

CITY OF RIVERSIDE FISCAL UPDATE

Monitoring City of Riverside Finances and the Potential Fiscal Impacts of COVID-19



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EXECUTIVE SUMMARY

One year after the declaration of a pandemic, staff at the City of Riverside continue to measure the effect of the pandemic on City resources and services. The City's commitment to innovation and customer service are demonstrated through its shift to virtual public meetings and expansion of online services to customers of the One Stop Shop. Online options ensured the safety and health of City staff and customers while introducing new efficiencies, saving time for both staff and customers.

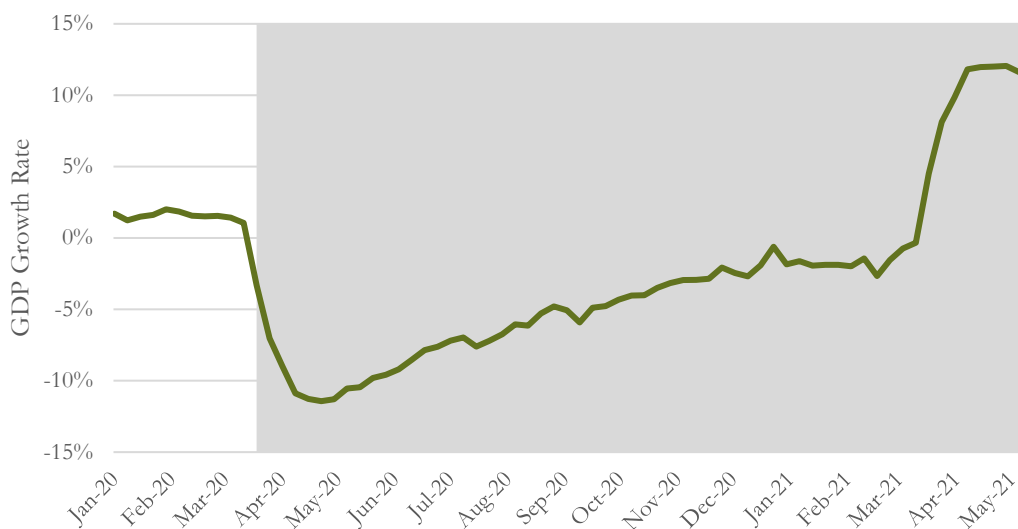
The impact on City finances has varied within City funds, with utility funds impacted by high delinquencies and other funds experiencing ongoing effects of the pandemic through reduced revenues. In the City's General Fund, ongoing revenue impacts in some categories have been largely offset by CARES Act funding and strong performance in sales tax revenue. Conversely, the City's Parking Fund, already operating on a narrow margin, continues to be significantly impacted by revenue losses due to the pandemic which will likely result in the need for a general fund subsidy should revenues not rebound in soon.

As the City concludes development of the FY 2021/22 budget, ongoing challenges linger in the General Fund. The transition to Priority Based Budgeting will enable the City to strengthen its alignment of resources to the City Council's Envision Riverside 2025 strategic plan. However, the potential loss of the General Fund Transfer from the electric fund combined with the challenge of the ongoing structural deficit threatens the ability of the City to achieve this goal. The successful passage of a measure on an upcoming ballot will be critical to maintaining essential City services and alignment with the City's strategic plan.

ECONOMIC INDICATORS

The New York Federal Reserve bank monitors ten economic indicators on a weekly basis in order to evaluate and track the overall health of the U.S. economy. These indicators provide a broad view of the economy, from employment to gasoline sales and federal tax withholding from employees' paychecks. The indicators are converted to the equivalent annual GDP growth rate. Typically, a fall in one of these indicators precedes a fall in another and together they paint a picture of the overall business environment of the United States. As the chart below shows, there was a large pickup in the economy when the large-scale vaccine rollout began over the course of March 2021.

NY Fed Weekly Economic Index



Weekly Economic Index Components (Indicators)

- Initial unemployment claims
- Continuing unemployment claims
- Federal Taxes Withheld
- Redbook Same-store sales
- Rasmussen Consumer Sentiment
- American Staffing Index
- Raw Steel Production
- U.S. railroad traffic
- U.S. fuel sales to end users
- U.S. electricity output

INFLATION WATCH

What? Inflation is a measure of the purchasing power of the consumer as compared to the prior year.

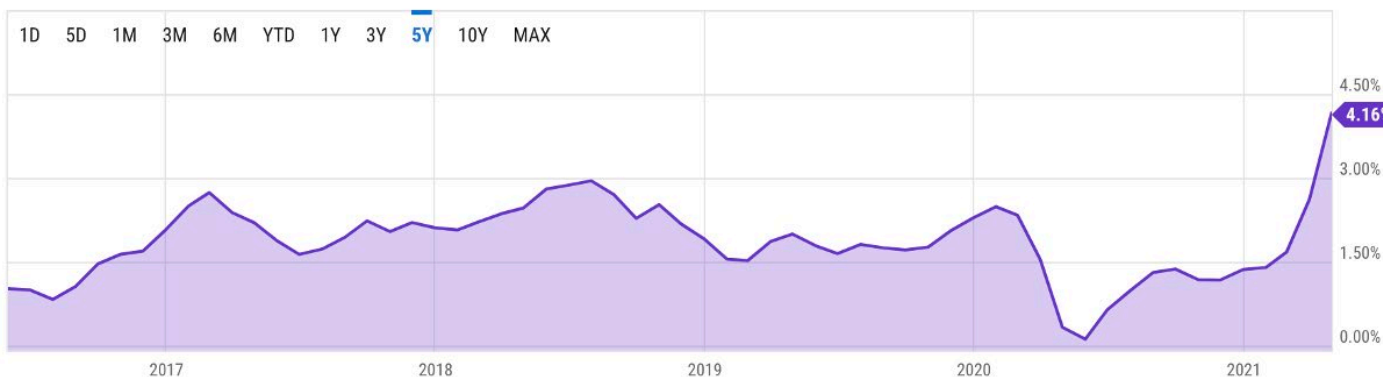
Why? It is important to monitor the costs of fuel, food, clothing, housing and other areas to see how policy decisions affect the prices within the economy.

Outlook: Currently, by the broadest measures, there are upward price pressures (inflation) on many commodities within the general economy. Continued borrow and spending by the U.S. Government and Federal Reserve increases the likelihood of a continued upward march of pressures.

The April 2021 reading of the broadest consumer measure of inflation, the Consumer Price Index, was an annual increase of 4.6%, the highest in more than five years.

US Inflation Rate

4.16% for Apr 2021



ECONOMIC INDICATORS

Then and Now in Riverside County – Community Mobility Reports by Google

Google compiled the following data using aggregated, anonymized insights in such products as Google Maps to gauge how communities are moving differently due to COVID-19. The baseline is the median value for the corresponding day of the week during the 5-week period of January 3 through February 6, 2020. Visit <https://www.google.com/covid19/mobility/> for more information. This data helps us to further understand the impact of the pandemic on different sectors of our economy through relationships to other data, such as sales tax revenue by economic sector or unemployment data. The following mobility report is dated May 19, 2021.

Retail & recreation

-10% compared to baseline



Grocery & pharmacy

-4% compared to baseline



Parks

-20% compared to baseline



Transit stations

-34% compared to baseline



Workplaces

-30% compared to baseline



Residential

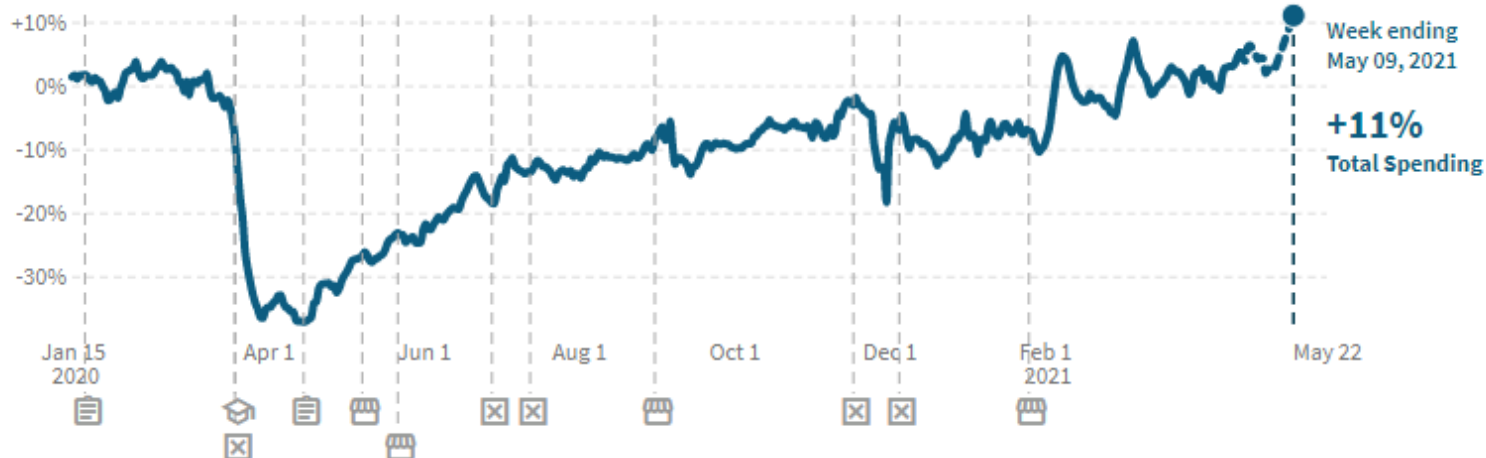
+7% compared to baseline



Percent Change in All Consumer Spending

Source: *TrackTheRecovery.org*

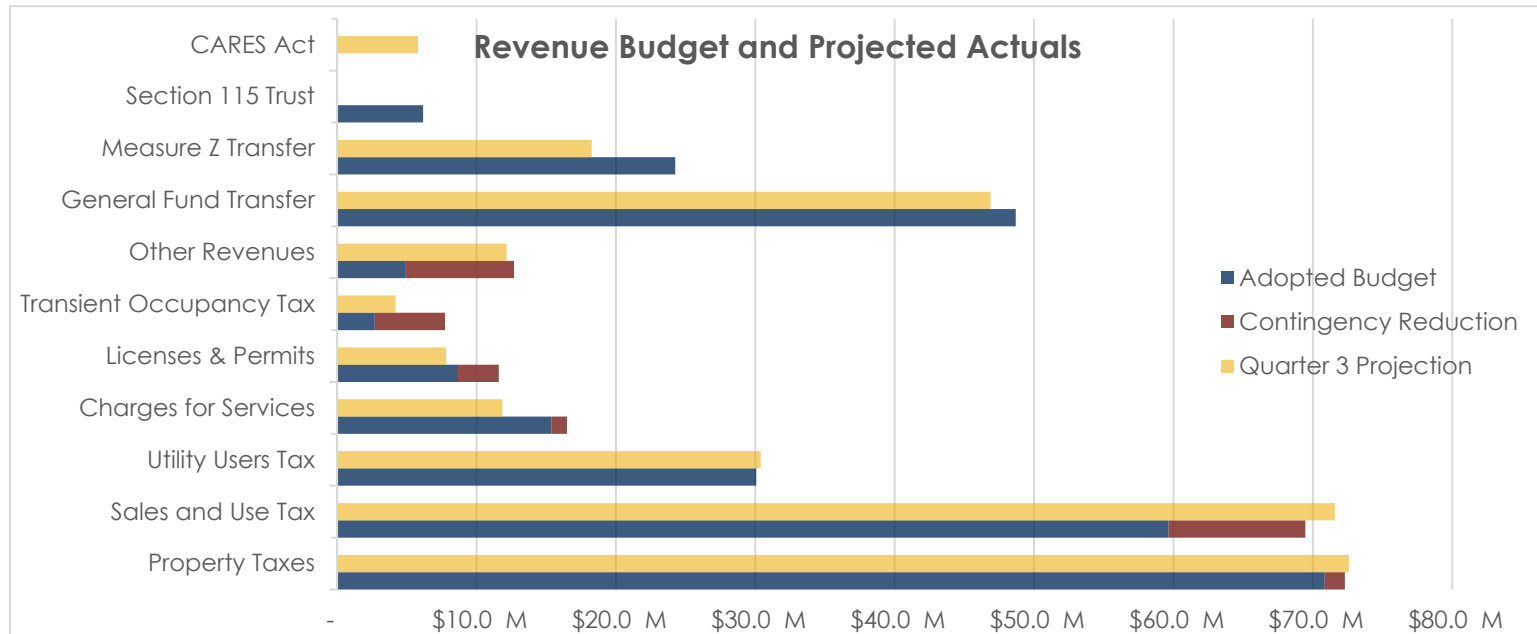
In **California**, as of May 09 2021, total spending by all consumers increased by **11%** compared to January 2020.



GENERAL FUND REVENUE

As of the third quarter ending March 31, 2021, total General Fund revenues are expected to exceed the budgeted revenues estimates by approximately \$10 million. The City Council's decision to maintain annual General Fund support from Measure Z at the FY 2019/20 level has played a critical role in maintaining General Fund revenue levels. While some revenues are still significantly impacted by the pandemic, strong performance in other categories are helping to offset those shortfalls, in addition to unanticipated CARES Act funding of \$5.8 million for public safety costs. As a result, two adopted balancing measures, the \$6 million use of Measure Z contingency funding and the \$6.2 million withdrawal of the Section 115 Pension Trust may not be required. Staff will return to City Council in the Fall with the fourth quarter results and a formal recommendation on these items.

The chart below shows the adopted budget and contingency revenue reductions, the total of which represents the pre-pandemic revenue estimate. The yellow bar represents third quarter projections of fiscal year revenues based on performance to date and other sources.

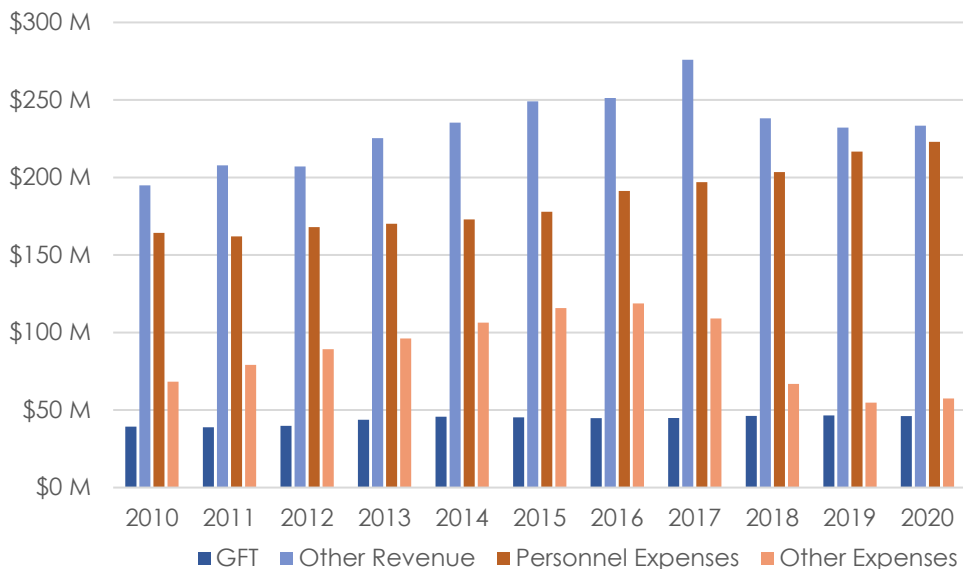


General Fund Transfer

On May 18, 2021, the City announced a settlement agreement in Parada v. City of Riverside. As planned, the City will proceed with placing the City of Riverside Services Protection Measure on an upcoming ballot. This Measure allows voters to consider whether to affirm the long standing utility fund budget transfer that maintains reliable local funding for essential City services such as firefighting, paramedics, police, street repair, homelessness services, parks, and senior and youth services, and to continue to fund this transfer through electric rate revenue.

Should voters reaffirm the General Fund transfer from the electric utility by passing the Measure, the City will then, consistent with this mutually-agreed-upon settlement, also issue utility credits over a five-year period to local utility ratepayers.

GFT vs. All Other Revenue Personnel Expense vs. All Other Expense

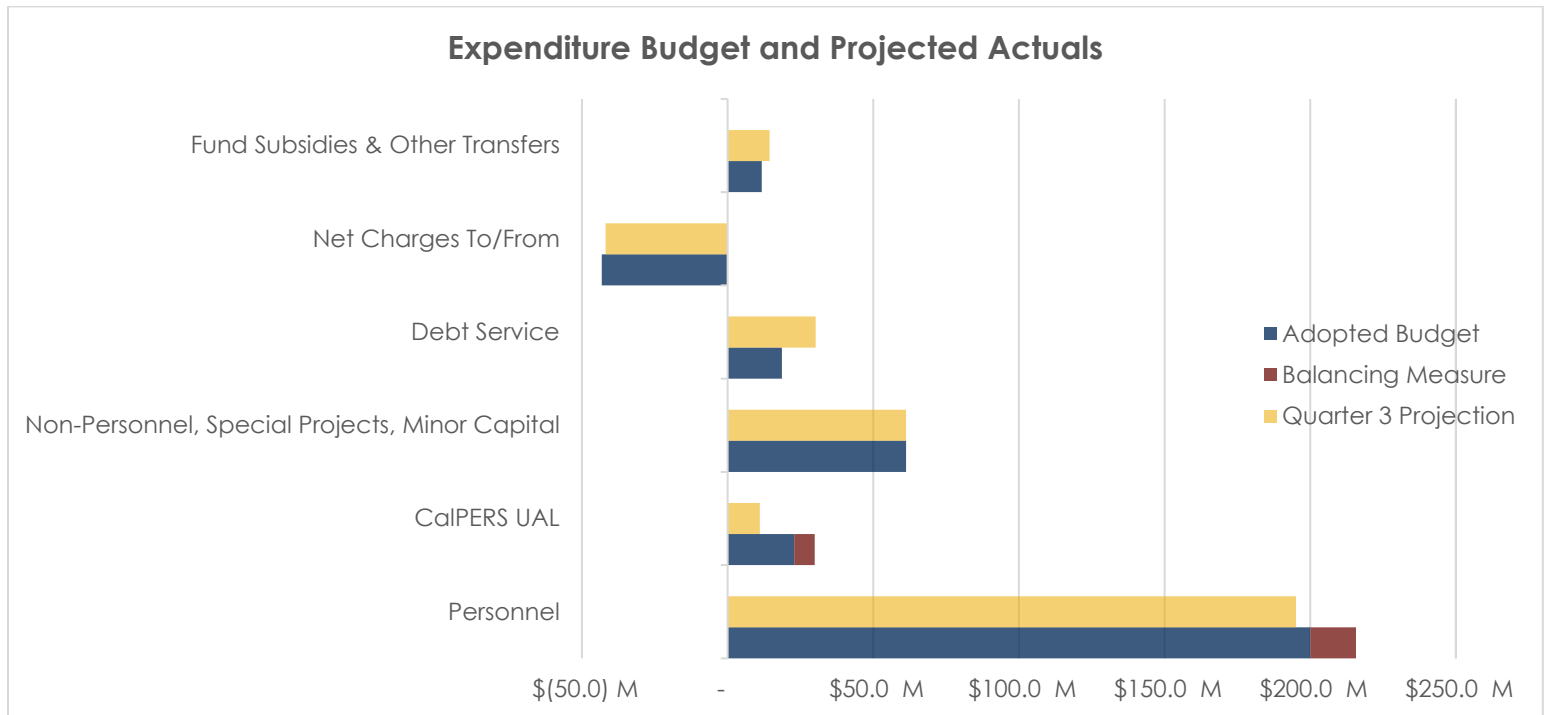


As of 2020, personnel expenses are 80% of General Fund costs, forcing a reduction in non-personnel costs such as materials, supplies, deferred maintenance, and vehicle replacement. Non-GFT revenues exceed personnel costs by only 4.7%.

GENERAL FUND EXPENDITURES

The adopted General Fund expenditure budget included two balancing measures: vacancy savings targets of approximately \$15.6 million and projected savings from the issuance of a Pension Obligation Bond. With the closure of Parks and Recreation and the Library during the pandemic as well as the City Manager's managed hiring initiative, additional personnel savings of approximately \$5 million is anticipated by fiscal year end. Fund subsidies are projected to require an additional \$2.7 million over the amount budgeted due to the continuing closure of the convention center and entertainment venues.

The chart below shows the adopted budget and balancing measure reductions. The yellow bar represents third quarter projections of fiscal year expenditures. CalPERS and Debt Service variances are due to the issuance of a Pension Obligation Bond; the issuance shifted costs between the two categories while achieving net savings of \$7 million, as budgeted.



Vacancy Factor Balancing Measure

The pandemic preempted public discussions on strategies to address a structural deficit and shifted the focus to addressing potential revenue shortfalls resulting from the pandemic. As a result, and due in part to a temporary recruitment suspension prompted by the pandemic, staff recommended the adoption of vacancy savings targets for all General Fund departments equal to existing vacancies. Vacancy rates ranged from 0% to 22% with disproportionate effects on departments. Savings in some larger departments such as public safety were able to be achieved through naturally occurring vacancies and attrition, allowing hiring to continue.

General Fund Vacancy Savings Targets

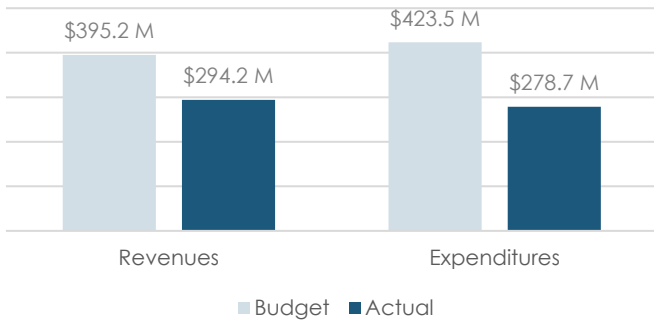
| City Department | Workforce FTE | Vacant on March 13, 2020 | % Unfunded | Adopted FY 2020/21 |
|---|-----------------|--------------------------|-------------|----------------------|
| 01 - Mayor | 7.25 | 1.00 | 13.8% | \$ 105,864 |
| 02 - City Council | 14.00 | - | - | - |
| 11 - City Manager | 30.55 | 5.00 | 16.4% | 646,414 |
| 12 - City Clerk | 10.00 | - | - | - |
| 13 - City Attorney's Office | 34.00 | 2.50 | 7.4% | 302,349 |
| 21 - Human Resources | 30.00 | 2.00 | 6.7% | 158,331 |
| 22 - General Services | 30.00 | 3.00 | 10.0% | 222,649 |
| 23 - Finance | 55.00 | 12.00 | 21.8% | 1,184,789 |
| 24 - Innovation & Technology | 59.25 | 8.00 | 13.5% | 1,094,486 |
| 28 - Community & Economic Development | 106.25 | 21.00 | 19.8% | 2,272,556 |
| 31 - Police | 506.00 | 35.00 | 6.9% | 4,260,438 |
| 35 - Fire | 234.00 | 14.00 | 6.0% | 1,928,713 |
| 41 - Public Works | 134.00 | 16.00 | 11.9% | 1,559,811 |
| 51 - Library | 60.00 | 8.00 | 13.3% | 757,995 |
| 52 - Parks, Recreation & Community Services | 152.85 | 9.00 | 5.9% | 857,662 |
| 53 - Museum | 13.50 | 3.00 | 22.2% | 302,441 |
| Total Budgeted FTE | 1,476.65 | 139.50 | 9.4% | \$ 15,654,498 |

ENTERPRISE FUNDS

Electric Fund

At the end of the third quarter, retail sales are 1.9% lower than budget due to lower than anticipated consumption and a delay in the rate increase originally scheduled for January 2021. On March 23, 2021, the City Council voted to delay the rate increase and refer it back to the RPU Board for an implementation plan. On April 19, 2021, the RPU Board recommended delaying the rate increase no later than July 1, 2021. The estimated impact of the action is a \$4.4 million reduction in electric revenues through fiscal year end. Expenditures are trending under budget due to personnel vacancies, lower than expected power supply costs, and the timing of operating expenses.

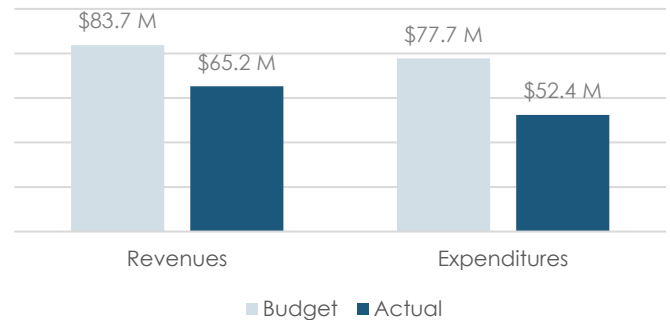
Budget to Actual



Water Fund

The pandemic has led to an increase in residential water usage and a decrease in commercial/industrial water usage. Overall, water fund revenues are 3.4% higher than expected due to higher than anticipated consumption. Current year retail sales are \$5.9 million (12.3%) higher than the prior year, in part due to a rate increase. Expenditures are trending under budget due to personnel vacancies and the timing of operating expenses. Budgeted operating gains of \$7.1 million are anticipated to be used to fund capital projects in FY 2020/21, supplemented by a \$1.1 million draw on reserves and \$22.4 million of bond proceeds.

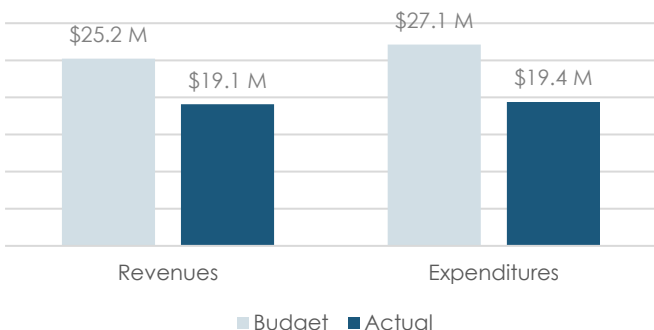
Budget to Actual



Refuse Fund

The Refuse Fund adopted budget does not include the rate increases approved by the City Council in September 2020 and effective January 2021. The rate increases are expected to improve the overall health of the fund, which had been operating at a deficit for some time. However, unanticipated increases in recycling and disposal costs are higher than anticipated and will likely result in the funds ending the fiscal year at or near the budgeted operating deficit of \$1.4 million. With adopted rate increases, staff projects the fund will achieve an operating gain by FY 2022/23.

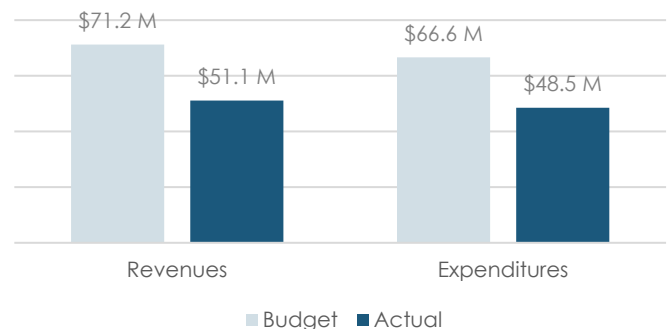
Budget to Actual



Sewer Fund

The Sewer Fund is operating in line with the Sewer Fund Reserve Policy objectives. The FY 2020/21 adopted budget projects a net operating gain of \$7.6 million; the Sewer Fund is on track to meet projections, with projected expenditure savings offsetting projected revenue shortfalls. As per City Council direction, accounts for which payment is not being received are not being shut off, and services are continuing uninterrupted.

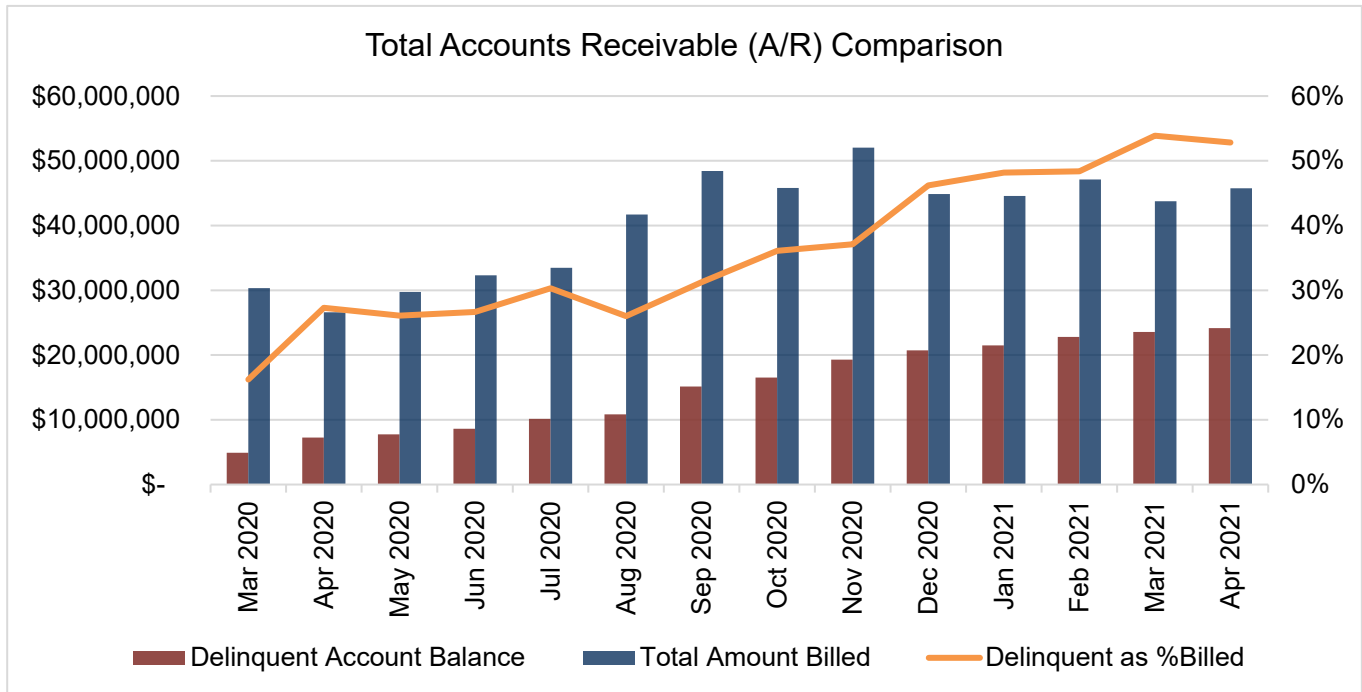
Budget to Actual



Account delinquencies are placing pressure on all utility funds...refer to page 7 for more information.

OTHER FUNDS

The Sewer, Refuse, Electric, and Water funds have been similarly impacted by the suspension of utility shutoffs in response to the pandemic. The combined accounts receivable for the four utilities increased by 51% or \$15.4 million from \$30.3 million in March 2020 to \$45.7 million on April 27, 2021. During the same period, delinquent accounts receivable increased 391% or \$19.2 million from \$4.9 million in March 2020 to \$24.1 million on April 27, 2021. It is likely that a portion of these accounts will ultimately remain uncollectable and will have to be written off, reducing fund resources.



Measure Z

As of the end of the third quarter, the Measure Z fund is projected to end the fiscal year with approximately \$21.2 million in unallocated fund reserves. An additional \$5 million in policy reserves is held separately.

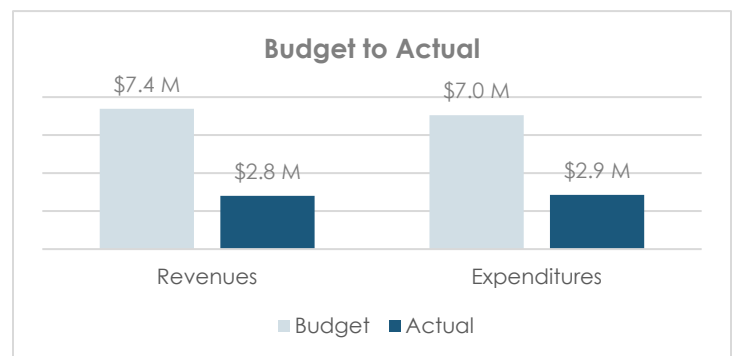
The revenue budget includes a 10% contingency revenue reduction; however, total sales and use tax revenue appear unaffected by the pandemic. The pre-pandemic revenue estimate was \$62.9 million; the revenue estimate as of the third quarter is \$64.4 million, inclusive of interest earnings.

Programmed spending in the table below includes a \$28.2 million carryover of prior year unexpended funds. These are funds committed for multi-year projects where the spending occurs unevenly over a period of time. As of March 31, 2021, \$41.1 million has been expended as compared to \$39.9 million revenue received.

| | Budget | Actual | Balance |
|---------------------------|-------------------|------------------|----------|
| Revenue | \$56.2 M | \$39.9 M | \$16.3 M |
| Programmed Spending | 95.8 M | 41.1 M | 54.7 M |
| Change in Reserves | \$(39.6) M | \$(1.2) M | |

Public Parking Fund

Parking revenues have declined during the initial stay-at-home order, have remained lower than projected during the slow reopening process, and will likely continue to underperform in the near future. The Public Parking Fund is currently operating at a deficit and capital projects have been put on hold in order to keep the fund from requiring a General Fund subsidy until operations return to sustainable levels. Current operations remain a challenge, as forecasts for revenue remain low and additional overcapacity and maintenance require additional capital for which the Public Parking Fund cannot provide.



OTHER FINANCIAL NEWS

FY 2021/22 Budget Development

The City is currently developing the FY 2021/22 annual budget. Public engagement is encouraged at the numerous meetings during which budget presentations and discussion will be conducted and feedback will be received. The final budget will be presented at two meetings, with a public hearing at the City Council meeting. Public engagement is encouraged.

| Date | Time | Meeting Body | Subject Matter |
|---------|---------|--------------------------------|---|
| June 10 | 5:00 PM | Budget Engagement Commission | FY 2021-2022 Final Budget |
| June 22 | 6:15 PM | City Council – Evening Session | Public Hearing and Adoption of the FY 2021-2022 Annual Budget |

What's Next?

Following adoption of the FY 2021/22 budget, the budget will be uploaded to the City's online budget portal at <https://riverside.openbook.questica.com>. Compilation of the formal budget publications will follow; the publications will be loaded to the City website in September at <https://riversideca.gov/finance/budget.asp>. The publications will also be printed and made available to the public at the City Clerk's Office in City Hall and at each of the City's libraries throughout the City.

American Rescue Plan Act (ARPA)

On March 11, 2021, President Biden signed the third stimulus bill which provided additional relief to both individuals and businesses suffering from the impact of the pandemic. The City of Riverside is expected to receive approximately \$73 million in one-time restricted funds, subject to audit and validation that the funds are used for approved purposes under the American Rescue Plan Act. In conjunction with the City Council, staff will identify opportunities to alleviate some of the fiscal impacts of the pandemic that have occurred to date.

On May 10, 2021, the U.S. Department of the Treasury (USDOT) released guidance on the use of ARPA's local fiscal recovery funds. The City will receive funding in two disbursements, with 50% in May 2021 and the balance approximately one year later.

Eligible Uses:

- Support the public health response
 - Services and programs to contain and mitigate the spread of COVID-19
 - Services to address behavioral healthcare needs exacerbated by the pandemic
 - Payroll and covered benefits expenses
- Addressing the negative economic impacts caused by the public health emergency
 - Delivering assistance to workers and families
 - Supporting small businesses
 - Speeding the recovery of the tourism, travel, and hospitality sectors
 - Rebuilding public sector capacity
- Serving the hardest-hit communities and families
 - Addressing health disparities and the social determinants of health
 - Investments in housing and neighborhoods
 - Addressing educational disparities
 - Promoting healthy childhood environments
- Providing premium pay for essential workers
- Replacing lost public sector revenue, computed one of two ways:
 - The recipient's average annual revenue growth over the three full fiscal years prior to the public health emergency
 - 4.1%, the national average state and local revenue growth rate from 2015-18
- Investing in water and sewer infrastructure
- Investing in broadband infrastructure

Ineligible Uses:

- Offsetting any revenue losses resulting from a reduction in the tax rate
- Infrastructure outside of water, sewer and broadband investments
- Deposits to pension funds
- Funding debt service
- Funding legal settlements or judgments
- Deposits to financial reserves or rainy date funds

For more detailed information, visit USDOT for guidance documents: <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds>