



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MARCH 27, 2018

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: FISCAL YEAR 2017-18 SECOND QUARTER FINANCIAL REPORT, ANALYSIS OF MEASURE Z, CASH AND INVESTMENT REPORTS, AND DEBT REPORT

ISSUE:

Receive and provide input on the Fiscal Year 2017-18 Second Quarter Financial Report for the General Fund, analysis of Measure Z, cash and investment reports, and debt report for all funds.

RECOMMENDATION:

That the City Council receive and provide input on the attached Fiscal Year 2017-18 Second Quarter Financial Report for the General Fund, analysis of Measure Z, cash and investment reports, and debt report for all funds.

BACKGROUND:

On December 12, 2017, the City Council received the Fiscal Year (FY) 2017-18 First Quarter Financial Report for the General Fund and Measure Z. The year-end projections at that time were similar to the FY 2017-18 Mid-Cycle Amended Budget. The second quarter report, based on actual revenues and expenditures for July 1, 2017 through December 31, 2017, materially supports the first quarter projections. The FY 2017-18 ending General Fund Reserve is currently projected to be approximately \$59.3 million or 23.3%. The estimated \$5 million above the 20% reserve requirement will be recommended for seed funding to help address growing CalPERS expenses.

DISCUSSION:

General Fund Financial Analysis

This Second Quarter Financial Report for FY 2017-18 provides an update on the revenues and expenditures based on actuals from July 1, 2017 through December 31, 2017 (Attachment A). **The FY 2017-18 Second Quarter analysis projects the City to be in a surplus position by year-end of approximately \$2.6 million.** The surplus of \$2.6 million is generally attributable to cost sharing on the 2017A pension obligation bond (POB) with Measure Z and departmental

expenditure savings.

General Fund Revenues

An analysis of revenues through the second quarter ending December 31, 2017 shows a continuation of first quarter trends. Compared to the Mid-Cycle budget, a decrease in estimated revenues for sales tax (\$1.56 million), franchise fees (\$600,000), and license/permits (\$400,000) are offset by higher than anticipated revenues for property tax (\$750,000), fines/forfeitures (\$630,000), and recovery of sewer fund related claim expenditures (\$900,000).

General Fund Expenditures

Compared to the FY 2017-18 First Quarter Financial projections, the Second Quarter General Fund expenditures are \$250,000 lower (Attachment A-4). The positive difference is due to savings of \$250,000 in Community and Economic Development resulting from vacancies. Compared to the Mid-Cycle budget, savings in the Office of the City Attorney (\$400,000), Community and Economic Development (\$250,000), General Services (\$275,000), and Public Works (\$500,000) are partially offset by an expected deficit in Fire (-\$750,000). Additional savings of \$2 million are projected for debt service payments originally budgeted for Pension Obligation Bond debt, now paid for by Measure Z.

Measure Z

The collection of the additional one-cent sales tax authorized by voters through Measure Z began on April 1, 2017. The City began 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 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. To date, staff projects savings of approximately \$560,000 (A-5). Attachment D includes a detailed update on the implementation status of the Measure Z initiatives.

Differences between the FY 2017-18 First Quarter projection and FY 2017-18 Second Quarter projection are explained below.

- *Spending Contingency:* On December 19, 2017, the City Council approved the allocation of Contingency Funds for FY 2017-18 (\$1 million) and FY 2018-19 (\$1 million) for Archives for the New Main Library project.
- *Police Vehicle Replacement/Maintenance:* Due to the success of the vehicle refurbishment program, financing for replacement vehicles was deemed unnecessary, resulting in approximately \$690,000 savings in FY 2017-18. On November 17, 2017, City Council approved an amendment to the Measure Z Spending Plan to reallocate approximately \$383,000 of the savings from the vehicle replacement account to help fund the purchase of a fixed wing aircraft.

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 December 31, 2017, the City's pooled investment portfolio's market value was \$783 million, with the market value of investments held by fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$203.6 million. The weighted average yield of the pooled investment portfolio is 1.341%. 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 B. 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 Finance Director/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. Urban Areas Security Initiative (\$633,836), which is fully offset by outstanding grant receivables.
2. Housing Opportunities for Persons with AIDS (\$975,428), which is fully offset by outstanding grant receivables.
3. Special Districts (\$1,870,391), which is partially offset by assessment fees remitted to the City in January.
4. Certificates of Participation Projects (\$494,052), Capital Outlay (\$4.66 million), and Transportation Uniform Mitigation Fees (\$1.85 million) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.
5. Debt Service – General Fund (\$9,927,974) which is fully offset by bond reimbursement drawdowns that were in process at the end of the quarter.
6. The Self-Insurance Liability Trust Fund has a negative cash balance of \$622,944 as of December 31, 2017, and is consolidated with the positive cash balances of the Workers Compensation Insurance Trust Fund (\$14.8 million) and Unemployment Insurance Trust Fund (\$412,682) for financial reporting purposes. The City Council approved a \$2.5 million contribution to the Self-Insurance Liability Trust Fund on November 14, 2017, using General Fund balance from FY 2016-17. Further, the City Council approved a total of \$5 million from Measure Z over the next two fiscal years to improve the condition of the Liability Insurance Trust Fund over the next five years.
7. Central Stores (\$698,762), 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 C) 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.

At its September 26, 2017 meeting, City Council authorized the purchase of 16 fire vehicles using previously appropriated Measure Z funds. To facilitate the vehicle acquisition, in October 2017, the City entered into a new capital lease financing agreement with Banc of America Public Capital Corp for \$14,500,000, payable over a seven to ten year period.

There are no other changes to the Quarterly Debt Report for this quarter.

FY 2018-2020 Two-Year Budget and Five-Year Plan

Staff is committed to preserving services and finding additional efficiencies to ensure the City's continued financial success and achievement of its Riverside 2.1 strategic initiatives. While the City has made great financial strides in FY 2016-17 and through the second quarter of FY 2017-18, a changing economy and increasing CalPERS costs will pose challenges in future years.

The City Manager's Office and Finance Department presented the baseline FY 2018-2023 Five-Year Plan to the City Council on January 16, 2018. This presentation was followed by several public meetings with the BEC (January 24, 30, 31 and February 22), and Ward specific community budget workshops in February 2018. A webpage for the FY 2018-2020 Two-Year Budget process has been added to the City's website www.riversideca.gov/finance/budget.asp; this webpage provides information on the budget and future fiscal challenges and encourages public participation in the budgetary process.

FISCAL IMPACT:

The City of Riverside continues to make tremendous fiscal progress. The new financial foundation for the City has resulted in estimated FY 2017-18 financial results that leave the City with a General Fund Reserve of \$59.3 million (23.3%). Further, Measure Z revenue and expenditure projections are materially on target with the Five-Year Spending Plan adopted by the City Council in May 2017, with a projected savings of approximately \$560,000. The projections and initiatives funded through Measure Z are making an impact on the safety and quality of life for the Riverside community.

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Attachments:

- A. FY 2017-18 Second Quarter General Fund and Measure Z Financial Report
- B. FY 2017-18 Second Quarter Cash and Investment Report
- C. FY 2017-18 Second Quarter Debt Report
- D. Riverside 2.1 Strategic Plan – Measure Z Update
- E. Presentation