



City of Arts & Innovation

Budget Engagement Commission

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TO: HONORABLE COMMISSIONERS **DATE: JANUARY 11, 2024**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: FISCAL YEAR 2023/24 FIRST QUARTER FINANCIAL UPDATE

ISSUE:

Receive and provide input on the Fiscal Year 2023/24 First Quarter Financial Update; consider the recommendation of proposed budget adjustments.

RECOMMENDATIONS:

That the Budget Engagement Commission:

1. Receive and provide input on the Fiscal Year 2023/24 First Quarter financial update; and

Recommend that the City Council approve:

2. A supplemental appropriation in the General Fund of \$1,000,000 from the Infrastructure Reserve for an interfund transfer to the Airport Fund and record supplemental appropriations in the same amount in Airport Capital Projects expenditure account for Airport building remedial repairs; and
3. A supplemental appropriation of \$3,000 in the General Fund, Mayor's College Council of Riverside expenditure account, fully offset with funds from the Special Deposit Fund, College Council of Riverside deposit account; and
4. A supplemental appropriation in the General Fund, Human Resources Department of \$250,000 to the employee Education Reimbursement Program; and
5. A supplemental appropriation in the General Fund, Non-Departmental of \$100,000 to fund payment processing upgrades and related compliance requirements; and
6. A supplemental appropriation of \$100,000 in the General Fund, Non-Departmental General Services expenditure account for additional security patrols in Ward 5 and 6.

BACKGROUND:

On June 21, 2022, the City Council adopted Resolution No. 23866 approving the Fiscal Year (FY) 2022-2024 Biennial Budget. On June 27, 2023, the City Council adopted Resolution No. 24010 approving the amendments to the Fiscal Year 2023/24 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 concern in other funds (if any), are included in this report. This update spans the period of July 2023 through September 2023.

General Fund

First quarter analysis reveals potential challenges for the General Fund for FY 2023/24, including the \$8.57 million set-aside of the Water General Fund Transfer (GFT) revenues, the fiscal impact of recent labor negotiation, and the prospect of a potential economic slowdown. Given that these results only cover three months, it is premature to determine the fiscal year-end outcomes for the General Fund. Staff will continue monitoring General Fund revenues and expenditures, and in the second-quarter report presented to Council, staff will provide projected fiscal year-end estimates and recommendations to address any budgetary issues.

Adopted Budget: The adopted FY 2023/24 amended budget for the General Fund totaled \$332.09 million with a projected \$6.41 million surplus. Anticipating upcoming fiscal challenges and recognizing the importance of flexibility, staff refrained from presenting a formal recommendation for the allocation of the projected surplus reserves. Instead, staff suggested planning for a \$5.00 million contribution to the Infrastructure Reserve for the long-term management of deferred maintenance and other capital costs. The formal recommendation will be presented at fiscal year-end if the budget surplus materializes.

Revenues: FY 2023/24 General Fund revenues recorded through September 2023 were assessed in the context of FY 2022/23 actual results, performance to date, and potential economic impacts through the end of the fiscal year. The first quarter analysis of the General Fund indicates that, while individual revenue streams may vary – with some meeting budgetary expectations and others falling below or exceeding the budget – the overall revenue performance to date aligns with budgeted expectations.

The following outlines trends for the performance of key revenue streams:

- **Property Taxes** – Over the past decade, the City of Riverside has experienced substantial growth in assessed property values. This growth has translated into significant increases in the City's property tax revenues, which constitute approximately 25% of General Fund revenues. According to the County of Riverside Assessor – County Clerk – Recorder, the City witnessed an 8.2% increase in assessed property values for FY 2023/24. This growth is attributed to increases in property values across residential, industrial, and agricultural sectors due to property sales, construction, and development. Consequently, the City's property tax consultant, HdL, projects current real and secured property taxes will be 3.15% higher than budgeted, for projected growth of 7.1% over the prior year actuals.

- **Sales and Use Tax** –The first-quarter analysis reveals that the economy is starting to feel the effects of the Federal Reserve's measures to combat inflation through interest rate hikes, impacting both households and businesses. Revised FY 2023/24 revenue projections from the City's sales tax consultant, HdL, projects a 4.93% reduction in sales and use tax revenues compared to the budget, and a projected decrease of 4.3% from prior year actuals.
- **Franchise Fees** – At the conclusion of FY 2022/23, franchise tax revenues reached \$6.42 million, marking a notable 7.8% increase compared to the previous fiscal year. This significant increase is attributed to the Year 2 increase in solid waste rates, impacting franchise fees for waste haulers. Additionally, escalating energy costs increased franchise fee collections from SoCal Gas and Edison. Although the FY 2023/24 budget designates \$5.84 million for franchise tax revenues, it is anticipated that the current year's franchise tax revenues will meet or surpass the FY 2022/23 figure, potentially representing at least a 10% increase over the current budgeted amount.

Expenditures: As of the first quarter, overall expenditures are trending lower as compared to the first quarter of the prior fiscal year. It's important to note, however, that expenditures in certain categories cannot be directly compared in a quarter-over-quarter analysis 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 timing of project implementations.

The personnel expenditures budget includes a 5% attrition rate (equal to about \$12 million) within a non-departmental fund account, which freed up funds for allocation to City priorities during amendment of the originally adopted budget. However, all positions are fully budgeted within their respective departments, indicating the City's commitment to filling these positions. In FY 2023/24, 41.75 full-time equivalent (FTE) positions were added compared to the total FTE positions in FY 2022/23, resulting in an increase in the vacancy rate from 11.5% at the end of FY 2022/23 to 13.5% at the beginning of the new fiscal year. At the close of the first quarter, the General Fund maintained a high vacancy rate of 12.5%, which decreased to 11.7% by December 2023. If the current trend of filling positions continues throughout the fiscal year, the projected vacancy rate at year-end is estimated to be 9.6%, resulting in an average annual projected vacancy rate of 11.5%. This would yield personnel savings at fiscal year-end exceeding the programmed 5% attrition rate, creating budgetary flexibility that will help mitigate the current fiscal challenges faced by the General Fund.

During the first quarter of FY 2023/24, the City Council approved supplemental appropriations totaling \$1.12 million in the General Fund:

- Riverside New Car Dealers Association (RNCDA) for Business Improvement District (BID) Funding \$100,000 – the City entered into a new agreement with the RNCDA to invest in the BID for five years, at a cost of \$100,000 per year in exchange for advertising time on the Auto Center electronic sign display.
- Emergency Air Support (Corona) \$120,000 – As-needed emergency air support services to the City of Corona, fully offset by corresponding revenues.
- Temporary Parking Lot Construction at 3460 Orange Street \$900,000: Use of General Fund insurance reimbursement reserves for interfund transfer from the General Fund to the Public Parking Fund.

Summary: Despite a two-year shift in sales-tax revenues prompted by the pandemic and changes in consumer spending, which established a new, higher baseline for the City's General Fund revenues, the City is grappling with emerging ongoing fiscal challenges, particularly considering the \$8.57 million set-aside of the Water GFT. If overall revenue performance aligns with budgeted expectations, anticipated FY 2023/24 personnel savings are projected to help alleviate the impacts of the Water General Fund transfer loss and the fiscal impact of current labor contract negotiations in the short-term. City staff will diligently monitor economic impacts on the City's revenues and provide updated projections in the second-quarter report to the Council, along with any recommended adjustments to address budgetary issues.

Supplemental Appropriations: Throughout the fiscal year, staff assess the need for adjustments to the adopted budget. The following budget adjustments are recommended for Council approval and are expected to be fully offset by personnel savings above and beyond the budgeted 5% attrition rate. Additional vacancy savings of \$450,000 will be recorded in the General Fund, Non-Departmental Vacancy Savings account 7223700-419997 for item #3 – 5 below.

1. **General Fund – General Services (\$1,000,000):** Record supplemental appropriations in the General Fund of \$1,000,000 from the Infrastructure Reserve for an interfund transfer to Airport Fund and record supplemental appropriations in the same amount in Airport Capital Projects expenditure account 9599000-470803 for remedial repairs on the Airport Building. During a recent storm, an Airport building experienced significant roof leak issues and related water damage. The building has been vacated pending repairs.
2. **General Fund – Mayor (\$3,000):** Record supplemental appropriations of \$3,000 in the General Fund, Mayor – Community Relations College Council of Riverside expenditure account 0120000-453925 from the Special Deposits Fund, College Council of Riverside deposit account 0000720-225724. The money was collected from organizing the 2016 Amazing College Race event. The funds will be used to support the Riverside Youth Council program and 25 Most Remarkable Teens event.
3. **General Fund – Human Resources Department (\$250,000):** Record supplemental appropriation of \$250,000 in the General Fund, Human Resources – Administration expenditure account 2100000-452005, to fund the employee Education Reimbursement Program. The City administration established a policy for the Education Reimbursement Program to supports a culture of learning by encouraging employees of the City to pursue educational courses, certifications, licenses, and other training programs which will increase their job proficiency, prepare them for promotional opportunities within the City, and improve the overall level of service provided by the City in furtherance of the City's strategic goals and initiatives.
4. **General Fund – Non-Departmental (\$100,000):** Record supplemental appropriation of \$100,000 in the General Fund, Non-Departmental Professional Services expenditure account 7223700-421000 to fund urgent payment processing upgrades to ensure City compliance with Payment Card Industry (PCI) standards. Non-compliance could result in fines. This is a joint project led by the Finance and the Innovation and Technology Departments and will primarily affect General Fund departments accepting credit card payments.
5. **General Fund – General Services (\$100,000):** Record supplemental appropriation of \$100,000 in the General Fund, Non-Departmental General Services expenditure account 7222100-421000, to fund security patrols in Ward 5 and 6. In accordance with the Security Resource Pilot Program approved by Council on October 10, 2023, the additional

contracted security patrols for Wards 5 and 6 are needed to address safety concerns from residents, businesses, and visitors related to increased transient activity. The security guards supplement the Police Department, serving as extra eyes and ears to monitor activities in Wards 5 and 6, allowing the police to focus on critical deployments.

If approved by the City Council, the supplemental appropriations recommended in this report will increase budgeted expenditures by approximately \$1.45 million, with \$450,000 offset by an increase in projected attrition savings and the balance offset by reserves and deposits.

Measure Z

Based on the spending items approved to date and slowing tax revenue performance, Measure Z is projected to end the fiscal year with approximately \$47.19 million in fund reserves (refer to Attachment 2). 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.

Revenues: The FY 2023/24 adopted amended budget incorporated projected revenues of \$84.46 million. However, as discussed earlier, the actions taken by the Federal Reserve to curb inflation have led to a decline in consumer spending, resulting in a 3.1% decrease in transaction and use tax compared to the first quarter of the previous year. Consequently, HdI projects a 4.0% reduction in sales tax revenues compared to the budget, and a 3.1% decrease from prior year actuals.

Expenditures: The total budget presented in the Measure Z Spending Status (Attachment 2) reflects encumbrances and carryovers of \$48.65 million carried forward from FY 2022/23 as provided for in the Riverside Municipal Code and approved by Council in December 2023. Measure Z funds include many projects and one-time expenditures, causing expenditures to appear to be trending behind budget. However, spending is progressing as planned and within appropriation limits.

Electric Fund

The FY 2023/24 adopted amended budget for the Electric Fund projects a \$9.12 million operating loss due to a planned draw on reserves. This is a financial strategy employed to draw reserves down to keep rate increases as low as possible.

Revenues: As of the end of the first quarter, Electric operating revenues stand at 29.6% of budgeted projections. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 30.0% of total budget through September 2023. Retail sales are at 28.2% of total budget through September 2023 and (6.1%) or \$6.60 million lower than expected. As of September 30, 2023, 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. Decreased electric retail sales will have a corresponding decrease in electric expenses. Weather can significantly impact retail revenues, which will be monitored throughout the remainder of the fiscal year. Transmission revenues are projected to perform as anticipated for the remainder of Fiscal Year 2023/24. The projected Fiscal Year revenue remains unchanged.

Expenditures: Electric operating expenditures are 28.4% of the total budget at the end of the first quarter. Additionally, the Electric Fund had 72.00 FTE vacancies, representing a vacancy rate of 15.2%. 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, Power

Supply costs are trending 2% over budget due to significantly higher-than-expected increases in market energy and natural gas prices.

Water Fund

The FY 2023/24 adopted amended budget for the Water Fund projected an operating gain of \$4.59 million to help pay for capital projects and ensure reserves are maintained at policy levels.

Revenues: Total operating revenues for the Water Fund are 27.4% of budgeted projections as of first-quarter end. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 32.1% of the total budget through September 2023. Actual retail sales are at 27.8% of the total budget through September 2023 and 13.5%, or \$3.32 million, lower than expected. Decreased water consumption appears to be driven by the milder temperatures and increased precipitation through the first quarter of the fiscal year. Weather, including precipitation, can significantly impact retail revenues, which will be monitored throughout the remainder of the fiscal year.

Expenditures: At the end of the first quarter, Water Fund operating expenditures stand at 20.1% of the budget. As of the same period, the Water Fund had 23.00 FTE vacancies, representing a vacancy rate of 13.9%. 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 6.9% higher 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 2023/24 adopted amended budget for the Refuse Fund projects a draw on fund reserves of approximately \$1.16 million due to a decline of recycling revenues precipitated by a reduction in industry demand, rising recycling costs, increased tonnage, and newly implemented state mandates. The Refuse Fund began the fiscal year with fund reserves of \$6.19 million net of prior year encumbrances and the cash infusion of a combined \$11.00 million in General Fund contributions and ARPA funding. As of the first quarter, the reserve balance is expected to be sufficient to accommodate the current fiscal year deficit. On September 19, 2023, the City Council adopted a resolution approving and establishing the residential solid waste rate structure from November 1, 2023, through June 30, 2028. The five-year residential solid waste rate plan will address the challenges to solid waste services provided by the City. The solid waste rate plan is projected to utilize \$3.0 million of reserves over the first three years of the five-year plan before generating a net operating gain.

Revenues: First-quarter analysis suggests that Refuse revenues will meet expectation, inclusive of the November 1, 2023, solid waste rate increase. By the end of the first quarter, service revenues stand at 25.2% of projections and total revenues are 24.3% of projections.

Expenditures: Operating expenditures are 14.9% of total budget at first quarter end. During this period, the Refuse Fund continues to experience staffing shortages with 14.00 FTE vacancies, constituting a vacancy rate of 22.6%. Due to staffing shortages, overtime costs are anticipated to rise, but will be offset by personnel savings. Additionally, Street Sweeping staff are assisting with routes to mitigate impacts from staffing shortages. While awaiting approval of the Solid Waste Rate plan, which included adding five Senior Solid Waste Operator positions, the Refuse Fund received approval to double fill five current Senior Solid Waste Operator positions. Now that the rate plan has been approved, these new positions will be added and filled. Projected overages

are anticipated in the non-personnel budget due to increased maintenance costs from an aging fleet. However, vehicle replacement will result in a reduction of these costs. Staff will monitor costs and make future recommendations for supplemental appropriations if necessary.

Sewer Fund

The FY 2023/24 adopted amended budget projects a net operating loss of \$2.65 million. There are sufficient reserves to cover the potential operating loss.

Revenues: First quarter analysis indicates that the Sewer Fund will surpass revenue expectations. By the end of the first quarter, 26.5% of overall projected revenues have been realized. However, first quarter sewer connection fees are currently at 127.0% of the projected budget. This notable increase is primarily attributed to the growth in planned development.

Expenditures: Operating expenditures are 17.0% of the total budget at the end of the first quarter. During this period, the Sewer Fund had 25.00 FTE vacancies, constituting a vacancy rate of 21.2%. The high vacancy rate requires staff to work overtime to cover shifts and manage the increased workload. As a result, overages are expected in the overtime budget, which will be offset by personnel vacancy savings.

Utility Account Delinquencies

The Electric, Water, Refuse and Sewer funds were impacted by the suspension of utility shutoffs in response to the pandemic. In December 2021, Riverside Public Utilities (RPU) provided credits to water and electric customer accounts of \$13.0 million from the California Arrearage Payment Program (CAPP) and California Water and Wastewater Arrearage Management Program (CWWAPP). In May 2022, the City applied credits to customer accounts for the CWWAPP for wastewater utility arrearages in the amount of \$2.3 million. In January 2023, the City applied \$18.6 million in credits to electric customers accounts as part of the General Fund Transfer Settlement.

As of September 30, 2023, the combined delinquent accounts receivable for the four utilities is \$18.68 million, which is \$13.76 million more than March 2020. In August 2022, Riverside Public Utilities (RPU) resumed shut-offs for non-payment along with issuing 48 hour tag notifications. On May 17, 2022, the City Council approved the Restart Utility Bill Repayment (RESTART) Program, which allows utility customers with large past-due balances to enroll in a bill repayment program to pay their delinquent charges over an 18-month period. RPU continues to offer standard twelve-month arrangements for customers with delinquent payments. Of the current \$16.68 million delinquent accounts receivable, \$0.53 million will be paid under the RESTART program and \$1.12 million will be repaid under the standard installment program. The balance of \$17.03 million remains delinquent without an installment plan.

Public Parking Fund

The FY 2023/24 adopted amended budget for the Public Parking Fund anticipates a draw on fund reserves of approximately \$0.48 million. Parking revenues in the original FY 2022-2024 adopted budget included new parking rates, which were subsequently rescinded. On April 18, 2023, the City Council approved a new Parking Rate and Hour Schedule effective July 1, 2023. These

adjustments, along with other related expenditure adjustments, are incorporated into the FY 2023/24 adopted amended budget.

The Public Parking Fund began the fiscal year with fund reserves of \$3.48 million net of prior year encumbrances. As of the first quarter, the reserve balance is expected to be sufficient to accommodate the current fiscal year deficit.

Revenues: The downtown parking operation has experienced a significant turnaround in utilization, leading to a positive annual increase in revenues due to the implementation of the Parking Your Way program, incorporating more accessible free parking, new parking rates, expanded hours of operation, new monthly parking programs, the rollout of the Park Riverside app, and the installation of Parking Access Revenue Control Systems (PARCS) in the garages. The first-quarter comparison to the previous fiscal year reveals that parking revenues are experiencing a 56.1% increase over last year's figures. Additionally, during the expanded hours, parking fine revenues have increased, reflecting a 186.4% increase over prior year's first quarter figures.

Expenditures: Operating expenditures are 13.4% of the total budget at the end of the first quarter. During this period, the Public Parking Fund continues to experience staffing shortages with 5.00 FTE vacancies, constituting a vacancy rate of 26.32%. These shortages, coupled with extended hours of operation, have necessitated the need for overtime. The long-term corrective action involves having sufficient staff with staggered shifts to cover the expanded hours of operation with minimal overtime. Nevertheless, overtime remains a practical solution for providing operational coverage with the current FTEs.

Monthly operating costs for Parking Concepts Inc. (PCI) are higher than expected due to the implementation of the Parking Your Way program. This program includes extended hours of operation, new parking programs, additional staffing, additional credit card transaction fees, equipment installation, and weekly power washing maintenance. A Council agenda report will be prepared to request an amendment to the contract with PCI to account for the additional operating costs.

To assist with the proper control and management of Parking Garages 1 and 2, Parking Services is planning to install the Parking Access Revenue Control Systems (PARCS). In December 2023, a Council agenda report will be presented to request Council approval for the installation of the PARCS system. Additionally, Parks is planning structural maintenance for Garage 3, with the specific cost to be determined upon the completion of a request for proposal.

STRATEGIC PLAN ALIGNMENT:

The reporting and presentation of financial results aligns with **Strategic Priority 5 – High Performing Government and Goal 5.3** – Enhance communication and collaboration with community members to improve transparency, build public trust and encourage shared decision-making.

Financial reporting aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – Presentation of financial results provides a transparent view and communication of City finances in a forum that accommodates community engagement and the involvement of the Budget Engagement Commission.

2. **Equity** – The financial report is available to all members of the public via the City website, and the presentation of the financial report in a public forum accommodates community engagement from all members of the public.
3. **Fiscal Responsibility** – The financial report and proposed recommendations, including the use of surplus reserves, demonstrate the City’s commitment to responsible management of the City’s financial resources.
4. **Innovation** – The proposed recommendations, including the use of surplus reserves demonstrate innovative monitoring and management of City finances.
5. **Sustainability & Resiliency** – The financial reports, methodologies, and strategies implemented by staff, including recommendations regarding the use of surplus reserves that invest in the City’s future, demonstrate the City’s commitment to the long-term fiscal health of the City and sustainable provision of City services.

FISCAL IMPACT:

As of the first quarter, the General Fund is anticipated to face challenges due to the loss of the Water General Fund transfer, recent labor negotiation MOU impacts, and the prospect of a potential economic slowdown. Fiscal year-end results for the General Fund will depend on several factors. Immediate fiscal action to preserve General Fund resources is not currently required. In the second-quarter report, staff will present projected fiscal year-end estimates and provide recommendations to address any budgetary issues.

The Measure Z fund projected revenues and unallocated reserves at levels sufficient to fund approved spending items, as illustrated in Attachment 1.

The City’s Sewer, Electric, and Water Funds are healthy, with projected operating gains or strategic drawdowns of reserves to keep rates low. The reserves of each of the three funds are within policy reserve requirements. With the new Solid Waste Rate plan, the Refuse fund is anticipated to utilize \$3.00 million in reserves prior to generating a net operating gain in Year 4 of the five-year plan. Due to the implementation of the Parking Your Way program, the Public Parking Fund has experienced a significant upturn in utilization, and it is anticipated to start generating net operating gains in FY 2024/25.

Prepared by: Jaime Martinez, Budget Manager
Approved by: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Certified as to
availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Edward Enriquez, Assistant City Manager/Chief Financial Officer/Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Fiscal Update
2. Measure Z Spending Plan
3. Presentation