this adjustment.

### Measure Z (Funds 110 & 420)

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; and funding for the City's recreational swimming pools. The Spending Plan was updated in November 2018 to reflect actual FY 2017/18 tax revenues recorded, including a \$2.0 million increase in FY 2019/20 forecasted revenues to \$57.1 million.

The City began receiving Measure Z transaction and use tax revenue in April 2017. At the time of development of the FY 2018-20 Budget, a full year of Measure Z revenue (FY 2017/18) had not been experienced and revenues were forecasted based on the revenue performance to date, and projections from our sales tax consultant HdL. Since then, Measure Z revenues have continued to outperform initial projections. A \$4.0 million increase in the FY 2019/20 revenue projection (inclusive of the \$2.0 million increase in November 2018) is recommended based on continued performance and updated HdL projections.

Three expenditure adjustments to the Measure Z Spending Plan are included in the mid-cycle update:

- **Spending Item #21 – Maximize Roads/Streets (Pavement Condition Index):** On April 23, 2019, the City Council approved a \$1.5 million annual increase through FY 2022/23 for this item from Measure Z fund balance. (Quality of Life Category)
- **Spending Item #14 – Revised Fire Vehicle Replacement and Maintenance Plan:** Reduction in debt service obligations.
- **Supplemental Request – Security Guard Services:** An additional appropriation of \$122,000 from Measure Z fund balance is recommended for additional unarmed security guard services at various Riverside Public Library locations for one year. (Public Safety Category). Funding beyond FY 2019/20 for this critical need will be reevaluated during the development of the next two-year budget.

### Summary of FY 2019/20 Expenditure Adjustments

Spending Plan Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Financial Discipline/Responsibility	\$3,674,490	\$-	\$3,674,490	- %
Public Safety <sup>1</sup>	18,848,850	110,287	18,959,137	0.6%
Critical Operating Needs	20,454,126	-	20,454,126	- %
Facility Capital Needs	8,251,500	-	8,251,500	- %
Quality of Life <sup>1</sup>	4,299,948	1,500,000	5,799,948	34.9%
Technology	2,000,000	-	2,000,000	- %
<b>Total</b>	<b>\$57,528,914</b>	<b>\$1,610,287</b>	<b>\$59,139,201</b>	<b>2.8%</b>

Summary of FY 2019/20 Expenditure Adjustments				
Spending Plan Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Revenue Forecast	\$55,085,400	\$4,014,600	\$59,100,000	7.3%
<b>Projected Unallocated Fund Balance</b>	<b>\$(2,443,514)</b>	<b>\$2,404,313</b>	<b>\$(39,201)</b>	

<sup>1</sup>Spending Item #38 – Arlington Youth Innovation Center has been moved from Public Safety to Quality of Life.

All Measure Z adjustments are detailed in Attachment 2, in Fund 110 and Fund 420. Certain adjustments between the Measure Z funds are required to accommodate proper accounting methodology for capital projects, but they do not represent an additional allocation of Measure Z revenues.

### Sewer Fund (Fund 550)

The adopted Budget for the Sewer fund projected a draw on fund reserves of approximately \$4 million in FY 2019/20, primarily due to inadequate rate increases to offset rising operating and debt costs. In FY 2018/19, the City significantly reduced annual Sewer debt service obligations by refinancing the City's 2009B Sewer Bonds. An increase in forecasted FY 2019/20 revenues has further stabilized the Sewer fund, which now projects a \$3.5 million operating surplus in FY 2019/20. The improved health of the Sewer fund will allow the City to maintain infrastructure and fund critical capital projects.

#### *Revenue*

Revenue adjustments in the Sewer Fund total approximately \$887,000, as follows:

- **Charges for Services – Commercial:** Commercial sewer rates are based on type of facility and total water usage. Revenues are trending higher due to increases in the number of commercial enterprises served and total water usage. The increase resulted in an additional \$455,000 in revenue.
- **Charges for Services – Residential:** Residential sewer rates are a set monthly amount per residence. Increases in number of residences served increase this revenue category by \$402,000.
- **Miscellaneous (Land & Building):** On November 13, 2018, the City Council approved a lease agreement with 20/20 Plumbing & Heating, Inc. for use of a portion of City-owned land for employee parking. Land & Building rental has been increased by \$30,000 to reflect revenues resulting from this lease agreement.

The following table summarizes revenue adjustments in the Sewer Fund:

Summary of FY 2019/20 Revenue Adjustments				
Revenue Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Charges for Services	\$66,255,395	\$857,338	\$67,112,733	1.3%
Miscellaneous	1,296,705	30,000	1,326,705	2.3%



Summary of FY 2019/20 Revenue Adjustments				
Revenue Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
<b>Total</b>	<b>\$67,552,100</b>	<b>\$887,338</b>	<b>\$68,439,438</b>	<b>1.3%</b>

### Expenditures

Net expenditure decreases in the amount of \$5,759,012 are recommended in the Sewer fund. Major adjustments are discussed below; all adjustments are detailed in Attachment 2.

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- **Personnel:** The transfer of an Equipment Operator from Storm Drain Maintenance (General Fund) to the Sewer Fund; this position's duties have shifted from storm drain maintenance to sewer lateral repairs.
- **Debt Service:** On October 23, 2018, the City Council authorized the issuance of 2018 Refunding Bonds to refinance debt, including the 2009B Sewer Revenue Bonds. This line item was reduced to reflect the revised FY 2019/20 debt service obligations.
- **Charges to/from Others:** This amount represents the cost recovery of capital project expenditures. On February 19, 2019, the City Council approved a Memorandum of Understanding between the Sewer Fund and Water Fund. The Water Fund will make five annual payments of \$750,000 to the Sewer Fund for recycled water system improvements at the Riverside Regional Water Quality Control Plant, which will benefit the Water Fund.

The following table summarizes FY 2019/20 expenditure adjustments in the Sewer Fund:

Summary of FY 2019/20 Expenditure Adjustments				
Expenditure Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Personnel Services	\$15,368,292	\$108,755	\$15,477,047	0.7%
Non-personnel Expenses	14,576,591	(1,863)	14,574,728	- %
Special Projects	2,098,963	-	2,098,963	- %
Equipment Outlay	1,211,500	-	1,211,500	- %
Debt Service	33,092,534	(6,023,938)	27,068,596	(18.2%)
Capital Outlay	764,343	20,696	785,039	2.7%
Charges to/from Others	4,442,932	(750,000)	3,692,932	(16.9%)
<b>Total</b>	<b>\$71,555,155</b>	<b>\$(6,646,350)</b>	<b>\$64,908,805</b>	<b>(9.3%)</b>

### Refuse Fund (Fund 540)

The FY 2019/20 adopted Budget projected a \$3.1 million draw on fund reserves due to flattening revenues and rising costs. On December 28, 2018, the City Council approved an 18-month solid waste rate plan through June 30, 2020 to provide fiscal stability to the City Refuse Fund and contract haulers. As a result, the Refuse fund now projects an operating surplus of \$600,000 in FY 2019/20.

## Revenue

On December 18, 2018, the City Council approved a rate increase for commercial and residential refuse rates through June 30, 2020. Because of the rate increase and FY 2017/18 revenues coming in slightly higher than forecasted, the FY 2019/20 revenue forecast has been increased by \$2.5 million. Other revenues were also reviewed and minor adjustments are recommended; a comprehensive listing of revenue adjustments is provided in Attachment 2. A summary of all mid-cycle revenue adjustments for the Refuse Fund is as follows:

Summary of FY 2019/20 Revenue Adjustments				
Revenue Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Charges for Services	\$21,449,315	\$2,527,510	\$23,976,825	11.8%
Fines & Forfeits	1,250,000	-	1,250,000	- %
Miscellaneous	397,120	(181,980)	215,140	(45.8%)
<b>Total</b>	<b>\$23,096,435</b>	<b>\$2,345,530</b>	<b>\$25,441,965</b>	<b>10.2%</b>

## Expenditures

Operating expenditure adjustments to the previously adopted FY 2019/20 Budget include:

- Disposal fee increase of \$580,000: The disposal (landfill) fee, which is set each year by the County of Riverside, is a pass-through cost under the terms of the City's agreement with the County. The processing fee is set under a separate agreement between the City and Agua Mansa Transfer Station with Burrtec serving as the operator. On December 18, 2018, the City Council approved the Eighth Amendment to Transfer Services Agreement with Agua Mansa MRF, LLC to adjust waste processing compensation for extraordinary costs. The fee is adjusted by CPI, plus a one-time adjustment to cover extraordinary costs related to state increases in minimum wages, state mandated health care coverage, new regulations requiring mandatory business recycling programs, and higher degrees of processing of organics (green and food waste).
- Capital funding for the Refuse Fund's share of the Data Network Replacement Project is reallocated from FY 2020/21 to FY 2019/20, per a request of the Innovation & Technology Department.

Summary of FY 2019/20 Expenditure Adjustments				
Expenditure Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Personnel Services	\$6,193,369	-	\$6,193,369	- %
Non-personnel Expenses	8,700,586	581,778	9,282,364	6.7%
Special Projects	4,758,753	-	4,758,753	- %
Equipment Outlay	1,434,000	-	1,434,000	- %
Debt Service	167,402	-	167,402	- %
Capital Outlay	32,216	\$1,331	43,547	35.2%
Charges to/from Others	4,905,550	-	4,905,550	- %

Summary of FY 2019/20 Expenditure Adjustments				
Expenditure Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
<b>Total</b>	<b>\$26,191,876</b>	<b>\$593,109</b>	<b>\$26,784,985</b>	<b>2.3%</b>

### Public Parking (Fund 570)

An operating shortfall of \$185,000 was projected for the Public Parking Fund in the adopted FY 2019/20 Budget, due to projected revenue loss from the anticipated sale of Garage 3, the fund's largest revenue source. The City no longer intends to sell Garage 3, and related revenue projections have been restored in this mid-cycle update. As a result, the Public Parking Fund is expected to end FY 2019/20 with an operating surplus of \$300,000 and may now look forward to addressing minor equipment needs such as the replacement of meters.

#### *Revenue*

Revenue adjustments relating to Garage 3 are reflected in the table below.

Summary of FY 2019/20 Revenue Adjustments				
Revenue Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Licenses & Permits	\$3,260,761	\$364,593	\$3,625,354	11.2%
Fines & Forfeits	2,604,835	-	2,604,835	- %
Miscellaneous	783,622	-	783,622	- %
<b>Total</b>	<b>\$6,649,218</b>	<b>\$364,593</b>	<b>\$7,013,811</b>	<b>5.5%</b>

#### *Expenditures*

A single expenditure adjustment is recommended for the Public Parking Fund to correct a budget error in the adopted Budget for electric rate increase adjustments.

Summary of FY 2019/20 Expenditure Adjustments				
Expenditure Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Personnel Services	\$1,552,275	-	\$1,552,275	- %
Non-personnel Expenses	3,863,476	(31,147)	3,832,329	(0.8%)
Debt Service	1,705,654	-	1,705,654	- %
Charges To/From Others	(287,708)	-	(287,708)	- %
<b>Total</b>	<b>\$6,833,697</b>	<b>\$(31,147)</b>	<b>\$6,802,550</b>	<b>(0.5%)</b>

### Electric Fund (Funds 510 & 511)

The Electric Fund FY 2019/20 Budget included a use of bond proceeds of \$27.6 million to finance much-needed capital projects and a strategic draw on cash reserves of \$26.7 million. Recommended adjustments to the Electric Fund will result in a revised draw on cash reserves

of \$37.3 million, including a use of designated reserves to offset \$2.4 million in supplemental appropriations for capital outlay, as described below. The Electric Fund's proposed budget adjustments are primarily in the area of power supply, safety, and operating efficiency. Recommended budget adjustments are comprised of a \$3.3 million reduction in other operating revenues and a \$7.3 million increase in operating and capital expenditures.

### Revenue

Due to the increase in market energy prices, the Intermountain Coal Power Plant will produce more energy and the Electric Fund will be required to surrender more greenhouse gas (GHG) allowances, which will result in a reduction of GHG auction proceeds of \$2,927,000. In addition, a reduction in the market forecast price of renewable energy credits that are sold by the Electric Fund will reduce the proceeds from their sale by \$382,000.

Summary of FY 2019/20 Revenue Adjustments				
Revenue Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Charges for Services	\$383,261,738	\$(3,309,000)	\$379,952,738	(0.9%)
Miscellaneous	11,007,746	-	11,007,746	- %
Other Financing Sources	417,000	-	417,000	- %
<b>Total</b>	<b>\$394,686,484</b>	<b>\$(3,309,000)</b>	<b>\$391,377,484</b>	<b>(0.8%)</b>

### Expenditures

Major recommended adjustments in the Electric fund are discussed below; all adjustments are detailed in Attachment 2.

- **Non-Personnel:** Higher market energy prices will result in an additional \$4.4 million in transmission and purchased power expenditures to secure power supplies for the upcoming fiscal year.
- **Capital Outlay:** An adjustment of \$2.4 million is recommended to secure six heavy-duty vehicles for repair crews to replace four vehicles with expiring leases and two aged vehicles. City staff recommends that the Designated Capital Repair/Replacement reserve be utilized to fund the vehicle purchase. The Designated Capital Repair/Replacement reserve was established to accumulate funds for repair and replacement of facilities, vehicles, and technology outside of the capital improvement program. The current balance in the designated account is \$4.9 million.

Summary of FY 2019/20 Expenditure Adjustments				
Expenditure Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Personnel Services	\$74,775,506	\$-	\$74,775,506	- %
Non-personnel Expenses	247,133,402	4,603,269	251,736,671	1.9%
Special Projects	13,096,666	(17,253)	13,079,413	(0.1) %
Equipment Outlay	200,000	2,400,000	2,600,000	1,200.0 %

Summary of FY 2019/20 Expenditure Adjustments				
Expenditure Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Debt Service	46,660,101	-	46,660,101	0.0%
Capital Outlay	34,876,602	82,678	34,959,280	(0.2%)
Charges to/from Others	(7,937,615)	197,606	(7,740,009)	(2.5%)
Operating Transfers Out	40,200,700	-	40,200,700	- %
<b>Total</b>	<b>\$449,005,362</b>	<b>\$7,266,300</b>	<b>\$456,271,662</b>	<b>1.6%</b>

### Water Fund (Funds 520 & 521)

The Water Fund FY 2019/20 Budget included a use of bond proceeds of \$12.9 million and an operating surplus of \$419,000. The Water Fund's proposed budget adjustments are primarily in the area of replacing critical infrastructure and professional services to support the various water studies and plans that are critical to meet existing and future water needs. Recommended budget adjustments comprise a \$7.8 million increase in operating and capital expenditures. The amended FY 2019/20 budget will result in an additional \$5.1 million of bond proceeds and a \$2.3 million draw on cash reserves in FY 2019/20.

### *Revenue*

No revenue adjustments are recommended for the Water Fund's original FY 2019/20 forecast of \$81.7 million.

Summary of FY 2019/20 Revenue Adjustments				
Revenue Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Charges for Services	\$75,661,703	\$-	\$75,661,703	- %
Miscellaneous	3,702,671	-	3,702,671	- %
Rents	2,264,512	-	2,264,512	- %
Other Financing Sources	77,600	-	77,600	- %
<b>Total</b>	<b>\$81,706,486</b>	<b>\$-</b>	<b>\$81,706,486</b>	<b>- %</b>

### *Expenditures*

Major recommended adjustments in the Water fund are discussed below; all adjustments are detailed in Attachment 2.

- Non-Personnel Expenditures:** Since adoption of the Budget in June 2018, certain events and circumstances have occurred which require the need to shift priorities and move up the timing of certain projects. Professional services will need to be obtained to help address critical water related matters stemming from local and state legislation requirements; the identification of new local partnership opportunities; increased local development and densification, and changes in customer consumption habits; and threats to groundwater supply and groundwater quality. A total of seven studies and plans with an estimated cost of \$1.4 million are recommended for FY 2019/20:

1. 2020 Urban Water Management Plan
  2. Potable Water Master Plan
  3. Recycled Water/Non-Potable Water Master Plan
  4. Riverside Habitat Parks and Water Project CEQA
  5. Safe Yield Modeling Assistance
  6. Salt and Nutrient Management Plan Study and Assistance
  7. Well Siting Study
- **Debt Refinancing:** In February 2019, the Water Fund issued \$114 million in revenue bonds. A portion of the proceeds was used to refund previously issued bonds that will result in a debt service savings of \$400,000 in FY 2019/20.
  - **CIP Adjustments:** Approximately \$6.4 million in the CIP budget for Distribution System Facilities Replacement, Main Replacements and Pump Station Replacements is recommended to be reallocated to FY 2019/20 from FY 2020/21 through FY 2022/23, with a net zero impact to the Five-year CIP plan. Approximately \$30,000 planned for the Data Network Replacement Project for FY 2020/21 was reallocated to FY 2019/20.
  - **Utilization Charges:** On December 10, 2018 and February 19, 2019, the Board of Public Utilities recommended and the City Council approved the Memorandum of Understanding between Public Works and Public Utilities Departments and expenditure for \$3.75 million. This was split into five annual payments of \$750,000 for the Water Fund’s share of the recycled water system improvements at the Riverside Regional Water Quality Control Plant. This item was budgeted and only represents a shift in line items to properly classify expenditures.
  - **General Fund Transfer:** Initial General Fund Transfer is based on prior year’s gross operating revenues. Due to the higher than anticipated rainfall in FY 2018/19, projected revenues have been reduced by \$3 million. A reduction in budget of \$332,300 is recommended for FY 2019/20 General Fund Transfer to reflect the projected reduction in FY 2018/19 retail sales.

Summary of FY 2019/20 Expenditure Adjustments				
Expenditure Category	Adopted Budget	Proposed Adjustments	Amended Budget	% Amended
Personnel Services	\$24,117,210	\$-	\$24,117,210	- %
Non-personnel Expenses	17,306,433	1,366,968	18,673,401	7.9%
Special Projects	1,443,038	-	1,443,038	- %
Debt Service	19,846,914	(400,000)	19,446,914	(2.0%)
Capital Outlay	18,903,354	6,419,420	25,322,774	34.0%
Charges to/from Others	5,544,658	776,000	6,320,658	14.0%
Operating Transfers Out	7,025,300	(332,300)	6,693,000	(4.7%)
<b>Total</b>	<b>\$94,186,907</b>	<b>\$7,830,088</b>	<b>\$102,016,995</b>	<b>8.3%</b>

## Other City Funds

A listing of proposed adjustments for other City Funds is included in Attachment 2. Notable items include:

- **Grants and Restricted Programs (Fund 215):** This fund was created following budget adoption as part of General Fund restructuring efforts. Grant and other restricted revenues were historically recorded in the General Fund, and the level of City funding related grants and restricted programs was not readily apparent. CUPA revenue and expenditure budgets were transferred from the General Fund to this fund.
- **Additional \$2.1 million in funding for street projects in Special Gas Tax (Fund 230) and Measure A (Fund 432):** Revenue forecasts will be increased by approximately \$2.1 million based on new gas tax revenue estimates received from the State and Measure A revenue estimates received from the Riverside County Transportation Commission.
- **Debt Service Fund (Fund 390):** As discussed in the General Fund section of this report, Measure G property tax revenues and related debt activity have been moved to the Debt Service Fund.
- **Worker's Compensation Trust (Fund 610):** Additional appropriations of \$391,000 are recommended for this fund due to the increase in claims costs and State-mandated funding levels for self-insured/self-administered entities.

## Capital Projects

Although no new capital projects are proposed, an assessment of critical capital needs and priorities has resulted in an escalation of funding from Year 3 (FY 2020/21) of the Capital Improvement Program to FY 2019/20:

- **Data Network Replacement, \$420,382 escalation affecting numerous City funds:** This capital project replaces critical components of the City's data network and related equipment, much of which is over a decade old and out of manufacturer support. This project was originally funded over three years (FY 2018/19 through FY 2020/21), but full funding will be necessary in FY 2019/20 for required contract services.
- **Water Fund Capital Projects:** As previously discussed in the Water Fund section of this report, mid-cycle adjustments are needed in the CIP for distribution facilities and pipelines due to shifting of priorities to address the overtime burden resulting from emergency service lateral leaks, aged and undersized water mains, and insufficient pumping capacities of two pump station facilities.

## Personnel Changes

Operational changes related to personnel are reflected in Attachment 3, including position reclassifications approved during the fiscal year, and other minor adjustments in response to City departments' operating needs. Major changes and full-time equivalent (FTE) increases are as follows:

- **Claims Management (Finance and City Attorney's Office):** Claims Management staff

(3.0 FTE) previously housed within the Risk Management Division of the Finance Department have been moved to the City Attorney's Office to improve operational efficiencies by focusing on processing claims. Risk Management staff (2.0 FTE) remain in the Finance Department to manage insurance and risk mitigation.

- **City Manager's Office:** The Intergovernmental Relations Division (1.0 FTE) has been merged into the Administration Division.
- **Community & Economic Development Department (CEDD):** A 0.50 FTE increase in CEDD is reflected for a position that was omitted in the adopted Budget. Additionally, CEDD's recent evaluation of operational needs has prompted a movement and reclassification of positions, including a request for a Deputy Director; this reorganization does not result in a change in total FTEs. The new Deputy Director will help provide oversight for nine divisions within CEDD; the prior Deputy Director position was assigned to maintain oversight to the Office of Homeless Solutions in the City Manager's Office.
- **Public Works:** A Heavy Equipment Operator (1.0 FTE) within the General Fund's Storm Drain Maintenance Division has been transferred to the Sewer Fund. This position's job duties have shifted from storm drain maintenance to sewer lateral repairs. Additionally, the critical need for a Tree Maintenance Inspector (1.0 FTE) due to increased tree trimming funding from Measure Z will be met by eliminating an Administrative Analyst.

### **FISCAL IMPACT:**

The City's Proposed FY 2019/20 Amended Budget totals \$1.13 billion, an increase of approximately \$13 million as compared to the budget adopted by City Council on June 12, 2018. The Citywide additional appropriations of \$13.3 million are offset by revenue increases of \$8.7 million across all City funds and additional use of bond proceeds by the Water Fund of \$5.1 million. There is no net impact to the General Fund as a result of the recommended budget adjustments.

### **Summary of FY 2019/20 Expenditure Adjustments**

<b>Fund</b>	<b>Adopted Budget</b>	<b>Proposed Adjustments</b>	<b>Amended Budget</b>	<b>% Amended</b>
General Fund	\$282,235,032	\$(1,862,605)	\$280,372,427	(0.7%)
Measure Z Operating	57,528,914	1,610,287	59,139,201	2.8%
Grants and Restricted Programs	-	584,701	584,701	100.0%
Debt Service Fund	1,763,176	1,727,716	3,490,892	98.0%
Measure Z - Capital	4,628,198	1,676,888	6,305,086	36.2%
Electric	449,005,362	7,266,300	456,271,662	1.6%
Water	94,186,907	7,830,088	102,016,995	8.3%
Refuse	26,191,876	593,109	26,784,985	2.3%
Sewer	71,555,155	(6,646,350)	64,908,805	(9.3%)
Public Parking	6,833,697	(31,147)	6,802,550	(0.5%)
Workers' Compensation Trust	6,732,634	391,000	7,123,634	5.8%
Other City Funds	115,232,061	170,557	115,402,618	0.1%
<b>Total</b>	<b>\$1,115,893,012</b>	<b>\$13,310,544</b>	<b>\$1,129,203,556</b>	<b>1.2%</b>



Prepared by: Kristie Thomas, Budget Manager  
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Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Proposed FY 2019/20 Amended Budget Summary
2. Detailed Listing of FY 2019/20 Mid-cycle Adjustments
3. City Personnel Changes
4. Presentation