QUARTER ENDING MARCH 31, 2022

CITY OF RIVERSIDE FISCAL UPDATE

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EXECUTIVE SUMMARY

This edition of Fiscal Update is being prepared with the backdrop of uncertainty throughout the nation's economy and its impacts on our residents, businesses, and the City's operations. We anticipated there would be more good news to report, and there is; however, supply chain disruptions are taking more time to resolve and inflation is proving to be more stubborn than expected. In May, the Federal Reserve raised short-term interest rates by 0.50%, the most aggressive increase made in a single meeting since May 2000 in an effort to tamp down these pressures.

The Consumer Price Index (CPI) represents a fixed basket of goods that is adjusted every two years, compiled from consumer prices. In this report we share HdL's comparison of the City's sales tax receipts by major business group reported during the fourth calendar quarter of 2020 and 2021. Although sales tax through the third quarter of FY 2021/22 has continued a strong upward trend, it is predominantly the result of inflationary factors. Actual results through the end of the fiscal year depend on how consumers and retailers respond to inflation and its impacts on slowing the economy. Consumers may move more toward essentials versus discretionary merchandise.

The City Council recently received an update on the impact of the suspension of utility shutoffs. Several programs are available to assist customers and more information can be obtained by calling Customer Service at (951) 782-0330 or visiting:
https://www.riversideca.gov/utilities/residents/assistance-programs/about

Looking forward to adoption of the FY 2022-2024 biennial budget, staff remains cautiously optimistic about the economy. Steady revenue growth is a good sign with movement toward pre-pandemic levels. Still, significant financial challenges impact the long-term fiscal health of the General Fund, specifically establishment of a long-term program for infrastructure investment and challenges to the General Fund Transfer.

ECONOMIC INDICATORS

INFLATION TRENDS AND IMPLICATIONS

The Consumer Price Index (CPI) is the broadest measure of cost-of-living changes that the average consumer faces. CPI is still trending high; however, we are beginning to see a slowdown in some price increases that we have witnessed over the past 12 - 18 months. **Certain categories of the CPI are still increasing, but at a slower pace.** The Federal Reserve began raising interest rates in the hope of slowing down the price gains; this should provide some relief for extremely tight supply chains and increased demand in the consumer market. While not immediately felt, the impact to the consumer market is already underway.

Energy and food prices are continuing their red-hot gains, both month-over-month and year-over-year. The continued high price of oil, coupled with the **war in Ukraine have strangled the supplies of oil and wheat**, and will continue upward price pressures on those commodities. Financial and de facto shipping embargoes have added to the strain of global energy supply. Continued **supply chain disruptions** are also playing into the higher costs and are now **creeping into service sector costs** (transportation services, medical care services, apparel, etc.) as shown in the graphic below.

One bright spot is the slowdown in motor vehicle prices. While still at an annual increase of over 14%, vehicle prices seem to be slowing down. As supply chains loosen, increases should edge downward and return to a much more normal pace. The inventory supply issues are still prevalent in most U.S. markets, Riverside included; however, the cooling off of demand and additional supplies should help to continue this slowing of price increases in vehicles.

The housing market in Southern California, and specifically Riverside County, is holding up quite well. Prices have been rising by double-digits for multiple years, and the lack of available housing supply is contributing to those increases. A slowdown in the rate of growth may be coming in the next 12 – 24 months, as the Federal Reserve has begun to raise the short-term lending rate, which feeds into long-term borrowing costs. As of April 2022, 30-year conventional mortgage rates have hit 5.11%, their highest point since April 2010. This should dampen price gains; however, California is still suffering from a severe housing shortage, and this will continue for the foreseeable future. We expect that any price declines would be met with buyers waiting on the sidelines to purchase any inventory offered.

Fed Raises Interest Rates by 0.50%, Largest Move Since 2000

The Federal Reserve is raising interest rates as an effort to tamp down inflationary pressures. Over the last two decades, the Fed has opted to raise interest rates in mere increments of 0.25%. On May 4, the Federal Reserve raised short-term interest rates by 0.50%, the most aggressive increase made in a single meeting since May 2000. The Fed is now targeting interest rates in a range between 0.75% and 1.00%, with some Fed officials advocating for raising the target closer to 2.5% by the end of the year.

MONTHLY CPI HEATMAP

	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022
Overall CPI	**4.2%**	**5.0%**	**5.4%**	**5.4%**	**5.3%**	**5.4%**	**6.2%**	**6.8%**	**7.0%**	**7.5%**	**7.9%**	**8.5%**
Category CPI												
Food	2.4%	2.2%	2.4%	3.5%	3.7%	4.6%	5.3%	6.1%	6.3%	7.0%	7.9%	8.8%
Energy	25.1%	28.6%	24.5%	23.9%	25.0%	24.8%	30.0%	33.3%	29.3%	27.0%	25.6%	32.0%
Household Furnishings	3.2%	3.7%	3.4%	3.0%	3.3%	4.8%	6.1%	6.0%	7.4%	9.3%	10.3%	10.8%
Apparel	1.9%	5.6%	4.9%	4.2%	4.2%	3.4%	4.3%	5.0%	5.8%	5.3%	6.6%	6.8%
Motor Vehicles & Parts	9.2%	13.3%	20.3%	19.8%	17.2%	15.0%	16.5%	19.2%	21.3%	23.4%	14.3%	14.2%
Shelter	2.1%	2.2%	2.6%	2.8%	2.8%	3.2%	3.5%	3.8%	4.1%	4.4%	4.7%	5.0%
Medical Care Services	2.2%	1.5%	1.0%	0.8%	1.0%	0.9%	1.7%	2.1%	2.5%	2.7%	2.4%	2.9%
Transportation Services	5.6%	11.2%	10.4%	6.4%	4.6%	4.4%	4.5%	3.9%	4.2%	5.6%	6.6%	7.7%

Green = lower CPI   Red = higher CPI

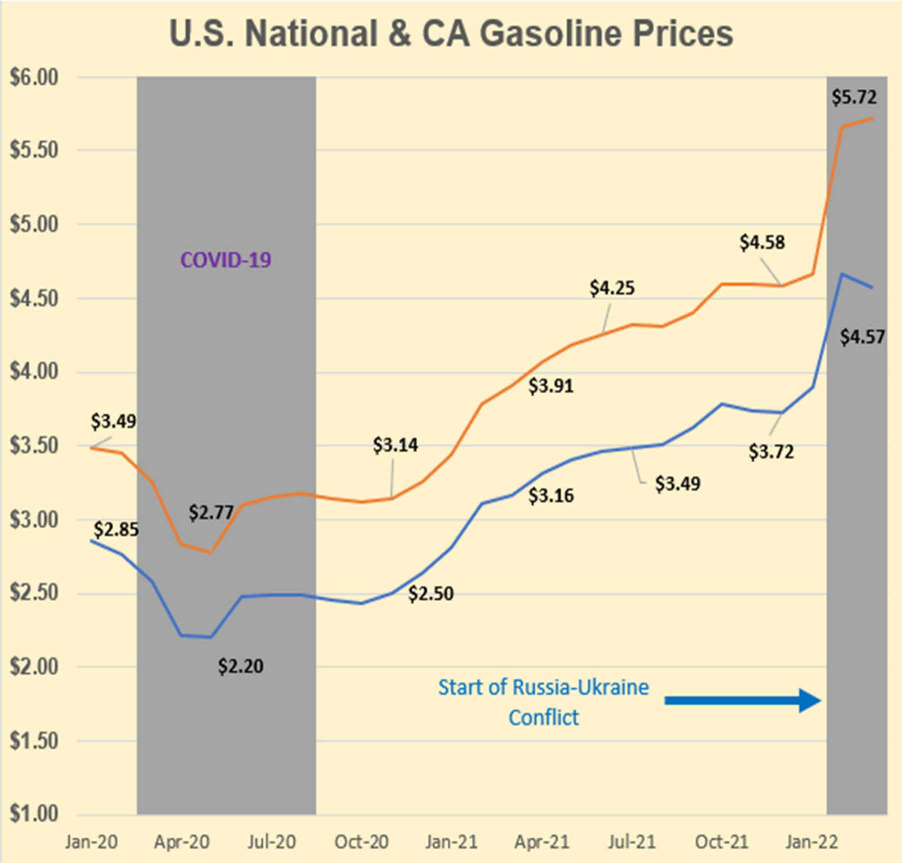
ENERGY TRENDS

Oil and Gasoline Trends

Gasoline prices have continued to rise in sync with oil as the COVID reopening continues. However, another factor in this rapid acceleration in prices is the effect of the Russia-Ukraine conflict. Russia's standing as one of the largest oil producers and exporters (approximately 11% of world daily production according to the U.S. Energy Information Administration) has exacerbated the price increases of both oil and its main derivative, gasoline. Unfortunately, this conflict will continue to strain prices, and financial and energy embargoes will continue to support higher than normal prices.

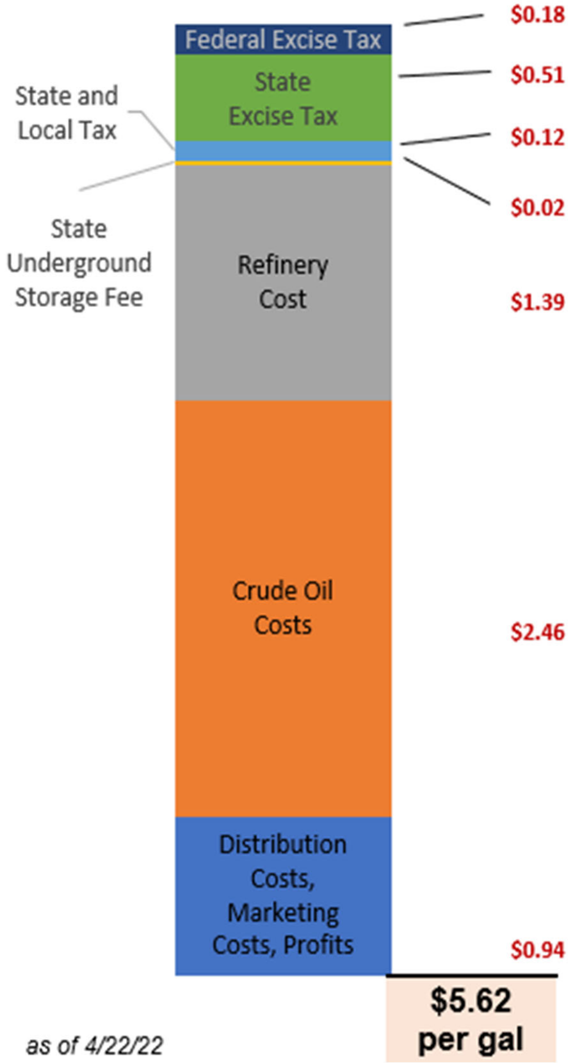
These two major factors (increased economic demand and a slowdown in Russian exports) have created a perfect storm of increased prices and volatility in the energy arena. Because the oil and gasoline markets are following headlines daily, there will be continued upward pressure on prices until supply increases (which are very slow to come onto the market), or the Russia-Ukraine conflict comes to an end, or at least a cease fire.

Even with the release of 1 million barrels per day from the U.S. Strategic Petroleum Reserve, as outlined by President Biden on March 31, 2022, the impact was muted. World demand for oil continues unabated and supplies are very tight. As previously stated, this market condition is expected to continue until one of the two scenarios plays out.



Source: https://www.eia.gov/tools/faqs/faq.php?id=709&t=6

California Gasoline Cost Breakdown

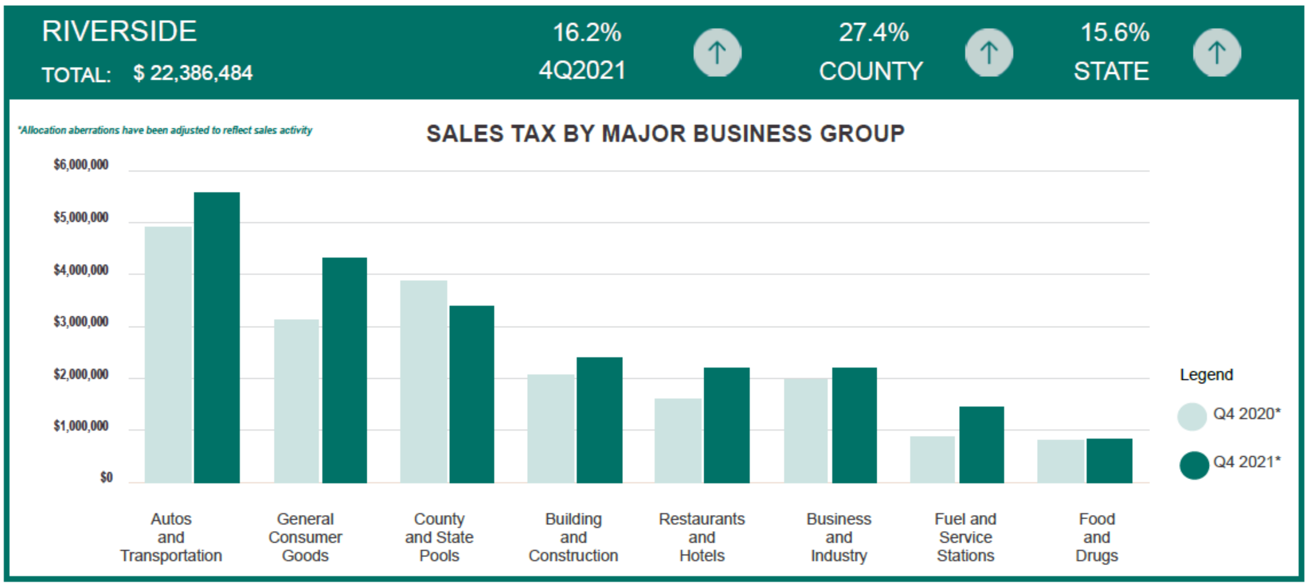


Source: CA Energy Commission
https://www.energy.ca.gov/data-reports/energy-almanac/transportation-energy/estimated-gasoline-price-breakdown-and-margins

GENERAL FUND REVENUE

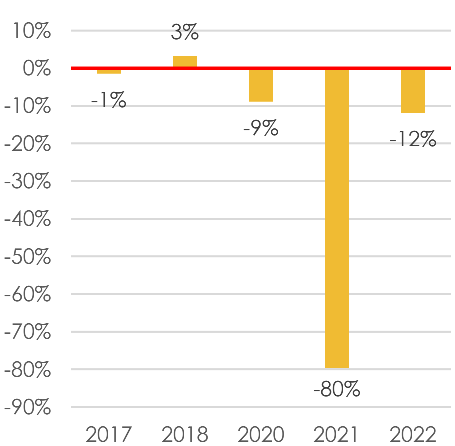
As of the third quarter ending March 31, 2022, total General Fund revenues are expected to exceed the budgeted revenue estimates by approximately $12 million. Since the second quarter report, sales tax has continued a strong upward trend, prompting the City's sales tax consultant (HdL) to revise its previous 8.1% year-over-year growth rate estimate to a rate of 12.9%. Actual results through the end of the fiscal year depend on how consumers and retailers respond to inflation and its impacts on slowing the economy. Consumers may move more toward essentials versus discretionary spending. Retailers, such as Target and Walmart, reported serious margin pressure as inflation in the supply chain bore down on financial statements because they were slow to raise prices. While retailers try to hold costs with suppliers, costs in certain categories will likely be passed on to consumers.

The following chart from HdL compares the City's sales tax receipts by major business group reported during the fourth calendar quarter of 2020 and 2021. Riverside is trending slightly higher than the state average, but lower than the 27.4% county average.



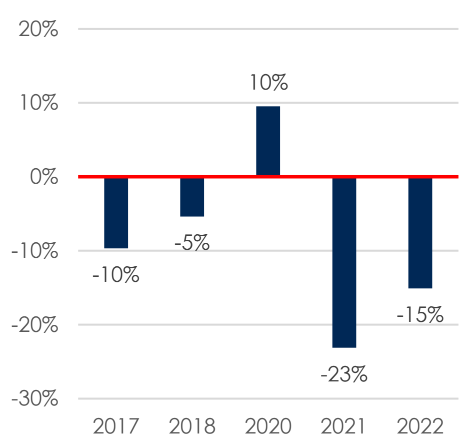
During normal times, staff is able to regularly monitor various revenue streams in comparison to the same period in a previous year. The COVID-19 pandemic through the last three years has impacted several revenue streams to the extent they are still coming in less than the same period in FY 2018/19 – the last full fiscal year before the pandemic. The following three charts compare actuals received through third quarter for two years preceding FY 2018/19 and three years following FY 2018/19, with FY 2018/19 represented as the baseline 0% (red line) in the charts. Steady revenue growth can be observed in the two years preceding the pandemic. Less of a decrease or an increase shown for FY 2021/22 as compared to FY 2020/21 is a good sign that revenue is increasing toward pre-pandemic levels.

Parks & Recreation Charges for Services



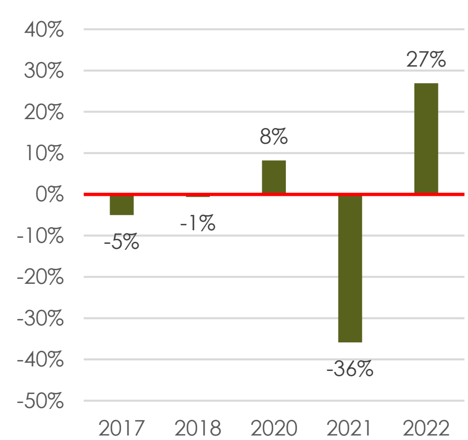
Revenues are currently 12% below FY 2018/19 actuals.

Development-Related Charges for Services



Revenues are currently 15% below FY 2018/19 actuals.

Transient Occupancy Tax

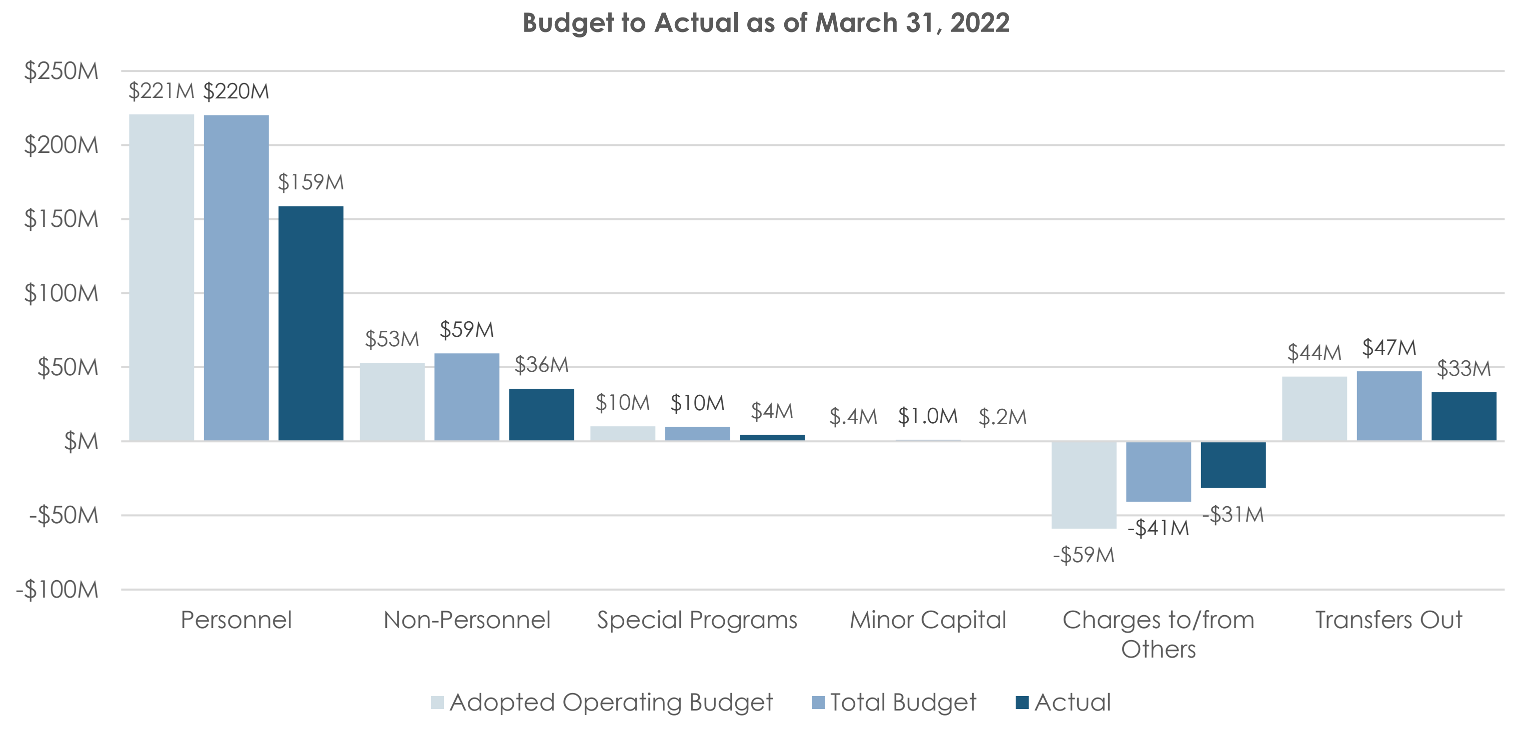


Revenues are currently 27% above FY 2018/19 actuals.

GENERAL FUND EXPENDITURES

As of the second quarter, General Fund expenditures are trending within the approved appropriations limit. General Fund non-personnel expenditures are trending lower than prior years and may produce some savings at fiscal year-end; however, actual expenditures fluctuate during the fiscal year and are subject to carryover at fiscal year-end. Based on an analysis of overtime trends to date, the Fire Department is likely to exceed its overtime budget in FY 2021/22. Overtime costs are largely impacted by vacancies and illnesses during the pandemic. As of the third quarter, year-to-date trends in all other General Fund departments combined show that total savings from those departments may be sufficient to offset the Fire Department's budget overage in overtime costs.

In the chart below, General Fund expenditures recorded as of March 31, 2022, are presented in comparison to the Adopted Budget and the Total Budget. The Total Budget includes prior year encumbrances and carryovers as well as current year budget adjustments. Prior year encumbrances and carryovers represent the amount of unexpended appropriations from previous fiscal years.



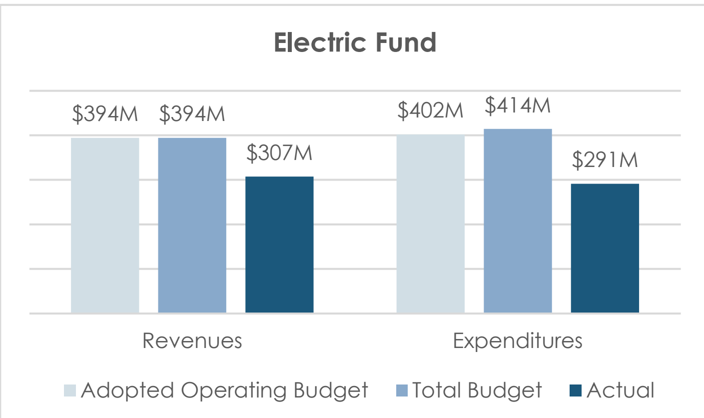
CALPERS UPDATE

What has happened since the 2020 Pension Obligation Bond was issued? The City benefitted from fortuitous "POB timing." The Unfunded Accrued Liability (UAL) payments are expected to be close to zero starting in 2024 due to significant gains on the CalPERS investment portfolio at June 30, 2021. As a result of a 21.3% return on investments by CalPERS in 2021, CalPERS implemented a policy driven decrease in the discount rate which is the assumed rate of return that the portfolio would achieve over the long term. A reduction in the discount rate from 7% to 6.8% will grow the City's normal retirement cost by $5 million annually beginning in 2024. The net effect of the two outcomes noted as of June 30, 2021, was that the UAL for public safety decreased to $7 million and a $15 million surplus was generated in the Miscellaneous Plan which brought the City's plan to nearly 100% funded on June 30, 2021. In fiscal 2021/22 the financial markets have impacted returns. Currently, CalPERS returns are tracking around a negative 5% for the year. With over a month to go in the fiscal year, CalPERS does have a small window of opportunity to reduce the current projected loss; however, the likelihood of that occurring is remote. Should CalPERS returns end the year at or around a negative 5% loss the City could expect the UAL to grow to approximately $289 million. As a result, UAL payments would begin to ramp up once again starting in 2025. The City will get a one-year reprieve on UAL payments in 2024 and total POB payments will be approximately $27 million. Beginning 2025 the collective POB and UAL payments will jump to $47 million reaching a peak of approximately $65 million in 2029 through 2035. As noted, any given year can have a significant impact one way or the other on the City's pension obligations. Mitigating that risk with planned increased contributions to the Section 115 trust based on the short term surpluses we have recently experienced will hopefully help alleviate the potential upward pressure on retirement costs.

ENTERPRISE FUNDS

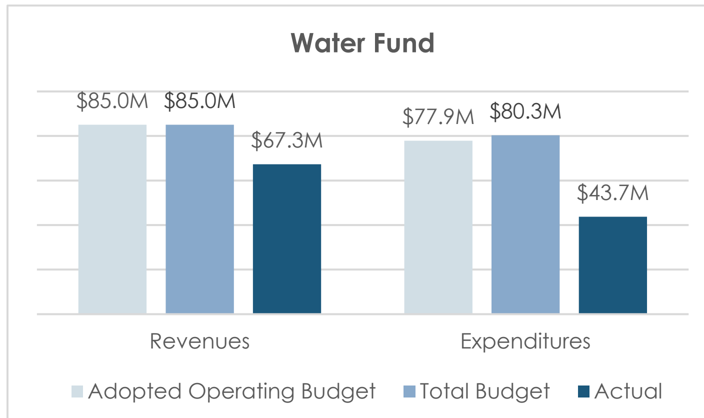
Electric Fund

The FY 2021/22 adopted budget for the Electric Fund includes a programmed $7.4 million operating deficit and draw on fund reserves. This is a financial strategy employed to draw reserves down to minimize the impact on rate increases and keep them as low as possible. Reserve level estimates as of the third quarter end are within established policy levels. As of the end of the third quarter, Electric operating revenues are at 77.9% of budgeted projections and operating expenditures are 70.3% of total budget.



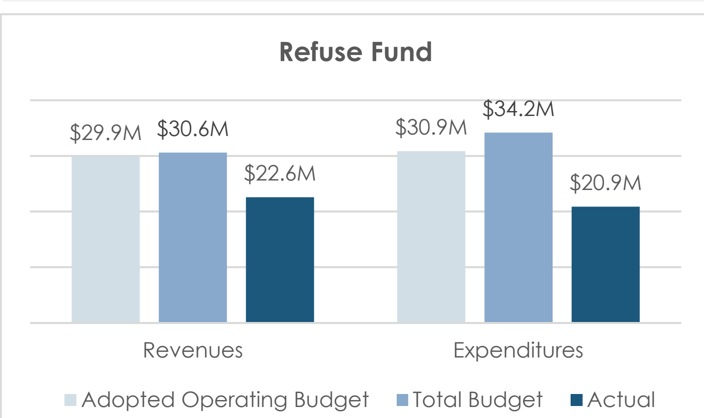
Water Fund

The Water Fund is in a healthy position with estimated reserve levels at the end of the third 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. As of the end of the third quarter, Water operating revenues are at 79.1% of budgeted projections and operating expenditures are 68.8% of budget.



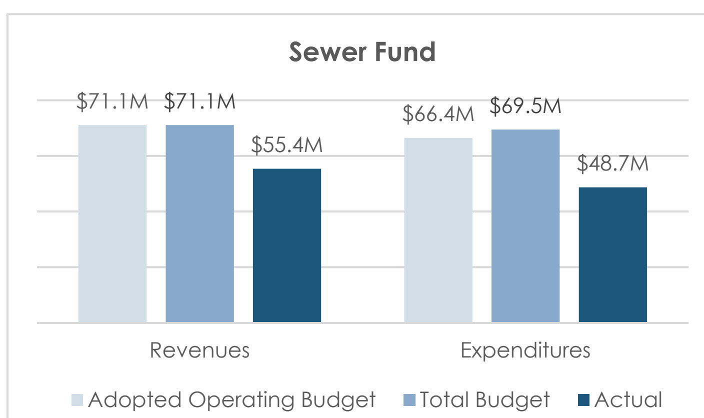
Refuse Fund

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 $3.1 million net of prior year encumbrances and carryovers; as of the third quarter, the reserve balance is expected to be sufficient to accommodate a current year deficit. The Refuse Fund is currently experiencing both financial and operational challenges. Despite a recent rate increase, revenues are not keeping pace with rising costs. City Staff is in the process of bringing a comprehensive update to the City Council regarding ongoing challenges for the Refuse Fund.



Sewer Fund

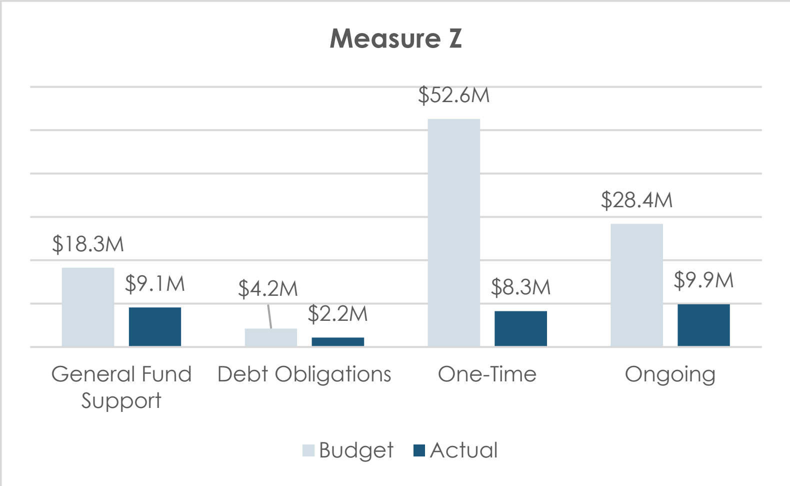
The FY 2021/22 adopted budget for the Sewer Fund projects a net operating gain of $4.6 million. The operating gain, in addition to fund reserves will be used to fund $22 million of planned capital projects. Based on an analysis of third quarter performance to date, the Sewer Fund is on track to meet revenue projections and is trending slightly higher than the prior year revenues. The Sewer Fund is continuing to experience the challenges mentioned in the second quarter report, such as increased unit cost of chemicals and truck driver shortages; however, the Sewer Fund is expected to remain within total adopted appropriation limits through the fiscal year.



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 $39.3 million in unallocated fund reserves. The City's sales tax consultant, HdL, has increased revenue projections from a year-over-year growth in local sales tax revenue over prior year actuals from a rate of 6.5% to a rate of 12.5%. If the current revenue trend continues through the fiscal year, tax revenue may come in $6.7 million higher than the revised estimate.

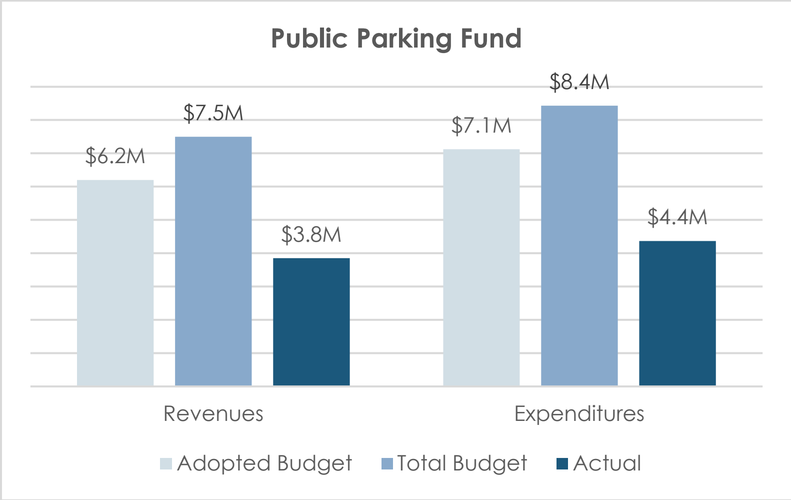
The chart to the right displays the spending status as of March 31, 2022, of approved spending items of various types. Ongoing items are obligations that may increase annually and cannot be easily defunded, such as personnel. One-time items are spending items that can be defunded if necessary, depending on contractual obligations.



Public Parking Fund

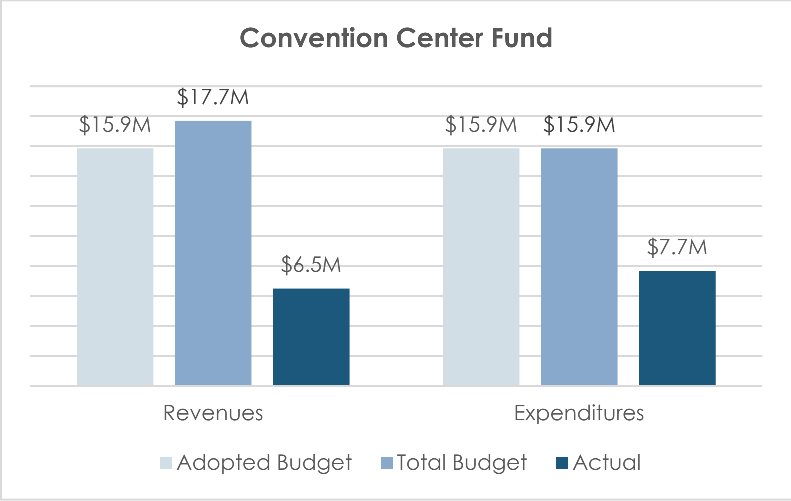
Parking Fund reserves at the beginning of FY 2021/22 are $1.6 million, or $300,000 net of prior year encumbrances. The adopted FY 2021/22 budget projects a draw on fund reserves of $923,000 due to the lingering impacts of the pandemic on parking revenues, maintenance costs of aging infrastructure, and parking fees not keeping pace with operating costs. Based on third quarter analysis, the Public Works Department projected a net operating loss of $1.6 million for FY 2021/22 which would fully deplete fund reserves; however, actions executed as discussed in the second quarter Fiscal Update may produce ending fund reserves.

The Public Works Department has presented several strategies to address infrastructure needs and revenue requirements to achieve financial sustainability in the Parking Fund, and some corrective actions have been approved.



Convention Center Fund

The Convention Center Fund is continuing to experience impacts from the COVID-19 pandemic with shortfalls requiring increased subsidies from the General Fund. As of May, many of the events scheduled to occur at the Convention Center in the fourth quarter has been confirmed and revenue generated is expected to be higher than that for each of the previous three quarters; however, revenue for the year is projected to fall short of budgeted revenues. In that event, the budgeted General Fund subsidy will not be sufficient and additional subsidy will be needed.

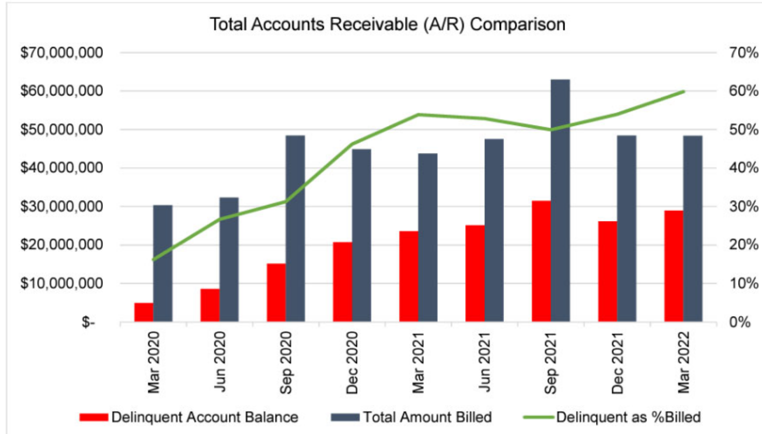


OTHER FINANCIAL NEWS

Utility Account Delinquencies Update

The Electric, Water, Sewer and Refuse funds continue to be impacted by the suspension of utility shutoffs in response to the pandemic. The combined delinquent accounts receivable for the four utilities, shown as the blue bar in the chart to the right, increased from March 2020 to March 2022 by $24.0 million, or 488.3%. On May 17, 2022, the City Council voted unanimously to:

1. Approve the Public Utilities Restart Utility Bill Repayment Program for customers who were unable to pay their Riverside Public Utilities bills due to the ongoing COVID-19 pandemic, and
2. Direct the City Manager to reverse the March 17, 2020 suspension discontinuing water, electric, sewer and refuse utility service for non-payment .



Utility Assistance Programs

Emergency Recovery Assistance Program (ERAP)
RPU developed this program in response to the COVID-19 pandemic to provide a one-time bill credit (assistance) for residential electric customers whose incomes were negatively impacted. Since May 2020, approximately 5,285 customers have benefitted from this assistance.

Low-Income Household Water Assistance Program (LIHWAP)
This program is administered by the California Department of Community Services & Development to provide financial assistance to low-income customers where qualified. Low-income households can apply to their Local Service Provider to receive a one-time credit (up to $2,000) on their water or wastewater bill. The Local Service Provider for RPU customers is Community Action Partnership of Riverside County.

More information can be obtained by calling Customer Service at (951) 782-0330 or visiting:
https://www.riversideca.gov/utilities/residents/assistance-programs/about

Arrearage Payment Programs

California Arrearage Payment Program (CAPP)
In July 2021, Governor Newsom signed AB 135, which created this program to administer funding for electric utility customer arrearages. RPU applied for CAPP assistance on behalf of electric customers who incurred a past due balance of 60 days or more on their energy bill during the COVID-19 pandemic relief period covering March 4, 2020 through June 15, 2021. In December 2021, $11.1 million was applied to 12,599 electric customers' accounts.

California Wastewater Arrearages Payment Program (CWWAPP)
In July 2021, Governor Newsome signed AB 148, which created this program to administer funding for water/wastewater utility customer arrearages. RPU applied for CWWAPP assistance on behalf of water customers who incurred a past due balance of 60 days or more on their energy bill during the COVID-19 pandemic relief period covering March 4, 2020 through June 15, 2021. In December 2021, $1.9 million was applied to 4,390 water customers' accounts.

In February 2022, RPU applied for $2.6 million of funding for wastewater customer accounts. Funding was approved at $2.3 million and was applied to accounts in April 2022.

FY 2022-2024 Biennial Budget Development

The City is currently developing the FY 2022-2024 biennial budget. Public engagement is encouraged at numerous meetings during which budget presentations and discussion will be conducted and feedback will be received. The final budget will be presented at two meetings, with a public hearing at the City Council meeting. Public engagement is encouraged. Get the latest information on public meetings related to the development of the FY 2022-2024 biennial budget by visiting the City's budget website at https://riversideca.gov/finance/budget.asp.

Date	Time	Meeting Body	Subject Matter
June 9	5:00 PM	Budget Engagement Commission	FY 2022-2024 Final Budget
June 21	6:15 PM	City Council – Evening Session	Public Hearing and Adoption of the FY 2022-2024 Biennial Budget