

City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MAY 1, 2018

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: PROPOSED FISCAL YEAR 2018-2020 TWO-YEAR BUDGET – 2018-2023 FIVE-YEAR SPENDING PLANS FOR THE GENERAL FUND, MEASURE Z, ELECTRIC, WATER, SEWER, REFUSE, AND PARKING FUNDS – PROPOSED FISCAL YEAR 2018-2020 CAPITAL IMPROVEMENT PROGRAM BUDGET AND 2018-2023 CAPITAL IMPROVEMENT PROGRAM PLAN – SET PUBLIC HEARING

ISSUES:

Receive and provide input on: I) The proposed Fiscal Year 2018-2020 Two-Year Budget; II) 2018-2023 Five-Year Spending Plans for the General Fund, Measure Z, Electric, Water, Sewer, Refuse, and Parking Funds; and III) The proposed Fiscal Year 2018-2020 Capital Improvement Program Budget and 2018-2023 Capital Improvement Program Plan. Set a public hearing for adoption of the FY 2018-2020 Two-Year Budget and Two-Year Capital Improvement Program Budget.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on: I) The proposed Fiscal Year 2018-2020 Two-Year Budget; II) The 2018-2023 Five-Year Spending Plans for the General Fund, Measure Z, Electric, Water, Sewer, Refuse, and Parking Funds; and III) The proposed Fiscal Year 2018-2020 Capital Improvement Program Budget and 2018-2023 Capital Improvement Program Plan; and
2. Set a public hearing for adoption of the FY 2018-2020 Two-Year Budget and FY 2018-2020 Two-Year Capital Improvement Program Budget on June 12, 2018.

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, Section 804*, requires the City Council include such appropriations of funds sufficient for the efficient and proper functioning of such boards and commissions.
- *Article VIII, Section 808*, 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*, 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 XII, Section 1202(b)*, 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
- *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, 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 1st.

BACKGROUND:

The City Council approved the move to a two-year budget in the context of a five-year plan in December 2015. City Departments began development of the Fiscal Year (FY) 2018-2020 Two-Year Budget and 2018-2023 Capital Improvement Program in November 2017. Public engagement related to the development of the budget began in January, including meetings with the City Council, Budget Engagement Commission, other City boards and committees, and the Riverside community and business groups.

On January 16, 2018, staff presented and received feedback from the City Council on the baseline FY 2018-2020 General Fund Two-Year Budget and FY 2018-2023 Five-Year Plans for the General Fund and Measure Z. Also in January, the Budget Engagement Commission (BEC) held three special meetings to receive and provide feedback on the baseline FY 2018-2020 General Fund Two-Year Budget, FY 2018-2023 Five-Year Plans for the General Fund and Measure Z, and presentations from each City department on their baseline budget, balancing measures, and critical unfunded needs.

In an effort to maximize public input during the budget process, Community Budget Workshops were held in each City Ward during February, where staff presented the baseline budget and five-year plans to the audience, described the City's successes and future financial challenges, and engaged in dialogue with City residents about the City's financial priorities. Staff also presented the baseline budget and five-year plans to union leaders, employees, and the Greater Riverside Chamber of Commerce from January to February.

On February 22nd, staff presented and received feedback from the Budget Engagement Commission on refined balancing measures for the General Fund and City departments' unfunded critical needs. The Finance Committee also received these items on March 14th and provided feedback to staff.

On March 22nd, the Planning Commission reviewed the first two years of the City's FY 2018-2019 through FY 2022-2023 Five-Year Capital Improvement Program (CIP) and determined that it is consist with the General Plan 2025.

On March 27th, Library staff presented an update to, and received feedback on, the Library's proposed FY 2018-2020 Two-Year Budget and balancing measures to the Library Board of Trustees.

On April 5th, the BEC held a special meeting to receive and provide feedback on the FY 2018-2020 Two-Year Budget, FY 2018-2020 Capital Improvement Budget, FY 2018-2023 Capital Improvement Program Plan, and FY 2018-2023 Five Year Financial Plans for the General Fund, Measure Z, Electric Fund, Water Fund, Sewer Fund, Refuse Fund, and Parking Fund.

On April 23rd, the Board of Public Utilities will receive an update on the operational improvements and efficiency measures taken by Riverside Public Utilities (RPU) during the rate proposal process that are included in the Proposed FY 2018-2020 Two-Year Budget. At the same meeting, RPU staff will present the Proposed FY 2018-2020 Two-Year Budget for the electric and water funds.

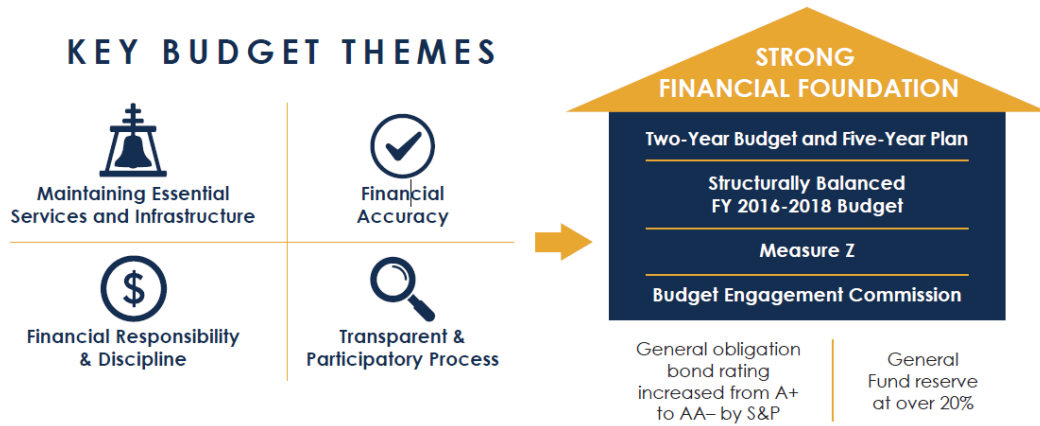
DISCUSSION:

BOTTOM-LINE

The Proposed FY 2018-2020 Two-Year Budget is balanced and totals \$1.08 billion in FY 2018-2019 and \$1.12 billion in FY 2019-2020 in citywide uses. Over the past two fiscal years, the City of Riverside has made tremendous financial progress, including a 20% General Fund Operating Reserve and several increased bond ratings. The City is committed to building on the financial successes of FYs 2016-2018 by preserving services and improving efficiencies to ensure the City's continued financial success and achievement of its Riverside 2.1 strategic initiatives.

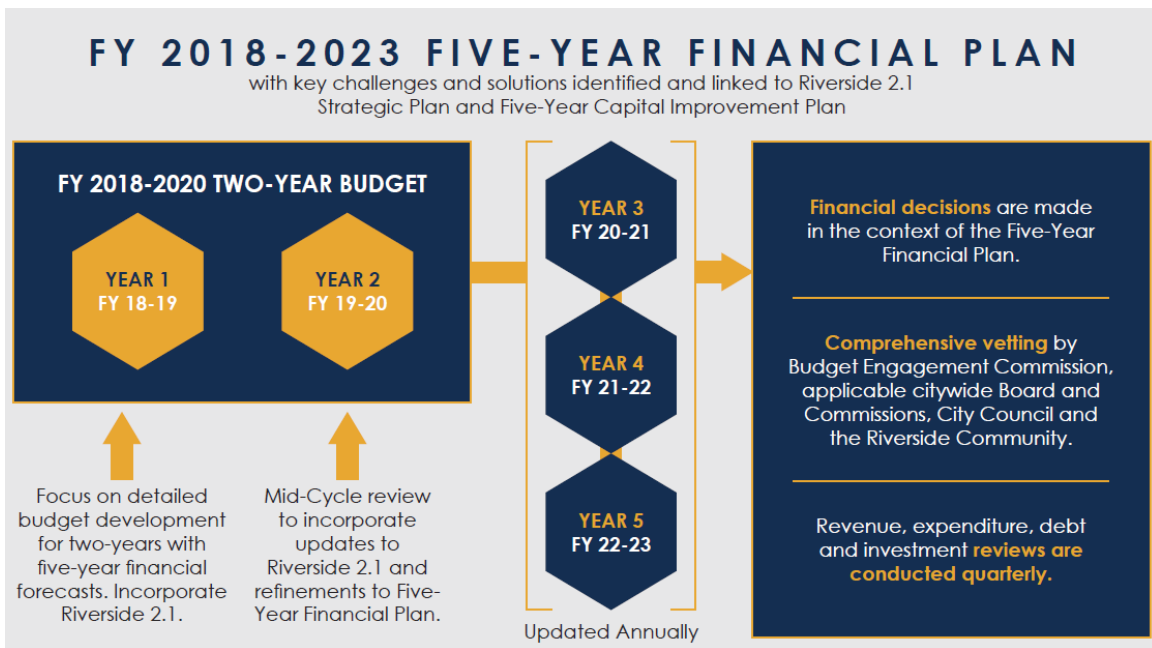
PROMISES MADE, PROMISES KEPT

The City of Riverside carried forward many of the same key themes from the FY 2016-2018 Two-Year Budget process into the FY 2018-2020 Two-Year Budget process. These themes are aimed at keeping the promises made to the Riverside community during the FY 2016-2018 Two-Year Budget process and through the passage of Measure Z. For example, the FY 2018-2020 Two-Year Budget spending plan for Measure Z includes funding for additional police officers, police dispatchers, a fire squad, a new Downtown Main Library, Police Headquarters, street paving, tree trimming, and homeless services.



MULTI-YEAR FINANCIAL PLANNING

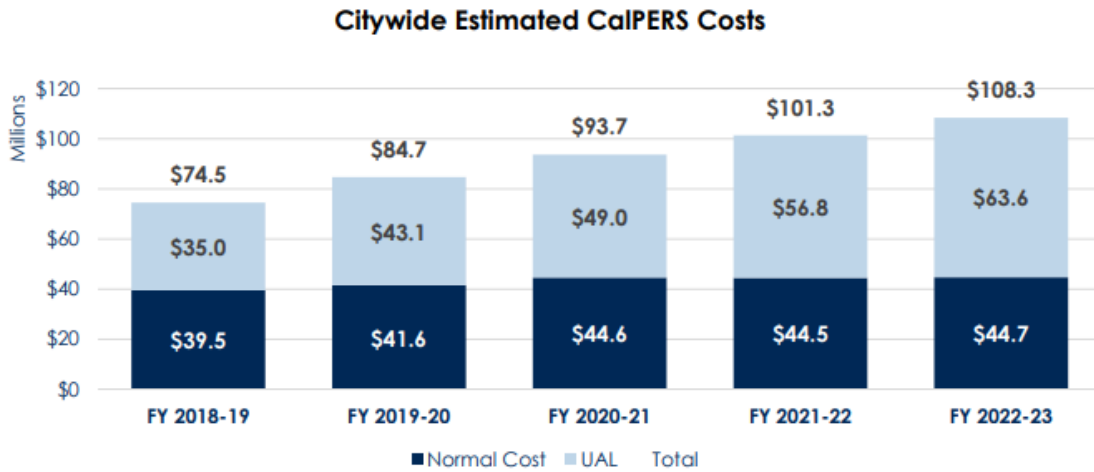
Multi-year financial planning, ongoing financial monitoring, frequent financial reporting, and prompt corrective actions when necessary, are central elements of sound financial management. Additionally, multi-year financial planning, including the adoption of a two-year budget, provides the City Council, departments, and the public with greater certainty regarding ongoing funding and staffing for programs and services. Five-year financial plans allow the City to estimate the impacts of policy decisions during the budget process. The FY 2018-2023 Five-Year Plan(s) expand on the progress of the General Fund FY 2016-2021 Five-Year Plan by adding Measure Z, Electric, Water, Sewer, Refuse and Parking fund five-year plans. The graphic below highlights the overview and benefits of the five-year financial planning process.



FACTORS AFFECTING THE BUDGET

CalPERS

The largest impact to the City’s long-term financial stability relates to pension costs from CalPERS. Over the next five-years, the City’s total CalPERS expenditures will increase 45% from \$74.5 million in FY 2018-2019 to approximately \$108.3 million in FY 2022-2023.



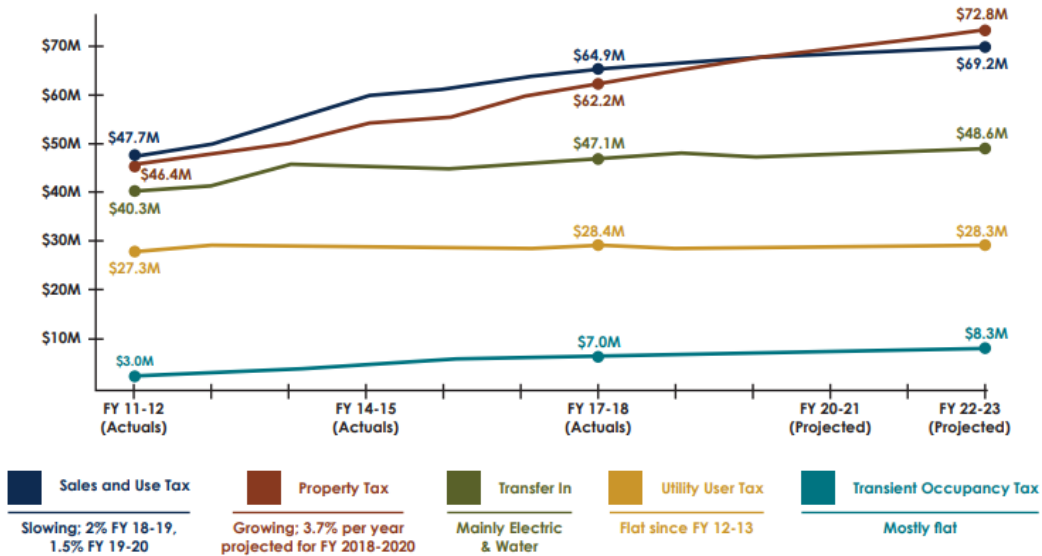
Enterprise Fund Rates (Electric, Water, Sewer, Refuse, and Parking)

The Proposed FY 2018-2020 Two-Year Budget assumes approval of the Electric and Water five-year rate proposals, which were conceptually approved by City Council on January 18, 2018. The five-year rate proposal, which would be effective July 1, 2018, includes average annual rate increases of 3.0% for electric and 5.7% for water. All impacts of the proposed rate increases have been incorporated into the FY 2018-2020 Two-Year Budget, including expenditure and revenue impacts on other areas of the City; including, but not limited to utility expenditure increases for city facilities and increased utility user tax revenues. Over the course of the FY 2018-2020 Two-Year Budget, the rate increase will cost the General Fund more than \$1 million.

The FY 2018-2020 Two-Year Budget assumes there are no further rate increases for Sewer, Refuse, or Parking operations. On December 19, 2017, the City Council rescinded the final 8.5% sewer rate increase initially approved in May 2014. After a decade of CPI increases in the Refuse rates, there is not a rate increase, beginning in FY 2018-2019. Although the City Council approved some of the parking rate increases recommended in the Strategic Parking Plan in March 2017, other requested parking rate increases were not approved.

Flattening of General Fund Revenues

The City anticipates that the General Fund annualized revenue growth rate for its primary revenue sources will continue to slow down in FY 2018-2019 (2%) and FY 2019-2020 (1.5%) following similar trends seen in FY 2016-2017 (4%) and FY 2017-2018 (3%). In comparison, primary General Fund revenues grew by approximately 7% from FY 2013-2014 to FY 2014-2015.



ADDRESSING FISCAL CHALLENGES

CalPERS

The City has taken several steps over the years to reduce pension costs, including: 1) Requiring all new employees to pay the employee portion of the CalPERS pension costs beginning in FY 2011-2012; 2) Establishing lower pension benefits for new employees in accordance with the 2013 Public Employee Pension Reform Act (PEPRA); 3) Requiring existing employees not currently paying the employee share of CalPERS retirement costs to begin doing so in 2016 (Ptr. Comp. Model); and 4) Refinancing a \$30 million Bond Anticipation Note using Measure Z Funds in 2017. Additionally, every year, staff looks for operational efficiencies, where possible, to minimize costs and impacts to service levels as CalPERS costs increase.

Moving forward, the FY 2018-2020 Two-Year Budget, through effectively monitoring the City’s cash flow, includes prepayment of the City’s annual unfunded accrued liability (UAL) payments. This ability to prepay the City’s annual UAL obligation, will save the City approximately \$1.25 million citywide per year (\$885,000 in the General Fund). Throughout the course of the year, the City will continue to monitor court cases affecting the “California Rule” and work with employees, elected officials, and the community to ensure everyone understands the impact of CalPERS costs on City’s operations. Additionally, the City will study pre-paying of a portion of the City’s \$603 million UAL and establishing a Section 115 Trust (e.g. PARS).

General Fund Measures

As a result of slowing revenue growth and quickly escalating CalPERS costs, staff identified projected General Fund shortfalls of \$4 million in FY 2018-2019 and \$6.3 million in FY 2019-2020. In order to address these shortfalls, Departments Heads were asked to align any budget balancing recommendations with the City Council’s strategic priorities of public safety, infrastructure, and customer service. All recommendations were further refined by looking for non-tax revenue enhancements and non-personnel measures (e.g. contracts, subsidies, and other discretionary spending). The FY 2018-2020 Two-Year Budget includes a combination of revenue enhancements (\$2.3 million) and expenditure reductions (\$8 million). Highlights include:

- Refunding of old Redevelopment debt (\$1 million)

- Fire Aid Agreement (\$230,000)
- Sale of City-owned IP addresses (\$200,000)
- Renegotiated/consolidation of vendor agreements (\$587,000)
- Consolidation of duties to reduce positions (\$434,000)
- Eliminated vacancies (\$1.3 million)

Water/Electric Utility Measures

In preparation for the utility rate increase proposal, over the past year, the Riverside Public Utilities Department (RPU) has thoroughly reviewed its operations and spending to maximize cost savings, operational efficiencies and the potential of non-ratepayer revenues. These cost savings, efficiencies and maximized revenues were factored into the recent rate proposals and FY 2018-2020 Two-Year Budget in order to minimize rate impacts:

<u>Fund</u>	<u>FY 2018/19 Increased Revenue</u>	<u>5-Year Increased Revenue Impact</u>
Electric: Includes transmission revenue, cap and trade revenue, excess renewable energy credit sales, and property lease revenue	\$3,695,379	\$19,797,820
Water: Includes water conveyance, wholesale water sales, and property lease revenue	\$851,300	\$12,557,621
TOTAL	\$4,546,679	\$32,355,441

<u>Electric Fund</u>	<u>FY 2018/19 Cost Savings</u>	<u>5-Year Cost Savings</u>
Elimination of five positions, representing salary and benefits	\$1,030,028	\$5,650,000

<u>Fund</u>	<u>FY 2018/19 Non-Personnel Savings</u>	<u>Five-Year Non-Personnel Savings</u>
Electric: Includes professional services, energy charges, greenhouse regulatory fees, various maintenance costs, and miscellaneous other costs.	\$2,715,304	\$11,710,276
Water: Includes professional services, production costs, chemical costs, and miscellaneous other costs.	\$411,000	\$671,000
TOTAL	\$3,126,304	\$12,381,276

The Electric and Water Fund will also strategically use reserves to fund capital improvements. The use of electric and water reserves in the proposed two-year budget is planned within the rate proposal. The financial strategy within the rate proposal is to draw down reserves to minimum required levels in order to keep the proposed rate increases as low as possible.

Sewer/Parking/Refuse Measures

At present, there are few opportunities for balancing measures in the Sewer, Refuse and Parking Funds. These funds will draw on fund reserves to balance their FY 2108-2020 budget while researching opportunities for cost savings. Proposed measures include deferring equipment

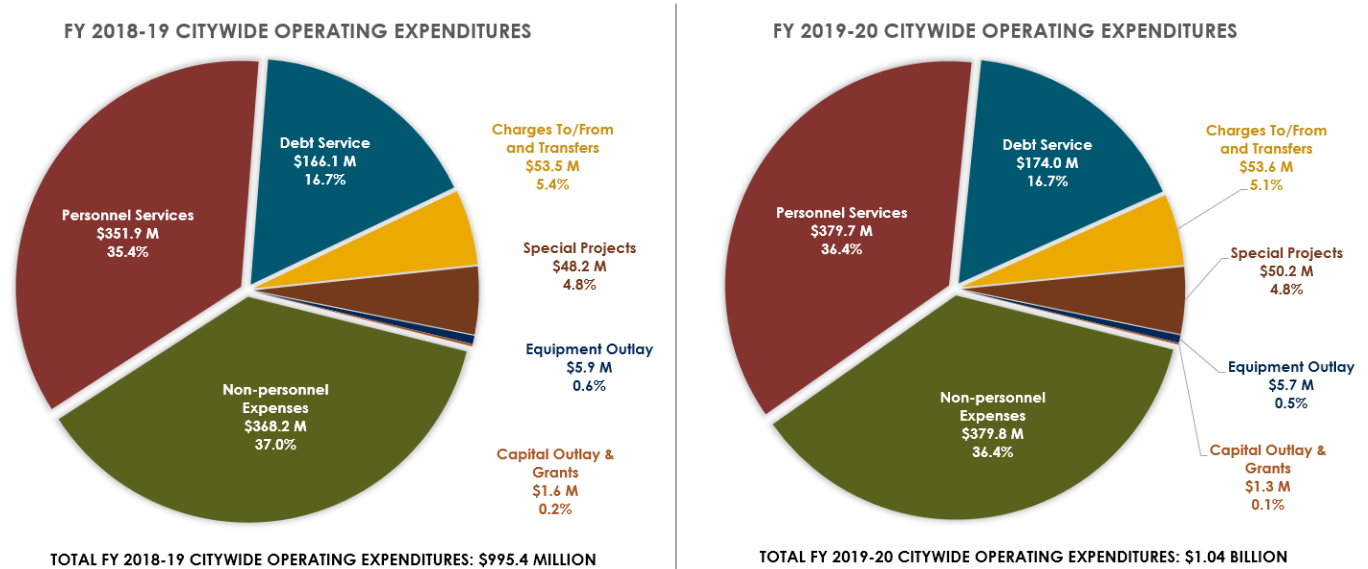
purchases for Refuse, restructuring Sewer debt, and implementing additional parking rate increases recommended in the Parking Plan. In the Fall of 2018, City Council will receive an update on the Sewer Fund, including the results of a departmental performance audit and recommended rate plan. For the FY 2018-2020 budget period, proposed use of the Rate Stabilization portion of reserves will still allow for reserve amounts to remain within policy requirements.

Eliminating Managed Savings

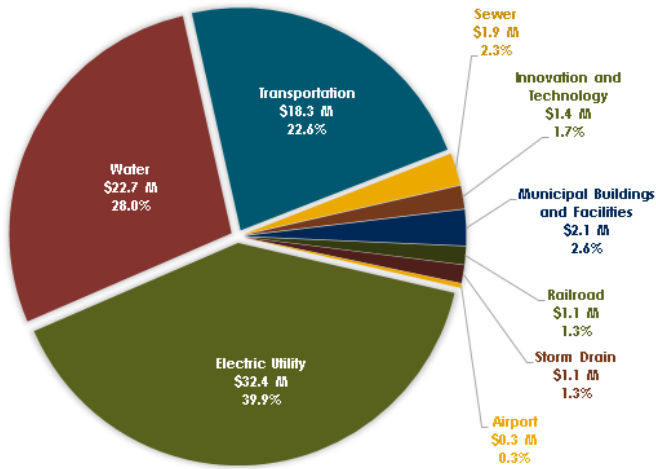
For FY 2018-2020, the City has eliminated its “managed savings” practice, whereby departments had mandatory savings targets they had to meet in their adopted budget for the General Fund to be balanced. These targets were often met with temporary measures such as holding positions vacant. In FY 2018-2020, permanent measures were required instead to balance the baseline shortfalls. For FY 2016-2017 and FY 2017-2018, managed savings amounted to approximately \$5.4 million per year in the General Fund. Historically, the managed savings target was much higher. In FY 2007-2008, the managed savings target was \$12.2 million and in FY 2008-2009 it was \$8.4 million. By eliminating managed savings, departments, elected officials and the public will understand the operational impacts of cost reduction measures, and everyone will better understand how much funding is available to accomplish the City’s strategic goals and initiatives.

FY 2018-2020 BIENNIAL BUDGET OVERVIEW

The City’s budget totals \$1.08 billion in FY 2018-2019 and \$1.12 billion in FY 2019-2020. Total operating costs citywide are projected to be \$995.4 million in FY 2018-2019 and \$1.04 billion in FY 2019-2020. The capital project budget totals \$81.2 million in FY 2018-2019 and \$73.0 million in FY 2019-2020.

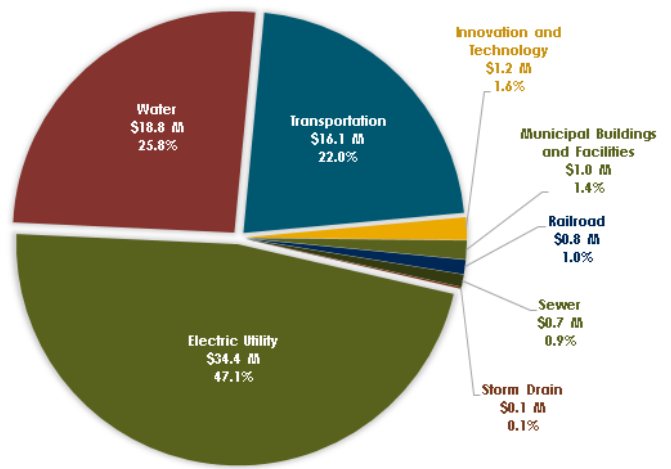


FY 2018-19 CAPITAL EXPENDITURES



TOTAL FY 2018-19 CAPITAL EXPENDITURES: \$81.2 MILLION

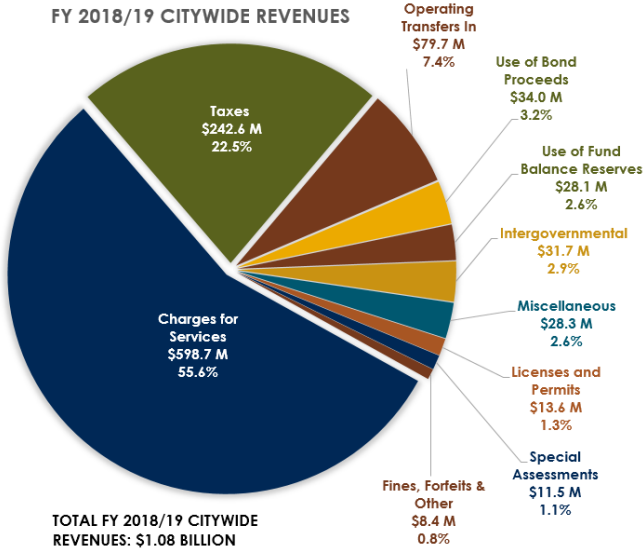
FY 2019-20 CAPITAL EXPENDITURES



TOTAL FY 2019-20 CAPITAL EXPENDITURES: \$73.0 MILLION

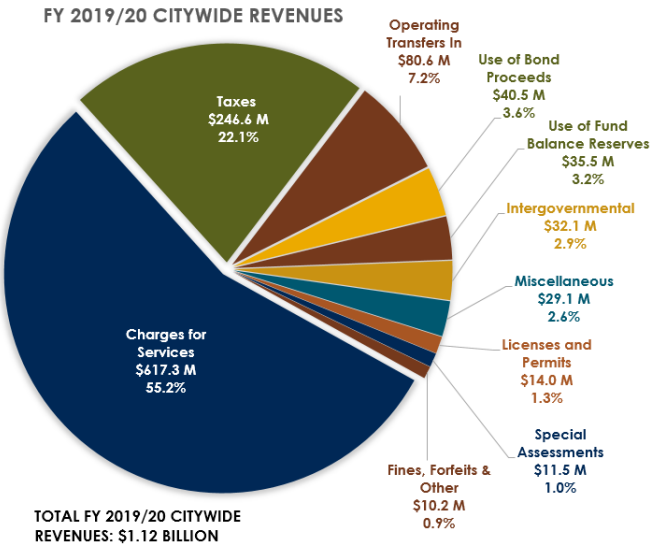
The total revenues citywide are projected to be \$1.08 billion in FY 2018-2019 and \$1.12 billion in FY 2019-2020. The amounts include a strategic use of reserves and new debt for capital improvements, mostly in the City’s enterprise funds.

FY 2018/19 CITYWIDE REVENUES



TOTAL FY 2018/19 CITYWIDE REVENUES: \$1.08 BILLION

FY 2019/20 CITYWIDE REVENUES



TOTAL FY 2019/20 CITYWIDE REVENUES: \$1.12 BILLION

DEPARTMENTAL PRESENTATIONS

City Departments will present their departmental budgets in detail to the City Council during upcoming Council meetings on May 8, 15 and 22, 2018. These presentations will include the departments’ FY 2018-2020 Two-Year Budget, FY 2018-2020 Capital Improvement Program Budget, and for specific Enterprise funds, a FY 2018-2023 Five-Year Financial Plan.

BRINGING IT HOME

Riverside is the central hub and leader of Inland Southern California; it’s a City that combines its

storied history with an incredibly bright future. The FY 2018-2020 Two-Year Budget and FY 2018-2020 CIP Budget are tremendous policy documents that share an incredible amount of information on the City's budget assumptions, fiscal policies and plans to deliver on the City's mission statement to provide high quality municipal services to ensure a safe, inclusive and livable community. While there will be challenges ahead, Riverside's commitment to fiscal responsibility through a comprehensive and participatory process will enable the City to navigate those challenges and continue the momentum of the City's recent successes.

Throughout the budget process, any changes to the proposed FY 2018-2020 budget documents and FY 2018-2023 five-year plans, if needed, will be presented to the City Council at subsequent budget hearings.

FISCAL IMPACT:

There is no direct fiscal impact resulting from this report and proposed recommendations. City Council's feedback on the proposed budgets and five-year plans will be incorporated into the final documents presented to the City Council during the budget adoption process.

Prepared by: Kristie Thomas, Interim Budget Manager
Certified as to
availability of funds: Adam Raymond, Chief Financial Officer/Treasurer
Approved by: Marianna Marysheva, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Proposed FY 2018-2020 Two-Year Budget
2. Proposed FY 2018-2020 Capital Improvement Program Budget
3. Schedule of City Department Budget Presentations
4. Presentation