



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MAY 3, 2022

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: FISCAL YEAR 2022-2024 BUDGET DEVELOPMENT: GENERAL FUND OVERVIEW, MEASURE Z SPENDING PLAN REVIEW, AND CRITICAL UNFUNDED NEEDS

ISSUE:

Provide input and direction on the development of the Fiscal Year 2022-2024 Biennial Budget including a General Fund preliminary budget overview; Measure Z Spending Plan review; and critical unfunded needs.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on the General Fund preliminary budget and five-year plan;
2. Receive and provide input on the Measure Z Spending plan;
3. Receive and provide direction on incorporation of the items included in the revised list of critical unfunded needs (Attachment 5) into the Fiscal Year 2022-2024 Proposed Biennial Budget.

COMMISSION AND BOARD RECOMMENDATIONS:

On March 31, April 7, and April 14, 2022, the Budget Engagement Commission (BEC) received departments' preliminary budget presentations and critical unfunded needs. On those meeting dates, the BEC discussed and without formal motion ordered received and filed the General Fund preliminary budget, updated five-year Measure Z Spending plan, and departments' preliminary budget presentations. On April 14, 2022, the BEC made the following recommendations to City Council regarding the incorporation of critical unfunded needs in the FY 2022-2024 Biennial Budget (Refer to *Attachment 5 - Revised List of Critical Unfunded Needs* for Item #):

- **Item #12 – Technical Rescue Program:** Unanimously voted to fund \$30,000 annually, ongoing.

- **Item #13 – School Fire Drills:** Voted with 7 Ayes, 2 Noes, and 1 Abstention to not recommend funding this item.
- **Item #1 – Public Safety Engagement Team (PSET) Expansion (Urban):** Voted with 9 Ayes and 1 No to fund the proposed amounts as annual, ongoing (FY 2022/23: \$2,038,405; FY 2023/24: \$1,959,730. Adds 15 full-time equivalent (FTE) personnel).
- **Item # 33 – PSET Wildlands:** Voted with 9 Ayes and 1 No to fund the item in an amount not to exceed \$3 million in FY 2022/23 and annual ongoing funding as needed to support the program.
- **Item # 18 – Public Safety Communications Manager:** Unanimously voted to fund the ongoing item as presented (FY 2022/23: \$149,965; FY 2023/24: \$152,430. Adds 1 FTE to personnel).
- **Item # 20 – Public Safety Enterprise Communications Systems Radios:** Unanimously voted to fund \$343,438 annually, ongoing.

This City Council report dated May 3, 2022, will publish prior to the April 28, 2022, special BEC meeting during which the BEC will formulate recommendations to City Council on the critical unfunded needs listed in Attachment 5. **BEC recommendations to City Council occurring at the April 28th meeting will be added to this City Council agenda item for republication on April 29, 2022.**

On March 21, 2022, the Park and Recreation Commission received the preliminary budget proposal of the Parks, Recreation and Community Services Department and voted unanimously in support of the preliminary Fiscal Year 2022-2024 biennial budget of the Parks, Recreation and Community Services Department.

On March 23, 2022, the Museum of Riverside Board received the Fiscal Year 2022-2024 preliminary biennial budget proposal of the Museum of Riverside and voted unanimously to recommend that the City Council approve the supplemental appropriation for FY 2023/24 in the amount of \$50,000 in support of the Museum of Riverside's 100th anniversary exhibition.

On April 11, 2022, the Board of Library Trustees received the preliminary budget proposal of the Riverside Public Library and voted unanimously in support of the preliminary Fiscal Year 2022-2024 biennial budget of the Riverside Public Library.

On April 11, 2022, the Board of Public Utilities received the preliminary budget proposal of Riverside Public Utilities and voted with 5 Ayes and 4 Noes to recommend that the City Council approve the preliminary Fiscal Year 2022-2024 biennial budget of the Riverside Public Utilities department.

BACKGROUND:

City staff is currently engaged in the development of the Fiscal Year (FY) 2022-2024 Biennial Budget, encompassing FY 2022/23 and FY 2023/24. Budget Development began in October 2021 and will continue until City Council adoption of the budget in June 2022.

On December 9, 2021, the baseline budgets for the General Fund and Measure Z were presented to the Budget Engagement Commission. On December 10, 2021, the baseline budgets for the

General Fund and Measure Z were presented to the Financial Performance and Budget Committee. The General Fund baseline budget served as the starting point for the development of the General Fund budget and the basis of budget targets established for City departments' General Fund budget proposals.

On March 15, 2022, the City Council unanimously approved on consent a \$5,000,000 City match and \$1,500,000 contingency from Measure Z Fund unallocated reserves and \$25,667 from the General Services, Measure Z Fund, Annual Deferred Maintenance Program for the California State Library Building Forward Library Infrastructure grant program application. This item has been added to the Measure Z Preliminary Five-Year Spending Plan (Attachment 2). The total amount of \$6,500,000 has been identified as contingency funding; in the event that the grant is not awarded, the funds will be returned to Measure Z unallocated reserves.

On April 18, 2022, the City Council conducted a Budget Workshop and received departments' preliminary budget presentations and critical unfunded needs requests (Attachment 2). The City Council voted unanimously to receive and file the item and directed staff to return with BEC recommendations on the remaining critical unfunded needs.

A special BEC meeting was scheduled for April 28, 2022 to seek BEC recommendations on the remaining critical unfunded needs. **The BEC recommendations will be added to this report for republication of the agenda item on April 29, 2022.** Additionally, based on Council Member discussion at the City Council workshop held on April 18, 2022, the following list of nine critical unfunded needs has been modified or added for BEC consideration and recommendation to City Council (refer to *Attachment 5 - Revised List of Critical Unfunded Needs*):

1. **Item # 23 – Sidewalk Repairs:** Increase the original critical unfunded need request from \$300,000 annually (ongoing) to \$600,000 annually (ongoing). The Public Works Department has a backlog of approximately 500 locations in need of permanent repairs and it is taking nearly three years to incorporate the ultimate repairs. Additional funding would reduce the backlog and help expedite the permanent repairs.
2. **Item #25 – Measure Z Tree Trimming:** Increase the original critical unfunded need request from \$2,250,000 annually for 3 to 5 years to \$2,500,000 annually for 3 to 5 years. The request for an additional \$250,000 will accommodate the planting of new or replacement trees throughout the City.
3. **Item #26 – Measure Z - Maximize Roads/Streets:** Increase the original critical unfunded need request from \$4 million annually ongoing to \$8 million annually ongoing. The City's Pavement Condition Index (PCI) score is currently 61 with current funding for the Pavement Management Program (PMP) at approximately \$20 million. The original \$4 million unfunded critical needs request would increase the annual budget to approximately \$24 million from all funding sources to maintain status quo (which would maintain the 61 PCI score). If the PMP funds are doubled, the additional \$4 million would bring the total annual PMP budget to \$28 million which will have a positive impact on pavement maintenance and overall PCI score, likely increasing it 2-3 points if sustained over the next few years. Per the 2018 PMP analysis, an annual budget of \$35 million for a 5-year period would increase the PCI score by 5 points. Annual PMP budgets in excess of \$24 million would help reduce the number of streets rated as "Poor" and "Very Poor" and make roadway maintenance more manageable.
4. **Item # 29 – Measure Z Deferred Maintenance – One-Time:** Add a critical unfunded need of \$5 million annually for two years to be allocated between general maintenance of

General Fund City facilities (\$1.7 million) and maintenance of Parks, Recreation and Community Services facilities (\$3.3 million).

5. **Item # 30 – Light Duty Fleet Replacement:** Add an annual, ongoing critical unfunded need in the amount of \$1 million to replace General Fund non-safety fleet vehicles and equipment. Excluding Public Safety and Enterprise fund vehicles, the General Services department manages approximately 70 light duty vehicles for General Fund departments with an average vehicle age of 19 years.
6. **Item # 31 – Wildland Public Safety Engagement Team:** Formally add the item previously identified as an *Item for Near-Term Future Budget Consideration* to the critical unfunded needs list for potential funding and incorporation into the FY 2022-2024 Biennial Budget. This program is the implementation arm of an anti-camping ordinance that is being prepared for environmentally sensitive and hazardous areas in wildland areas of the City as defined by sourced and cited Geographic Information Systems mapping data. Through its work, the PSET Wildland Team will also provide homeless encampment clean-up, outreach services, and homeless engagement resources to all wildland areas in the City of Riverside including the Santa Ana River, Sycamore Canyon Wilderness Park, Hole Lake, and other areas, seven days a week including early morning and late evening engagements. (Refer to Attachment 4b for a full description and analysis of this initiative.)
7. **Item # 32 – SPRUNG Housing:** Add an annual, ongoing critical unfunded need in the amount of \$2,000,000. This funding is needed for ongoing operational costs to house individuals displaced by PSET Wildland Team activities. The Housing Authority does have a Homeless Housing and Assistance Prevention Grant (HHAP3) that can be utilized to supplement this program in conjunction with this request. If the PSET Wildland Program is approved and incorporated into the FY 2022-2024 Biennial Budget, there will be a need to house individuals displaced by the clean-up and mitigation of environmental concerns in the Santa Ana River area. The SPRUNG Tent Structures will be utilized for temporary housing efforts as staff work on long-term solutions and assistance to those impacted.
8. **Item # 33 – Office of Sustainability - Full Implementation:** Formally add the item previously identified as an *Item for Near-Term Future Budget Consideration* to the critical unfunded needs list for potential funding and incorporation into the FY 2022-2024 Biennial Budget. The City Council directed the City Manager to establish an Office of Sustainability with a dedicated budget to cover staffing and operational costs. The direction was originally provided on March 10, 2020, and reinforced on April 27, 2021, by City Council action. Sustainability was presented as a triple bottom line approach based on: environmental stewardship, social responsibility, and economic prosperity. (Refer to Attachment 4a for a full description and analysis of this initiative.) This item overlaps and includes the fiscal impact of the existing critical unfunded need *Item #2 – Office of Sustainability* which is an incremental step toward creating a comprehensive Office of Sustainability.
9. **Item #34 – Measure Z New Police Headquarters:** Add a one-time request to increase the Measure Z allocation for the police headquarters from the current allocation of \$35,307,400 to \$44 million to account for the estimated cost differential due to price increases in construction and materials. Any approved modification to this spending item will require a revised estimate for annual debt payments that are currently budgeted in the spending plan. The current spending plan includes annual debt payments of approximately \$3.4 million based on a \$35 million debt issuance. Estimated debt service payments on \$44 million are estimated to be \$4.3 million annually.

On April 26, 2022, the City Council will receive the City Council's preliminary department budget presentation, presented by the City Manager's Office.

DISCUSSION:

Internal review of departments' preliminary budget proposals has concluded, and staff now seeks the feedback of various Boards, Commissions, and the City Council, as well the public at large through engagement at the various meetings, on the preliminary budget proposals of City departments. Feedback will be incorporated into the preliminary budget as directed by City Council and will result in a Proposed FY 2022-2024 Biennial Budget that will be presented to the City Council on May 17, 2022, followed by BEC review and City Council adoption of the final proposed budget on June 21, 2022.

General Fund

Two primary goals were established for the FY 2022-2024 budget development cycle:

1. Leverage PBB to identify and reallocate funding to critical unfunded needs.

Process: A simultaneous process of identifying funding through the PBB insights and identifying and ranking critical needs through the lens of PBB was conducted during a series of workshops through December 2021. All subsequently identified unfunded needs were also reviewed through the lens of PBB.

Status: During budget development and departments' evaluation of their operational and financial needs, departments identified additional critical unfunded needs. Those needs were described through the lens of PBB, including relating the requests to existing programs, and answering fundamental questions to assess the level of criticality of the need:

- How is this a critical unfunded need?
- What is the impact to operations should this budget request not be approved?
- How does this request benefit City stakeholders?

Departments were granted CPI increases in their discretionary budgets of 4.5% for FY 2022/23 and 3% in FY 2023/24. Some of the previously identified critical needs were able to be funded by the CPI increases and rebalancing of resources.

During a review of PBB Insights (the process by which staff identified potential resources for the funding critical unfunded needs), it became apparent that the implementation of the insights will not be timely enough to produce resources for the FY 2022-2024 budget. Numerous insights require additional research, initial investment funding, and/or are sensitive topics that will require City Council direction on their implementation. Therefore, the formal proposal and implementation of insights will be pursued separately of the budget development process.

2. Implement a financing strategy of planned contributions and withdrawals to/from the Section 115 Trust to smooth the annual fiscal impact of the combined CalPERS UAL and 2020 Pension Obligation Bond payments.

Process: Staff analyzed the unfunded accrued liability (UAL) payment schedule per the CalPERS actuarial report and the pension obligation bond (POB) payment schedule and determined a feasible amount and optimal series of Section 115 Trust contributions and

withdrawals to smooth the fiscal impact of the payment obligations. The proposed smoothing will result in level payments of \$37,925,000 annually for a period of 12 years, from FY 2024/25 through FY 2035/36. Without this smoothing effect, the payment obligation will exceed \$38 million beginning in FY 2026/27 and eventually exceed \$42 million annually from FY 2029/30 through FY 2034/35.

Status: The proposed smoothing will result in level payments of \$37,925,000 annually for a period of 12 years, from FY 2024/25 through FY 2035/36. The City Council approved a \$10 million contribution to the Section 115 Trust from FY 2020/21 excess reserves, contingent upon the certification of Measure C (General Fund Transfer election). Contributions totaling nearly \$12 million are incorporated into the preliminary FY 2022-2024 Biennial Budget, with \$11 million occurring in FY 2023/24 made possible by the payoff of the 2004 Safety POB in FY 2022/23. The combination of current reserves and the proposed contributions will build the Section 115 Trust Fund to a balance of approximately \$40 million which is projected to be sufficient to smooth the volatile required liability payments over the course of 12 years.

While PBB provides data that can guide decision making related to the allocation of finite City resources, the General Fund baseline budget provides the overall constraints within which the budget must be developed. Due almost entirely to the robust sales tax revenue estimates, the FY 2022-2024 biennial budget is expected to be balanced, with no requirement for balancing measures. Departments’ discretionary budget targets included an increase over their FY 2021/22 budget of 4.5% in FY 2022/23 and an additional 3.0% in FY 2023/24, consistent with increases in the Consumer Price Index (CPI). The increase applies to discretionary budgets including professional services, materials, supplies, maintenance, fuel, utilities, training, special projects, etc. These modest increases provided some relief to departments following two years of no budget increases and adopted vacancy savings targets. The discretionary budget is approximately 16.4% of the total preliminary General Fund budget.

The preliminary General Fund budget (Attachment 1) includes small surpluses in each fiscal year which may be considered for allocation to critical unfunded needs. However, it is important to note that the preliminary budget does not include any personnel increases which may result from ongoing labor negotiations for Memorandums of Understanding (MOUs) which have expired or will be expiring soon. Additionally, the City is currently awaiting a ruling on a legal challenge to the certification of Measure C (General Fund Transfer election) results. If Measure C is not certified, the budget will need to be revised to address revenue losses in excess of \$40 million annually. The initial action would be to eliminate the contributions to the Section 115 Trust to minimize the immediate impact on City operations, such as police and fire, street repair, building maintenance, and community programs and services. A ruling is due from the court before May 2022.

GENERAL FUND PRELIMINARY BUDGET FY 2022-2024

(\$ in millions)

	FY 2018/19 Actuals	FY 2019/20 Actuals	FY 2020/21 Actuals	FY 2021/22 Projections	FY 2022/23 Preliminary	FY 2023/24 Preliminary
Revenue	\$278.67	\$279.45	\$298.03	\$300.65	\$310.63	\$318.23
Expenditures	271.38	280.48	262.14	288.04	305.86	311.27
Surplus/(Deficit)	\$7.29	\$(1.03)	\$35.89	\$12.61	\$4.77	\$6.96

The potential impacts of Memorandum of Understanding (MOU) negotiations cannot be estimated at this time; however, the following rough estimations are provided as flat percentages based on the Personnel line item in the General Fund Preliminary Budget (Attachment 1). Actual results following the outcome of MOU negotiations will vary; for example, a salary increase of 2% would not apply to all line items included in the Personnel line item of the General Fund Preliminary Budget. Similarly, a negotiated change in benefits or additional pays will result in fiscal impacts that are not comparable to a flat percentage of the Personnel line item of the General Fund Preliminary Budget.

The following table presents consistent percentage increases in both fiscal years, with the FY 2023/24 basis compounded by the increase calculated for FY 2022/23.

	FY 2022/23		FY 2023/24					
	Budget	Fiscal Impact	2% Scenario		4% Scenario		6% Scenario	
			Budget	Fiscal Impact	Budget	Fiscal Impact	Budget	Fiscal Impact
Basis ¹	\$210,200,000		\$212,000,000	\$4,204,000	\$212,000,000	\$8,408,000	\$212,000,000	\$12,612,000
2%	\$214,404,000	\$4,204,000	\$216,204,000	\$4,324,080				
4%	\$218,608,000	\$8,408,000			\$220,408,000	\$8,816,320		
6%	\$222,812,000	\$12,612,000					\$224,612,000	\$13,476,720
Cumulative FY 2023/24 Fiscal Impact			\$220,528,080	\$8,528,080	\$229,224,320	\$17,224,320	\$238,088,720	\$26,088,720

¹ From Personnel line item of the General Fund Preliminary Budget. FY 2023/24 is compounded by the FY 2022/23 increase, with the Basis computed as the Personnel line item of the General Fund Preliminary Budget (\$212,000,000) + FY 2022/23 Fiscal Impact for the applicable percentage scenario.

Measure Z Spending Plan Review

Measure Z is a one-percent transaction and use tax (sales tax) that was approved by the residents of Riverside on November 8, 2016. Measure Z will sunset in 20 years unless it is approved again in a mandatory election in November 2036.

To help address the service cuts as well as a portion of the City’s critical unfunded needs, at staff’s recommendation, the Mayor and the City Council placed a measure on the November 8, 2016, ballot for a one-percent increase in the City’s sales tax rate. The November 8, 2016, Measure Z ballot presented to voters asked them to consider a yes or no vote to:

“...prevent cutting police, firefighters, paramedics, 911 emergency response, antigang/drug programs, homelessness reduction and youth after-school/senior/disabled services; to repair local streets/potholes/infrastructure; and to provide other general services, shall a one-cent transaction and use tax (sales tax) be implemented providing \$48,000,000 annually through 2036 unless extended by the voters, requiring independent audits with no funds to Sacramento, all funds remaining for Riverside?”

The residents of Riverside approved Measure Z with almost a 60% approval. The Measure Z tax became effective April 1, 2017, the increasing the City’s sales tax rate from 7.75% to 8.75%.

Based on City Council input at a January 31, 2017 meeting, meetings with City Departments to refine needs, and meetings with the Budget Engagement Commission, the following spending priorities were identified:

- **Fiscal Discipline:** It is imperative for the City to continue strengthening its financial position, increasing reserves and paying off debt / liabilities.

- **Critical Non-Safety Service Needs:** These items represent critical, non-public safety related items, that are necessary to avoid reducing services to the public.
- **Critical Public Safety Needs:** Funding for police and fire personnel, dispatchers, and other civilian positions in support of the sworn police positions; and police and fire vehicles.
- **Quality of Life Issues:** Funding for streets, tree trimming and personnel to address quality of life issues in the community. Riverside made a significant investment in its infrastructure during the Renaissance and needs to continue building on that momentum.
- **Critical Infrastructure Needs:** The Riverside Renaissance capital improvement project successfully revitalized the City. However, it has been over 10 years since that significant capital investment was made. The City has significant additional capital needs, which must be addressed.
- **Technology Needs:** The City has many needs for critical technology items, such as a new enterprise resource planning (ERP) system to effectively manage financial and personnel resources, cyber security tools, and hardware replacements (servers, storage, network, etc.).

On April 2, 2019, the City Council approved a \$5 million Measure Z Contingency Reserve Policy for the Measure Z fund.

Although the Measure Z Spending Plan is presented to the Budget Engagement Commission throughout each budget development cycle and to the City Council at the Budget Workshop, the most recent dedicated and comprehensive review of the Measure Z Spending Plan and priorities was conducted by the Budget Engagement Commission on January 14, 2021. Of the forty-two (42) items on the spending plan at the time, nineteen (19) items were discussed in detail, as requested by commissioners during the BEC meeting. The following recommendation resulted from the BEC review:

“All Measure Z spending items reviewed tonight remained the same with the exception of spending item #7 – Police Officer Lateral Hire Incentives and Recruitment Costs: No carryover of unused funds; return FY 2020/21 funds to Measure Z reserves; in future budget years, retain annual allocation of \$200K, to be addressed and discussed during budget development for each budget year.”

As of the current date, the Measure Z Spending Plan (Attachment 2) includes forty-eight (48) items; the six (6) items added since January 14, 2021 were recommended for inclusion by the BEC and approved by the City Council on the date of the proposal and presentation of each item.

Measure Z Preliminary Spending Plan (FYs 2022/23 through 2026/27)

The preliminary five-year Measure Z Spending Plan for FYs 2022/23 through 2026/27 (Attachment 2) assumes the continuation of spending items that were not initially adopted with a defined end date. Other one-time items, such as Library security guards and a portion of street improvement funding, were adopted for a specific period of time; those items have not been assumed to continue in the updated spending plan.

Measure Z unallocated fund reserves are projected to be \$39.29 million at the end of FY 2021/22. This is an adjustment from previous estimates of \$44.79 million due to the following:

- **Item #47 - Police Helicopters Capital Lease:** Reduced by \$1 million; a capital lease payment is not expected to come due within the current fiscal year.
- **New Item - Library Infrastructure Grant Contingency:** Added the recently approved allocation of \$6.5 million in contingency funding for a California State Library Building Forward Library Infrastructure grant.

The projected unallocated reserve of \$39.29 million is available for allocation to new or enhanced spending items. Should the California State Library Building Forward Library Infrastructure Grant submission fail the \$6.5 million contingency will be added back to available Measure Z reserves. Additionally, annual projected surpluses are available for allocation. However, as with the General Fund, it is important to note that the preliminary budget does not include any personnel increases which may result from ongoing labor negotiations for MOUs which are expiring. Measure Z currently funds 135.0 FTE within previously approved spending items.

Policy reserves of \$5 million are set aside separately from unallocated reserve calculations shown in the following table.

MEASURE Z SPENDING PLAN – PRELIMINARY BUDGET
(\$ in millions)

<i>(in millions)</i>	2022	2023	2024	2025	2026	2027
Revenue	\$74.65	\$76.80	\$79.02	\$80.91	\$82.12	\$83.35
Expenditures	(74.14)	(66.03)	(66.63)	(65.71)	(67.75)	(69.13)
Net Change in Fund Balance	\$0.51	\$10.77	\$12.39	\$15.20	\$14.37	\$14.22
Beginning Fund Reserves	\$38.78	\$39.29	\$50.06	\$62.45	\$77.64	\$92.01
Net Change in Fund Balance	0.51	10.77	12.39	15.19	14.37	14.22
Ending Unallocated Reserves	\$39.29	\$50.06	\$62.45	\$77.64	\$92.01	\$106.23

Yellow highlight indicates funding available for allocation to new or enhanced spending items.

Critical Unfunded Needs

There is an incomplete financial picture facing the City of Riverside due to such considerations as the Measure C legal challenge, ongoing/future negotiations with the City’s bargaining groups, inflation, and other economic factors. While uncertainty exists, it remains important to identify needs of the City (and their financial impacts) in order to advance quality of life improvements, address issues and City Council priorities. While the business of the City includes a steady stream of roadblocks and pitfalls, including financial challenges, it also has a duty to carefully communicate needs while still being fiscally responsible.

To the extent possible, departments used CPI increases to fund critical unfunded needs; however, all needs could not be funded, and additional needs were identified. Critical needs were assessed through the lens of the City’s strategic plan and PBB which are summarized in Attachment 3. Departments discussed their critical unfunded needs during their budget presentations at the April 18, 2022, City Council Budget Workshop and staff now seeks City Council direction on whether

these items and the added items as listed in *Attachment 5 - Revised List of Critical Unfunded Needs* should be funded, and the funding source, for incorporation in the proposed budget. Recommendations for critical unfunded needs by the City Council should be taken in context of the Measure C challenges faced by the City.

Both General Fund and Measure Z are potential resources for funding critical unfunded needs. Resources available from the General Fund include projected surpluses of \$4.77 million in FY 2022/23 and \$6.96 million in FY 2023/24. Resources available from the Measure Z fund are highlighted in the preceding Measure Z Table and include projected FY 2021/22 ending unallocated reserves of \$39.29 million plus a projected annual surplus of more than \$10 million per year.

Decisions related to the critical unfunded needs include whether to incorporate the item into the proposed budget, the fiscal year in which to begin funding the item, as well as the funding source. Critical unfunded needs have been categorized into several types that may facilitate decision-making:

- **Annual, ongoing:** Requests for a fixed amount with no specified end date.
- **Annual, limited duration:** Requests for a fixed amount of limited duration.
- **One-Time:** Requests for a one-time, fixed amount within a single fiscal year. These items are time sensitive to the year in which they are requested.
- **Ongoing, escalating costs:** These requests include position enhancements or FTE increases. Personnel costs are expected to increase annually with merit increases and increases per the applicable MOU. MOU increases are not included in the cost estimate because the MOUs are expiring and are subject to negotiation. These requests may also include a one-time cost component (e.g., equipment expense) as well as ongoing non-personnel costs (e.g., training, fuel, etc.).

STRATEGIC PLAN ALIGNMENT:

The topics included in this report align with **Strategic Priority 5: High Performing Government and Goal 5.4:** Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

The report item aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – The development of the FY 2022-2024 Biennial Budget is an inclusive and transparent process that incorporates community engagement, involvement of City Boards & Commissions, and timely and reliable information.
2. **Equity** – The Riverside community at large is invited to participate in community engagement efforts and public meetings related to the development of the FY 2022-2024 Biennial Budget. Equity is a major component of the strategic plan and is a primary consideration in determining how programs score during the PBB process.
3. **Fiscal Responsibility** – The thoughtful and deliberate nature of the City's budget development process and assessment of critical unfunded needs through the lens of PBB align the allocation of City resources with the strategic plan demonstrates the City's commitment to responsible management of the City's financial resources while providing quality public services to all.

4. **Innovation** – PBB and the methodologies applied to the vetting and presentation of critical unfunded needs is an innovative approach to decision-making and combines technology with a collaborative working approach to allocate resources during the budgeting process.
5. **Sustainability & Resiliency** – The budget development process and application of PBB methodology facilitate the balancing of current and future needs, thereby supporting the ultimate goal of long-term fiscal stability for the City.

FISCAL IMPACT:

There is no immediate fiscal impact related to this report. Council direction on the critical unfunded needs will be incorporated into the proposed budget which will then be presented to the City Council for review and input on May 17, 2022. The proposed budget will then be submitted for a public hearing and adoption by the City Council on June 21, 2022.

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

Attachments:

1. General Fund Preliminary Budget
2. Measure Z Preliminary Five-Year Spending Plan
3. Critical Unfunded Needs (Original)
4. Near-Term Future Budget Items for City Council Consideration
 - a. Office of Sustainability
 - b. Establishment of a PSET Wildland Team
5. Revised List of Critical Unfunded Needs
6. Response to Council Questions from Budget Workshop (Pending)
7. Budget Engagement Recommendations from April 28 Special Meeting