



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS **DATE:** DECEMBER 9, 2021
FROM: FINANCE DEPARTMENT **WARDS:** ALL
SUBJECT: FISCAL YEAR 2020/21 FOURTH QUARTER REPORT FOR THE GENERAL FUND AND MEASURE Z

ISSUE:

That the Budget Engagement Commission receive and provide feedback on the Fiscal Year 2020/21 Fourth Quarter Financial Report for the General Fund and Measure Z.

RECOMMENDATION:

That the Budget Engagement Commission receive and provide feedback on the Fiscal Year 2020/21 Fourth Quarter Financial Report for the General Fund and Measure Z.

BACKGROUND:

On June 16, 2020, the City Council adopted Resolution No. 23592 approving the Fiscal Year (FY) 2020/21 (Emergency) Annual Budget. The adopted budget was the product of a truncated budget process prompted by the COVID-19 pandemic and Orders that limited the City's ability to receive the usual level of engagement in the budget process. Further, the impacts of the COVID-19 pandemic on City finances were largely unknown at the time of budget adoption due to the ongoing shut-down Order and uncertainty at all levels of the economy. As a part of the adoption of the emergency budget, staff committed to the City Council and the public that interim reports and recommendations to the adopted budget would be made as needed. Throughout the fiscal year, the City's Chief Financial Officer has provided updates to the Budget Engagement Commission and City Council via a standing item on their respective agendas.

On November 12, 2020, the Budget Engagement Commission (BEC) received an interim financial update that reported on the preliminary results of fiscal year ending June 30, 2020, as well as economic developments observed since the adoption of the FY 2020/21 emergency budget.

On April 15, 2021, the BEC received the FY 2020/21 Second Quarter Financial Update.

On June 10, 2021, the BEC received the FY 2020/21 Third Quarter Financial Update.

DISCUSSION:

Following the close of each fiscal year, the City's independent auditor performs an audit of the City's financial statements. The FY 2020/21 Fourth Quarter Financial Report precedes the audit report and therefore presents **unaudited financial projections**. The audit report is expected to be completed in December, followed by presentations to the Financial Performance and Budget Committee and City Council.

Refer to Attachment 1 for a comprehensive Financial Report of the City's General Fund and Measure Z.

General Fund

The General Fund's unaudited actuals present a net gain of \$28.6 million after carryovers, primarily due to sales tax revenues performing exceptionally well despite the pandemic. The emergency budget included a 10% contingency revenue reduction for the potential effects of the pandemic on City revenues, but sales tax exceeded the contingency estimate by \$18.7 million. CARES Act funding for public safety costs of \$5.8 million also added to strong revenue performance.

General Fund revenues were 9.8% (\$26.6 million) higher than the total revenue estimate in the adopted budget, which included a 10% (\$28.1 million) contingency revenue reduction.

Encumbrances and project/grant carryovers totaling \$5.0 million will be carried forward as allowed per the Riverside Municipal Code. If Council approves additional recommended carryovers of \$2.3 million, expenditures will be 2.2% (\$5.9 million) less than budgeted.

As a result of positive financial performance, the following two balancing measures adopted in the FY 2020/21 emergency budget are not required and the funding remained intact in the respective funds:

1. Allocating \$6 million from the unexpended Measure Z Spending Contingency line item to the General Fund.
2. Transferring \$6.2 million of the Section 115 Trust's \$9.4 million value (at the time of budget adoption) to the General Fund to help pay for the FY 2020/21 UAL payment.

The General Fund is expected to end the fiscal year with a \$47.08 million in surplus reserves, which includes the \$15.6 million prior year surplus. Staff recommends the following use of surplus reserves:

RECOMMENDED USE OF SURPLUS RESERVES

(in millions)

Projected Surplus Reserves	\$47.08
Proposed Use of Surplus Reserves	
Electric GFT Settlement	\$24.00
General Liability Fund Pre-Payment	2.50
Section 115 Trust	10.00
Capital Replacement Fund	10.58
Total	\$47.08
Remaining Surplus Reserves	\$-

The City is currently responding to a legal challenge to the certification of the results of the Measure C ballot measure that was approved by voters in November 2021. For the moment, we should hold onto all surplus funds in the event the court does not uphold the November 2nd election. Should an injunction on the certification of Measure C results be upheld, the recommendations for the use of surplus reserves should be reconsidered in context of the fiscal impact of an injunction on City finances.

Measure Z

As with the General Fund, Measure Z tax revenue projection was downgraded 10% as a contingency measure for the potential impact of the pandemic on revenue performance. Total revenues came in \$16.5 million higher than budgeted and 15.1% higher than the previous fiscal year.

Total expenditures recorded in FY 2020/21 were \$50.9 million. An additional \$36.2 million in unexpended funds allocated to various spending items has accumulated and is expected to be carried over. Expenditure savings of \$8.3 million are primarily attributable to personnel savings and \$6 million allocated to General Fund balancing measures which was not needed and has been returned to Measure Z unallocated reserves.

Measure Z unallocated reserves are projected to be \$38.8 million at fiscal year-end, inclusive of \$14.0 million in unallocated reserves from the previous fiscal year, \$16.5 million in higher-than-expected revenues, and \$8.3 million in expenditure savings.

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 for the use of surplus reserves demonstrate the City’s commitment to responsible management of the City’s financial resources.
4. **Innovation** – The proposed recommendations for the use of surplus reserves demonstrate innovative ideas for the long-term fiscal health of the City.
5. **Sustainability & Resiliency** – The financial report includes proposed recommendations regarding the use of surplus reserves that invests in the City’s future and plans for the long-term fiscal health of the City.

FISCAL IMPACT:

The General Fund ended FY 2020/21 in far better condition than projected despite the pandemic, allowing the City to maintain a 20% reserve level per the General Fund Reserve Policy and producing surplus reserves. As a result of the prior year surplus (\$15.64 million) and current year financial performance, General Fund surplus reserves are expected to be \$47.08 million after Council approval of carryover recommendations totaling \$2.3 million. The surplus reserves will enable the City to address current needs of the Electric GFT Settlement and self-insurance reserves, as well as bolster the long-term financial stability of the General Fund and preservation of City infrastructure.

Following Council approval of \$36.2 million in carryovers, the Measure Z Fund is expected to end the 2020/21 fiscal year with \$38.8 million in unallocated reserves.

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Approved by: Kris Martinez, Interim Assistant City Manager

Attachments:

1. Financial Report
2. Presentation