

CITY OF RIVERSIDE FISCAL UPDATE



EXECUTIVE SUMMARY

The closure of Fiscal Year (FY) 2020/21 presented surprisingly good news in the form of extraordinary gains in sales tax revenue. The strong revenue performance resulted in surplus reserves in the General Fund which will help the City to employ some long-term fiscal strategies, such as increasing funding in the Section 115 Pension Trust for the long-term management of rising retirement costs and creating a Capital Replacement Reserve to address critical infrastructure needs. The strong revenue performance also resulted in revised projections for FY 2021/22 which may allow the City to rescind the adopted \$10 million vacancy savings balancing measure. However, the City is currently addressing a legal challenge to the certification of the General Fund Transfer (Measure C) ballot measure results. If the City does not prevail in that challenge, significant adjustments will need to be made to the General Fund budget. A decision on this challenge is expected in January 2022.

For most funds, City finances reflect a gradual recovery from the effects of the COVID-19 pandemic. However, those funds dependent upon travel and entertainment, including the Convention Center, Entertainment Fund, and Public Parking Fund continue to experience significant impacts from the pandemic. Shortfalls in these funds will require new or increased subsidies from the General Fund to provide needed capital for ongoing operations. A prolonged need for fund subsidies reduces available funding for other General Fund services and may compromise long-term fiscal strategies for critical unfunded needs.

As the City enters the next budget development cycle, strong revenue performance in the prior year and current fiscal year to date has resulted in a projected elimination of the General Fund structural deficit under current spending guidelines, including existing Memorandums of Understanding. Prudent management of City resources will be required to ensure lasting fiscal sustainability for the General Fund.

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Chief Financial Officer/City Treasurer
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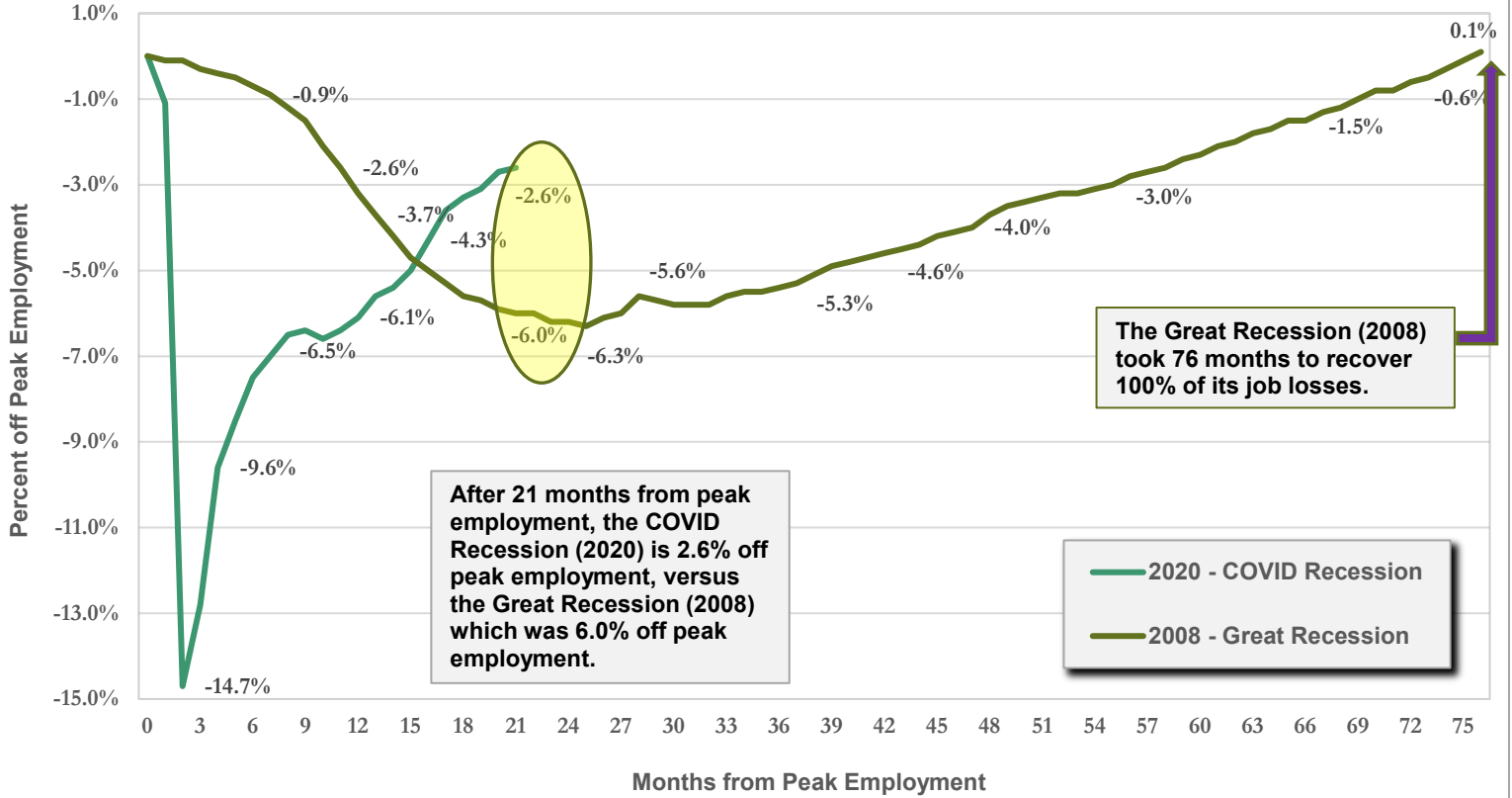
Assistant Chief Financial Officer
Kristie Thomas



ECONOMIC INDICATORS

Jobs Recovery

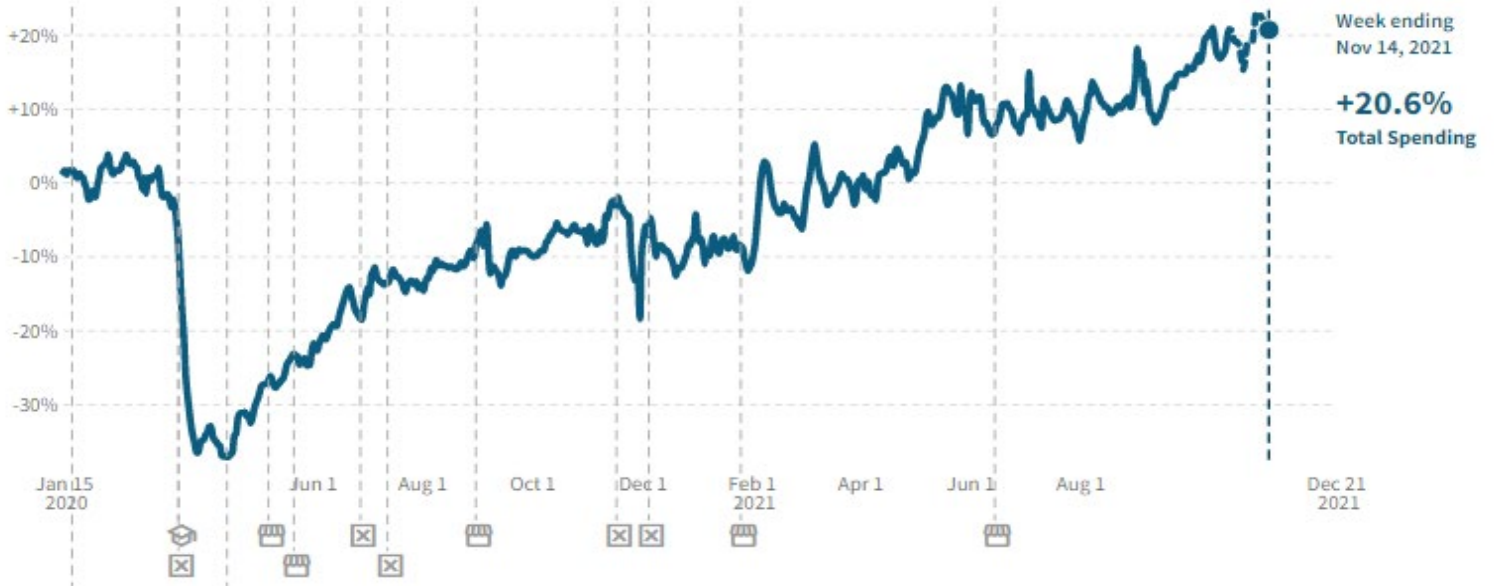
Jobs Recovery After Peak Employment



Percent Change in All Consumer Spending

Source: TrackTheRecovery.org

In **California**, as of November 14 2021, total spending by all consumers increased by **20.6%** compared to January 2020.



INFLATION WATCH

What is the Consumer Price Index and how does it affect consumer spending and sales tax performance?

The Consumer Price Index (CPI), is the broadest measure of the increases in the cost of living that the average consumer faces. The latest reports have shown a growing trend of price increases that the consumer is facing for a myriad of reasons. An influx of federal spending, supply chain disruptions, and increased consumer demand are all affecting the prices paid on almost all goods.

Food, energy, and automobile costs are the among the largest drivers of these increased prices. Oil, and its derivative **gasoline**, have increased 33% in price from November 2020 to November 2021. The pickup in American **fuel consumption** has surpassed (in total dollar volume) the pre-pandemic high of \$44 billion in month gasoline sales, to an all-time high of \$54.9 billion per month (as of November 2021).

Automobile prices, specifically used automobiles, have jumped more than 30% from a year ago. The demand for autos and the reopening of the economy caused a surge in automobile prices. Coupled with **supply chain and auto manufacturing issues**, the perfect storm erupted for the jump in both new and used automobiles. A cooling off of automobile prices is expected as supply chains normalize, and more auto manufacturing comes online.

These **pricing increases are expected to level off** in the beginning of calendar year 2022, however **a decrease in prices is not anticipated**. Demand should begin to abate after the holiday season and prices should moderate from the higher growth rates witnessed in 2021. In addition, anticipated Federal Reserve tapering and expected interest rate increases should serve as a brake on the accelerated prices that have spread throughout the economy.

The City has experienced significant growth in sales tax revenues, both because of heightened consumer spending and inflated prices. Through the first fiscal quarter of FY 2021/22, City sales tax revenue shows large gains (year over year), but a softening in those gains is expected in the upcoming quarters. Higher prices can dampen consumer spending and in turn sales tax revenue. The remainder of the fiscal year is likely to experience a slower growth rate – nowhere near the gains over the past few quarters – but an overall positive growth rate is expected. Sales tax revenues should remain solid and buoyed by the continued reopening of the economy and solid employment numbers. The recent emergence of the Omicron variant could have a short-term impact on the economy and could temper revenue growth in the third quarter of the fiscal year. As a result of the surge in coronavirus cases due to the variant, any new Federal and State mandates could impact the current economic recovery.

MONTHLY CPI HEATMAP

	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021
Overall CPI	1.4%	1.4%	1.7%	2.6%	4.2%	5.0%	5.4%	5.4%	5.3%	5.4%	6.2%	6.8%
Category CPI												
Food	3.9%	3.8%	3.6%	3.5%	2.4%	2.2%	2.4%	3.5%	3.7%	4.6%	5.3%	6.1%
Energy	-7.0%	-3.7%	2.4%	13.2%	25.1%	28.6%	24.5%	23.9%	25.0%	24.8%	30.0%	33.3%
Household Furnishings	2.9%	2.4%	2.3%	2.8%	3.2%	3.7%	3.4%	3.0%	3.3%	4.8%	6.1%	6.0%
Apparel	-3.9%	-2.5%	-3.6%	-2.5%	1.9%	5.6%	4.9%	4.2%	4.2%	3.4%	4.3%	5.0%
Motor Vehicles & Parts	5.0%	4.6%	4.2%	4.5%	9.2%	13.3%	20.3%	19.8%	17.2%	15.0%	16.5%	19.2%
Shelter	1.8%	1.6%	1.5%	1.7%	2.1%	2.2%	2.6%	2.8%	2.8%	3.2%	3.5%	3.8%
Household Operations	4.1%	4.7%	4.3%	4.3%	4.9%	8.3%	7.2%	7.0%	7.3%	6.6%	6.9%	8.4%
Medical Care Services	2.8%	2.9%	3.0%	2.7%	2.2%	1.5%	1.0%	0.8%	1.0%	0.9%	1.7%	2.1%
Transportation Services	-3.5%	-4.1%	-4.4%	-1.6%	5.6%	11.2%	10.4%	6.4%	4.6%	4.4%	4.5%	3.9%

Green = lower CPI



Red = higher CPI

GENERAL FUND REVENUE

As of the first quarter ending September 2021, total General Fund revenues are expected to exceed budgeted revenue estimates by approximately \$13.6 million, primarily due to a \$12.9 million increase in projected sales tax revenue. Other revenues were reviewed in detail in preparation for the FY 2022-2024 biennial budget projections, leading to revised projections for numerous revenue line items.

UPDATED REVENUE PROJECTIONS – FY 2021/22

	Budgeted Projection	Updated Projection	\$ Change	% Change
Property Taxes	\$ 76,673,280	\$ 76,939,716	\$ 266,436	0.3%
Sales Tax	68,272,880	81,157,400	12,884,520	18.9%
Utility Users Tax	31,070,222	31,556,617	486,395	1.6%
Transient Occupancy Tax	6,120,000	6,120,000	-	0.0%
Franchise Fees	5,403,601	5,617,000	213,399	3.9%
Licenses & Non-Developer Permits	8,381,657	8,775,457	393,800	4.7%
Non-Development Charges for Services	9,784,532	9,428,680	(355,852)	-3.6%
Development Fees & Charges	6,927,754	6,714,950	(212,804)	-3.1%
General Fund Transfer	48,208,700	48,208,700	-	0.0%
Measure Z Transfer	18,266,026	18,266,026	-	0.0%
Other Revenues & Transfers In	7,864,545	7,864,545	-	0.0%
Total Revenues & Transfers In	\$ 286,973,197	\$ 300,649,091	\$ 13,675,894	4.7%

Sales Tax History

The 10-Year history of sales tax revenues shows strong gains averaging 7.6% in 2013 through 2015, followed by a flattening of revenue with an average 2.6% annual gain from 2016 through 2018. In the last full fiscal year prior to the pandemic, 2019 posted a 6.6% gain over the prior year. Pandemic impacts, including business closures and stay-at-home orders, resulted in a 3.1% decline in 2020.

A combination of factors contributed to an extraordinary 18.2% gain in 2021 as compared to the prior year, including a shift in consumer spending habits, supply chain issues driving up costs, and rising inflation across nearly all spending categories. The higher sales tax base is expected to be sustained, providing a new baseline for revised FY 2021/22 projections. The City's sales tax consultant, HdL, projects a 3.6% growth in 2022 sales tax revenue over prior year actuals; the fiscal year projection has been revised accordingly.



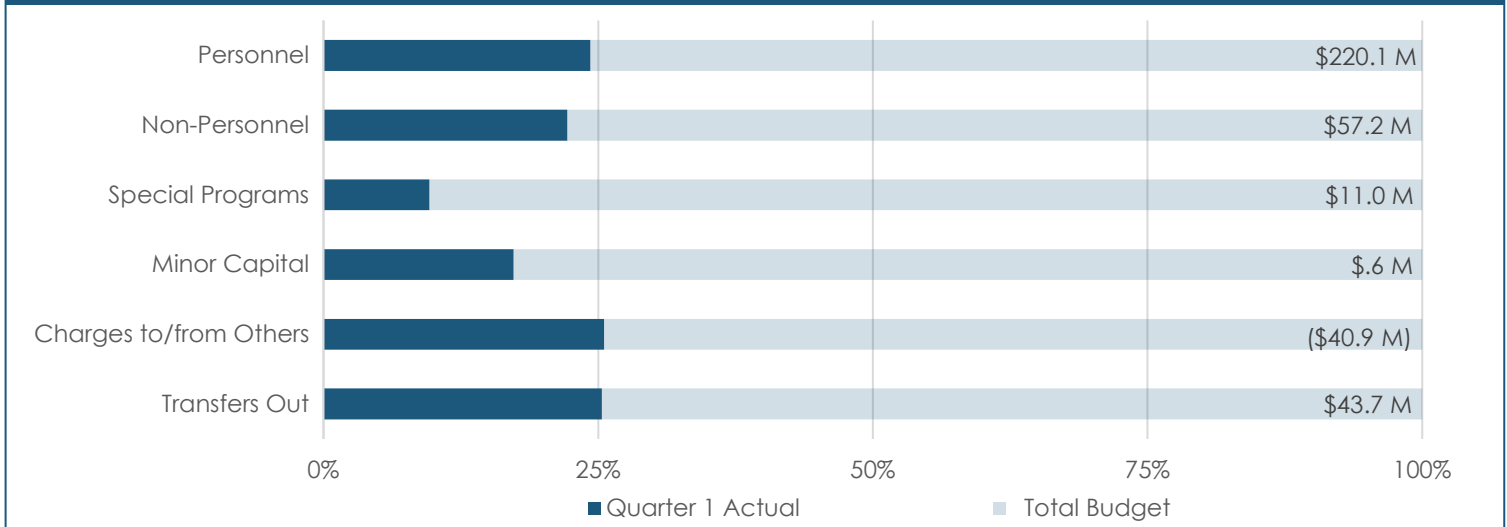
The chart above displays annual sales tax revenue received by the City through 2021. The sales tax estimate in the adopted budget is \$68.3 million; the revised estimate based on 2021 actuals and 2022 sales tax performance to date is \$81.2 million, an increase of \$12.9 million.

GENERAL FUND EXPENDITURES

The adopted General Fund expenditure budget included a \$10 million vacancy savings target balancing measure to offset a projected structural deficit in the General Fund. Based on performance to date, expenditures are expected to exceed the adopted budget by approximately \$573,000, due to a projected \$1.06 million increase in subsidy requirements for the Convention Center and Entertainment Funds, offset by \$490,000 in other savings.

Based on strong sales tax revenue performance, staff is projecting a \$13 million net gain in the General Fund for FY 2021/22. As a result of this positive outlook, **staff is recommending that the adopted \$10 million vacancy savings target be rescinded** to allow departments to recruit for and fill all vacant positions. The City is currently responding to a legal challenge to the certification of the results of the General Fund Transfer (Measure C) ballot measure that was approved by voters in November 2021. Staff's recommendation to rescind the vacancy savings target is **contingent upon a successful certification of the General Fund Transfer election results**. The fiscal impact of the mid-year action to rescind the adopted vacancy savings target is an estimated \$5.5 million.

EXPENDITURES AS OF SEPTEMBER 30, 2021



Vacancy Factor Balancing Measure

A \$10 million projected structural deficit in the General Fund was offset with the adoption of vacancy savings targets which included full or partial unfunding of full-time equivalent (FTE) positions. Some departments identified other savings measures to fulfill their pro-rata vacancy savings target. The Fire department recommended a reallocation of Measure Z fire vehicle funding towards personnel; Council approved this strategy with the temporary shift of fourteen firefighter positions to Measure Z. If Council approves rescinding the vacancy savings factor for FY 2021/22, the firefighter positions and actual costs to date will be transferred back to the General Fund. The total fiscal impact of rescinding the vacancy savings factor is \$5.5 million.

GENERAL FUND FY 2021/22 DEPARTMENTAL VACANCY SAVINGS TARGETS

Department	Amount	FTE Reduction	Other Methods
Mayor	\$ -	-	\$ -
City Council	-	-	-
City Manager	214,084	3.00	-
City Clerk	60,853	-	60,853
City Attorney	298,094	3.00	70,470
Human Resources	181,179	2.00*	-
General Services	175,207	3.00*	-
Finance	322,060	4.00	-
Innovation & Technology	434,094	5.00*	-
Community & Economic Development	660,881	7.00*	-
Police	4,012,599	31.00	806,573
Fire	2,006,427	-	2,006,427
Public Works	785,296	12.00*	-
Library	265,500	3.00	-
Parks, Recreation, & Community Services	507,293	6.00	-
Museum	76,433	3.00*	-
Totals	\$ 10,000,000	82.00	\$ 2,944,323

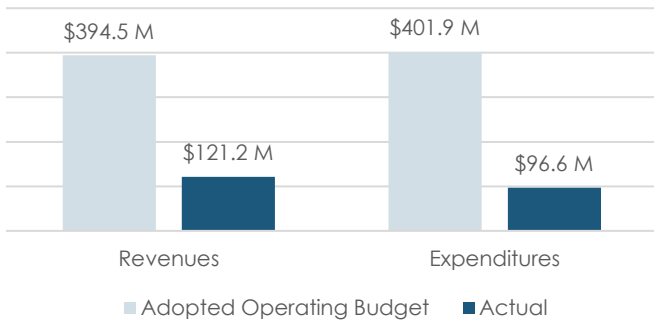
*Includes partial unfunding of some or all FTE via delayed recruitment.

ENTERPRISE FUNDS

Electric Fund

The FY 2021/22 adopted budget for the Electric Fund includes a programmed \$7.4 million operating deficit and draw on fund reserves. This is a financial strategy employed to draw reserves down to minimize the impact on rate increases and keep them as low as possible. Reserve level estimates as of the first quarter end are within established policy levels. At the end of the first quarter, retail sales are 3.4% higher than expected, and Electric operating expenditures are 23.7% of total budget. Some costs vary in their timing throughout the fiscal year; overall, electric expenditures are projected to remain within the budgeted appropriation limit at fiscal year-end.

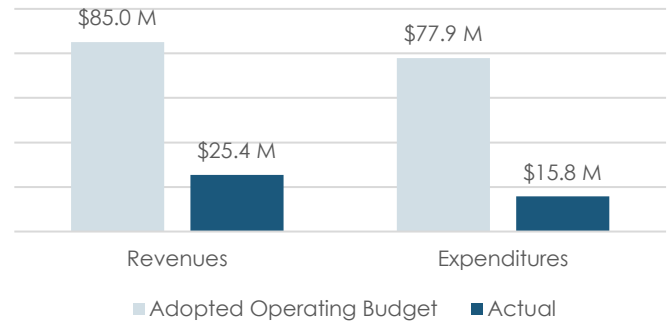
Budget to Actual



Water Fund

The Water Fund is in a healthy position with estimated reserve levels at the end of the first quarter within the required policy reserve range (including the available line of credit). Budgeted operating gains of \$7.2 million are anticipated, with approximately \$3.4 million to be used to fund \$21.5 million in capital projects in FY 2021/22, supplemented by bond proceeds. Residential revenues were 2.9% less than anticipated during the first quarter. Commercial, industrial, and other revenues are on target. Water Fund operating expenditures are 19.9% of budget at the end of the first quarter.

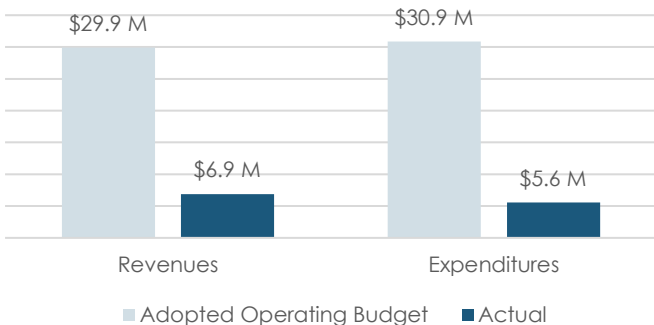
Budget to Actual



Refuse Fund

The adopted budget for the Refuse Fund projects a draw on fund reserves of approximately \$1 million due to revenues not keeping pace with rising costs. The Refuse Fund began the fiscal year with fund reserves of \$3.3 million; as of the first quarter, the reserve balance is expected to be sufficient to accommodate a current year deficit. The annual rate increase is expected to help the fund to operate at a net gain beginning in FY 2022/23. As of the first quarter of FY 2021/22, both revenues and expenditures are trending below projections. A scheduled rate increase became effective July 1, 2021.

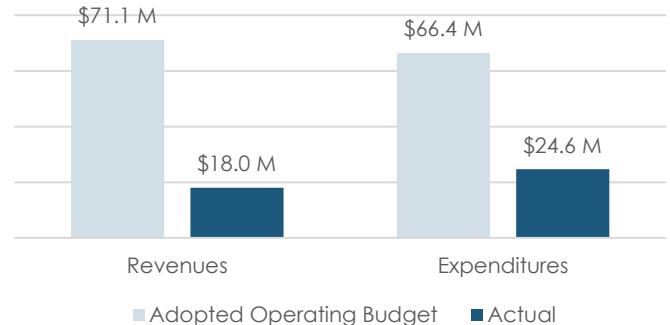
Budget to Actual



Sewer Fund

The FY 2021/22 adopted budget projects a net operating gain of \$4.6 million. The operating gain, in addition to fund reserves of \$71.4 million will be used to fund \$22 million of planned capital projects. Based on an analysis of first quarter performance to date, the Sewer Fund is on track to meet revenue and expenditure projections. At the end of the first quarter, 25.3% of projected revenues have been recorded. Operating expenditures are 35.5% of total budget (inclusive of prior year encumbrances) at the end of the first quarter and are expected to remain within adopted appropriation limits through the fiscal year.

Budget to Actual



Measure Z

Based on the spending items approved to date and strong tax revenue performance, Measure Z is projected to end the fiscal year with approximately \$44.8 million in unallocated fund reserves. The FY 2021/22 adopted budget included projected revenue of \$64.8 million. Considering FY 2020/21 actual tax revenue growth of 15.4% and revenue performance to date, the FY 2021/22 tax revenue projection has been revised to \$74.3 million. The revised transaction and use tax projection is 3.25% higher than prior year actuals. If the City Council approves rescinding the General Fund vacancy savings factor contingent upon the certification of the General Fund Transfer ballot results (Measure C), \$2 million will be reinstated to Measure Z unallocated reserves. This amount represents the Fire Department's vacancy savings target that was funded by Measure Z via the temporary transfer of fourteen firefighters from the General Fund to Measure Z.

(in millions)	Actuals				Projected
	2018	2019	2020	2021	2022
Revenue	\$ 56.24	\$ 62.82	\$ 63.14	\$ 72.65	\$ 74.65
Expenditures	(36.14)	(40.99)	(49.56)	(50.85)	(68.64)
Encumbrances & Carryovers	-	-	-	(36.16)	-
Net Change in Fund Balance	\$ 20.10	\$ 21.83	\$ 13.58	\$ (14.36)	\$6.01
Beginning Unallocated Fund Reserves	\$ 2.63	\$ 22.73	\$ 39.56	\$ 53.14	\$ 38.78
Net Change in Fund Balance	20.10	21.83	13.58	(14.36)	6.01
Fund Balance Reserve Policy	-	(5.00)	-	-	-
Ending Unallocated Fund Reserves	\$ 22.73	\$ 39.56	\$ 53.14	\$ 38.78	\$ 44.79

Public Parking Fund

The adopted budget for the Public Parking Fund reflects the ongoing impact of the COVID-19 pandemic on revenue from downtown parking operations. Downtown parking activity declined significantly during the pandemic due to business closures and stay-at-home orders. Parking activity is increasing in FY 2021/22, but scaled back events, such as the Festival of Lights, continues to dampen revenue performance. Prolonged revenue loss in this fund will quickly deplete remaining reserves, in which case a General Fund subsidy may be required to fund ongoing operations.

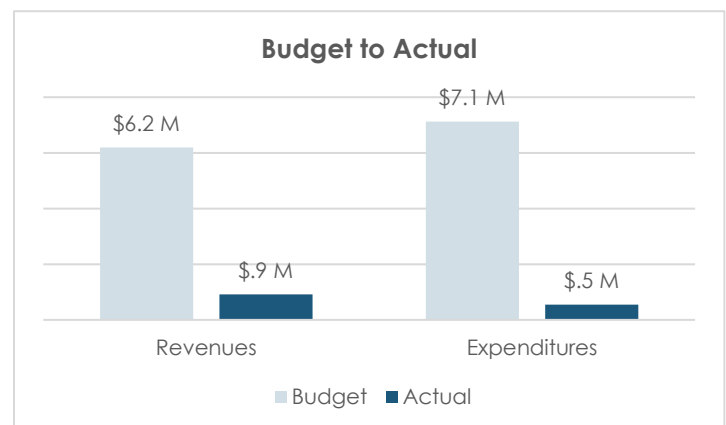
An operating deficit of \$900,000 is projected in the Public Parking Fund's adopted FY 2021/22 budget, with negative fund reserves projected at \$1.4 million. The Public Parking Fund began the fiscal year with fund reserves of \$1.6 million. Based on adopted revenue projections and appropriations, as well as prior year carryovers and encumbrances, the fund may end the fiscal year with \$660,000 negative cash reserves.

Although first quarter revenues are 10% less than revenues for the same period in the prior fiscal year, revenues through November are 19% higher than the prior year and just 10% lower than FY 2019/20 for the same period. The revenue

performance in comparison to prior years demonstrates continued recovery from the effects of the pandemic.

First quarter expenditures are 7% of the adopted budget. Expenditures do not occur evenly during the year; debt expenditures and minor capital expenditures are expected to be recorded in upcoming months.

Staff will continue to monitor the Public Parking Fund throughout the fiscal year and manage expenditures to minimize potential negative cash reserves.



OTHER FINANCIAL NEWS

FY 2022-2024 Biennial Budget Development

The City is currently developing the FY 2022-2024 biennial budget. Public engagement is encouraged at numerous meetings during which budget presentations and discussion will be conducted and feedback will be received. The following meetings are currently scheduled (subject to change); additional public outreach meetings may also be scheduled. Get the latest information on public meetings related to the development of the FY 2022-2024 biennial budget by visiting the City's budget website at <https://riversideca.gov/finance/budget.asp>.

Date	Time	Meeting Body	Subject Matter
Feb 10	5:00 PM	Budget Engagement Commission	Measure Z Review, Critical Unfunded Needs (Final Recommendations)
March 21	6:30 PM	Park & Recreation Commission	Parks, Recreation, & Community Services Department preliminary budget
March 23	3:00 PM	Museum of Riverside Board	Museum Department Preliminary Budget
March 31	5:00 PM	Budget Engagement Commission	Departments' Preliminary Budget Presentations (Meeting 1 of 3)
April 7	5:00 PM	Budget Engagement Commission	Departments' Preliminary Budget Presentations (Meeting 2 of 3)
April 11	5:00 PM	Board of Library Trustees	Library Department Preliminary Budget
April 11	6:30 PM	Board of Public Utilities	Public Utilities Preliminary Budget
April 14	5:00 PM	Budget Engagement Commission	Departments' Preliminary Budget Presentations (Meeting 3 of 3)
April 18	8:00 AM	City Council Budget Workshop	Budget Overview (General Fund & Measure Z) & Departments' Preliminary Budget Presentations
April 29	9:00 AM	Planning Commission	Proposed CIP Conformance to General Plan
May 12	5:00 PM	Budget Engagement Commission	FY 2022-2024 Proposed Biennial Budget
May 17	1:00 PM	City Council – Afternoon Session	FY 2022-2024 Proposed Biennial Budget
June 9	5:00 PM	Budget Engagement Commission	FY 2022-2024 Final Budget
June 21	6:15 PM	City Council – Evening Session	Public Hearing and Adoption of the FY 2022-2024 Biennial Budget

American Rescue Plan Act (ARPA)

On March 11, 2021, President Biden signed into law the American Rescue Plan Act to facilitate the recovery from the devastating economic and health effects of the COVID-19 pandemic. The American Rescue Plan Act established the Coronavirus State Fiscal Recovery Fund and Coronavirus Local Fiscal Recovery Fund, which provides a combined \$350 billion in assistance to eligible state, local, territorial, and Tribal governments to assist in the economic and health recovery by providing resources to address impacts resulting from the crisis. The City of Riverside will receive Fiscal Recovery Funds in two installments for a total amount of \$73,535,189. The first allocation in the amount of \$36,767,594 was received in June 2021, and the City will receive the second allocation 12 months later in June 2022 in the amount of \$36,767,594.

On November 9, 2021, the City Council approved a spending plan for the allocation of the first round of ARPA funding. The recommendations were based upon insights from the community, input received from the CARES Act survey, lessons learned from CARES Act funded services, departments' familiarity with services that will serve disproportionately impacted communities, guidance by the approved Riverside Road to Recovery and the Riverside 2025 Strategic Plan, and input received by the City Council on October 5, 2021.

ARPA Spending Plan - First Allocation

