



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS **DATE: APRIL 11, 2024**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: FISCAL YEAR 2023/24 SECOND QUARTER FINANCIAL UPDATE AND MID-CYCLE BUDGET ADJUSTMENTS – \$386,133 SUPPLEMENTAL APPROPRIATIONS; GENERAL FUND RESERVES

ISSUE:

Receive and provide input on the Fiscal Year 2023/24 Second Quarter Financial Update; approve proposed mid-cycle budget adjustments.

RECOMMENDATIONS:

That the Budget Engagement Commission:

1. Receive and provide input on the Fiscal Year 2023/24 Second Quarter Financial Update; and

Recommend that the City Council, with at least five affirmative votes, authorize the Chief Financial Officer, or designee, to record:

2. Mid-cycle budget adjustments resulting in total supplemental appropriations of \$386,133 in various funds as detailed in this report, including \$99,921 in the General Fund fully offset by adjusted revenue projections; and
3. An allocation of \$5 million in projected General Fund surplus to the General Fund Infrastructure Reserve (\$3 million) and the Technology Reserve (\$2 million) fully offset by adjusted revenue projections.

BACKGROUND:

On June 21, 2022, the City Council adopted Resolution No. 23866 approving the Fiscal Year (FY) 2022-2024 Biennial Budget. On June 27, 2023, the City Council adopted Resolution No. 24010 approving the amendments to the Fiscal Year 2023/24 Budget.

On January 12, 2024, the Budget Engagement Commission received the First Quarter Financial Update and recommended that the City Council approve citywide supplemental appropriations of \$1,453,000 for all City funds, including \$1,000,000 from the General Fund Infrastructure Reserves for an interfund transfer to the Airport Fund for Airport building remedial repairs.

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 second-quarter report, City departments analyzed the financial status of all funds and appropriations under their purview. The results of the City’s major funds and areas of concern in other funds (if any) are included in this report. This update spans the period of July through December 2023.

General Fund

The second-quarter analysis presents a positive outlook for the General Fund, with overall revenues performing better than anticipated and expenditures trending within budgeted appropriation limits. This projected positive outcome for the General Fund will enable the City to address the fiscal challenges that have arisen during the fiscal year, namely the escrow of the \$8.57 million Water General Fund Transfer (GFT) revenues and the fiscal impact of recently completed labor negotiations.

Adopted Budget: The adopted FY 2023/24 amended budget for the General Fund totaled \$332.09 million with a projected \$6.41 million surplus. At the time of budget adoption, the surplus was recommended to be preserved as a buffer against the potential impacts of an expected mild recession and other unknown fiscal impacts. In the event of a fiscal year-end budget surplus, the adopted budget included a planned contribution of \$5.00 million to the Infrastructure Reserve, reducing the projected surplus to \$1.41 million.

Revenues: FY 2023/24 General Fund revenues recorded through December 2023 were assessed in the context of FY 2022/23 actual results, performance to date, and potential economic impacts through the end of the fiscal year. Second-quarter analysis reveals that General Fund revenue projections may exceed budgeted revenue estimates by approximately 2%, or \$6.75 million, as depicted in the following table:

REVENUE PROJECTIONS

(in millions)	Adopted Amended Budget	Total Budget as of 12/31/2023	Year-End Projection	\$ Change	% Change
Property Taxes	\$ 84.43	\$ 84.43	\$ 88.83	\$ 4.40	5.2%
Sales Tax	94.04	94.04	91.94	(2.10)	-2.2%
Utility Users Tax	33.52	33.52	32.92	(0.60)	-1.8%
Transient Occupancy Tax	8.58	8.58	8.28	(0.30)	-3.5%
Franchise Fees	5.84	5.84	6.59	0.75	12.8%
Licenses & Non-Developer Permits	10.03	10.03	11.03	1.00	10.0%
Non-Development Charges for Services	10.91	10.93	10.93	0.00	0.0%
Development Fees & Charges	7.37	7.37	7.37	0.00	0.0%
General Fund Transfer	53.20	53.20	53.40	0.20	0.4%
Measure Z Transfer	18.27	18.27	18.27	0.00	0.0%
Other Revenues & Transfers In	7.31	8.58	11.98	3.40	39.6%
Subtotal: Revenues and Transfers In	\$ 333.50	\$ 334.79	\$ 341.54	\$ 6.75	2.0%
Use of Reserves	-	\$ 23.70	\$ 28.20	\$ 4.50	19.0%
Total Incoming Resources	\$ 333.50	\$ 358.49	\$ 369.74	\$ 11.25	3.1%

The following outlines trends for the performance of key revenue streams:

- **Property Taxes** – The City of Riverside continues to experience substantial growth in assessed property values, as evidenced by an 8.2% increase reported by the County of Riverside Assessor in July 2023. This growth has translated into healthy increases in the City’s property tax revenues, which constitutes approximately 25% of General Fund revenues. This increase is attributed to rising property values across residential, industrial, and agricultural sectors, driven by property sales, construction, and development activities. Property tax revenue is projected to be 7.3% higher than the previous year’s actuals; a \$4.40 million increase in budgeted revenues will be recorded to align with updated estimates.
- **Sales and Use Tax** – The second-quarter analysis indicates that the economy is experiencing the repercussions of the Federal Reserve’s actions to counter inflation. While inflation has significantly moderated, households and businesses continue to grapple with the elevated borrowing costs. Year-over-year sales tax revenues have decreased by 1.5% as of the second quarter. Revised FY 2023/24 revenue projections provided by the City’s sales tax consultant, HdL, anticipate a 2.2% decline in sales and use tax revenues compared to the budget, with a projected decrease of 1.9% from the prior year’s actuals. A \$2.10 million reduction in sales tax revenue projections will be recorded to align with the revised projection.
- **Utility Users Tax** – In FY 2022/23, Utility Users Taxes experienced a total increase of 7.69%, primarily driven by a spike in natural gas prices. However, natural gas prices have since subsided due to record-high production levels, leading to an oversupply in the market. Based on second-quarter projection, a \$600,000 reduction in the revenue projection for the entire category is warranted.
- **Transient Occupancy Tax** – Collections in FY 2022/23 were 2.0% lower than those for FY 2021/22. Second-quarter results are tracking about 3.4% behind FY 2022/23 and falling short of budget by 3.5%. To align with the updated projection, a \$300,000 reduction in the revenue budget will be recorded.
- **Franchise Fees** – At the conclusion of FY 2022/23, franchise tax revenues reached \$6.42 million, marking a notable 7.8% increase compared to the previous fiscal year. This significant rise is attributed to the Year 2 increase in solid waste rates, impacting franchise fees for waste haulers. Additionally, escalating energy costs led to increased franchise fee collections from SoCal Gas and Edison. Based on second-quarter analysis, projected franchise fee tax revenues are 2.7% higher than the prior year and 12.9% above budget. A \$750,000 increase in the revenue projection will be recorded in this line item.
- **Licenses & Non-Developer Permits** – Business License revenue is trending 8.6% higher than the prior year actuals, primarily due to positive business growth and the ongoing Business Tax Discovery and Amnesty program for property rentals aimed at bringing businesses into compliance with business license regulations. Based on current performance and year-end estimates, a \$1.00 million increase in budgeted revenues will be recorded.
- **General Fund Transfer** – The budgeted General Fund Transfer was based on projected FY 2022/23 revenues. The \$200,000 increase in projections is based on FY 2022/23 actual revenue receipts.
- **Other Revenues & Transfers In** – Due to the high interest rate environment, as of second quarter, year-over-year interest earnings on investments is trending 80% higher than prior

year prompting a \$1.50 million increase in the projection. Additionally, the City has received \$3.90 million unbudgeted land sales revenue from the March JPA revenue sharing agreement. A \$3.40 million increase in revenue projections will be recorded for this category.

- **Use of Reserves** – During the fiscal year, the City Council approved the use of reserves for certain supplemental appropriations. The following details the use of reserves approved by Council during FY 2023/24:

Included in Total Budget as of Second Quarter (\$23.70 Million)

- Use of the General Fund's Assigned Fund Balance for encumbrances and nondiscretionary carryovers carried forward from FY 2022/23 as provided for in the Riverside Municipal Code: \$7,072,747
- Use of the General Fund Assigned Fund Balance for restricted and discretionary carryovers approved by City Council in the FY 2022/23 fourth quarter report: \$5,726,579
- Use of the General Fund Insurance Reimbursement Reserves for an interfund transfer from the General Fund to the Public Parking Fund for parking lot construction: \$900,000 on September 19, 2023
- Use of the General Fund Infrastructure Reserves for an interfund transfer from the General Fund to the Capital Outlay Fund for the Museum Expansion and Renovation Project: \$10,000,000 on December 12, 2023

In Addition to the above, Included in the Year-End Projections (\$4.50 Million)

- Use of the General Fund Infrastructure Reserves for an interfund transfer from the General Fund to the Airport fund for Airport building remedial repairs: \$1,000,000 on January 16, 2024
- Use of the General Fund Infrastructure Reserves for an interfund transfer from the General Fund to the Capital Outlay Fund for the SPC Jesus S. Duran Eastside Library: \$3,500,000 on January 16, 2024

Expenditures: The total budget as of the second quarter presented in the following table reflects encumbrances and carryovers of \$7.07 million carried forward from FY 2022/23 as provided for in the Riverside Municipal Code; \$5.73 million in restricted and discretionary carryovers approved by City Council in the FY 2022/23 fourth quarter report; and supplemental appropriations approved by Council through the second quarter. Year-end projections include \$6.44 million in supplemental appropriations approved by Council in the third quarter. Of this amount, \$4.50 million of appropriations are offset using General Fund Infrastructure reserves as previously described, while \$1.94 million will be offset by anticipated personnel savings.

EXPENDITURE PROJECTIONS

(in millions)	Adopted Amended Budget	Total Budget as of 12/31/2023	Year-End Projection	Over / (Under) Budget	% Variance
Personnel	\$ 227.54	\$ 228.27	\$ 223.67	\$ (4.60)	-2.0%
CalPERS UAL – Safety	8.95	8.95	8.95	-	0.0%
CalPERS UAL – Miscellaneous	-	-	-	-	0.0%
Non-Personnel Costs	67.40	78.20	79.44	1.24	1.6%
Special Projects	9.65	11.48	11.73	0.25	2.2%
Minor Capital & Grants	1.30	1.94	1.94	-	0.0%
Debt Service	22.72	22.72	22.72	-	0.0%
Charges To/From	(18.88)	(18.88)	(18.88)	-	0.0%
Cost Allocation Plan	(24.11)	(24.11)	(24.11)	-	0.0%
Transfers to Other Funds	20.92	31.90	36.85	4.95	15.5%
Special Districts Fund Contribution	1.43	1.43	1.43	-	0.0%
Convention Center Fund Contribution	5.30	5.30	5.30	-	0.0%
Entertainment Fund Contribution	3.86	3.86	3.86	-	0.0%
Cheech Marin Center Fund Contribution	1.01	1.01	1.01	-	0.0%
Subtotal Expenditures & Transfers Out	\$ 327.09	\$ 352.07	\$ 353.91	\$ 1.84	0.5%
Water GFT Escrow	-	8.57	8.57	-	0.0%
Total Outgoing Resources	\$ 327.09	\$ 360.64	\$ 362.48	\$ 1.84	0.5%

The following explains significant items:

- Personnel** – The personnel expenditures budget incorporates a 5% attrition rate, equivalent to approximately \$12 million, within a non-departmental fund account. This measure allowed for the allocation of funds to City priorities during the amendment of the originally adopted budget. However, it's worth noting that all positions are fully budgeted within their respective departments, underscoring the City's commitment to filling these positions.

As of the end of the second quarter, the General Fund vacancy rate stood at 11.0%, representing a decrease of 2.5% from the start of the fiscal year. If the current trend of filling positions persists throughout the fiscal year, the projected vacancy rate at year-end is anticipated to be 9.5%, resulting in an average annual projected vacancy rate of 11.5% and projected personnel savings of \$7.92 million. However, this projected personnel savings is offset by recently approved MOU impacts amounting to \$3.32 million. As a result, the estimated net personnel savings are approximately \$4.60 million.

- Non-Personnel** – Non-personnel expenses are challenging to project due to fluctuations in the timing of expenditures throughout the fiscal year, as well as the common occurrence of unexpended funds being carried over at the end of the fiscal year. As of the second quarter, the total budget includes \$12.80 million in encumbrances and carryovers from prior year. The year-end projection includes supplemental appropriations for professional services contracts approved by the Council in the third quarter; those items will be detailed in the third quarter report.

- **Transfers to Other Funds** – Transfers to Other Funds include the Use of Reserves previously described, as well as the allocation of \$450,000 in revenue replacement funds from the American Rescue Plan Act (ARPA) for start-up and ongoing management costs directly related to the Nonprofit Revolving Loan Fund approved by the City Council on March 12, 2024.

During the first two quarters of FY 2023/24, the City Council approved the following supplemental appropriations in the General Fund, totaling approximately \$12.18 million:

- Riverside New Car Dealers Association (RNCDA) for Business Improvement District (BID) Funding \$100,000 – The City entered into a new agreement with the RNCDA to invest in the BID for five years, at a cost of \$100,000 per year in exchange for advertising time on the electronic sign display.
- Emergency Air Support (Corona) \$120,000 – As-needed emergency air support services to the City of Corona, fully offset by corresponding revenues.
- Temporary Parking Lot Construction at 3460 Orange Street \$900,000: Use of General Fund insurance reimbursement reserves for interfund transfer from the General Fund to the Public Parking Fund for parking lot construction.
- Omnicap Group supplemental agreement to master professional services agreement for professional consultant ad-hoc services for arbitrage rebate and swap reporting services fully offset by an increase in revenues: \$14,070
- City of Riverside and OHMIO agreement to purchase or lease autonomous shuttles: \$525,000
- Parks Facility Rental Cleaning (fully offset by deposits): \$12,983
- Department Housing and Human Services additional staffing: \$ 503,945
- Museum Expansion and Renovation Project interfund transfer from the General Fund, offset by Infrastructure Reserves: \$10,000,000

Summary: Based on year-end projections, the General Fund appears poised to conclude the fiscal year with a net gain of approximately \$7.26 million. This gain is largely attributable to strong performance in property taxes and personnel savings resulting from a high vacancy rate. As a result of this positive performance, the General Fund will be able to withstand the current fiscal year challenges of the loss of the Water General Fund Transfer, impacts from recent labor MOU negotiations, and the economic slowdown in consumer spending impacting sales tax revenues.

Given the projected surplus, staff recommends contributing \$3.0 million to the Infrastructure Reserves and \$2.0 million to the Technology Reserves to ensure adequate funding for the future maintenance and/or replacement of assets. Following these allocations, the General Fund is projected to end the fiscal year with a \$2.26 million net gain. A portion of this projected net gain may be required to maintain the General Fund's 20% policy reserves.

GENERAL FUND SUMMARY

FY 2023/24 (in millions)	Adopted Budget	Total Budget	Projected	\$ Change	% Change
Revenue & Transfers In	\$ 333.50	\$ 334.79	\$ 341.54	\$ 6.75	2.0%
Expenditures & Transfers Out	327.09	352.07	353.91	1.84	0.5%
Balance Before Changes in Reserves	\$ 6.41	\$ (17.28)	\$ (12.37)	\$ 4.91	-28.4%
Changes in Reserves					
Use of Reserves	\$ -	\$ 23.70	\$ 28.20	\$ 4.50	19.0%
Water GFT Escrow	-	(8.57)	(8.57)	-	0.0%
Net Surplus/(Deficit)	\$ 6.41	\$ (2.15)	\$ 7.26	\$ 9.41	-437.7%

Mid-cycle Budget Adjustments: Throughout the fiscal year, staff assess the need for adjustments to the adopted budget. Revenue adjustments of approximately \$6.75 million will be recorded in the appropriate revenue category for the General Fund to align with current year-end projections based on FY 2022/23 actual results, performance to date, and potential economic impacts through the end of the fiscal year. The following expenditure budget adjustments are recommended for Council approval:

- **General Fund – City Clerk:** Record adjustments to appropriations in the following funds and accounts in City Clerk direct allocation charges to align with a change in responsibilities for the Budget Engagement Commission, Airport Commission, Board of Public Utilities, and the Community Police Review Committee:

City Clerk Support	Fund	Account	Amount
Budget Engagement Commission - No longer supported	General Fund	1200000-892110	13,642
	Measure Z	8002203-882101	(13,642)
Airport Commission - No long supported	General Fund	1200000-892530	3,445
	Airport Fund	2245000-882101	(3,445)
Board of Public Utilities - Increase support	General Fund	1200000-892510	(5,081)
	Electric Fund	6000000-882101	5,081
Community Police Review Committee - Add support	General Fund	1200000-892101	(19,125)
	General Fund	1125000-882101	19,125

- **Grants and Restricted Programs Fund – Fire Department (\$32,085):** Record an adjustment to appropriations to move \$32,085 from the General Fund, Fire Certified Unified Program Agency (CUPA) – Interfund Services account 3525000-884101, to the Grants and Restricted Programs Fund, Fire Certified Unified Program Agency – Interfund Services account 3525001-884101, to properly reflect direct General Fund – Fire Prevention position charges to the Grants and Restricted Programs Fund – Fire CUPA.
- **General Fund – Public Works (\$20,000):** Record an increase revenue in the amount of \$20,000 in the General Fund, Public Works – Signals Maintenance revenue account 4110400-342420, offset by an increase in supplemental appropriations in the General Fund, Public Works Traffic Signals Maintenance expenditure account 4110400-424220, to cover the cost of installing traffic signal equipment improvements at the intersection of Van Buren Boulevard and Rudicill Street. The installation is required by the City before issuing a Certificate of Occupancy for a nearby project. The developer has negotiated with the City to complete this work.

- Convention Center Fund – General Services (\$41,133):** Record the following supplemental appropriations in the Convention Center Fund to adjust annual fees for Raincross Hospitality Corporation management contract for the Riverside Convention Center, Convention & Visitors Bureau, and Sports Commission to reflect the actual CPI increase. The FY 2023/24 budgeted amount assumed a 3% CPI increase, whereas the actual CPI increase in March 2023 was 4.6%.

Convention Center Fund	Account	Amount
Riverside Convention Center	2250000-459971	10,215
Riverside Convention & Visitors Bureau	2250100-459974	27,700
Riverside Sports Commission	2250100-459973	3,218

- Grants and Restricted Programs Fund – City Manager (\$75,000):** Despite more than \$200 million in grants awarded to the City in 2023, the City does not have a robust grant management system. A grants management system will allow the City to maintain a centralized database of all grant-related data and documents, facilitate oversight of grant compliance, track performance metrics, provide reporting and analytics, and much more. This amount is expected to be offset in the future through the allowable overhead costs reimbursed by the various grants.
- Grants and Restricted Programs Fund – Housing and Human Services (\$225,000):** Request approval to change the fund used to record a \$225,000 increase in revenues and supplemental appropriations from the General Fund to the Grants and Restricted Programs Fund. On January 16, 2024, per the Memorandum of Understanding with the Riverside County Flood Control and Water Conservation District, City Council approved an increase in revenues and supplemental appropriations of \$225,000 in the General Fund for the removal of illegally dumped materials from District property. Appropriating these funds in the Grants and Restricted Programs Fund, Housing and Human Services expenditure account, will provide more transparent way to track external monies expended and reimbursed for a specific purpose.
- General Fund – Parks, Recreation and Community Services Department (\$250,000):** Record supplemental appropriations of \$250,000 in the General Fund, PRCS Maintenance\Repair of Buildings and Improvements account 5215000-424130, to address costs outside of its control related to vandalism, theft, and other emergencies. To date, these events have resulted in increased costs of \$455,775.

If approved by the City Council, the recommended budget adjustments in this report will increase General Fund budget expenditures by \$99,921.

Measure Z

Based on the spending items approved to date and slowing tax revenue performance, Measure Z is projected to end the fiscal year with approximately \$43.27 million in fund reserves. These reserves are programmed to be drawn down throughout the Five-Year Spending Plan, as annual programmed expenditures exceed annual projected revenue. In FY 2023/24, programmed expenditures exceed projected revenue by \$15.71 million. Separately, \$5.00 million is held in contingency reserves per the adopted Measure Z Reserve Policy to ensure sufficient funding for ongoing costs in the event of under-performing revenues.

Revenues: The FY 2023/24 adopted amended budget incorporated projected revenues of \$84.46 million. However, as discussed earlier, the actions taken by the Federal Reserve to curb inflation have led to a decline in consumer spending, resulting in a 4.5% decrease in transaction and use

tax compared to the second quarter of the previous year. Consequently, HdI projects a 4.7% reduction in sales tax revenues compared to the budget, and a 4.5% decrease from prior year actuals. As a result, revenue projections will be revised to \$80.54 million with this second quarter report.

Expenditures: The total budget presented in the Measure Z Spending Plan reflects encumbrances and carryovers of \$48.65 million carried forward from FY 2022/23 as provided for in the Riverside Municipal Code and approved by Council in December 2023. Measure Z funds include many projects and one-time expenditures, causing expenditures to appear to be trending behind budget. However, spending is progressing as planned and within appropriation limits.

Electric Fund

The FY 2023/24 adopted amended budget for the Electric Fund projects a \$9.12 million operating loss due to a planned draw on reserves. This is a financial strategy employed to draw reserves down to keep rate increases as low as possible.

Revenues: As of the end of the second quarter, Electric operating revenues stand at 56.9% of budgeted projections. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 54.6% of total budget through December 2023. Retail sales are at 52.1% of total budget through December 2023 and (2.5%) or \$9.10 million lower than expected. As of December 31, 2023, the lower than anticipated retail revenues are a result of decreased electric consumption attributed to milder temperatures through the second quarter of the fiscal year. Decreased electric retail sales will have a corresponding decrease in electric expenses. Weather can significantly impact retail revenues, which will be monitored throughout the remainder of the fiscal year. Transmission revenues are projected to perform as anticipated for the remainder of Fiscal Year 2023/24. Other operating revenues are at 121.9% of budget due to the sale of surplus emission allowances, as well as excess electricity to external entities above budgeted projections. The projected Fiscal Year revenue remains unchanged.

Expenditures: Electric operating expenditures are 50.7% of the total budget at the end of the second quarter. Personnel savings are anticipated due to a vacancy rate of 15.0%. Within the Non-Personnel budget, Power Supply costs are trending 19% over budget due to significantly higher-than-expected increases in market energy and natural gas prices. This increase is expected to be offset by personnel savings.

Water Fund

The FY 2023/24 adopted amended budget for the Water Fund projected an operating gain of \$4.59 million to help pay for capital projects and ensure reserves are maintained at policy levels.

Revenues: Total operating revenues for the Water Fund are 52.9% of budgeted projections as of second-quarter end. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 56.7% of the total budget through December 2023. Actual retail sales are at 52.1% of the total budget through December 2023 and 4.6%, or \$2.70 million, lower than expected. Decreased water consumption appears to be driven by the milder temperatures and increased precipitation through the second quarter of the fiscal year. Weather, including precipitation, can significantly impact retail revenues, which will be monitored throughout the remainder of the fiscal year.

Expenditures: At the end of the second quarter, Water Fund operating expenditures stand at 47.8% of the budget. Personnel savings are anticipated due to a vacancy rate of 15.2%. Non-

personnel expenditures are trending 7.4% lower than last year's level of expenditures; however, it is important to note some expenditures vary in their timing throughout the fiscal year. Overall, water expenditures are projected to remain within the budgeted appropriation limit at fiscal year-end.

Refuse Fund

The FY 2023/24 adopted amended budget for the Refuse Fund anticipates a draw on fund reserves of approximately \$1.16 million. This draw is attributed to several factors, including the decline in recycling revenues stemming from the impacts of China's National Sword policy, escalating recycling costs, an increase in tonnage, and newly implemented state mandates for diverting green waste from landfills. The Refuse Fund began the fiscal year with fund reserves of \$6.19 million net of prior year encumbrances and the cash infusion of a combined \$11.00 million in General Fund contributions and ARPA funding for capital purchases and revenue losses. As of the second quarter, the reserve balance is expected to be sufficient to accommodate the current fiscal year deficit. On September 19, 2023, the City Council adopted a resolution approving and establishing the residential solid waste rate structure from November 1, 2023, through June 30, 2028. The five-year residential solid waste rate plan will address the challenges to solid waste services provided by the City. Since its approval in September, and with several months of actual data, the Refuse fund is projected to utilize \$2.48 million of reserves during the first three years of the five-year plan. According to the updated plan, revenues in FY 2025/26 are expected to nearly match expenditures before reserves begin being rebuilt in the subsequent fiscal years.

Revenues: Second-quarter analysis suggests that Refuse revenues will meet expectation, inclusive of the November 1, 2023, solid waste rate increase. By the end of the second quarter, service revenues stand at 50.5% of projections and total revenues are 52.7% of projections.

Expenditures: Operating expenditures are 32.8% of total budget at second quarter end. During this period, the Refuse Fund continues to experience staffing shortages with 15.00 FTE vacancies, constituting a vacancy rate of 24.2%. Due to staffing shortages, overtime costs are anticipated to exceed budget, but will be offset by personnel savings. Street Sweeping staff are assisting with routes to mitigate impacts from staffing shortages. Solid waste staff anticipate filling vacancies by the end of the fiscal year.

Projected overages are anticipated in the non-personnel budget for motor fuels and lubricants due to increased maintenance costs resulting from an aging fleet. However, vehicle replacements expected in FY 2024/25 are anticipated to reduce these costs. Additionally, a projected overage of \$27,700 is expected in professional services due to the purchase of RubiconSmartCity™ Solid Waste Technology and required in-cab technology. These investments aim to improve operational efficiency, document contamination and other residential violations, and enhance route optimization to ensure compliance with State mandates. In the third quarter, Public Works staff prepared a Council memo to request approval of the master software agreement with Rubicon and requested supplemental appropriations. Furthermore, a \$550,000 overage is anticipated in the special programs budget for Athens Services Private Hauler due to a Consumer Price Index (CPI) increase in disposal costs from the Materials Recovery Facility for FY 2023/24. Staff will monitor costs and make future recommendations for supplemental appropriations if necessary.

Sewer Fund

The FY 2023/24 adopted amended budget projects a net operating loss of \$2.65 million. There are sufficient reserves to cover the potential operating loss. The Sewer Fund is expected to end the fiscal year with an operating gain due to high performing sewer connection revenues.

Revenues: The second-quarter analysis indicates that the Sewer Fund will exceed revenue expectations by \$4.26 million. By the end of the second quarter, 52.7% of the overall projected revenues have been realized. The largest contributor to this surplus is Sewer Connection Fees, including Commercial and Residential Sewage, as well as Commercial Sewer Specialized Billing and Residential Pumping. The increase in Sewer Connection Fee revenue is correlated with the rise in planned development.

Expenditures: Operating expenditures are 51.4% of the total budget at the end of the second quarter. During this period, the Sewer Fund had 24.00 FTE vacancies, constituting a vacancy rate of 20.3%. The high vacancy rate requires staff to work overtime to cover shifts and manage the increased workload. As a result, overages are expected in the overtime budget, which will be offset by personnel vacancy savings. In the Non-Personnel budget, costs for chemical supplies are rising due to market volatility, temporary supply shortages, and an unexpected increase in the CPI. In the fourth quarter, Public Works staff will present the Council with a request to approve change order increases on four annual purchase orders for various chemicals, as well as approval for \$1.9 million in supplemental appropriations.

Utility Account Delinquencies

The Electric, Water, Refuse and Sewer funds were impacted by the suspension of utility shutoffs in response to the pandemic. In December 2021, Riverside Public Utilities (RPU) provided credits to water and electric customer accounts of \$13.0 million from the California Arrearage Payment Program (CAPP) and California Water and Wastewater Arrearage Management Program (CWWAPP). In May 2022, the City applied credits to customer accounts for the CWWAPP for wastewater utility arrearages in the amount of \$2.3 million. In January 2023, the City applied \$18.6 million in credits to electric customers accounts as part of the General Fund Transfer Settlement.

As of December 31, 2023, the combined delinquent accounts receivable for the four utilities is \$13.66 million, which is \$8.74 million more than March 2020. In August 2022, Riverside Public Utilities (RPU) resumed shut-offs for non-payment along with issuing 48 hour tag notifications. On May 17, 2022, the City Council approved the Restart Utility Bill Repayment (RESTART) Program, which allows utility customers with large past-due balances to enroll in a bill repayment program to pay their delinquent charges over an 18-month period. RPU continues to offer standard twelve-month arrangements for customers with delinquent payments. Of the current \$16.68 million delinquent accounts receivable, \$0.18 million will be paid under the RESTART program and \$0.61 million will be repaid under the standard installment program. The balance of \$10.88 million remains delinquent without an installment plan.

Public Parking Fund

The FY 2023/24 adopted amended budget for the Public Parking Fund anticipates a draw on fund reserves of approximately \$0.48 million. Parking revenues in the original FY 2022-2024 adopted budget included new parking rates, which were subsequently rescinded. On April 18, 2023, the City Council approved a new Parking Rate and Hour Schedule effective July 1, 2023. These

adjustments, along with other related expenditure adjustments, are incorporated into the FY 2023/24 adopted amended budget.

The Public Parking Fund began the fiscal year with fund reserves of \$3.48 million net of prior year encumbrances. As of the second quarter, the reserve balance is expected to be sufficient to accommodate the current fiscal year deficit.

Revenues: The downtown parking operation has experienced a significant turnaround in utilization, leading to a positive annual increase in revenues due to the implementation of the Parking Your Way program, incorporating more accessible free parking, new parking rates, expanded hours of operation, new monthly parking programs, the rollout of the Park Riverside app, and the installation of Parking Access Revenue Control Systems (PARCS) in the garages. The second-quarter comparison to the previous fiscal year reveals that parking revenues are experiencing a 75.9% increase over last year's figures.

Additionally, Parking Enforcement overtime was purposely increased to address the expanded hours of operation. The amount of parking citations issued downtown and City-wide has increased parking fine revenues by 19% compared to FY 22/23. In the second quarter of FY 2023/24, 361 overtime hours, or \$13,025 of paid overtime, were worked while 2,623 parking citations, or \$185,394 in potential fines, were issued.

Expenditures: Operating expenditures are 38.4% of the total budget at the end of the second quarter. During this period, the Public Parking Fund continues to experience staffing shortages with 5.00 FTE vacancies, constituting a vacancy rate of 26.32%. These shortages, coupled with extended hours of operation, have necessitated the need for overtime. The long-term corrective action involves having sufficient staff with staggered shifts to cover the expanded hours of operation with minimal overtime. Nevertheless, overtime remains a practical solution for providing operational coverage given the current vacancies.

Monthly operating costs for Parking Concepts Inc. (PCI) are higher than expected due to the implementation of the Parking Your Way program. This program includes extended hours of operation, new parking programs, additional staffing, additional credit card transaction fees, equipment installation, and weekly power washing maintenance. The contract with PCI will be amended in March 2024 to capture the additional operating costs. A supplemental appropriation will be requested to address the projected overage. Increased revenues generated from the Parking Your Way program will largely offset the additional operating expenses with PCI.

STRATEGIC PLAN ALIGNMENT:

The reporting and presentation of financial results support **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 five 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.

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 demonstrate the City’s commitment to responsible management of the City’s financial resources.
4. **Innovation** – The financial reports, methodologies, and strategies proposed by staff demonstrate innovative management of City finances.
5. **Sustainability & Resiliency** – The financial reports, methodologies, and strategies proposed by staff demonstrate the City’s commitment to the long-term fiscal health of the City and the preservation of City services.

FISCAL IMPACT:

The total fiscal impact of the recommended mid-cycle budget adjustments is summarized by fund in the following table. Sufficient resources are available in the respective funds to accommodate the recommendations.

MID-CYCLE BUDGET ADJUSTMENTS

Fund	Revenue	Expenditures	Net Impact to Fund Reserves
101 - General Fund	\$ 6,764,300	\$ 99,921	\$ 6,664,379
110 - Measure Z Fund	(3,923,000)	(13,642)	13,642
215 - Grants and Restricted Programs	225,000	257,085	(32,085)
510 - Electric	-	5,081	(5,081)
530 - Airport	-	(3,445)	3,445
580 - Convention Center Fund	-	41,133	(41,133)
Citywide Total	\$ 3,066,300	\$ 386,133	\$ 2,680,167

The General Fund is performing better than expected due to overall revenue performance, especially property taxes. The General Fund is also expected to see personnel savings due to the high vacancy rate experienced through the second quarter. This good news will allow the General Fund to overcome the challenges of the Water GFT escrow and the fiscal impact of labor negotiations. A portion of the projected \$7.26 million surplus is recommended to be allocated as follows: \$3 million increase in the General Fund Infrastructure Reserve and \$2 million increase in the Technology Reserve. These reserves will allow the City to continue to invest in the City’s critical infrastructure, enhancing the quality of life and safety of the community. If approved, the Infrastructure Reserve balance will be \$13.8 million and the Technology Reserve balance will be \$5 million.

The Measure Z fund projected revenues and unallocated reserves are at levels sufficient to fund approved spending items.

The City’s Electric and Water funds are expected to remain within their appropriation limits, and fund reserves are expected to remain within policy levels.

The Refuse Fund continues to experience staffing shortages and increased maintenance costs for an aging fleet. With the new Solid Waste Rate plan, the Refuse fund is anticipated to utilize \$2.48 million in reserves prior to generating a net operating gain in future years.

The Sewer Fund is expected to end the fiscal year with an operating gain due to high performing sewer connection revenues.

Due to the implementation of the Parking Your Way program, the Public Parking Fund has experienced a significant upturn in utilization and is expected to end the fiscal year with an operating gain.

Prepared by: Jaime Martinez, Budget Manager
Approved by: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Certified as to
availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Edward Enriquez, Assistant City Manager/Chief Financial
Officer/Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Measure Z Spending Plan
2. Presentation