



City of Arts & Innovation

**REVISED**

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL                      DATE: MAY 17, 2022**

**FROM: FINANCE DEPARTMENT    WARDS: ALL**

**SUBJECT: PROPOSED FISCAL YEAR 2022-2024 BIENNIAL BUDGET; SET PUBLIC HEARING**

**ISSUE:**

Receive and provide input on the proposed Fiscal Year 2022-2024 Biennial Budget and set a public hearing for the adoption of the proposed Fiscal Year 2022-2024 Biennial Budget.

**RECOMMENDATIONS:**

That the City Council:

1. Receive and provide input on the proposed Fiscal Year 2022-2024 Biennial Budget; and
2. Set a public hearing date for adoption of the proposed Fiscal Year 2022-2024 Biennial Budget on June 21, 2022.

**LEGISLATIVE HISTORY:**

Several City Charter sections provide the procedural requirements for adoption of the budget by the City Council:

- **Article IV, Section 601(a-c)** requires the City Manager to keep the City Council advised of the financial condition of the City and annually prepare the City’s budget and capital improvement plan (CIP) for review and adoption by the City Council.
- **Article VIII, Sec. 806(c):** Planning Commission; Make recommendations concerning proposed infrastructure improvements and redevelopment activities in support of planned land uses.
- **Article VIII, Section 808(c)** requires the Board of Library Trustees to consider the annual budget for library purposes during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.
- **Article VIII, Section 809(b)** requires the Park and Recreation Commission to consider the annual budget for parks, recreation, parkways and street tree purposes during the

process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.

- **Article XI, Section 1101** requires that the City Manager shall provide the City Council with a proposed budget at least thirty-five calendar days prior to the beginning of each fiscal year. After review, the City Council shall determine the time for the holding of a public hearing for the budget adoption; the public notice of the budget hearing published no less than twenty days prior to said hearing. Additionally, copies of the proposed budget shall be available for inspection by the public in the office of the City Clerk and on the City’s website at least twenty days prior to the public hearing.
- **Article XI, Section 1102 and 1103** requires the City Council to hold the public hearing for the proposed budget adoption, seek public input, and make any revisions to the budget it deems necessary. The City Council may adopt the budget after the public hearing or postpone the date of adoption no later than July 1<sup>st</sup>.
- **Article XII, Section 1202(a)** requires the Board of Public Utilities to consider the annual budget for the Department of Public Utilities during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.

Additionally, the City Council’s Envision Riverside 2025 Strategic Plan includes the following cross-cutting thread (i.e. a major theme that should be reflected in all City outcomes): **Fiscal Responsibility** – Riverside is a prudent steward of public funds and ensures responsible management of the City’s financial resources while providing quality public services to all.

**BACKGROUND:**

The development of the Fiscal Year (FY) 2022-2024 Biennial Budget, encompassing FY 2022/23 and FY 2023/24, began in October 2021 and will continue until City Council adoption of the budget in June 2022. Public meetings related to the development of the proposed FY 2022-2024 Biennial Budget provided numerous opportunities for community engagement in the budget process, as follows:

Date	Time	Meeting Body	Subject Matter
Nov 18	5:00 PM	Budget Engagement Commission	Budget Development, Priority Based Budgeting (PBB), and Critical Unfunded Needs (Staff’s Preliminary Recommendations)
Dec 9	5:00 PM	Budget Engagement Commission	Baseline Budgets for the General Fund and Measure Z
Dec 10	3:00 PM	Financial Performance and Budget Committee	Baseline Budgets for the General Fund and Measure Z
March 10	5:00 PM	Budget Engagement Commission	Critical Unfunded Need Preview: Proposed Expansion of the Public Safety Engagement Team (Urban)
March 21	6:30 PM	Parks & Recreation Commission	Parks, Recreation & Community Services Dept preliminary budget
March 23	3:00 PM	Museum of Riverside Board	Museum Department preliminary budget

Date	Time	Meeting Body	Subject Matter
March 31	5:00 PM	Budget Engagement Commission	PBB Update; General Fund and Measure Z Overview; Departmental Preliminary Budget Presentations and Critical Unfunded Needs for the City Manager, Community and Economic Development, Human Resources, Public Works, General Services, Fire, and City Attorney Departments
April 7	5:00 PM	Budget Engagement Commission	Departmental Preliminary Budget Presentations and Critical Unfunded Needs for the Parks, Recreation and Community Services, Mayor, City Clerk, Museum, Police, Innovation and Technology, and Finance Departments
April 11	5:00 PM	Board of Library Trustees	Library Department preliminary budget
April 11	6:30 PM	Board of Public Utilities	Riverside Public Utilities preliminary budget
April 14	5:00 PM	Budget Engagement Commission	Departmental Preliminary Budget Presentations and Critical Unfunded Needs for the Library and Public Utilities departments; Recommendations to City Council on Critical Unfunded Needs
April 18	8:30 AM	City Council Budget Workshop	General Fund and Measure Z Overview; Departmental Preliminary Budget Presentations; Critical Unfunded Needs
April 26	1:00 PM	City Council – Afternoon Session	Departmental Preliminary Budget Presentation – City Council department
April 28	9:00 AM	Planning Commission	Review proposed capital projects and their conformity with the City's General Plan 2025
April 28	5:00 PM	Budget Engagement Commission	Departmental Preliminary Budget Presentation for the City Council department; Measure Z Spending Plan Review; Recommendations to City Council on Critical Unfunded Needs
April 28	9:00 AM	Planning Commission	Review proposed capital projects and their conformity with the City's General Plan 2025
May 3	1:00 PM	City Council – Afternoon Session	Measure Z Spending Plan Review, Critical Unfunded Needs

On May 3, 2022, the City Council reviewed a listing of critical unfunded needs with each Councilmember identifying items they supported funding. The votes were recorded live in a spreadsheet and tallied. The City Council voted unanimously to approve Measure Z funding for ten (10) critical unfunded needs that had garnered support from 5 or more Councilmembers. Funding for those items is incorporated in the proposed budget schedules and Measure Z Spending Plan (Attachment 1). **Upon review of the Council meeting video, staff identified two votes that were not accurately captured during the live event. Had the votes for the Measure Z Deferred Maintenance – One-Time item in the amount of \$5 million for two years been accurately captured, the number of votes for that item would have totaled five (5).** Refer to Attachment 2 (Critical Unfunded Needs Scoring) for a complete listing of the critical unfunded needs considered and Councilmembers' respective votes.

On June 9, 2022, the final proposed budget will be presented to the BEC for input. The final proposed budget which incorporates City Council direction through May 17<sup>th</sup> will be presented to the City Council for adoption on June 21, 2022.

## **DISCUSSION:**

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 of 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.

### Budget Overview – Citywide

#### **~~PENDING CHANGES TO THE PROPOSED FY 2022-2024 BIENNIAL BUDGET~~**

This report publishes on May 5<sup>th</sup> for the May 17, 2022 City Council meeting date. On May 3, 2022, the City Council provided direction to City staff regarding critical needs to incorporate into the proposed FY 2022-2024 Biennial Budget. Due to the pending direction, an updated citywide cost allocation plan was not and could not be run in time for inclusion with the proposed budget presented in this report (Attachment 1). The cost allocation plan allocates budgeted internal services to the entities receiving the services; e.g., the Purchasing Division of the Finance department is allocated to all City funds, departments, and capital projects that utilize procurement services. ~~While the citywide budget total will not change with the updated cost allocation plan, immaterial changes are expected for fund, department, and capital project budget totals.~~

Subsequent to publication of this report, the cost allocation plan was run, as previously described. Certain capital projects are constrained to a maximum funding level, and certain city funds are self-balancing, requiring adjustment to projected revenues; as a result, the citywide proposed budget total for FY 2022/23 is \$14,059 less than presented in the original publication, attachment, and following tables; FY 2023/24 is \$14,900 less than presented in the original publication. The following table lists the resulting changes by Fund and expenditure category.

The proposed FY 2022-2024 Biennial Budget totals approximately \$1.36 billion in FY 2022/23 and \$1.32 billion in FY 2023/24, including the City's operating budget and planned capital projects. Attachment 1 details the proposed FY 2022-2024 Biennial Budget for all City funds, departments, and capital projects and includes the following schedules:

- Revenue and Expenditure Details by Fund
- Department Expenditure Details
- Capital Improvement Plan
- Citywide Personnel Detail
- Proposed Measure Z Five-Year Spending Plan 2022-2027

Significant changes to departmental budgets are described in the *Department Expenditure Details* schedule.

**CITYWIDE BUDGET SUMMARY – OPERATING**  
**Proposed FY 2022-2024 Biennial Budget**

	<u>FY 2022/23</u>	<u>FY 2023/24</u>
<b><u>Revenues &amp; Transfers In</u></b>		
Taxes	\$299,820,298	\$311,324,957
Licenses & Permits	16,960,893	17,492,009
Intergovernmental	42,483,631	43,494,081
Charges for Services	657,472,394	678,393,971
Fines & Forfeitures	5,292,325	5,660,875
Special Assessments	11,977,024	12,041,134
Miscellaneous	27,065,494	31,811,644
Rents	1,706,100	1,740,200
Other Financing Sources	545,000	545,000
Long-Term Debt Proceeds	57,700,000	-
Debt Transfers In	47,501,000	41,808,214
Operating Transfers In	97,148,568	107,056,976
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 1,265,672,727</b>	<b>\$ 1,251,369,061</b>
<b><u>Expenditures &amp; Transfers Out</u></b>		
Personnel Services	\$391,339,293	\$399,015,193
Non-personnel Expenses	426,420,984	428,974,309
Special Projects	57,699,356	60,922,211
Equipment Outlay	8,305,650	4,874,097
Debt Service	187,862,294	189,662,281
Minor Capital	1,626,387	1,541,722
Charges from Others	94,393,847	96,300,425
Charges to Others	<b>(120,310,203)</b>	<b>(127,177,474)</b>
Debt Transfers Out	47,501,000	41,808,214
Operating Transfers Out	97,148,568	107,056,976
<b>Total Expenditures &amp; Transfers Out</b>	<b>\$ 1,191,987,176</b>	<b>\$ 1,202,977,954</b>
<b>Net Operating Budget</b>	<b>\$ 73,685,551</b>	<b>\$ 48,391,107</b>

The following table reflects the impacts of the cost allocation plan detailed in earlier in this report.

<b>CITYWIDE BUDGET SUMMARY - OPERATING</b>		
<b>Proposed FY 2022-2024 Biennial Budget</b>		
	<b><u>FY 2022/23</u></b>	<b><u>FY 2023/24</u></b>
<b><u>Revenues &amp; Transfers In</u></b>		
Taxes	\$299,820,069	\$311,324,791
Licenses & Permits	16,960,893	17,492,009
Intergovernmental	42,487,207	43,497,786
Charges for Services	657,472,394	678,393,971
Fines & Forfeitures	5,292,325	5,660,875
Special Assessments	11,977,024	12,041,134
Miscellaneous	27,065,494	31,811,644
Rents	1,706,100	1,740,200
Other Financing Sources	545,000	545,000
Long-Term Debt Proceeds	57,700,000	-
Debt Transfers In	47,501,000	41,808,214
Operating Transfers In	97,148,568	107,056,976
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 1,265,676,074</b>	<b>\$ 1,251,372,600</b>
<b><u>Expenditures &amp; Transfers Out</u></b>		
Personnel Services	\$391,339,293	\$399,015,193
Non-personnel Expenses	426,420,840	428,974,157
Special Projects	57,699,356	60,922,211
Equipment Outlay	8,305,650	4,874,097
Debt Service	187,862,294	189,662,281
Minor Capital	1,626,387	1,541,722
Charges from Others	95,013,412	96,943,324
Charges to Others	(120,943,683)	(127,835,121)
Debt Transfers Out	47,501,000	41,808,214
Operating Transfers Out	97,148,568	107,056,976
<b>Total Expenditures &amp; Transfers Out</b>	<b>\$ 1,191,973,117</b>	<b>\$ 1,202,963,054</b>
<b>Net Operating Budget</b>	<b>\$ 73,702,957</b>	<b>\$ 48,409,546</b>

Capital projects are funded through available operating revenues, bond proceeds, grants, fund reserves, and other funding sources. Bond and grant revenues are not typically included in the proposed budget but are budgeted when the bond is issued or when a grant is awarded and approved by City Council for use on a capital project. However, \$57.7 million of anticipated debt proceeds has been budgeted on the basis of reimbursement resolutions in the process of being adopted for the Measure Z funded Museum Renovation and new Police Headquarters. Internal controls exist to ensure that capital projects do not commence until funding is received or assured to become available.

Refer to *Capital Improvement Plan* in Attachment 1 for detailed listing of capital projects.

<b>CITYWIDE BUDGET SUMMARY - CAPITAL</b>		
<b>FY 2022-2024 Proposed Capital Budget</b>		
	<b>FY 2022/23</b>	<b>FY 2023/24</b>
<b><u>Funding Sources</u></b>		
Electric Utility	\$40,814,724	\$56,657,003
Water Utility	29,089,738	29,930,773
Transportation Funds	17,330,099	13,705,945
Measure Z Tax Revenue	14,475,000	12,975,000
Measure Z Bond Proceeds	57,700,000	-
Sewer	2,297,609	1,615,000
Other	1,600,000	290,000
<b>Total Funding Sources</b>	<b>\$ 163,307,170</b>	<b>\$ 115,173,721</b>
<b><u>Funding Uses</u></b>		
Electric	\$40,814,724	\$56,657,003
Municipal Buildings and Facilities	59,200,000	1,500,000
Public Parking	1,250,000	190,000
Railroad	804,000	-
Sewer	2,297,609	1,615,000
Storm Drain	850,000	100,000
Transportation	29,001,099	25,180,945
Water	29,089,738	29,930,773
<b>Total Funding Uses</b>	<b>\$ 163,307,170</b>	<b>\$ 115,173,721</b>

**Budget Overview – General Fund**

The proposed FY 2022/24 General Fund budget totals approximately \$305.67 million in FY 2022/23 and \$311.11 million in FY 2023/24. The General Fund budget accounts for approximately 26% of the citywide operating budget, which is consistent with prior years. The proposed budget is balanced, with small surpluses budgeted in each fiscal year: \$4.96 million in FY 2022/23 and \$7.12 million in FY 2023/24. However, it is important to note that the proposed 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 in receipt of the Court’s ruling on the legal challenge of the Measure C certification. The City Attorney’s Office continues to evaluate the Court’s decision to fully understand the financial implications to the City. Until financial impact can be fully quantified and a path forward has been decided by the direction of the City Council, we will continue to evaluate and assess all budgetary needs. The financial impact could include the reduction or elimination of the entire Electric General Fund Transfer (GFT).

Significant changes to the General Fund budget as compared to the prior year budget include:

- **Revenue:** An 8.2% increase in FY 2022/23 revenues is projected as compared to the FY 2021/22 adopted budget, primarily due to strong performance in sales tax revenue and the projected recovery of various revenue sources that had declined during the pandemic.



- Personnel:** The FY 2021/22 adopted budget included an adopted vacancy savings factor of \$10 million. The FY 2022/23 proposed personnel budget is 0.007% higher than the FY 2021/22 adopted personnel budget, excluding the \$10 million vacancy savings factor and CalPERS UAL for purposes of comparison. The FY 2023/24 proposed personnel budget is 1.25% higher than FY 2022/23 due to budgeted merit increases and projected increases in leave payouts, safety overtime and related PERS and Medicare costs, and insurance. The personnel budget does not include any projections or assumptions of cost increases that may result from ongoing labor negotiations.
- CalPERS UAL:** The FY 2022/23 UAL payment is 30% (\$4.3 million) higher than FY 2021/22. The FY 2023/24 UAL payment is 10% (\$1.9 million) higher than FY 2022/23.
- Debt Service:** In FY 2023/24, debt service obligations are \$10.2 million lower than FY 2022/23, primarily due to the pay-off of the 2004 Safety POB.
- Transfers to Section 115 Trust:** The proposed budget includes a contribution strategy of General Fund resources to the Section 115 Trust for the long-term management of CalPERS UAL and 2020 POB debt obligations. A combined total of \$11.9 million in contributions is included in the two years of the proposed budget.

The following table has been updated to include the impacts of the cost allocation plan detailed in earlier in this report.

**GENERAL FUND PROPOSED 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 Proposed	FY 2023/24 Proposed
Revenue	\$278.67	\$279.45	\$298.03	\$300.65	\$310.63	\$318.23
Expenditures	271.38	280.48	286.10	288.04	305.91 305.67	311.37 311.11
<b>Surplus/(Deficit)</b>	<b>\$7.29</b>	<b>\$(1.03)</b>	<b>\$11.93</b>	<b>\$12.61</b>	<b>\$4.72</b> <b>\$4.96</b>	<b>\$6.86</b> <b>\$7.12</b>

Budget Overview – Measure Z

**Measure Z History**

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 2037 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, 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.

### **Measure Z Budget Overview**

The preliminary five-year Measure Z Spending Plan for FYs 2022/23 through 2026/27 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, were adopted for a specific period; those items have not been assumed to continue in the updated spending plan. It is important to note that FYs 2024/25 through 2026/27 are presented in the spending plan (Attachment 1) for planning purposes only. Council approval of the proposed FY 2022-2024 Biennial Budget will apply to FYs 2022/23 and FY 2023/24 of the Measure Z Spending Plan per the budget resolution that will be presented for Council adoption on June 21, 2022.

On May 3, 2022, the City Council reviewed critical unfunded needs and directed staff to incorporate the following items into the proposed FY 2022-2024 budget, funded by Measure Z (refer to *Measure Z Spending Plan* in Attachment 1):

- **Spending Item #25 - New Police Headquarters:** Increase total project cost to \$44 million; the spending plan has been updated to reflect estimated annual debt obligations for a debt issuance of \$44 million in late FY 2022/23.
- **Spending Item #28 - Annual Deferred Maintenance (Existing Facilities):** Add \$500,000 annually.
- **Spending Item #29 - Maximize Roads/Streets (Pavement Condition Index):** Add \$8 million annually.
- **Spending Item #30 - Tree Trimming:** Add \$2,500,000 for 3-5 years. The increase has been added to the spending plan for 5 years, through FY 2026/27.
- **Spending Item #39 - Public Safety & Engagement Team Program (PSET) – Urban:** Expand the existing PSET program to add 15.0 full-time equivalents (FTEs) plus non-personnel costs of approximately \$529,000 annually, for a total increase of \$2,038,405 in FY 2022/23 and \$1,959,730 in FY 2023/24.
- **Spending Item #48 - Office of Homeless Solutions Expansion:** Add 2.0 FTE with a fiscal impact of \$157,307 in FY 2022/23 and \$162,479 in FY 2023/24.
- **Spending Item #49 - Public Safety & Engagement Team Program (PSET) – Wildlands:** A new spending item which includes 28.0 new FTEs plus non-personnel costs of approximately \$1.39 million annually.
- **Spending Item #50 - Public Safety Enterprise Communication System (PSEC) Radios:** A new spending item with a fiscal impact of \$343,438 annually for four years.
- **Spending Item #51 - Office of Sustainability:** A new spending item which includes 1.0 new FTE plus annual non-personnel costs of \$200,000.
- **Spending Item #52 - Sidewalk Repair:** A new spending item with a fiscal impact of \$600,000 annually.

Measure Z unallocated fund reserves are projected to be \$39.29 million at the end of FY 2021/22. Policy reserves of \$5 million are set aside separately from the unallocated reserve calculations shown in the following table. The proposed two-year budget and five-year spending plan results in a projected annual drawdown of Measure Z reserves ranging from \$5.39 million to \$7.95 million in the five-year spending plan, and projected ending reserves of \$6.31 million in FY 2026/27. The potential fiscal impact of ongoing labor negotiations has not been incorporated into the spending plan; with 181.00 FTE funded by Measure Z, it is possible that Measure Z reserves could be fully depleted in FY 2026/27 as a result of the fiscal impact from labor negotiations.

**MEASURE Z SPENDING PLAN – PRELIMINARY BUDGET**

(\$ in millions)

	2022	2023	2024	2025	2026	2027
Revenue	\$74.65	\$76.80	\$79.02	\$80.91	\$82.12	\$83.34
Expenditures	(74.14)	(83.79)	(86.97)	(86.29)	(88.51)	(89.61)
<b>Net Change in Fund Balance</b>	<b>\$0.51</b>	<b>\$(6.99)</b>	<b>\$(7.95)</b>	<b>\$(5.38)</b>	<b>\$(6.39)</b>	<b>\$(6.27)</b>
Beginning Fund Reserves	\$38.78	\$39.29	\$32.30	\$24.35	\$18.97	\$12.58
Net Change in Fund Balance	0.51	(6.99)	(7.95)	(5.38)	(6.39)	(6.27)
<b>Ending Unallocated Reserves</b>	<b>\$39.29</b>	<b>\$32.30</b>	<b>\$24.35</b>	<b>\$18.97</b>	<b>\$12.58</b>	<b>\$6.31</b>

Budget Overview - Major Enterprise Funds

The proposed operating budgets for the City’s major enterprise funds listed in the following table account for 53% of the citywide operating budget in FY 2022/23 and 50% in FY 2023/24. The Electric and Refuse funds are projected to operate in a deficit position in both fiscal years.

<b>MAJOR ENTERPRISE FUNDS – OPERATING</b>			
<b>Proposed FY 2022/23 Annual Budget</b>			
	<b>Revenue</b>	<b>Expense</b>	<b>Surplus / (Deficit)</b>
<b><u>FY 2022/23</u></b>			
Electric	\$409,101,100	\$431,002,105	\$(21,901,005)
Water	89,717,200	84,653,063	5,064,137
Refuse	30,501,947	32,179,490	(1,677,543)
Sewer	68,271,916	65,983,528	2,288,388
Public Parking	9,036,534	7,551,111	1,485,423
<b><u>FY 2023/24</u></b>			
Electric	\$421,537,700	\$426,114,179	\$(4,576,479)
Water	91,615,800	85,833,523	5,782,277
Refuse	31,968,946	32,598,957	(630,011)
Sewer	69,376,857	67,512,441	1,864,416
Public Parking	9,566,164	7,934,036	1,632,128

The following table has been updated to include the impacts of the cost allocation plan detailed in earlier in this report.

<b>MAJOR ENTERPRISE FUNDS – OPERATING</b>			
<b>Proposed FY 2022/23 Annual Budget</b>			
	<b>Revenue</b>	<b>Expense</b>	<b>Surplus / (Deficit)</b>
<b><u>FY 2022/23</u></b>			
Electric	\$409,101,100	\$431,094,614	\$(21,993,514)
Water	89,717,200	84,707,096	5,010,104
Refuse	30,501,947	32,207,710	(1,705,763)
Sewer	68,271,916	66,002,387	2,269,529
Public Parking	9,036,534	7,555,461	1,481,073
<b><u>FY 2023/24</u></b>			
Electric	\$421,537,700	\$426,212,327	\$(4,674,627)
Water	91,615,800	85,890,649	5,725,151
Refuse	31,968,946	32,628,594	(659,648)
Sewer	69,376,857	67,532,573	1,844,284
Public Parking	9,566,164	7,938,602	1,627,562

**Electric:** The Electric Fund proposed budget includes a strategic drawdown on fund reserves. The reserves of the Electric Fund in conjunction with a line of credit will be used in accordance with Riverside Public Utility (RPU) Fiscal Policies and as planned with the approved Electric Rate Plan to balance the FY 2022/23 and FY 2023/24 operating budgets, fund capital projects, and maintain the target minimum reserve level established by the RPU Cash Reserve Policy. The financial strategy within the adopted Electric Rate Plan is to draw down reserves to minimum required levels to keep rate increases as low as possible.

**Refuse:** The proposed budget for the Refuse fund projects a draw on fund reserves in each fiscal year due to revenues not keeping pace with rising costs. The major challenges in the fund are increased tonnage due to the pandemic, cost increases associated with State mandated programs, an aging fleet in need of replacement, and high vacancy rate and retention issues. Staff is in the process of bringing a comprehensive update to the City Council regarding the state of equipment, recruitment, and ongoing challenges for the Solid Waste Division.

#### Personnel Changes in the Proposed Budget

The FY 2022/23 budget includes 2,626.65 full-time equivalents (FTE), an increase of 49.74 FTE as compared to the FY 2021/22 budget. The FY 2023/24 budget includes a 1.0 FTE increase as compared to FY 2022/23. Refer to *Citywide Personnel Detail* in Attachment 1 for a comprehensive listing of personnel schedules and explanation of changes by department from the prior year. The following summarizes net increases and decreases in total FTE at the fund and department level:

- **General Fund: 16.00 increase in FTE in FY 2022/23**
  - *Fire Department (Transfer in 14.00 FTE):* In the FY 2021/22 budget, fourteen (14) firefighter positions were temporarily transferred to Measure Z to meet the Fire Department's proportional share of the General Fund vacancy savings target balancing measure. Those positions have been transferred back to the General Fund and fully funded in the proposed FY 2022-2024 Biennial Budget.

- *Parks, Recreation and Community Services Department (Add 0.50 FTE, Transfer in 0.50 FTE for a total increase of 1.00 FTE):* Reclassify an existing Assistant Recreation Coordinator (0.50 FTE) to a 1.00 FTE Office Specialist for a net increase in FTE of 0.50. Transfer in an Instructor (0.50 FTE) previously funded by Measure Z.
- *Public Works (Add 1.00 FTE):* A Senior Engineer (1.00 FTE) has been added in the proposed budget. The Public Works Department collaborates with the Riverside County Flood Control District (RCFCD) to construct critical storm drain infrastructure that benefits the City and region. Via this partnership with RCFCD, the Public Works Department is scheduled to construct over \$40M in infrastructure improvements. Although budgeted in the General Fund, this new position is expected to charge time out to projects that are accounted for in other funds and therefore have little fiscal impact to the General Fund.
- **Measure Z: 27.74 increase in FTE in FY 2022/23**
  - *Fire (Transfer out 14.00 FTE):* In the FY 2021/22 budget, fourteen (14) firefighter positions were temporarily transferred to Measure Z to meet the Fire Department’s proportional share of the General Fund vacancy savings target balancing measure. Those positions have been transferred back to the General Fund and fully funded in the proposed FY 2022-2024 Biennial Budget.
  - *Parks, Recreation and Community Services (Remove 3.76 FTE, Transfer out 0.50 FTE for a total reduction of 4.26 FTE):* Measure Z funding for the first year of partial operating costs of the Bourns Family Innovation Youth Center has ended, including the funding of 4.26 FTE. The duties of 3.76 FTE will be absorbed by existing staff; an Instructor position (0.50 FTE) was transferred to the General Fund in the proposed budget.
  - *City Manager’s Office (Add 1.00 FTE):* Add 1.00 FTE Diversity, Equity and Inclusion Officer as an initial step in the creation of an Office of Sustainability.
  - *Community & Economic Development – Office of Homeless Solutions (Add 2.00 FTE):* Expand the Office of Homeless Solutions to add 1.00 FTE Project Assistant and 1.00 Senior Office Specialist.
  - *Multiple Departments (Add 15.00 FTE):* Expand the existing PSET Urban program to add 15.00 full-time equivalents (FTEs) across applicable departments.
  - *Multiple Departments (Add 28.00 FTE):* Create a new PSET Wildlands program to include 28.00 full-time equivalents (FTEs) across applicable departments.
- **Electric Fund: 4.50 increase in FTE in FY 2022/23**
  - *Administration Department (Add net 1.00 FTE):*
    - *Transfer In 2.00 FTE:* Transfer in 1.00 FTE Project Manager and 1.00 FTE Senior Engineering Aide from the Water Fund, Water Production and Operations division to the Electric Fund, Utilities Administration Department, Safety Division.
    - *Transfer Out 1.00 FTE:* Transfer out from the Administration Department,

Office of Operational Technology division to the Electric Department, Electric Power Supply Operations division 1.00 FTE Innovation & Technology Officer II, reclassified as a Senior Geographic Information Systems Analyst.

- *Electric Department (Add net 3.50 FTE):*
  - *Transfer out 1.00 FTE:* In the prior fiscal year, Central Stores operations were moved from the purview of the Electric Department to the purview of the Finance Department, Purchasing Division. A Senior Office Specialist (1.00 FTE) that supported Central Stores was not formally moved at the time; the position transfer is included in the proposed budget.
  - *Transfer In 1.00 FTE:* Transfer in from the Administration Department, Office of Operational Technology division to the Electric Department, Electric Power Supply Operations division 1.00 FTE Innovation & Technology Officer II, reclassified as a Senior Geographic Information Systems Analyst.
  - *Transfer In 2.00 FTE:* Transfer in two (2) Utilities Electric Power System Dispatcher positions (1.00 FTE each) from the Water Fund, Production and Operations division to the Electric Fund, Operations division.
  - *Add net 1.50 FTE:* Add Utilities Electric Power Systems Dispatcher II (1.50 FTE) to the Operations division.
- **Water: 0.50 decrease in FTE in FY 2022/23; 1.00 FTE increase in FY 2023/24**
  - *Transfer Out 2.00 FTE:* Transfer out two (2) Utilities Electric Power System Dispatcher positions (1.00 FTE each) from the Water Fund, Production and Operations division to the Electric Fund, Operations division.
  - *Transfer Out 2.00 FTE:* Transfer out 1.00 FTE Project Manager and 1.00 FTE Senior Engineering Aide from the Water Fund, Water Production and Operations division to the Electric Fund, Utilities Administration Department, Safety Division.
  - *Add net 4.50 FTE:* A needs assessment resulted in a net increase of **3.50** 4.50 FTE in the FY 2022/23 proposed budget involving **four (4)** ~~five (5)~~ position classifications (job titles) and the addition of a Senior System Analyst (1.00 FTE) in FY 2023/24. Refer to Citywide Personnel Detail in Attachment 1 for a full description of the changes.
- **Public Parking: 1.00 increase in FTE in FY 2022/23**
  - *Public Works (Add 1.00 FTE):* A Senior Office Specialist (1.00 FTE) has been added to the Public Parking fund in the proposed budget. While the position will be budgeted in the Public Parking Fund and assist with Parking Enforcement activities, 45% of the position cost will be charged to the General Fund to assist with construction management in the Traffic Engineering and Land Development divisions on an as needed basis.
- **Central Stores: 1.00 increase in FTE in FY 2022/23**
  - *Finance (Transfer in 1.00 FTE):* In the prior fiscal year, Central Stores operations were moved from the purview of the Public Utilities Department to the purview of the

Finance Department, Purchasing Division. A Senior Office Specialist (1.00 FTE) that supported Central Stores was not formally moved at the time; the position transfer is included in the proposed budget.

### American Rescue Plan Act

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

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

A proposed expenditure plan for the June 2022 allocation of one-time ARPA funds will be developed and considered by the City Council separate from consideration of the proposed FY 2022-2024 Biennial Budget, considering all eligible expenditures.

### Next Steps

Changes to the currently proposed budget as directed by the City Council will be incorporated into a final proposed budget, and staff will take the final proposed budget back to the BEC on June 9, 2022 for input. With City Council approval, a public hearing on the proposed budget will be scheduled for June 21, 2022, during which staff will present the final proposed budget inclusive of any changes previously requested by the City Council and request adoption of the proposed FY 2022-2024 Biennial Budget.

### **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 fiscal impact associated with the City Council recommendations included in this report. With City Council approval, a public hearing will be held on June 21, 2022, followed by adoption of the proposed budget which currently totals approximately \$1.36 billion in FY 2022/23 and \$1.32 billion in FY 2023/24 citywide, inclusive of capital projects.

The proposed FY 2022-2024 biennial budget does not include the potential fiscal impacts of two significant issues that will affect the proposed budget:

1. Potential impacts of MOU negotiations which will affect all City funds with personnel budgets; and
2. The potential loss of the Electric GFT: the fiscal impacts of the recent Court ruling on the Measure C challenge are pending additional procedural challenges and pending thorough review by the City Attorney’s Office.

These two major issues will need to be addressed during the budget year and may require mid-year adjustments to the adopted budget and the implementation of balancing measures in the General Fund should final outcomes lead to material changes to the budget.

### **~~PENDING CHANGES TO THE PROPOSED FY 2022-2024 BIENNIAL BUDGET~~**

~~After the publishing of this report, the cost allocation plan will be run based on the proposed budget amounts currently presented in this report. While the citywide budget total will not change with the updated cost allocation plan, immaterial changes are expected for fund, department, and capital project budget totals.~~

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Approved by: Kris Martinez, Assistant City Manager  
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Proposed FY 2022-2024 Biennial Budget
2. Critical Unfunded Needs Scoring
3. Presentation