

accounts to General Fund, Housing and Human Services, Salary accounts in the amount of \$117,533.39;

- e. A supplemental appropriation and all other accounting and financial transactions, in the amount of \$1,554,623.04 from the General Fund, to reimburse the developer of Community Facilities District (CFD) No. 38 an amount equivalent to eligible city fees paid pursuant to the CFD agreement, to be offset by CFD bond proceeds that will be used to spend otherwise General Fund or Measure Z project costs, resulting in a net zero impact to the City.
- f. A supplemental appropriation and interfund transfer in the amount of \$400,000 from the General Fund Infrastructure Reserve and \$100,000 from the Liability Insurance Trust Fund, Risk Management, Property Damage Claims Accounts into the Capital Outlay Fund, in a project account to be determined at a later date to support costs associated with the City Hall basement flood damages.

BACKGROUND:

On June 17, 2025, the City Council adopted Resolution No. 24273 approving the amended Fiscal Year (FY) 2025/26 of previously adopted FY 2024-2026 Biennial Budget.

DISCUSSION:

Throughout the fiscal year, City departments and the Budget Office monitor and analyze all City funds for potential issues that require attention and mitigating action. For the first quarter report, City departments analyzed the financial status for all funds and appropriations under their purview. The results of the City's major funds, as well as areas of potential concern in other funds (if any), are included in this report. This update spans the period of July 2025 through September 2025.

General Fund

Analysis of the first quarter indicates potential continued challenges for the General Fund in FY 2025/26, consistent with trends observed in the prior fiscal year. Although revenues are generally aligned with overall budgeted expectations, they continue to reflect a shift toward slower growth rates. This moderation in economic growth appears influenced by front-loaded demand in anticipation of federal tariffs implemented in March 2025, which may have partially shifted some activity from the current fiscal year into FY 2024/25. However, most revenues continue to show positive nominal growth, which is expected to persist unless new economic factors arise at the federal, state, or local levels.

Ongoing variability in business and consumer spending has contributed to this moderated growth environment, which is anticipated to continue through the fiscal year in the absence of significant changes. Consumers appear more discerning in their spending decisions amid current economic conditions, while businesses appear to be exercising caution, potentially delaying expansions until a more favorable economic and interest rate landscape emerges at the federal level. This trend is evidenced by a slowdown in development permit activity, resulting in weaker-than-anticipated revenue in this category. Uncertainty surrounding federal interest rate policy and the transition to

a new Federal Reserve Chair in May 2026 may continue to constrain business activity through the remainder of the fiscal year, potentially impacting City revenues.

Additionally, cost pressures continue to persist due to newly ratified Memorandum of Understanding (MOU) agreements with various labor unions, increased public safety overtime costs, and increased costs for goods and services due to continued elevated inflation levels.

Adopted Budget: The adopted FY 2025/26 budget for the General Fund totaled \$371.8 million with a balanced budget. As of the first quarter review of the budget, no significant trends have emerged that would necessitate major changes to the adopted budget at this point in the fiscal year. However, certain areas reflect increased expenditures and/or decreased revenues, which are being closely monitored for potential budget overages. Additional updates on these areas and recommended adjustments, if any, will be provided in the second-quarter review.

Revenues: Fiscal Year 2024/25 year-end reflected a slowing of revenue growth in the General Fund, particularly in sales tax. Through the first quarter of FY 2025/26, revenue is generally aligned with budgeted expectations. Despite signs of economic softening, overall revenue performance shows no significant deviations from the adopted budget.

- **Property Taxes** – Over the past decade, the City of Riverside has experienced substantial growth in assessed property values. Although property tax growth has continued to increase over the past two years, it is anticipated to moderate and grow at a more normalized rate. Most property tax revenue comes in the second half of the fiscal year and therefore staff will present outcomes in future quarterly reports.
- **Sales Tax** –The first quarter review of sales tax receipts shows a slight softening of this revenue, but remains largely in-line with budgeted targets. Although sales tax revenue increased by 1.1% over the first quarter of the prior fiscal year, the growth rate is lower than the overall 2.7% growth experience in FY 2024/25. Signs of softening consumer and business spending are emerging but are within expected ranges. Although the City is experiencing lower growth rates, if current trends continue, sales tax revenue may slightly exceed budgeted expectations.
- **Development Fees and Charges** –The first quarter review of development fees and charges revenue demonstrate a continued decline in this category. Revenues are at 17.7% of total budget, which is 4.1% less than the first quarter of the prior fiscal year. Building permits are also down by 12.0% compared to the first quarter of the prior fiscal year. Staff will continue to monitor this revenue category and recommend adjustments in a future quarterly report.
- **Other Revenues** –
 - Various revenue sources are trending lower when compared to prior year's first quarter performance including, but not limited to, franchise fees and fines and forfeitures. These revenue decreases are being offset by higher performing revenue across other categories including business license tax, non-development fees and charges, and interest earnings.

Expenditures: As of the first quarter, overall expenditures as a percent of budget are generally trending in line with the same period of the prior fiscal year. However, it's important to note that some expenditures cannot be directly compared quarter-over-quarter between fiscal years. For example, professional service expenditures in the non-personnel category may vary due to services being contracted on an 'as-needed' basis or the timing of project implementations.

The personnel expenditure budget includes a 6% vacancy savings factor (equivalent to approximately \$15.9 million for General Fund) within a non-departmental fund account, freeing funds for other City priorities. However, all positions are fully budgeted within their respective departments. At the close of the first quarter, the General Fund reflected a vacancy rate of 9.8%. However, It is important to note that vacancy rates, in terms of full-time equivalents (FTEs), do not directly equate to dollar savings. Actual savings will depend on the salary and benefit costs of vacant positions. Overtime costs are also trending higher than budget, primarily in the Police Department. Although no adjustments to the personnel budget are recommended currently, staff anticipate a need to increase the overtime budget in the current year. Staff will continue to monitor personnel costs, providing updates in future quarterly reports.

Throughout the first quarter, the City Council approved the following supplemental appropriations totaling \$3.33 million in the General Fund:

- Expedited Plan Check Services (Net Zero) – \$200,000 supplemental appropriation offset by an equivalent amount of revenue for a deposit-based program that allows private developers to obtain expedited plan check services when in-house staff are unable to accommodate the request.
- Various Personnel Adjustments (-\$511,030) – Net savings from the reduction of personnel in Housing and Human Services, Community and Economic Development, partially offset by increase in personnel in the Fire Department.
- Hawarden Fire Program (\$28,843) – Assistance provided by the Riverside County Fire Department during the Hawarden Fire Incident.
- Fire Inspections (Net Zero) – Cost recovery billing services agreement for Fire Prevention Inspections with Fire Recovery USA, LLC. Revenue generated will offset cost of agreement, which are estimated to be approximately \$143,600 annually.
- Festival of Lights (\$300,000) – Agreement with the Riverside Arts Council for the administration and management of the Festival of Lights.
- Various Labor Agreements (\$3.51 million) – Increased costs associated with newly ratified Memorandum of Understanding with the Service Employee International Union (SEIU) and unrepresented employees. These costs are anticipated to be offset by anticipated salary and benefit growth that was built into the adopted budget.

Throughout the first quarter, the City Council approved supplemental appropriations of \$4.20 million from the General Fund Infrastructure Reserve:

- City Hall Elevator Modernization (\$1.58 million) – Agreement with Otis Elevator Company for the modernization of elevators at City Hall.
- Eastside Library Project (\$1.00 million) – Construction of the SPC Jesus S. Duran Eastside Library. Agreement with Horizons Construction Company for the demolition, hazardous material abatement, and new construction of the facility.
- Airport Master Plan Project (\$976,530) – Professional Services Agreement with Coffman Associates, Inc. for the preparation of the Airport Economic Impact Study/Development Plan and Master Plan for the Riverside Airport.

- Electric Trucks from Voltu Motor, Inc. (\$642,500) – Purchase of trucks from Voltu Motor, Inc and design, construction and installation of level 2 chargers.

Summary: The General Fund remains generally aligned with the budgeted estimates adopted in June 2025. Staff continue to monitor potential slowing down in certain major revenue streams, though no significant deviations have emerged to date. A key area of focus is the ongoing rise in personnel expenditures, particularly within public safety departments, which includes continued elevated overtime as experienced last fiscal year. These costs are increasing at a rate that exceeds current revenue growth trends, driven by factors such as recent labor agreements and operational demands. At this stage, no budget adjustments are recommended; however, staff will continue to monitor revenue performance and expenditure pressures and will present recommended updates to Council for consideration in a future report.

Measure Z

The adopted FY 2025/26 budget for Measure Z totaled \$107.3 million, which includes a budgeted net drawdown of \$23.2 million, and projected ending balance of \$12.7 million. Separately, \$5.00 million is held in contingency reserves per the adopted Measure Z Reserve Policy to ensure sufficient funding for ongoing costs in the event of under-performing revenues.

As of the first quarter, Measure Z is projected to end FY 2025/26 with \$20.4 million in fund reserves, resulting from a net drawdown of \$68.5 million, which includes encumbrances and carryovers from prior years and supplemental appropriations.

Revenues: Since its approval in 2017, the Measure Z Transaction and Use Tax has grown steadily, peaking at \$84.02 million in FY 2022/23. In FY 2023/24, revenues declined 2.5% to \$81.90 million from the prior fiscal year, marking the first revenue drop since Measure Z's inception. In FY 2024/25, revenues continued to decline, falling by 0.7% to \$81.33M.

As of the first quarter, Measure Z revenues are 1.8 % above the first quarter of the prior fiscal year. However, this is lower than the budgeted growth rate and if this trend continues revenues may be below budgeted expectations.

Expenditures: The total budget presented in the Measure Z Spending Plan includes carryovers of \$44.44 million, comprised of encumbrances of \$22.12 million, capital carryovers of \$16.5 million, and \$5.83 million of approved discretionary carryovers. Measure Z funds include many projects and one-time expenditures, causing quarterly actuals to appear to be trending behind budget. However, spending is progressing as planned and within appropriation limits.

During the first quarter of FY 2025/26, the City Council approved supplemental appropriations totaling \$592,638, in Measure Z including:

- Riverside Fire Department SCBA Conversion kits (\$371,284) – Increase Measure Z Fire Operations account to purchase Self Contained Breathing Apparatus conversion kits.
- Various Labor Agreements (\$221,354) – Increased costs associated with newly ratified Memorandum of Understanding with SEIU and unrepresented employees.

Electric Fund

The FY 2025/26 adopted budget for the Electric Fund projects a \$13.5 million net gain, excluding bond proceeds and capital project allocations and a net draw on fund reserves of approximately \$55.3 million when including budgeted bond proceeds and capital expenditures. The total budget as of first quarter includes \$18.4 million in prior year encumbrances and carryovers.

Revenues: As of the end of the first quarter, electric revenues stand at 29.8% of budgeted projections and are expected to meet budgeted amounts. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be 29.1% or \$119.2 million of total budget through September 2025. Retail sales are 28.6% or \$117.3 million of total budget through September 2025, which is 0.5% or \$1.9 million lower than expected. The lower than anticipated retail revenues are a result of decreased electric consumption attributed to milder temperatures through the first quarter of the fiscal year. Transmission revenues are projected to be 7.6% or \$2.1 million lower than budget due to a decrease in the Transmission Revenue Requirement (TRR) rate reflective of a decrease in SCE transmission costs. The TRR revenues are based on the transmission load multiplied by the TRR rate. Staff will continue to monitor decreasing revenue trends and recommend adjustments in a future quarterly report.

Expenditures: Electric expenditures are 26.0% of the total budget at the end of the first quarter. The Electric Fund had 56.00 FTE vacancies at the end of the first quarter, representing a vacancy rate of 11.8%. Personnel savings are anticipated from normal attrition due to retirements and resignations, as well as the timing of filling positions. Within the non-personnel budget, overall costs are in line with the adopted budget.

Water Fund

The FY 2025/26 adopted budget for the Water Fund projected a \$11.7 million net gain excluding capital expenditures and a net draw on fund reserves of approximately \$22.8 million when including budgeted capital expenditures. The total budget as of first quarter includes \$9.8 million in prior year encumbrances and carryovers.

Revenues: At the end of the first quarter, total revenues for the Water Fund are 36.2% of budgeted projections. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be 30.1% or \$26.3 million of total budget through September 2025. Retail sales are 31.3% or \$27.3 million of total budget through September 2025, which are 1.2% or \$1.0 million higher than expected. Increased water consumption appears to be driven by below-average precipitation throughout the first quarter of the fiscal year. Water Wholesale and Conveyance Revenue is projected to be slightly less than anticipated due to reduced demand from other utilities. Many factors can have an impact on water revenues, which will be monitored throughout the remainder of the fiscal year.

Expenditures: At the end of the first quarter, Water Fund expenditures stand at 18.1% of the budget. As of the same period, the Water Fund had 17.00 FTE vacancies, representing a vacancy rate of 10.3%. Personnel savings are anticipated from normal attrition due to retirements and resignations, as well as the timing of filling positions. Non-personnel expenditures are trending lower than last year's level of expenditures; however, it is important to note some expenditures vary in their timing throughout the fiscal year. Overall, water expenditures are projected to remain within the budgeted appropriation limit at fiscal year-end.

Refuse Fund

The FY 2025/26 adopted budget for the Refuse Fund projects a net loss of approximately \$1.8 million due to higher disposal costs and the first-year repayment of a loan provided by the General Fund infrastructure reserve used to support solid waste vehicle purchases. That loan is expected to be fully repaid by 2028. The total budget as of the first quarter also includes \$6.8 million in prior fiscal year encumbrances and carryovers. Of this amount, \$5.2 million is associated with pending vehicle purchases that are funded by revenue that was recognized in FY 2022/23 and moved to fund balance. The Refuse Fund's reserve balance is expected to be sufficient to accommodate the current fiscal year deficit. Although the total budget appears to reflect a \$9.3 million loss, this is primarily due to the carryover and timing of when the revenue associated with vehicle purchases was recognized.

Revenues: At the end of the first quarter, total revenues for the Refuse Fund are 25.0% of budgeted projections. First-quarter analysis indicates that Refuse revenues are generally on track to meet expectations and align with budgeted projections for the fiscal year.

Expenditures: Expenditures are 23.6% of total budget at first quarter end. During this period, the Refuse Fund continued to experience staffing shortages with 15.00 FTE vacancies, constituting a vacancy rate of 22.4%. The personnel savings were partially offset by new vehicle expenditures from prior year carryovers that took place in first quarter.

Sewer Fund

The FY 2025/26 adopted budget projects a net gain of \$0.98 million excluding capital expenditures but anticipates a total draw on fund reserves of approximately \$2.9 million when including capital expenditures. The total budget for the first quarter also includes \$2.5 million in prior fiscal year encumbrances and carryovers.

Revenues: First quarter analysis indicates that the Sewer Fund may slightly underperform in revenue due to a continued decline in the new Sewer Connection Fee category, which is linked to reduced construction activity and lower than anticipated development in the City. However, other categories within the Sewer Fund are expected to slightly outperform projections, which may partially offset revenue decreases. Staff will continue to monitor the connection fees and assess their impact on overall revenue projections for the remainder of the fiscal year.

Expenditures: Expenditures are 23.19% of the total budget at the end of the first quarter. During this period, the Sewer Fund had 17.00 FTE vacancies, constituting a vacancy rate of 14.05%. Vacancies savings are anticipated to be offset by increased overtime to meet operational needs. However, personnel expenditure projections remain within budgeted forecasts, and no adjustments are anticipated at this time.

Public Parking Fund

The FY 2025/26 adopted budget for the Public Parking Fund projects a net gain of \$1.6 million excluding capital but anticipates a net gain of approximately \$0.75 million when including capital expenditures. The total budget as of first quarter includes \$249,537 in prior year encumbrances and carryovers.

Revenues: Overall revenues for the Parking Fund are 25.4% and are expected to meet projected revenue. Revenues are increasing due to the nightly flat rate and monthly parking rate increase but are being offset by the decrease in volume. Revenues for Street Sweeping are expected to

increase by over 18% compared to last year due to new dependable equipment and consistent routes.

Expenditures: Expenditures are 9.7% of the total budget at the end of the first quarter. During this period, the Public Parking Fund had 3.00 FTE vacancies, constituting a vacancy rate of 13.04%. These shortages, coupled with extended hours of operation, have necessitated the need for overtime, but overall expenditures remain within budget.

Budget Adjustments

Throughout the fiscal year, staff assesses the need for adjustments to the adopted budget. The following budget adjustments are recommended for Council approval; funds are available in the respective funds to accommodate the recommendations.

1. **General Fund – Finance/Debt & Treasury Admin (\$10,000):** Record a supplemental appropriation in the General Fund, Finance-Debt & Treasure Admin – Professional Services expenditure account 2302000-421000 in the amount of \$10,000 to invoices related to the professional services contract of the Public Safety Impact Analysis, funded from the Special Deposits Fund, Debt Service Admin Fee account 0000720-225087.
2. **General Fund/Special Deposit Fund:** Record a supplemental appropriation on an as-needed basis, from available deposits in the ASR Special Deposit Fund Account 0000721-225152 and GCS Special Deposit Fund Account 0000721-225153, for the one-time city costs to be paid by developers of Adrenaline Sports Resorts and the Sports and Entertainment District development projects.
3. **General Fund Intradepartmental Transfers (\$117,533.39):** An interdepartmental transfer of 2.5 FTEs and transfer of related personnel budget from General Fund, Parks Recreation and Community Services Department, 5205000-41XXXX to General Fund, Housing and Human Services, Homeless Outreach Salary account 2505000-41XXXX in the amount of \$117,533.39
4. **Riverwalk LMD Fund – P&R Special Dist. Maintenance (\$265,051):** Record a supplemental appropriation in the Riverwalk LMD Fund, Maintenance & Repair expenditure account number 9760375-424200 in the amount of \$265,051 to cover the costs of replacement of the trail fencing and playground equipment.
5. **Community Facility District (CFD) Reimbursements (\$1,554,623.04):** Record a supplemental appropriation in the amount of \$1,554,623.04 from the General Fund, to reimburse the developer of CFD No. 38 an amount equivalent to eligible city fees paid pursuant to the CFD agreement. This amount will be offset by bond proceeds that will be used to spend on General Fund or Measure Z project costs, resulting in a net zero impact to the City.
6. **General Fund Infrastructure Reserve – City Basement Flood Damages (\$500,000) –** A supplemental appropriation and interfund transfer in the amount of \$400,000 will be recorded in the General Fund Infrastructure Reserve and \$100,000 from the Liability Insurance Trust Fund, Risk Management, Property Damage Claims Account to the Capital Outlay Fund to address damages in the City Hall Basement due to a recent flood. The repairs in the basement are being performed by Belfor Property Restoration through a contract for emergency and non-emergency restoration services that was approved by City Council on June 27, 2023.

FISCAL IMPACT:

As of the first quarter, the General Fund faces potential continued challenges due to costs and pressure associated with rising personnel costs and reduced levels of revenue growth. These challenges may be exacerbated by potential unanticipated costs such as the pending litigation from the Water GFT and future labor negotiation impacts. Although the first quarter picture of the City's finances largely aligns with estimates presented during budget adoption in June 2025, there remains ongoing uncertainty of the fiscal outlook. Given these uncertainties, City staff advises caution regarding any additional unallocated spending. Staff will continue to monitor the performance of the City's revenues and provide input and recommendations on potential modifications to the budget in the second quarter report.

The Measure Z Fund projected revenues and unallocated reserves remain at levels sufficient to fund approved spending items.

The City's Sewer, Electric, and Water Funds are fiscally healthy, with projected gains or strategic drawdowns of reserves. The reserves of each of the three funds are within policy reserve requirements. Although the Refuse Fund is projecting a loss for the current fiscal year, there are sufficient reserves to accommodate the budgeted drawdown. The Public Parking Fund is projecting a net gain primarily due to the implementation of the Parking Your Way program, which has continued to increase revenues.

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Attachments:

1. Measure Z Spending Plan
2. Presentation