

FY 2016-2018 Two-Year Budget: FY 2016-2017 2nd Quarter Update

Finance Department

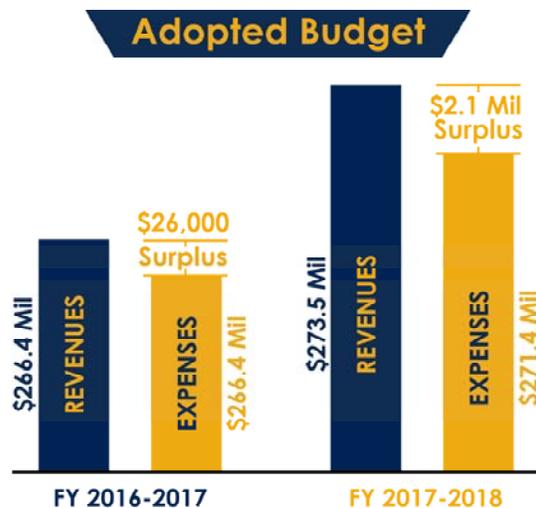
City Council Meeting

April 11, 2017

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BACKGROUND

- FY 2016-2018 Budget adopted on June 21, 2016
 - 1st two-year budget and five-year plan
 - Intensive public outreach
 - In-depth departmental budget presentations
 - Identified critical unfunded needs
 - Implemented 4% reductions



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2ND QUARTER PROJECTIONS

- General Fund shortfalls attributed to:
 - Lower revenues
 - Unbudgeted/unfunded vehicle maintenance and parks debt
 - Higher projected personnel costs
 - Increase of:
 - FY 2016/17 \$468,000
 - FY 2017/18 \$568,000



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Factors Contributing to Projected Shortfall (2nd Quarter)

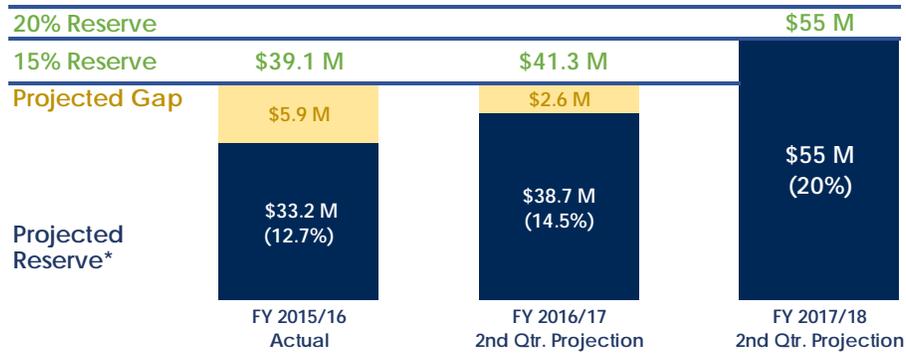
	FY 2016-17	FY 2017-18
Adopted Surplus	\$ 26,530	\$ 2,078,014
Union Contracts	\$ (819,081)	\$ (3,396,309)
Lower Revenues	\$ (2,894,976)	\$ (3,964,110)
Insufficient Funds for Parks Debt	\$ (600,000)	\$ (600,000)
Transfers for Sewer Claims	\$ 900,000	\$ 900,000
Other	\$ (52,004)	
Fire Department Maintenance	\$ (500,000)	\$ (500,000)
Estimated Shortfall	\$ (3,939,531)	\$ (5,482,405)
Management Action*	\$ 3,939,531	\$ 5,482,405
Net General Fund Surplus/Deficit	\$ -	\$ -

* Staff has recommended the use of Measure Z funds to cover the General Fund shortfalls in FY 2016/17 and FY 2017/18. Alternative options to using Measure Z funds include elimination of carryovers and expenditure reductions that limit service impact to the extent possible (e.g. spending freeze and holding positions vacant).



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General Fund Reserve Outlook (Based On Second Quarter Projections)



**With staff's recommendation to utilize Measure Z funding to eliminate the General Fund deficit and increase reserves, the General Fund reserve will meet the City Council's Responsible Spending Pledge "aspirational" goal of 20% by FY 17/18. Without Measure Z or alternative management action, the Second Quarter projected deficit would decrease the General Fund reserve to 10.9% (\$29.2 million) in FY 16/17 and 8.6% (\$23.7 million) in FY 17/18.*



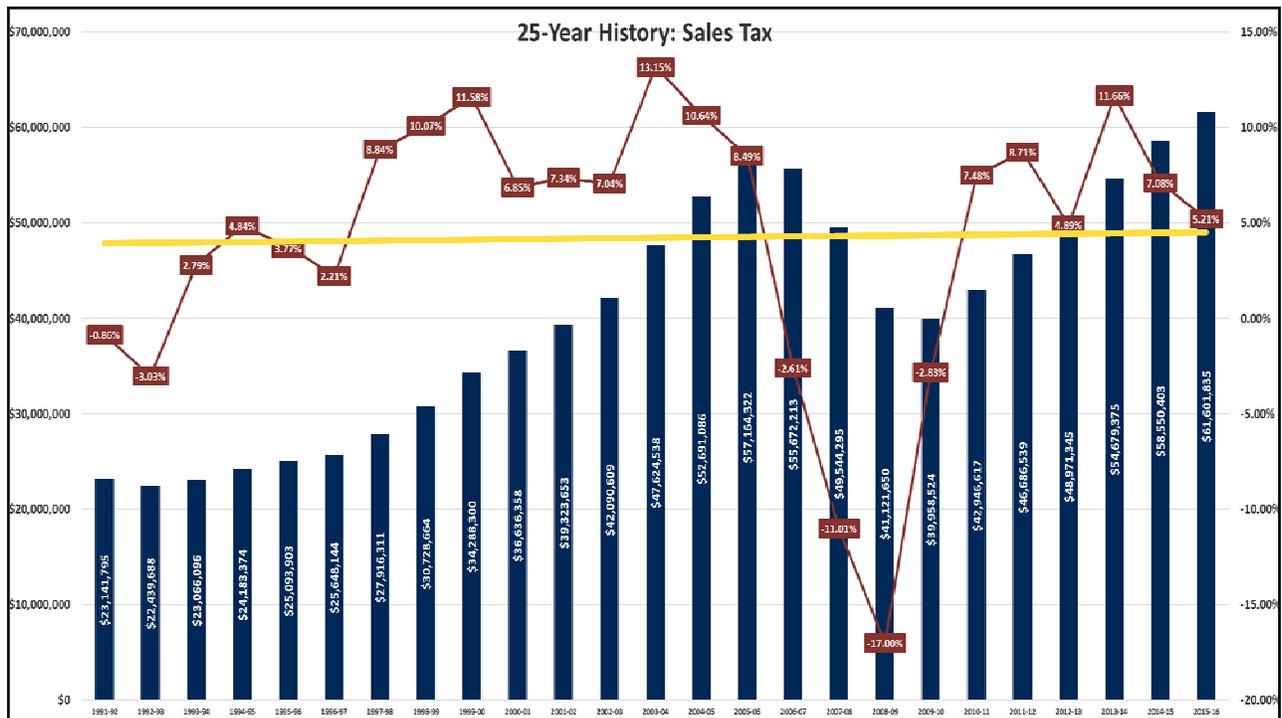
GENERAL FUND REVENUES (2nd Quarter)

GENERAL FUND	PROJECTED (2nd Qtr)		DIFFERENCE (Adopted vs 2nd Qtr Projections)		DIFFERENCE (1st Qtr vs 2nd Qtr Projections)	
	FY 2016/17	FY 2017/18	FY 2016/17	FY 2017/18	FY 2016/17	FY 2017/18
Sales & Use Taxes	\$ 64,774,596	\$ 67,301,060	\$ (1,793,346)	\$ (2,839,514)	\$ (321,166)	\$ (335,856)
Franchise Fees	\$ 5,275,000	\$ 5,372,500	\$ (315,000)	\$ (310,200)	\$ (353,360)	\$ (359,468)
Property Transfer Tax	\$ 2,208,091	\$ 2,428,900	\$ (475,909)	\$ (523,500)	\$ (220,809)	\$ (242,890)
Licenses and Permits	\$ 9,920,348	\$ 10,559,461	\$ 95,181	\$ 59,724	\$ 250,000	\$ 237,153
Fines and Forfeits	\$ 1,444,000	\$ 1,427,669	\$ (293,000)	\$ (317,396)	\$ (241,571)	\$ (265,775)



SALES TAX PROJECTION (2nd Quarter)

- FY 2016-2017: \$1,793,346
- FY 2017-2018: \$2,839,514
- Lower baseline
- Growth projections lowered
 - FY 2016-2017: 5.9% to 4.5% (currently at 3.9% growth)
 - FY 2017-2018: 5.5% to 4%



CITY'S ECONOMIC CONDITIONS

- Overall positive outlook for the remaining half of the fiscal year.
- The Galleria at Tyler expects growth to be similar to last year or approximately 4%.
- Consumer spending in 2016 was 3.2% above 2015 levels.
- Restaurants, hotels and autos categories saw significant increases in taxable sales.
- The auto and transportation industries reported a 5.2% year over year growth.
- Job creation is up 3.5%.
- Average annual wage up by 4.2% (to \$47,374).

(Source: HdL Quarterly Report and Regional Intelligence Report from Beacon Economics)



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GENERAL FUND EXPENDITURES (2nd Quarter)

- Zero net difference between 1st and 2nd quarter projections
- Projected Expenditure shortfall:
 - FY 2016/17: \$1,071,081
 - FY 2017/18: \$3,596,309



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MEASURE Z REVENUE

- Approved by voters on November 8, 2016
 - Estimated FY 2016-17 revenue: \$10 million
 - Estimated FY 2017-17 revenue: \$51.6 million



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MEASURE Z EXPENDITURES

- Workshop on January 31, 2017
 - Recommended use of Measure Z for General Fund shortfalls and increasing General Fund Reserves
- Fire Squad reinstatement on December 20, 2016
 - \$450,000 in FY 2016/17
 - \$792,728 in FY 2017/18
- Ward Action Team on February 21, 2017
 - \$56,250 in FY 2016/17
 - \$225,000 in FY 2017/18



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FY 2016/17 SECOND QUARTER COMMENTS FROM THE BUDGET ENGAGEMENT COMMISSION CHAIRPERSON ROBERT MENDEZ



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DEBT AND INVESTMENT REPORTS

- The quarterly investment report is included in this report:
 - Report shows cash balances by fund.
 - Information is provided regarding funds with an unusual cash position.
 - No fund's cash balance is currently a major concern.
- The quarterly debt report is included in this report:
 - There have been no major changes to the City's debt portfolio through December 31, 2016.



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RECOMMENDATIONS

That the City Council receive and file the attached FY 2016/17 Second Quarter Financial Report for the General Fund with preliminary analysis of Measure Z and FY 2016/17 General Fund financials, as well as cash, investment and debt reports for all funds.

