



# Budget Engagement Commission

*City of Arts & Innovation*

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**TO: HONORABLE COMMISSIONERS** **DATE: JULY 16, 2020**

**FROM: FINANCE DEPARTMENT** **WARDS: ALL**

**SUBJECT: FISCAL YEAR 2019/20 THIRD QUARTER FINANCIAL REPORT AND MEASURE Z UPDATE**

**ISSUE:**

Receive and file the attached Fiscal Year 2019/20 Third Quarter Financial Report and Measure Z update.

**RECOMMENDATION:**

That the Budget Engagement Commission receive and file the attached Fiscal Year 2019/20 Third Quarter Financial Report and Measure Z update.

**BACKGROUND:**

On June 12, 2018, the City Council adopted Resolution No. 23316 approving the Fiscal Year (FY) 2018-2020 Two-Year Budget. On June 18, 2019, the City Council adopted Resolution No. 23457 approving amendments to the Fiscal Year 2019/20 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 third quarter report, City departments analyzed financial status for all funds and appropriations under their purview. City departments also evaluated the potential effect of COVID-19 on departmental finances to the extent possible. The results of the City's major funds as well as areas of concern in other funds (if any) are reported in the Fiscal Update (Attachment 1).

**COVID-19 Fiscal Impact**

On March 4, 2020, Governor Newsom declared a state of emergency in California as a result of COVID-19. On March 13, 2020, the City of Riverside declared a local emergency and closed non-essential facilities to the public. Stay-at-home orders followed from the State and City in mid-March. In context of the FY 2019/20 third quarter report, the fiscal impacts of COVID-19 are primarily confined to the last two weeks of March and, as a result, sufficient data is not evident in the quarterly financial performance for the City's major funds reported in the Fiscal Update

(Attachment 1).

Staff continues to monitor the fiscal impacts of COVID-19 to the extent possible, although it is too early to reasonably assess the full impact on City finances: the stay-at-home order is the most impactful event, and upon re-opening, the financial well-being and behavior of consumers, City customers, and businesses will continue to influence City finances. Ongoing volatility in numerous economic indicators and industry sector performance further hinders the ability to project future revenue performance (refer to Attachment 1 for details). The City has limited spending to essential and emergency needs to mitigate the potential impacts of COVID-19, and some personnel savings are expected as a result of the minimum staffing requirement and suspension of recruitment.

Refer to the Fiscal Update (Attachment 1) for a discussion of the most influential social and economic impacts on City finances as a result of COVID-19, identified areas of fiscal risk, and third quarter results for the City's major funds (General Fund, Measure Z, Electric, Water, Refuse, and Sewer).

### General Fund

The General Fund's FY 2018-2020 Two-Year budget is balanced over two years, with a pre Covid-19 projected shortfall of \$1.2 million in FY 2019/20 funded by savings realized in FY 2018/19. As of June 30, 2019, the General Fund carries a 20% reserve balance; an additional \$1.2 million is separately reserved to offset the adopted FY 2019/20 shortfall.

The FY 2019/20 third quarter analysis reveals that total General Fund revenues may fall short of amended budget estimates by approximately \$10.7 million or 3.8%. This projection is based on information provided by the City's sales and property tax consultant HdL in conjunction with staff discussion; trend analysis based on fiscal year-to-date performance; and consideration of economic factors and the potential impacts of COVID-19. Sales tax, transient occupancy tax, licenses and permits, and charges for services revenue are expected to be most significantly impacted by COVID-19 as stay-at-home orders limit transactions, travel, and City programs and services. Payment deferrals in these revenue categories will also impact total fiscal year end revenues. Additionally, the revised estimates include an \$817,700 reduction in the General Fund Transfer based on FY 2018/19 audited Public Utility electric and water revenues as is not related to COVID-19.

As of March 31, 2020, all General Fund departments expect to end the fiscal year within their appropriation limits. Due to swift action at the onset of COVID-19, potential savings as a result of the managed hiring initiative and COVID-19 recruitment suspension are currently projected at approximately \$10 million; however, the closure of the City's subsidized entertainment venues including the Convention Center, Fox, Box, and others will require a greater subsidy than originally budgeted. The fourth quarter analysis and ultimate impact of COVID-19 will contain more refined data and analysis of year end results which will alter current projections.

Supplemental appropriations recorded through the third quarter total \$244,118 as listed below.

<b>SUPPLEMENTAL APPROPRIATIONS</b>		
<b>Council Date</b>	<b>Description</b>	<b>Amount</b>
Multiple	Donations	\$8,067
Oct 01, 2019	March 3, 2020 elections	150,000
Oct 01, 2019	Vending machine receipts for parks supplies/services	3,051
Jan 14, 2020	Collection services contract	50,000
Mar 17, 2020	Assessment engineer services contract (Webb)	33,000
<b>Total FY 2019/20 Supplementals through March 31, 2020</b>		<b>\$244,118</b>

Measure Z

The FY 2018-2023 Measure Z Spending Plan was approved by the City Council on June 12, 2018, with the adoption of the FY 2018-2020 Two-Year Budget. As of June 30, 2019, Measure Z held \$18.8 million in unallocated fund reserves, net of unexpended amounts (\$20.7 million) carried forward into FY 2019/20. Separately, \$5 million is held in contingency reserves per the adopted Measure Z Reserve Policy to ensure sufficient funding for ongoing costs in the event of underperforming revenues.

Measure Z’s FY 2019/20 sales tax revenue was on pace to outperform estimates, but due to COVID-19, revenue projections have been reduced to approximately \$56 million (\$6.8 million less than FY 2018/19 actuals) following revised projections from the City’s sales tax consultant HdL in conjunction with staff discussion. Interest revenue is overperforming due to the large amount of cash on hand pending the commencement of capital projects and will partially offset the shortfall in sales tax. As of the third quarter, interest revenue has exceeded estimates by \$980,144.

Measure Z expenditures are 44% of total allocations at March 31, 2020, reflective of large projects that have yet to ramp up and record significant expenditures. Two new allocations of Measure Z funding were approved by Council in the third quarter:

- On March 3, 2020, the City Council approved a supplemental appropriation of \$100,000 for improvements at Orangecrest Fire Station No. 11 dormitories to accommodate all genders. (Spending Item #42)
- On March 17, 2020, the City Council approved a supplemental appropriation of \$951,377 over three years to increase security at City libraries. (Spending Item #40)

Following a reduction in revenue estimates and the incorporation of new spending allocations, unallocated Measure Z reserves are \$9.8 million as of March 31, 2020. In the table below, unexpended allocations from the prior year (\$20.7 million) are added to current fiscal year allocations as carryovers.

<b>MEASURE Z SUMMARY</b>				
<b>Category</b>	<b>FY 2016/17 Actuals</b>	<b>FY 2017/18 Actuals</b>	<b>FY 2018/19 Actuals</b>	<b>FY 2019/20 Allocations</b>
Revenue	\$12,606,428	\$56,222,806	\$62,816,127	\$56,026,000
Actuals / Allocations (Unexpended) / Carryovers	9,973,447	36,134,811	61,702,430 (20,714,281)	65,024,239 20,714,281
<b>Net Change in Reserves</b>	<b>2,632,981</b>	<b>20,087,995</b>	<b>21,827,978</b>	<b>(29,712,520)</b>
Policy Reserve	-	-	5,000,000	-
<b>Reserves</b>	<b>\$2,632,981</b>	<b>\$22,720,976</b>	<b>\$39,548,954</b>	<b>\$9,836,434</b>

On June 16, 2020, the City Council adopted the FY 2020/21 emergency budget which directed a total use of \$6 million of unexpended Measure Z Spending Contingency funding (spending item #4) for General Fund balancing measures in FY 2020/21. The amount is comprised of \$2 million unexpended in FY 2018/19 (currently in unallocated reserves); \$2 million programmed in FY 2019/20; and \$2 million programmed in FY 2020/21. The \$2 million appropriated in FY 2019/20 will be unappropriated in the current fiscal year and re-appropriated in FY 2020/21. Additionally, the City Council approved deferment the new Police Headquarters (spending item #25) and Museum Expansion and Rehabilitation (spending item #26, programmed in FY 2021/22) to FY 2022/23. The \$2.1 million appropriated for the Police Headquarters in FY 2019/20 will be unappropriated and returned to unallocated reserves. The resulting adjustments to FY 2019/20 will increase the anticipated unallocated reserve balance at fiscal year-end to approximately \$14 million.

Sewer Fund

The overall financial position of the Sewer Enterprise fund is presently operating in accordance with the 2016 Sewer Fund Reserve Policy objectives. Due to the COVID-19 pandemic, user rate revenues are tracking slightly lower than projected budget targets, although these are currently offset in the non-rate revenue streams.

Wastewater service is essential for the protection of public health and safety; operations have continued during the COVID-19 pandemic. While the fiscal impact of COVID-19 is not yet predictable, revenue impacts may be experienced by fiscal year end. Residential sewer service charges are fixed monthly fees, but customers’ ability to pay may be impacted by COVID-19. Additionally, a reduction in commercial and industrial service charge revenue is likely because of the prolonged business closures. Commercial and industrial wastewater service billing is not fixed and is based on the volume and strength of the wastewater generated. Developer sewer connection fees may also decline because of the economic downturn and reduced business activity.

The Public Works Wastewater Division is in the process of completing a Wastewater Treatment and Collection Master Plan Update project, which includes a comprehensive financial and cost of service analysis and evaluation of various rate structure alternatives for consideration. The outcome of this study will likely inform future rate discussions. The 2019 Wastewater Master Plan will recommend capital improvements and financing alternatives to ensure regulatory compliance; the repair and/or replacement of aging infrastructure; continued reliable and cost-effective wastewater service; and ensuring the that City’s General Plan is supported for planned growth of

the community. A primary goal of the Master Plan is to develop a cost of service and sewer rate plan alternatives for the next five-year planning cycle of FY 2021/22 through 2025/26.

At the end of the third fiscal quarter, 75% of projected revenues have been collected. Connection fees and interest revenues came in higher than expected due to new development in the City and favorable market conditions earlier in the fiscal year prior to COVID-19. Operating expenditures are 74% of total budget at quarter end and are expected to fall in line with budget by the end of the fiscal year.

### Refuse Fund

The Refuse Fund is operating at a deficit, as projected in the FY 2018-2020 Two-Year Budget. The most recent projections predict a \$4.1 million use of fund reserves in FY 2019/20 and ending fund reserves of \$4.2 million at fiscal year ending June 30, 2020.

On January 14, 2020, City Council received a comprehensive report on a solid waste and recycling program strategy and economic study by R3 Consulting Group, Inc. which addressed the City's own residential solid waste operation, a review of our commercial contracts, compliance with state mandated programs, as well as a preliminary rate analysis to support operations and required programs.

The City Council directed staff to implement a variety of changes to the solid waste program such as: retain City collection staff servicing two-thirds of residential customers, modify the City's Municipal Code to ensure compliance with state regulations, issue a RFP for the remaining one-third of residential customers serviced by Burrtec Waste Industries, Inc. and for all commercial services, modify existing contracts to align contract expiration and ensure compliance with state regulations, and return with residential and commercial rate plans to support operational improvements and programs to ensure regulatory compliance.

On March 17, 2020, City Council authorized an amendment to R3 Consulting Group, Inc.'s consulting agreement to begin drafting RFP documents for the one-third of residential customers serviced by Burrtec and for all commercial services. The consultant is currently on track with this task.

New Solid Waste rates are being developed and existing contracts with haulers are also being amended to align contract expiration and ensure compliance with state regulations. Both items will be presented to the City Council for their consideration on June 16, 2020.

While the extent of the revenue impacts due to the COVID-19 pandemic have not yet been realized, the Refuse fund may see a reduction in commercial revenue due to a reduced volume of waste being collected by commercial haulers. This is mainly due to the closures of businesses deemed non-essential or businesses that are permanently closed and unable to recover.

Refuse Fund revenue and expenditures are at 75% and 64% respectively as of the third quarter. Revenues at third quarter end are approximately \$2.2 million higher than the same period last fiscal year. This increase is a direct result of a rate adjustment which went into effect on January 1, 2019. Expenditures in every category, with the exception of special programs, are under 75%. This is due to vacancy savings as a result of the current hiring freeze, deferred capital equipment purchases, and a principal debt payment that will be paid in June. Also, there are a couple of capital projects at the landfill that are currently out to bid, and expenditures will increase when construction begins. Expenditures will be closely monitored for the remainder of the fiscal year in

order to ensure budgeted expenditure targets are met.

### Electric Fund

The third quarter analysis of the Electric Fund shows operating revenues and expenses trending slightly below target. Overall, Electric revenues are trending at 75% of total budget at March 31, 2020, which is slightly lower than expected due to retail sales being 2.7% lower than expected resulting from milder temperatures. This is partially offset by higher interest revenue resulting from rebalancing the investment portfolio and contributions in aid of development revenue related to new electric service charges and required distribution facilities installed by developers. Weather and the effects of the COVID-19 pandemic can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2019/20.

While the extent of the revenue impacts due to the COVID-19 pandemic have not yet been realized, the Electric Fund will likely see a reduction in retail sales revenue due to reduced overall customer usage. The reduction will likely be due to the closures of businesses deemed non-essential or businesses that are permanently closed and unable to recover. This reduction from commercial customers may be partially offset by an increase in residential usage as a result of the Governor's stay-at-home order. Additionally, the suspension of disconnecting utility services for nonpayment during the COVID-19 local emergency may result in retail revenues being deferred and collected in a future period. If the suspension continues for a prolonged period, the electric utility could see a reduction in other operating revenues due to customers no longer receiving notices of termination of service for nonpayment and the associated fee and avoiding charges for reconnection of service. Any reduction in operating revenues of the Electric Fund will have a negative impact on the City's anticipated general fund transfer and will not be known until audited data is available in the second quarter of fiscal year 2020/21.

At March 31, 2020, Electric Fund expenditures, excluding capital projects, are trending slightly lower than 75% of the total budget, primarily due to personnel vacancies. Capital projects are progressing consistently with the Capital Improvement Program (CIP). The Electric Fund's completed capital improvements during the first nine months of FY 2019/20 includes projects in the Substation, Overhead, Underground and Recurring/Obligation to Serve categories which are part of the Utility 2.0 initiative. Completed projects in these categories benefit system reliability and mitigate the potential for widespread, prolonged customer outages, as well as fulfil the City's obligation to expand facilities to meet customer needs.

### Water Fund

The third quarter analysis of the Water Fund shows operating revenues and expenses trending slightly below target. Overall, Water revenues are trending at 73% of total budget at March 31, 2020, which is slightly lower than expected due to retail sales being 3.4% lower than expected resulting from milder temperatures and higher than anticipated precipitation. This is partially offset by higher interest revenue resulting from rebalancing the investment portfolio and contributions in aid of development revenue related to new water service charges and required distribution facilities installed by developers. Weather, including precipitation, and the effects of the COVID-19 pandemic can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2019/20.

While the extent of the revenue impacts due to the COVID-19 pandemic have not yet been realized, the Water Fund will likely see a reduction in retail sales revenue due to reduced overall customer usage. The reduction will likely be due to the closures of businesses deemed non-essential or businesses that are permanently closed and unable to recover. This reduction from

commercial customers may be partially offset by an increase in residential usage as a result of the Governor’s stay-at-home order. Additionally, the suspension of disconnecting utility services for nonpayment during the COVID-19 local emergency may result in retail revenues being deferred and collected in a future period. Any reduction in operating revenues of the Water Fund will have a negative impact on the City’s anticipated general fund transfer and will not be known until audited data is available in the second quarter of fiscal year 2020/21.

At March 31, 2020, Water Fund expenditures, excluding capital projects, are trending slightly less than 75% of the total budget, primarily due to the timing of other operating expenses. Capital projects are progressing consistently with the CIP. The Water Fund’s completed capital improvements during the first nine months of FY 2019/20 includes projects in the Water Supply, Well Projects, Distribution Pipeline and Facilities categories which are part of the Utility 2.0 initiative. Completed projects in these categories benefit system reliability and mitigate the potential for widespread, prolonged customer outages, as well as fulfil the City’s obligation to expand facilities to meet customer needs

**FISCAL IMPACT:**

Although the fiscal impact of COVID-19 on City finances cannot be reasonably predicted at this time, the City is in a slightly better position than many other agencies to address the COVID-19 event. Recent and ongoing efforts to shore up the City’s finances have provided options that will allow the City to mitigate some of the impacts of COVID-19. Most recently, City Council approved the issuance of a Pension Obligation Bond which will present savings to multiple City funds over the life of the bonds and an estimated \$7.0 million savings to the General Fund in FY 2020/21. Current fiscal year limitations on spending as well as minimal staffing and suspended recruitment for vacant positions will present some savings that will help to offset FY 2019/20 revenue shortfalls in various City funds.

The City’s General Fund is currently operating under an adopted FY 2018-2020 Two-Year Budget, balanced over two fiscal years. The fund reserve goal of 20% has been achieved as of June 30, 2019. Fund reserves of \$1.2 million are intact, separately of the 20% reserve, to balance the budgeted FY 2019/20 shortfall. Personnel savings are expected to offset a significant portion of potential revenue shortfalls, although General Fund subsidy of the entertainment venues will present excess expenditures due to the COVID-19 temporary closure of the venues.

The City’s major Enterprise Funds (Electric, Water, Refuse and Sewer) are all expected to remain within their appropriation limits. Actions to shore up the Refuse fund continue, as directed by Council in January 2020, including the development of a new rate plan for Council consideration. An updated Wastewater Treatment and Collection Master Plan Update will present strategies to improve the long-term fiscal health of the Sewer fund and address critical needs.

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availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer  
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Attachments:  
1. Fiscal Update – FY 2019/20 Quarter 3

2. Measure Z Financial Summary
3. Presentation