



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS

DATE: SEPTEMBER 8, 2022

FROM: FINANCE DEPARTMENT

WARDS: ALL

SUBJECT: MEASURE Z SPENDING PLAN REVIEW

ISSUE:

Review of the Measure Z spending plan.

RECOMMENDATIONS:

That the Budget Engagement Commission review the current Measure Z spending plan.

BACKGROUND:

The Mayor and City Council placed a measure on the November 8, 2016 ballot for a one-percent increase in the City's sales tax rate to help address the service cuts identified during the fiscal year (FY) 2016-2018 budget process and a portion of the City's critical unfunded needs. When Measure Z was presented to voters it asked them to consider a yes or no vote to:

“...prevent cutting police, firefighters, paramedics, 911 emergency response, anti-gang/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?”

Riverside's residents approved Measure Z with almost a 60% approval. The Measure Z tax became effective April 1, 2017, thereby increasing the City's sales tax rate from 7.75% to 8.75%. Measure Z will sunset in 20 years unless it is approved again in a mandatory election in November 2036.

Measure Z Spending Priorities

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 (BEC), 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 ten years since that significant capital investment was made. The City has 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.).

Formulation of Measure Z Spending Plan

The BEC discussed Measure Z spending priorities and formulated recommendations on spending items over the course of five meetings in March 2017 through May 2017. On May 9, 2017, the City Council received a report on Measure Z spending items and BEC recommendations, including a comparison of BEC and staff recommendations (Attachment 1). Following the discussion of BEC and staff recommended Measure Z spending priorities for a five-year period, the City Council concurred with the list of 20 items for Measure Z funding where there was an agreement between the BEC and staff. Following further discussion, the City Council conceptually concurred with the BEC recommendation to allocate \$500,000 of Measure Z funding annually for homeless services. Refer to Attachment 2 for the list of approved items. On May 16, 2017, the City Council continued discussion on the Measure Z spending plan and approved the revised Measure Z funding priorities as presented by staff (Attachment 3) and added an allocation of \$100,000 for a siting study for a new Eastside Library. In total, 33 spending items were approved in the original Measure Z spending plan.

Measure Z Spending Item Characteristics

The following are characteristics of items funded by Measure Z:

- **One-Time:** Requests for a one-time, fixed amount for a limited duration. These items are time sensitive to the year in which they are requested. These items can be defunded, if necessary, depending on contractual obligations. Items in this category include but are not limited to: cash purchases of equipment and vehicles; cash-funded projects (excluding the construction of new facilities); stand-alone services (excluding personnel); and, contributions to the fund balance reserves of other funds. While spending in this category

may support critical services, future expenditures can be reduced without defaulting on debt obligations or impacting existing personnel.

- **Ongoing:** Requests with no specified end date or of a limited duration. Ongoing expenditures represent ongoing obligations that cannot be easily defunded, such as cash funding of new facility construction, or operational support such as personnel costs and General Fund support. Some ongoing items entail escalating costs, such as position enhancements or FTE increases. Personnel costs are expected to increase annually with merit increases and increases per the applicable Memorandum of Understanding (MOU).
- **Debt obligations:** Debt obligations cannot be scaled back at any point. Alternative funding to pay debt obligations would have to be identified if Measure Z funding is discontinued. Expenditures of these types place pressure on available funding for other spending items if annual revenue growth does not keep pace with the annual increase in costs.

Routine Reviews of Measure Z Spending Items/Plans

In an effort to be thoroughly transparent regarding the allocation of Measure Z resources, the City maintains a website listing all Measure Z reports to the BEC and City Council at <https://www.riversideca.gov/citymanager/measure-z/measure-z-5-year-spending-plan>. New spending allocations are routinely brought before the BEC for recommendation to the City Council. The BEC is routinely provided updates on final Council action or other pertinent matters through the Chief Financial Officer update, which is a standing item on each agenda. In addition to new spending allocations, the City Council routinely receives reports where their approval is required to award bids or make purchases related to previously approved spending. These routine actions are not within the purview of the BEC.

Beginning with the baseline budget in November 2021, the proposed Measure Z Spending Plan was presented to the BEC throughout each budget development cycle for review and discussion as a matter of budget development. The Spending Plan was presented to the City Council at the Budget Workshop, with the proposed budget, and during budget adoption for the opportunity to review and modify the Spending Plan. The most recent comprehensive review of the Measure Z Spending Plan and priorities conducted by the BEC occurred on January 14, 2021. Of the 42 items on the spending plan at the time, 19 were discussed in detail with no recommended changes to the spending plan.

A comprehensive Measure Z Life-to-Date Spending Plan Update as of August 12, 2022, is included as Attachment 4 to this report. The following table exhibits actual results of Measure Z revenues and expenditures since the tax became effective in 2017 through FY 2020/21. FY 2021/22 results are yet available as fiscal year end processes and the City's financial audit are ongoing.

MEASURE Z SPENDING PLAN – 2017-2021 ACTUAL
(\$ in millions)

	2017	2018	2019	2020	2021
Revenue	\$12.61	\$56.24	\$62.82	\$63.14	\$72.65
Expenditures	(9.98)	(36.14)	(40.99)	(49.56)	(50.85)
Encumbrances & Carryovers					(36.16)
Net Change in Fund Balance	\$2.63	\$20.10	\$21.83	\$13.58	\$(14.36)
Beginning Fund Reserves	\$-	\$2.63	\$22.73	\$39.56	\$53.14
Net Change in Fund Balance	2.63	20.10	21.83	13.58	(14.36)
Fund Balance Reserve Policy	-	-	(5.00)	-	-
Ending Unallocated Reserves	\$2.63	\$22.73	\$39.56	\$53.14	\$38.78

The preliminary five-year Measure Z Spending Plan for FYs 2022/23 through 2026/27 assumed the continuation of 29 items that were not initially adopted with a defined end date where others adopted for a specified period were not continued. Discussions on Measure Z spending priorities and formulation of recommendations on spending items for FY 2022-2024 were held on March 31, April 7, and April 14, 2022, during which time the BEC received departments’ preliminary budget presentations and critical unfunded needs. Decisions related to the critical unfunded needs included whether to incorporate the item into the FY 2022-2024 proposed budget, the fiscal year in which to begin funding the item, and the funding source. On those meeting dates, the BEC discussed and without formal motion ordered received and filed the proposed five-year Measure Z Spending Plan. On April 14, the BEC made recommendations to the City Council regarding the incorporation of several critical unfunded needs in the FY 2022-2024 Biennial Budget. That conversation was to be continued at the April 28 special BEC meeting, but a quorum was not achieved. The City Council subsequently approved the addition of ten (10) additional spending items to the Spending Plan as described below.

DISCUSSION:

Measure Z Spending Plan Updates

On May 3, the City Council reviewed a listing of critical unfunded needs with each Councilmember identifying items they supported funding and directed staff to incorporate the following ten (10) critical unfunded needs into the proposed FY 2022-2024 budget, funded by Measure Z:

- **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 for a total of \$1.5 million for City Buildings Deferred Maintenance needs.

- **Spending Item #29 - Maximize Roads/Streets (Pavement Condition Index):** Add \$8 million annually for a total of \$10.9 million for Pavement Rehabilitation & Improvement projects. The City's Pavement Condition Index (PCI) score is currently 61. This additional funding will have a positive impact on pavement maintenance and overall PCI score, likely increasing it 2-3 points and reducing the number of streets rated as "Poor" and "Very Poor".
- **Spending Item #30 - Tree Trimming:** Add \$2.5 million for a total of \$3.5 million for five years to accelerate the trimming cycle for street trees and include tree trimming in City parks and the planting of new or replacement trees throughout the City.
- **Spending Item #39 - Public Safety & Engagement Team Program (PSET) – Urban:** Expand the existing PSET program to add 15.00 FTE 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. Expansion of staffing levels and resources will provide for increased outreach and engagement of homeless individuals in all Wards to seven days a week while also addressing issues of unlawful panhandling, camping, abandoned personal belongings and vagrancy. Resources will also support cleanup and mitigation of sites prone to homeless encampments, including weed abatement and preventative maintenance.
- **Spending Item #48 - Office of Homeless Solutions Expansion:** Add 2.00 FTE to support program objectives and enhance services 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 that includes 28.00 new FTE plus non-personnel costs of approximately \$1.39 million annually. This team will be established to implement and enforce the anti-camping Ordinance for City-wide environmentally sensitive and hazardous lands being prepared for City Council's consideration. This team will also be charged with returning environmentally sensitive and hazardous areas to their natural states during the first two years of the program. In addition, this team will provide homeless encampment clean-up, outreach services, and homeless engagement resources in Riverside's wildland areas, including, but not limited to, the Santa Ana River, Sycamore Canyon Wilderness Park, Hole Lake, and other areas.
- **Spending Item #50 - Public Safety Enterprise Communication System (PSEC) Radios:** A new spending item for Police Department radios with a fiscal impact of \$343,438 annually for four years.
- **Spending Item #51 - Office of Sustainability:** A new spending item resulting from the direction provided by Council on March 10, 2020, and reinforced on April 27, 2021, to meet the City Council's priorities and values of diversity, equity, and inclusivity, which includes 1.00 FTE plus annual non-personnel costs of \$200,000.
- **Spending Item #52 - Sidewalk Repair:** A new spending item to add \$600,000 for a total of \$900,000 annually from all sources for sidewalk repair projects. The Public Works Department has a backlog of approximately 500 locations in need of permanent repairs and it is taking nearly three years to incorporate the ultimate repairs. This additional funding will reduce the backlog and help expedite the permanent repairs.

Appropriations for the above items, some of which is supported by Measure Z unallocated fund reserves, were incorporated in the FY 2022-2024 proposed budget schedules and Measure Z Spending Plan reviewed by Council on May 17. These items were scheduled to be presented to BEC on June 9 for input; however, a quorum was not achieved. Council adopted the FY 2022-2024 budget as presented on June 21, 2022, with a five-year spending plan that projects annual drawdown of Measure Z reserves ranging from \$5.38 million to \$7.95 million and ending FY 2026/27 with reserves of \$6.31 million as reflected in the following table:

MEASURE Z FIVE-YEAR SPENDING PLAN – ADOPTED
(\$ 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)
Net Change in Fund Balance	\$0.51	\$(6.99)	\$(7.95)	\$(5.38)	\$(6.39)	\$(6.27)
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)
Ending Unallocated Reserves	\$39.29	\$32.30	\$24.35	\$18.97	\$12.58	\$6.31

The fiscal impact of labor negotiations has not been incorporated into the spending plan for the 181.00 full-time equivalent (FTE) positions funded by Measure Z. The fiscal impact will be recorded as supplemental appropriations upon Council approval of new MOUs. Refer to Attachment 6 for a complete listing of Measure Z positions.

Council’s adoption of the FY 2022-2024 budget (Attachment 6) does not constitute the adoption of subsequent years of Measure Z programming. Measure Z programming is formally adopted by Council action only for the fiscal year(s) stated in the budget resolution accompanying a proposed budget.

Measure Z Spending Item Accomplishments

Beginning in FY 2016/17, Measure Z funding has been used to make a significant difference in the City, increasing public safety effectiveness with additional personnel, new vehicles, new equipment, and the establishment of a Public Safety & Engagement Team (PSET); enhancing the quality of life for residents with street improvements, funding for the operation of the Bourns Family Youth Innovation Center, and construction of a new Main Library; and providing the resources required to maintain critical services provided by the General Fund. These, and many other notable accomplishments, are shown in Attachment 5. These achievements are the result of thoughtful deliberation and ongoing consideration by the BEC and City Council, where community feedback is encouraged and incorporated into discussions.

Measure Z Quarterly Financial Updates

Measure Z will continue to be an integral part of the quarterly financial reports, which are prepared as financial data becomes available. The inclusion of the Measure Z update in the quarterly

reports provides the BEC with the ability to review and ask questions on the items in the spending plan, and to recommend adjustments to the Spending Plan for Council consideration at the time that the quarterly report is presented to Council.

STRATEGIC PLAN ALIGNMENT:

Each spending item funded by Measure Z aligns with one or more of the City Council's strategic priorities. This report, seeking to educate and share information, aligns with **Strategic Priority 5: High Performing Government**.

The Measure Z Spending Plan and this report aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – The opportunity to review the Measure Z Spending Plan is an inclusive and transparent process that incorporates community engagement, involvement of the Budget Engagement Commission, and timely and reliable information.
2. **Equity** – The Measure Z Spending Plan and related discussions are accessible to individuals via the City website and the Riverside community at large is invited to participate in community engagement efforts and public meetings related to the review of the Measure Z Spending Plan.
3. **Fiscal Responsibility** – The separate accounting and reporting of items funded by the Measure Z Spending Plan, as well as the process of discussion and public participation for new funding requests, demonstrate fiscal responsibility in the administration and use of Measure Z funds.
4. **Innovation** – The unique reporting style exhibited in the Measure Z Spending Plan and as described in this report demonstrates an innovative method of sharing information in a transparent and easy-to-understand manner.
5. **Sustainability & Resiliency** – The careful deliberation of Measure Z Spending Items and periodic review and discussion demonstrates the City's commitment to the prudent use of funds to address current critical needs.

FISCAL IMPACT:

There is no fiscal impact as a result of this report.

Prepared by: Rick Kirkwood, Budget and Revenue Manager
Approved as to availability of funds: Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/City Treasurer
Approved by: Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. May 9, 2017 Council Item Attachment – Comparison of BEC and Staff Recommendations
2. May 9, 2017 Council Approved Spending Items
3. May 16, 2017 Council Approved Spending Items
4. Measure Z Life-to-Date Spending Plan Update as of August 12, 2022
5. Measure Z FY 2021/22 Item Status Update as of August 12, 2022
6. FY 2022-2024 Adopted Measure Z Budget and Personnel
7. Presentation