



REVISED

Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS **DATE: JANUARY 13, 2022**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: FISCAL YEAR 2021/22 FIRST QUARTER FINANCIAL UPDATE AND MID-CYCLE BUDGET ADJUSTMENTS

ISSUE:

Receive and provide input on the Fiscal Year 2021/22 First Quarter Financial Update; consider the recommendation of proposed mid-cycle budget adjustments.

RECOMMENDATIONS:

That the Budget Engagement Commission:

1. Receive and provide input on the Fiscal Year 2021/22 First Quarter financial update; and
2. Recommend that the City Council approve the mid-cycle budget adjustments detailed in this report.

BACKGROUND:

On June 22, 2021, the City Council adopted Resolution No. 23720 approving the Fiscal Year (FY) 2021-2022 Annual Budget.

The City's Chief Financial Officer provides financial updates to the City Council via a standing item on the City Council's agenda and to the Budget Engagement Commission via a standing item on the Commission's agenda.

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 first quarter report, City departments analyzed the financial status for all funds and appropriations under their purview. The results of the City's major funds, as well as areas of concern in other funds (if any), are included in this report. This update spans the period of July 2021 through September 2021.

General Fund

The first quarter analysis presents a positive outlook for the General Fund, with revenues performing better than anticipated and expenditures trending within budgeted appropriation limits.

Adopted Budget: The adopted FY 2021/22 budget for the General Fund included a \$10 million balancing measure in the form of vacancy savings targets to offset a projected structural deficit. The Fire department’s \$2 million vacancy savings target was accommodated via a transfer of 14 Fire personnel to the Measure Z Fund for the adopted budget year.

Revenues: FY 2021/22 General Fund revenues recorded through September 2021 were reviewed in context of FY 2020/21 actual results, performance to date, and potential COVID-19 impacts through the end of the fiscal year. First quarter analysis reveals that General Fund revenue projections may exceed revenue estimates by nearly \$13.7 million, including \$12.9 million in higher sales tax revenue. FY 2020/21 sales tax revenue posted an unexpected growth rate of 18.2%; based on fiscal year performance to date, 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 sales tax revenue over prior year actuals.

In the Non-Development Charges for Services category, the projection for parks and recreation revenue has been reduced by approximately 15.5%, with a revised revenue target of \$2.4 million, as compared to the pre-Covid benchmark of \$3.5 million collected in FY 2018/19. The projection for the Development Fees and Charges category has been reduced by 3.1% based on trend analysis and supply chain issues impacting building and development activity. Adjustments in other revenue line items in the following table are based on FY 2020/21 actual revenue receipts and updated line-item trend analysis.

UPDATED REVENUE PROJECTIONS

| | 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 | \$13,626,644 \$13,675,894 | 4.7% |

Expenditures: As of the first quarter, expenditures are expected to exceed projections by approximately \$573,000 due to increased subsidy requirements for the Convention Center and

Entertainment Funds. Although the venues have reopened, recovery is expected to be prolonged, with recovery to pre-pandemic levels projected to be more likely to occur in FY 2024/25. A contingency amount of approximately \$1.9 million was included in the adopted budget; that has been reclassified from the Special Projects line item to the fund subsidies, with an additional \$1.1 million expected to be required. Staff is recommending a supplemental appropriation to accommodate the projected increase in fund subsidies. The CalPERS UAL projection reflects the savings produced by the prepayment of the required UAL payment, as compared to the monthly payment plan offered by CalPERS. The recommended mid-cycle budget adjustment is a net increase of \$572,979 in General Fund appropriations.

REVISED EXPENDITURE PROJECTIONS

| | Adopted Budget | Updated Projection | \$ Change | % Change |
|---|-----------------------|-----------------------|------------------|-------------|
| Personnel | \$ 205,961,759 | \$ 205,961,759 | \$ - | 0.0% |
| CalPERS UAL – Safety | 9,806,181 | 9,479,994 | (326,187) | -3.3% |
| CalPERS UAL – Miscellaneous | 4,919,039 | 4,755,413 | (163,626) | -3.3% |
| Non-Personnel Costs | 54,404,875 | 54,404,875 | - | 0.0% |
| Special Projects | 8,737,726 | 6,873,306 | (1,864,420) | -21.3% |
| Minor Capital & Grants | 429,477 | 429,477 | - | 0.0% |
| Debt Service | 32,769,205 | 32,769,205 | - | 0.0% |
| Charges To/From | (17,459,758) | (17,459,758) | - | 0.0% |
| Cost Allocation Plan | (23,526,240) | (23,526,240) | - | 0.0% |
| Operating Transfers | 688,791 | 688,791 | - | 0.0% |
| Special Districts Fund Subsidy | 1,414,454 | 1,414,454 | - | 0.0% |
| Convention Center Fund Subsidy | 4,817,697 | 6,661,600 | 1,843,903 | 38.3% |
| Entertainment Fund Subsidy | 3,667,091 | 4,750,400 | 1,083,309 | 29.5% |
| Cheech Marin Center Fund Subsidy | 342,900 | 342,900 | - | 0.0% |
| Total Expenditures & Transfers Out | \$ 286,973,197 | \$ 287,546,176 | \$572,979 | 0.2% |

During the first quarter of FY 2021/22, the City Council approved supplemental appropriations totaling \$257,244 in the General Fund:

- Debt Collaboration Software \$17,127 – use of existing funds in the Special Deposits Fund.
- Emergency Air Support (Corona) \$120,000 – As-needed emergency air support services to the City of Corona, fully offset by corresponding revenues.
- Police Facilities Renovations \$120,117: use of existing funds in the Special Deposits Fund, Evidence Trust Account.

Summary: 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. Staff also recommends moving the 14 firefighter positions that were temporarily moved to Measure Z back to the General Fund, along with the costs incurred to date, thereby restoring the Measure Z funding that has been used by those positions. The fiscal

impact of these actions is expected to be \$5.5 million, reducing the potential net gain to \$7.5 million for the General Fund.

The baseline budget recently presented to the Budget Engagement Commission and the Financial Performance and Budget Committee for the upcoming budget cycle supports the filling of all position vacancies, with small surpluses projected for each fiscal year (\$4.8 million in 2022/23 and \$7.5 million in 2023/24) – with a caveat that increases that may result from labor negotiations are not projected or included in the baseline budget.

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.

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. Separately, \$5 million is held in contingency reserves per the adopted Measure Z Reserve Policy to ensure sufficient funding for ongoing costs in the event of under-performing revenues.

Revenues: The FY 2021/22 adopted budget included projected revenue of \$64.8 million. Based on 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.

Expenditures: 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.

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 move of fourteen firefighters from the General Fund to Measure Z.

Sewer Fund

The overall financial position of the Sewer Enterprise fund is in line with the Sewer Fund Reserve Policy objectives. 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.

Revenues: Based on an analysis of Quarter 1 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.

Expenditures: Operating expenditures are 35.5% of total budget at the end of the first quarter and are expected to remain within adopted appropriation limits through the fiscal year. Spending occurs unevenly throughout the year; the high spending percentage to date is attributable to debt obligations budgeted and paid in the first quarter of the fiscal year.

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.

Revenues: The Solid Waste rate plan adopted by City Council in September 2020 included a Year 2 increase in rates effective July 1, 2021. As of the end of the first quarter, service revenues are 24% of projections and total revenues are 23% of projections.

Expenditures: Operating expenditures are 17% of total budget at first quarter end; spending in some categories, such as debt service and minor capital, do not occur evenly throughout the year.

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 keep rate increases as low as possible. Reserve level estimates as of the first quarter end are within established policy levels.

On July 16, 2021 Governor Newsom signed AB 135, which created the California Arrearage Payment Program (CAPP) to administer funding for electric utility customer arrearages.

Revenues: As of the end of the first quarter, Electric operating revenues are at 30.7% of budgeted projections. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 29.6% of total budget through September 2021. Retail sales are at 30.6% of total budget through September 2021 and 3.4% higher than expected. As of September 30, 2021, retail sales have resulted in the higher than anticipated residential retail revenues and lower than anticipated retail revenue from commercial and industrial customers, which may be attributed to the impacts of COVID-19. Residential revenues were 11.9% higher than budgeted in the first quarter. Commercial/industrial revenues were 2.5% below budget at the end of the first quarter. 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 FY 2021/22. Projected revenue for the fiscal year remains unchanged and no mid-cycle budget adjustments are recommended.

Expenditures: Electric operating expenditures are 23.7% of total budget at the end of the first quarter. 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.

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.

On July 22, 2021 Governor Newsom signed AB 148, which created the California Water and Wastewater Arrearage Management Program (CWWAPP) to administer funding for water/wastewater utility customer arrearages.

Revenues: Total operating revenues for the Water Fund are 29.9% of projections as of first quarter end. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 32.4% of total budget through September 2021. Retail sales are at 32.0% of total budget through September 2021 and (1.4%) or \$300,000 lower than expected. Residential revenues were 2.9% less than anticipated during the first quarter. Commercial, industrial, and other revenues were 0.1% higher than budgeted. Weather, including precipitation, can significantly impact retail revenues, which will be monitored throughout the remainder of the fiscal year.

Expenditures: Water Fund operating expenditures are 19.9% of budget at the end of the first quarter. 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.

Mid-Year Budget Adjustments

Throughout the fiscal year, staff assesses the need for adjustments to the adopted budget. The following mid-year budget adjustments are recommended for Council approval; funds are available in the respective funds to accommodate the recommendations.

1. **General Fund – Non-Departmental (\$572,979):** Supplemental appropriation to increase the General Fund subsidies for the Convention Center to \$1,844,000 and the Entertainment funds to \$1,084,000. The savings from the prepayment of the UAL will be transferred to fund subsidies.
2. **General Fund – Community & Economic Development (\$100,000):** On November 18, 2021, the Economic Development, Placemaking and Branding/Marketing Committee directed staff develop an ordinance with the legal and regulatory framework for the permitting, licensing, enforcement, taxation, and legal operations of commercial cannabis storefronts within the City limits and to explore a ballot initiative for business taxes to potentially be collected for cannabis businesses. A supplemental appropriation of \$100,000 is recommended for consultant costs to assist staff in the process and to complete the required California Environmental Quality Act Initial Study and subsequent environmental documents.
3. **Central Stores Fund – Finance Department (\$70,136):** Supplemental appropriation of \$70,136 and approval to move 1.0 FTE from Riverside Public Utilities (RPU) Electric Operations to Central Stores – Finance. The position is housed in Central Stores but was not identified as part of the initial transfer when Central Stores operations were moved from RPU to Finance.
4. **Grants & Restricted Programs Fund / Entertainment Fund (\$2,143,228.51 interfund transfer):** On September 7, 2021, the City Council approved the acceptance of a shuttered venue operator grant from the U.S. Small Business Administration and authorized a corresponding supplemental appropriation in the Grants & Restricted Programs Fund. The appropriate accounting requires the grant to be recorded in the Entertainment Fund; therefore, an interfund transfer of \$2,143,228.51 from the Grants and Restricted Programs Fund to the Entertainment Fund is hereby submitted for City Council approval.

STRATEGIC PLAN ALIGNMENT:

The reporting and presentation of financial results aligns with **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 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 and the involvement of the Budget Engagement Commission.
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 preservation of City services.

FISCAL IMPACT:

As of the first quarter, the General Fund is anticipated to end the fiscal year with savings. However, the City is currently addressing a challenge to the certification of the Measure C ballot measure; should the City not prevail in the legal issue, immediate fiscal action to preserve General Fund resources would be required.

The Measure Z fund has a significant amount of unallocated reserves available for new spending initiatives; however, staff recommends holding off on allocating the funds pending the outcome of the Measure C certification.

The City’s Sewer, Electric, and Water Funds are healthy, with projected operating gains or strategic drawdowns of reserves to keep rates low. The reserves of each of the three funds are within policy reserve requirements. Costs continue to outpace revenues in the Refuse fund, but as of the first quarter, staff believes fund reserves are sufficient to carry the fund to FY 2022/23 when the scheduled rate increase is anticipated to catch up with costs and result in a net break-even or operating gain.

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Certified as to availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer
Approved by: Kris Martinez, Assistant City Manager

Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Fiscal Update
2. Measure Z Spending Status
3. Presentation