City of Riverside
City of Arts & Innovation

City Council Memorandum

TO: **HONORABLE MAYOR AND CITY COUNCIL** **DATE: JANUARY 16, 2018**

FROM: **FINANCE DEPARTMENT** **WARDS: ALL**

SUBJECT: **BASELINE FISCAL YEAR 2018-2020 TWO-YEAR BUDGET AND BASELINE FY 2018-2023 FIVE-YEAR PLAN FOR THE GENERAL FUND AND MEASURE Z**

ISSUE:

Receive and provide input on the baseline fiscal year (FY) 2018-2020 Two-Year Budget, baseline FY 2018-2023 Five-Year Plan for the General Fund and Measure Z, and Budget Development Schedule, including Budget Engagement Commission-led citywide meetings and ward-specific community meetings.

Note: The General Fund and Measure Z represent 32% of the City's budget. FY 2018-2020 budget baseline information and FY 2018-2023 five-year financial plans for the other major funds, collectively representing additional 58% of the budget (Electric, Water and Sewer) will be presented to the Budget Engagement Commission and City Council in March 2018.

RECOMMENDATION:

That the City Council receive and provide input on the baseline FY 2018-2020 Two-Year Budget, baseline FY 2018-2023 Five-Year Plan for the General Fund and Measure Z, and Budget Development Schedule.

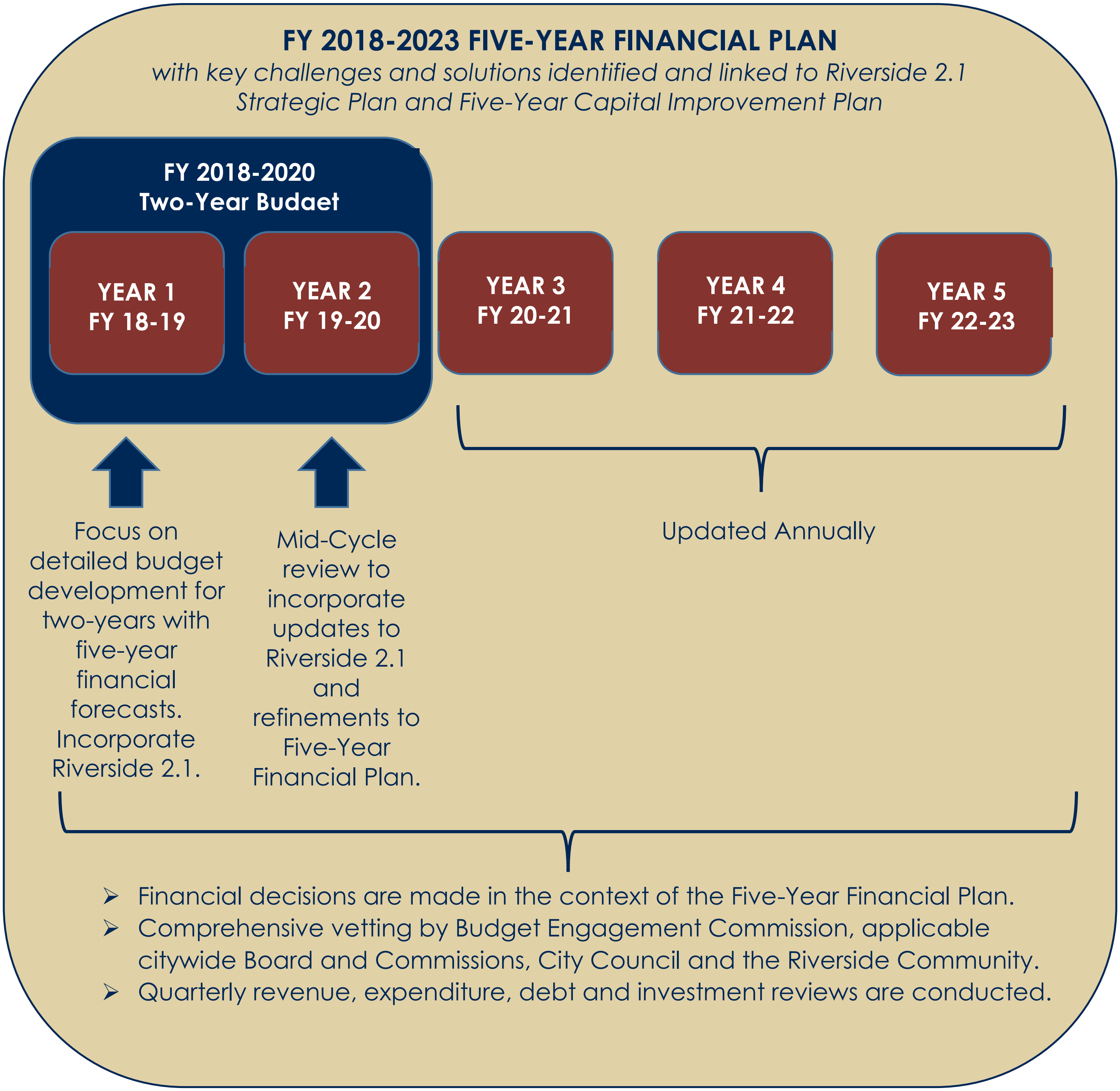
BACKGROUND:

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. A five-year plan allows the City to estimate impacts of policy decisions during the budget process on the City's financial activity long-term.

On December 8, 2015, the City Council approved the move to a two-year budget in the context of a five-year plan. Since September 2017, staff have been actively planning for the FY 2018-2020 Two-Year Budget and FY 2018-2023 Five-Year Plan; adoption of both the Two-Year

Budget and Five-Year plan is anticipated in mid-June 2018. The graphic below highlights the overview and benefits of the five-year financial planning process.



Guiding Budget Principles

The FY 2018-2020 budget will be developed utilizing the same key guiding principles applied during the FY 2016-2018 Two-Year Budget process and through the passage of Measure Z. The graphic below highlights these key budget themes. In addition, providing excellent customer service will continue to be the City's key operational priority.

FY 2018-2020 KEY BUDGETARY THEMES

Financial Accuracy

Executive management sees a comprehensive data collection and analyzation effort to achieve accurate financial targets and projections as a core tenet, essential for the City's future fiscal foundation.

Financial Responsibility & Discipline

Financial responsibility requires acknowledging and fully disclosing the City's critical funding requirements, including unfunded needs. Fiscal discipline demands City Departments operate within their budget. Management action calls for timely recommendation to City Council to address any financial issues confronting the City.

Maintaining Essential Services and Infrastructure

In concert with the Responsible Spending Vision Pledge (Oct. 2016), the City will find ways to address the challenges in funding its existing programs and services, and identifying revenues for the critical needs that have been unfunded for years, including repair, maintenance and replacement of our buildings, roads and sidewalks, streetlights, and fleet including first responder vehicles.

Transparent & Participatory Process

The two-year budget process includes many opportunities for the Riverside community to contribute to budget development, including City Council, Budget Engagement Commission, and ward-specific meetings. Additionally, reader-friendly budget publications will be made available.

Promises Made, Promises Kept

With the adoption of the Five-Year Measure Z Spending Plan in May 2017, the City made financial and operational promises to the Riverside community. Staff is committed to building on the financial successes of FY 2016-2018 by preserving services and finding additional efficiencies to ensure the City's continued financial success and achievement of its Riverside 2.1 strategic initiatives.

DISCUSSION:

Bottom Line

The passage of Measure Z, FY 2016-2018 budget reductions, and the implementation of sound financial principals, including the establishment of the Budget Engagement Commission (BEC) and adoption of a two-year budget and five-year plan, have laid a strong financial foundation for the FY 2018-2020 Two-Year Budget. As a result of the City's strong fiscal management and discipline, the City's general obligation bond rating was recently increased from A+ to AA- by Standard & Poor's, and the City is poised to end the current fiscal year (2017-18) with a General Fund Reserve exceeding 20%.

Based on currently available information and data, for the next five years (2018-2023) staff projects that expenditure growth will continue to outpace revenue growth. **A combination of lowered sales tax growth and significant CalPERS cost increases is creating baseline General Fund shortfalls of $3 million in FY 2018-19 and FY $6 million in FY 2019-20** (Attachment 1).

The 2016-2018 Two-Year Budget retained a relatively small amount ($5.4 million) of "managed savings" – a balancing concept widely used in prior budgets and completely eliminated in FY 2018-20. If the measures used to meet the FY 2016-18 managed savings target were continued on a permanent basis the baseline FY 2018-20 deficits would be nearly eliminated, although further reductions measures will be necessary in years three to five. All General Fund departments have been requested to identify permanent measures to address the baseline shortfalls.

Despite the projected baseline shortfalls, staff is committed to building on the financial successes of FY 2016-2018 by preserving services and finding additional efficiencies to ensure the City's continued financial success and achievement of its Riverside 2.1 strategic initiatives. These commitments will be presented in-line with the City's Balanced Budget and Long-Term Financial Policies, which were reviewed by the Finance Committee on January 10, 2018 and are scheduled to be presented to the City Council in February 2018. Further, the availability of a five-year plan gives the City Council, Commissions, and leadership the opportunity to have meaningful discussions on how to address financial challenges moving forward.

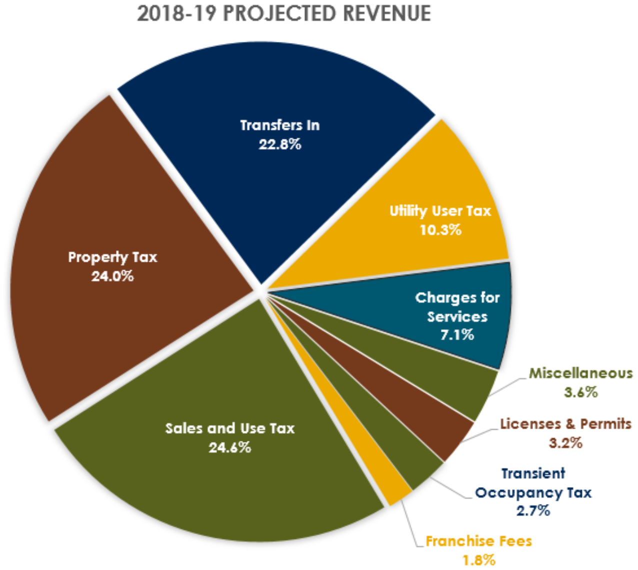
Managed Savings

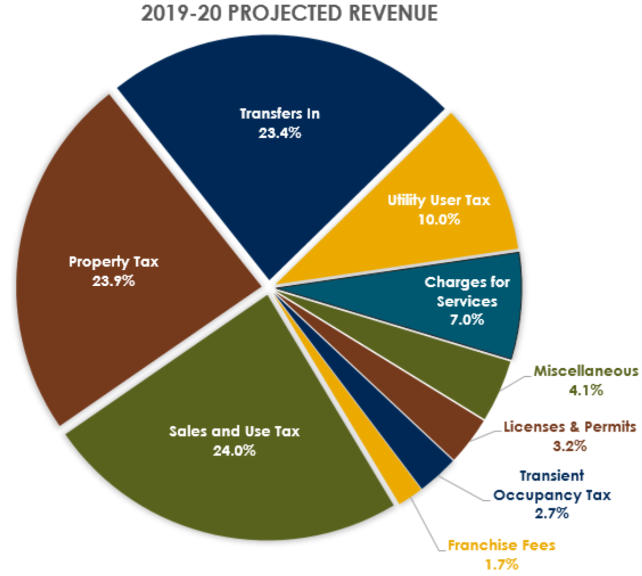
For FY 2018-20, the City has eliminated its "managed savings" practice, whereby departments had mandatory savings targets they had to meet in their adopted budget for the General Fund to be balanced. These targets were often met with temporary measures such as vacancy savings. In FY 2018-20, permanent measures will be required instead to balance the baseline shortfalls.

For FY 2016-17 and FY 2017-18, managed savings amounted to approximately $5.4 million per year in the General Fund. Historically, the managed savings target was much higher. In FY 2007-08, the managed savings target was $12.2 million and in FY 2008-09 it was $8.4 million. By implementing permanent reductions that match prior year managed savings targets in the FY 2016-2018 Two-Year Budget, the City would eliminate the majority of the projected deficits in the FY 2018-2020 Two-Year Budget.

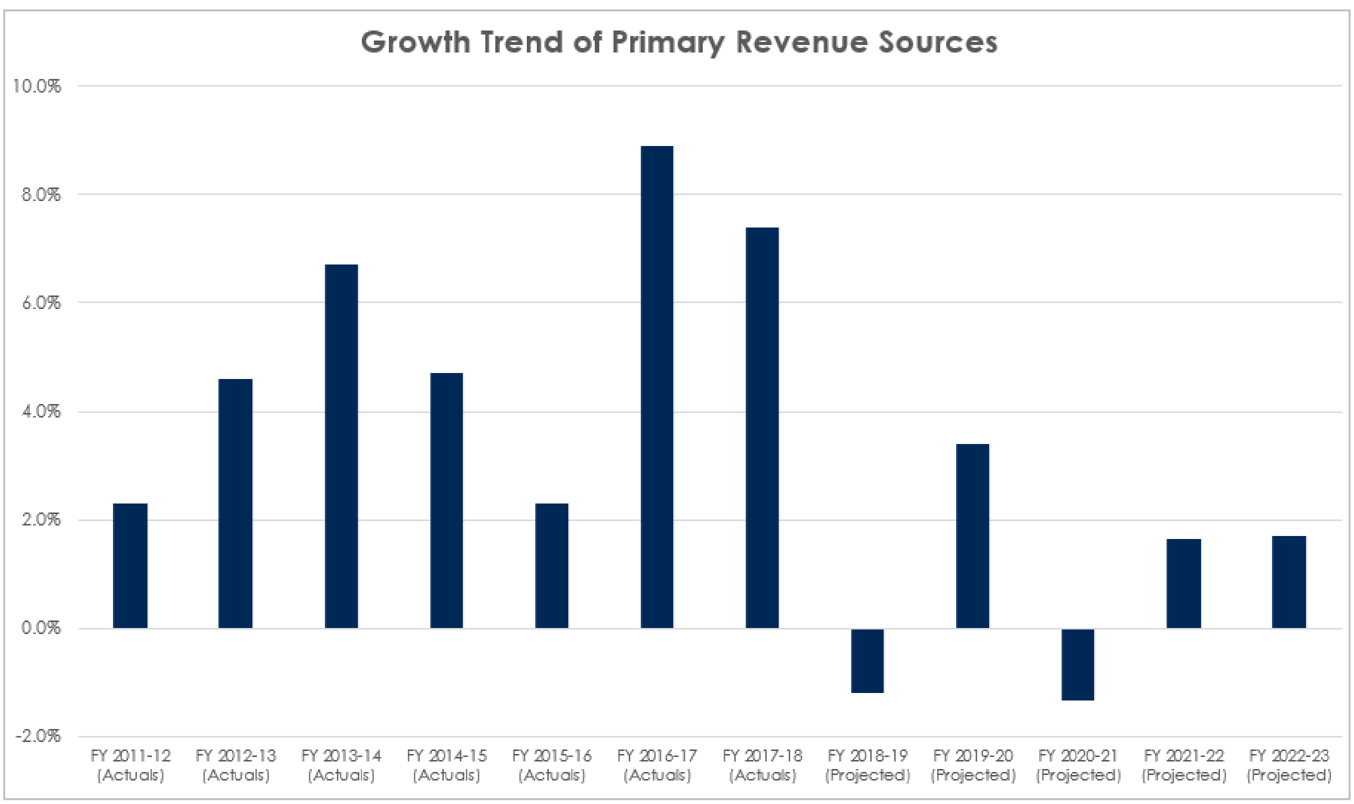
Flattening of Revenues

Of the City's General Fund revenues, sales and use tax, property tax, General Fund transfer, utility users tax, and transient occupancy tax are projected to make up 84.3% (FY 2018-19) and 84.0% (FY 2019-20) of all General Fund revenues.





Overall, staff anticipates that the General Fund annualized revenue growth rate for these primary revenue sources will continue to slow down in FY 2018-19 (2%) and FY 2019-20 (1.5%) following similar trends seen in FY 2016-17 (4%) and FY 2017-18 (3%). In comparison, these General Fund revenues grew by approximately 7% from FY 2013-14 to FY 2014-15. The chart below shows the projected trend of these primary revenue sources, excluding Measure Z transfers to the General Fund. The Revenue Section of this report includes additional information on the City's General Fund revenue projections.



Personnel Costs
Of the City's General Fund expenditure categories, personnel costs are projected to represent 81% in FY 2018-19 and 82% in FY 2019-20. These percentages are consistent with percentages in other full-service cities. The fastest growing personnel category is CalPERS, which is projected to grow at a significant pace over the next 7-10 years. For example, from FY 2015-16 to FY 2019-20, CalPERS costs in the General Fund are anticipated to grow by $14 million or 34%. Recent and necessary changes by the CalPERS Board to lower the rate of return (discount rate) and start a program to pay down unfunded accrued liabilities (UAL) will significantly increase the City's future required CalPERS contributions, particularly in years three to five. At the same time, after placing new employees into less generous retirement plans and requiring all employees to pay their full share of retirement costs, the City has already exhausted available tools to lower retirement costs. The Expenditure Section of this report includes additional information on the City's General Fund personnel cost projections. Additionally, Attachment 3 provides information on CalPERS.

Measure Z Contribution
When the Five-Year Measure Z Spending Plan was approved by the City Council in May 2017, the General Fund was allocated funding to cover estimated operational shortfalls and bolster reserves. In FY 2017-18, the first full year of Measure Z revenues, approximately $20.5 million was allocated from Measure Z to the General Fund. Based on the current Five-Year Spending Plan, the General Fund is anticipated to receive Measure Z contributions of $13.2 million in FY 2018-19 and $18.3 million in FY 2019-20. The Measure Z Section of this report includes additional information on the City's Measure Z revenue and expenditure projections.

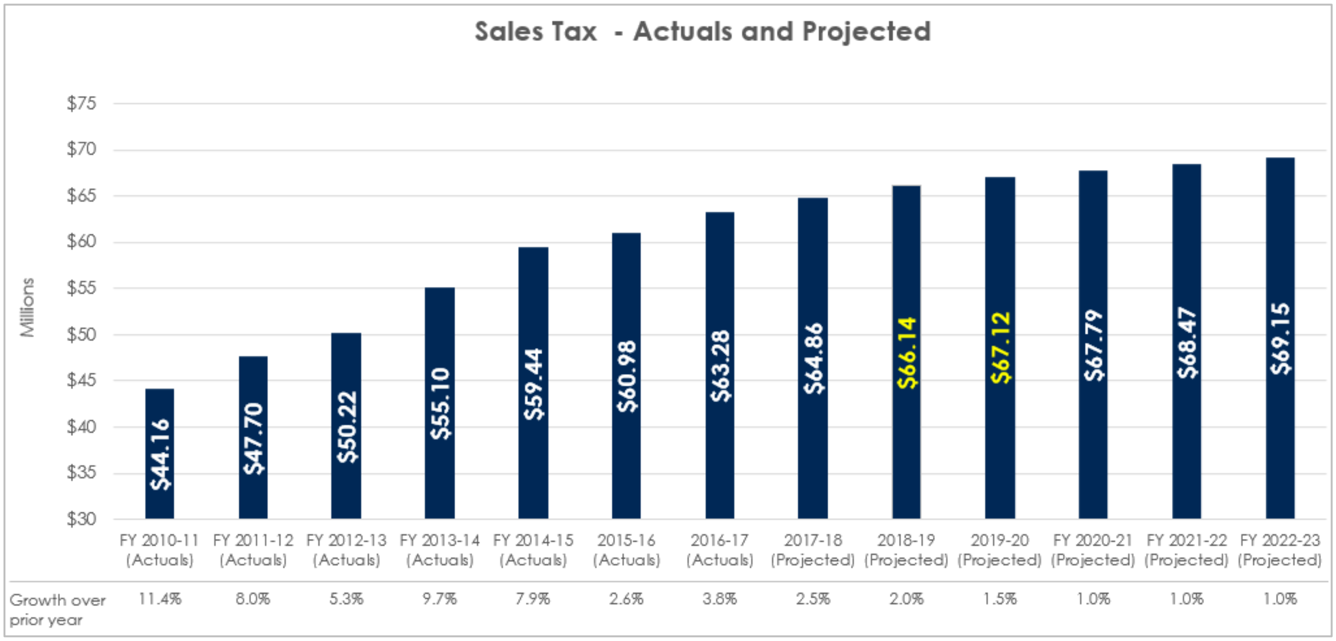
In-Depth Review of Non-Personnel Spending in the General Fund
In developing the baseline budget, staff is analyzing in-depth non-personnel General Fund expenses, including discretionary programs and subsidies. For example, the Citywide Lighting Assessment District ($2.44 to $67.04 per parcel), approved by the voters with Measure EE in 1997, was to fund citywide lighting costs. Unfortunately, the revenues have not covered costs for several years, and the General Fund is currently spending approximately $1.1 million to cover excess costs for the Citywide Lighting Assessment District and another $330,000 for and Business Improvement Districts and Landscape Improvement Districts. Additionally, for more than 20 years, the City has funded all or a portion of the crossing guards for the Riverside Unified School District (RUSD) and Alvord Unified School District (AUSD). Currently, the City spends approximately $850,000 per year on crossing guard services for RUSD and AUSD. In total, the City spends more than $5 million annually to subsidize various organizations, events and Special Districts. The expenditure section of this report provides additional details.

Baseline Assumptions – General Fund

Revenues
Staff takes a comprehensive approach to developing revenue estimates. Data used to compile the General Fund revenue assumptions include, but is not limited to, communication with the business community (e.g. shopping centers, malls, and auto center), economic data, historical revenue analytics, sales tax and economic consultants, City departments, real estate organizations, and the County of Riverside. Additionally, the baseline projections will be thoroughly vetted through the BEC and updated, if necessary, based on current economic information as the budget process continues.

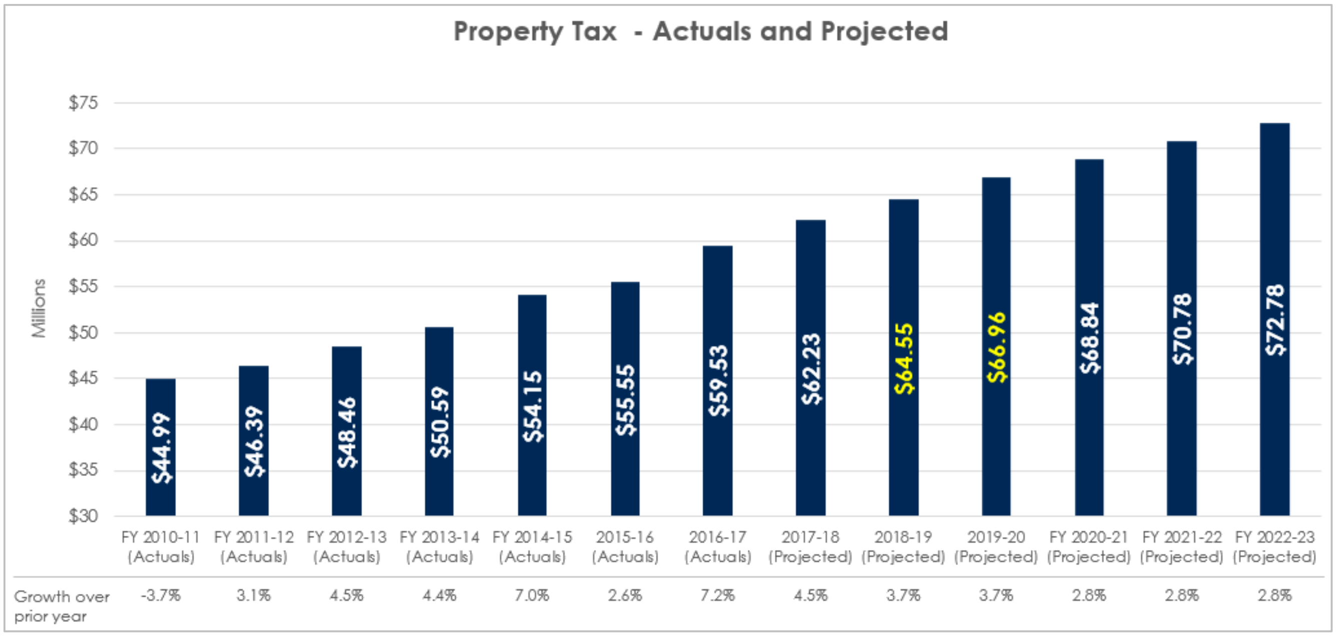
Sales and Use Tax

As a result of the slowing economy, changes in how people shop (e.g. e-commerce) and growth of local agencies (e.g. Temecula, Murrieta and Corona), staff anticipates that the largest General Fund revenue, sales and use tax, will have marginal growth (2.0% in FY 2018-19 and 1.5% in FY 2019-20) as compared to prior years (e.g. FY 2010-11 – 11%, FY 2011-12 – 8% and FY 2013-14 – 10%). These estimates are based on input from the City's sales tax consultant (HdL), the local business community (auto center and major shopping malls), and economic data (housing costs, UCR Economic Forecasting and Development Center, etc.).



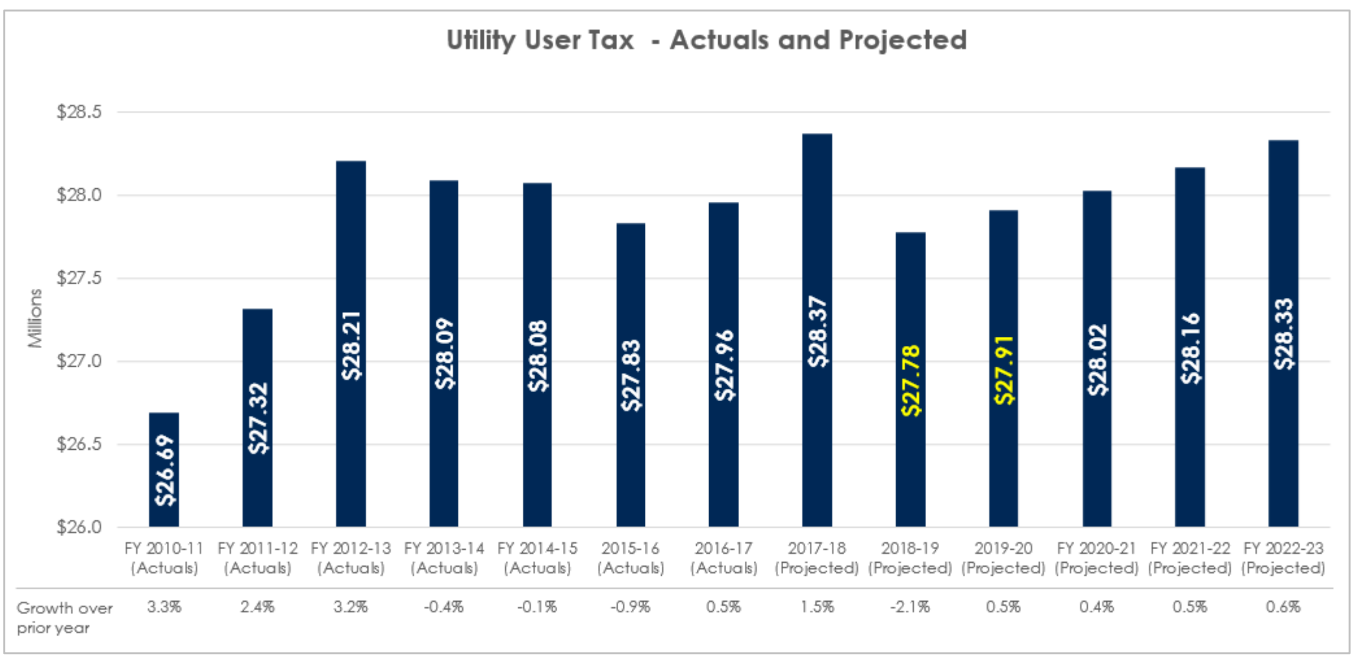
Property Tax

Since the Great Recession, property tax revenues have grown, and are projected to continue to grow, at a steady pace. Staff is projecting 3.7% growth in FY 2018-20. These estimates are based on input from the County of Riverside, real estate professionals (Inland Empire Realtors Association), and economic data (UCR Economic Forecasting and Development Center, etc.). Unlike Orange and Los Angeles counties, the median home prices of Riverside County homes have not reached their pre-recession peaks. Additionally, Riverside County remains relatively affordable, as compared to the same two counties. These two factors, combined with a housing shortage and historically low interest rate environment, should continue to drive home values upwards.



Utility User Tax

Utility user tax revenue has been largely flat since FY 2012-13 ($28.2 million). Changing consumer demands and an antiquated utility user's tax ordinance that does not capture satellite TV and other types of services, such as online subscriptions to various TV packages, has limited the City's ability to experience the revenue growth it used to receive. In FY 2017-18, utility user tax projections were adjusted upward due to an unusually warm summer in 2018, resulting in high water and electric use and related utility user tax revenue. Subsequent years are expected to return to normal weather patterns, and nominal revenue growth of 2% or less is expected from electric and water utility user tax, offset by declining utility user tax revenues from other sources such as telephone.



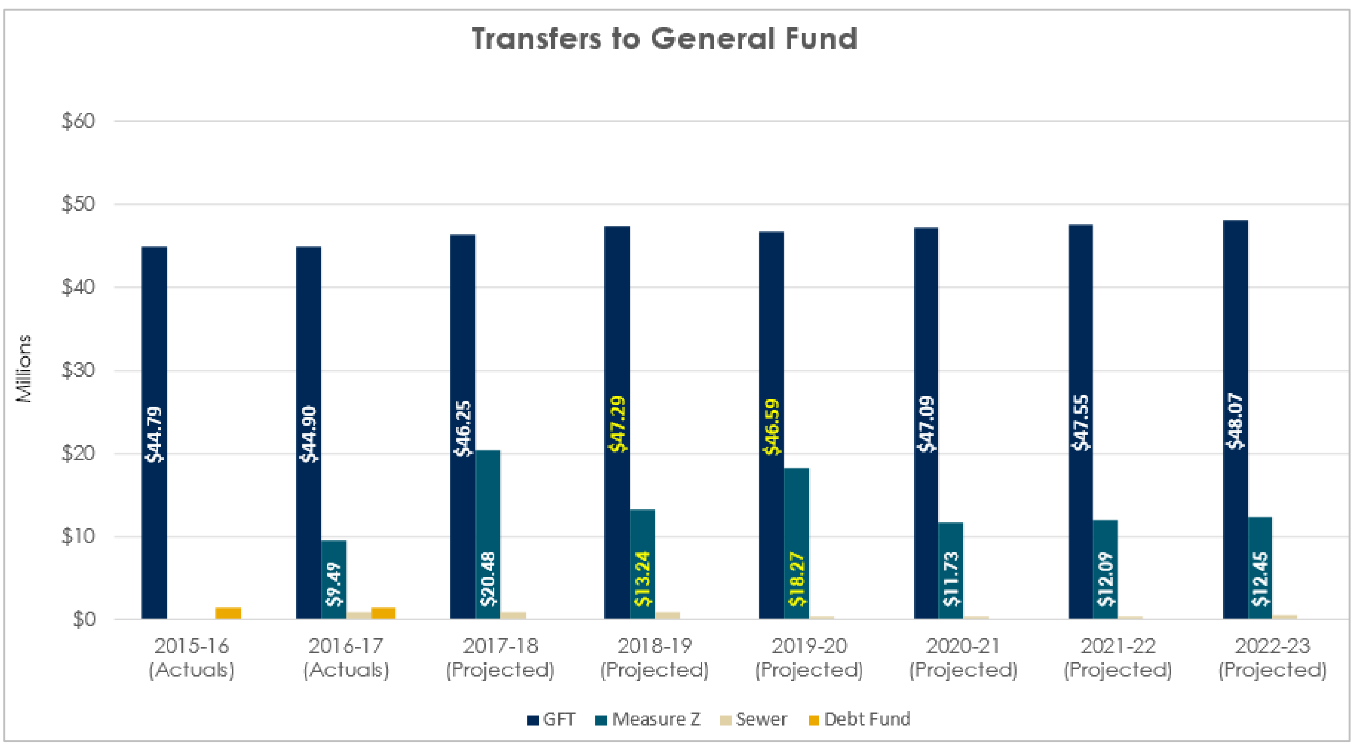
Transfers to General Fund

Transfers to the General Fund account for 23% of General Fund revenues and include transfers from Measure Z, Sewer, and Public Utility funds.

The largest transfer is from the Riverside Public Utility (RPU) revenues. This transfer was included in the adoption of the City's Charter in 1907 and re-affirmed by City voters in 1968, 1977, and for water in 2013. The General Fund transfer (GFT) from electric and water revenues is currently set at 11.5% of prior year audited revenues. In years of high water and electric use, such as that experienced in the summer of 2018, the effect of the revenue spike will be realized in the following fiscal year – in this case, FY 2018-19 is projected to experience an 8.2% growth. In the following years, weather patterns are projected to normalize, and a growth rate of 1.3% - 2.0% has been projected for fiscal years 2019-20 through 2022-23.

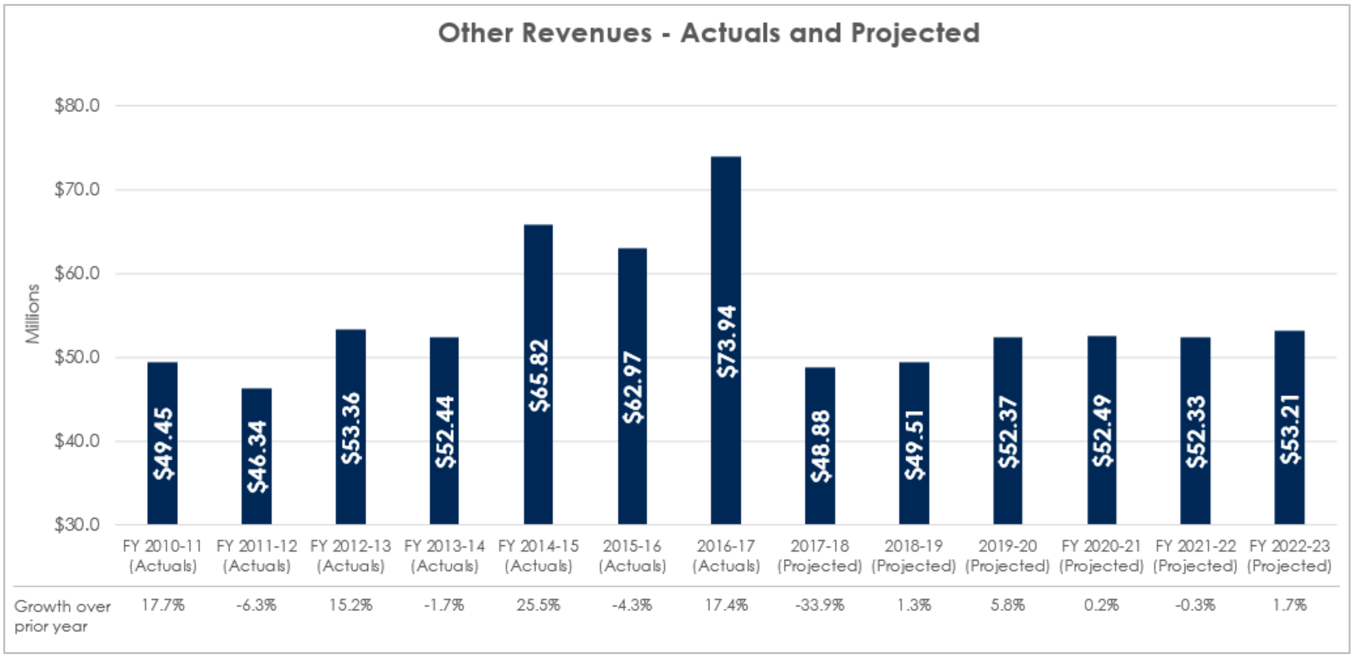
Measure Z transfers are based upon the Measure Z Five-Year Spending Plan, which is discussed in greater detail later in this report. In FY 2016-17 and 2017-18, Measure Z transfers to the General Fund included amounts needed to raise General Fund reserves above 20%, as outlined in the Measure Z Five-Year Spending Plan adopted in May 2017. For FY 2018-19 and FY 2019-20, the amounts allocated in the original spending plan to the General Fund reserve will be used to fund operational expenditures under Measure Z spending item #18 – Funding Gap.

Other items in this category include transfers from the Debt Fund and the Sewer Fund. As of FY 2017-18, debt principal and interest payments are no longer paid directly from the General Fund and recovered through inter-fund transfers. Principal and interest payments are now paid by the funds responsible for the debt (e.g. Enterprise Funds) or the Debt Service Fund (for General Fund debt). The Sewer Fund transfers represent the repayment of sewer-related claims that are initially paid by the General Fund.



Other Revenues

Other revenues include Franchise Fees, Transient Occupancy Tax (TOT), Charges for Services, Licenses and Permits, and other miscellaneous revenues. Prior year revenues were augmented by the sale of City land or buildings and other one-time revenues. Additionally, the activities – and revenues – of Civic Entertainment were moved to the General Fund in FY 2014-15, causing a $7 - $11 million increase in Other Revenues for those fiscal years. Revenue from Special Districts have also traditionally been recorded in the General Fund. As of FY 2017-18, both of these items have been moved to a newly established Entertainment Fund and Special District Fund, reducing Other Revenue from FY 2016-17 to FY 2017-18 by approximately $20 million.



Nominal growth in some categories, such as Transient Occupancy Tax (5% in FY 2018-2019 and 4% in FY 2019-2020) and Charges for Services (2.5% in FY 2018-2019 and FY 2019-2020) is projected for FY 2018-19 / FY 2019-20, based on anticipated economic conditions. A recent Press Enterprise article published on October 25, 2017, provided an update on the economy of Inland Southern California from the UCR Center for Economic Forecast, during its Inland Empire Economic Forecast Conference. According to the article, the Inland Empire has the fastest growing economy in the state; however, overall economic growth is slowing in California, primarily in the coastal communities. Specifically, the article states a projected …2.5 percent growth for the Inland Empire in the next couple of years. But a labor shortage compounded by a shortage of affordable housing could derail that growth." Additionally, the UCR Center for Economic Forecasting states, "…the region offers plentiful opportunities for potential residents and businesses. Home prices remain affordable relative to prices in coastal communities. Office, Retail, and Industrial rents make the region an attractive plan for a new or relocating business venture. The availability of land makes the Inland Empire an ideal location to capitalize on future development."

How Does Riverside Compare to Cities Across the United States?

Post-recession trends indicate that revenue growth is starting to slow. A September 12, 2017 article from Governing Magazine highlighted the expectations of fiscal officers from 19,000 local governments across the United States. "According to a National League of Cities (NLC) report…municipal finance officers are expecting minimal growth this year (FY17/18) -- less than 1 percent -- after dealing with slower revenue growth last year (FY 16/17). If that happens, NLC

Research Director Christiana McFarland says it would 'be the first time we are seeing two consecutive years of slowing growth since the start of the recession.'"

Additionally, the article highlights challenges local agencies face in the changing economy and how the regulatory environment and Internet commerce have limited cities' ability to accurately predict and buffer against economic downturns. Specifically, "The drastic economic and technological changes occurring in the most recent recovery period, as well over the past 30 years, point to the imperative to re-examine the field's conventional thinking about the ability of city finances to buffer against economic downturns and to capture revenue growth during periods of economic expansion."

According to the 2017 City Fiscal Condition Report by the National League of Cities, General Fund revenues of many agencies may not fully recover from the Great Recession. The graph below provides an overview of the past three recessions, comparing how budgeted General Fund revenues recovered before the next recession. While the City has made some major changes to the composition of the General Fund, a general comparison between FY 2007-08 and FY 2017-18 budgeted General Fund revenues, shows the City of Riverside is like most cities across the United States. Specifically, FY 2007-08 General Fund budgeted revenues of $223 million, adjusted for inflation of 18.1%, would result in estimated General Fund revenues of $263.3 million in today's dollars. FY 2017-18 General Fund budgeted revenues, not including Measure Z transfers, are $256.2 million. This results in a recovery of 97.3% of budgeted revenues since the last recession.

Figure 6 General Fund Revenue Recovery During Recent Recessions

Expenditures

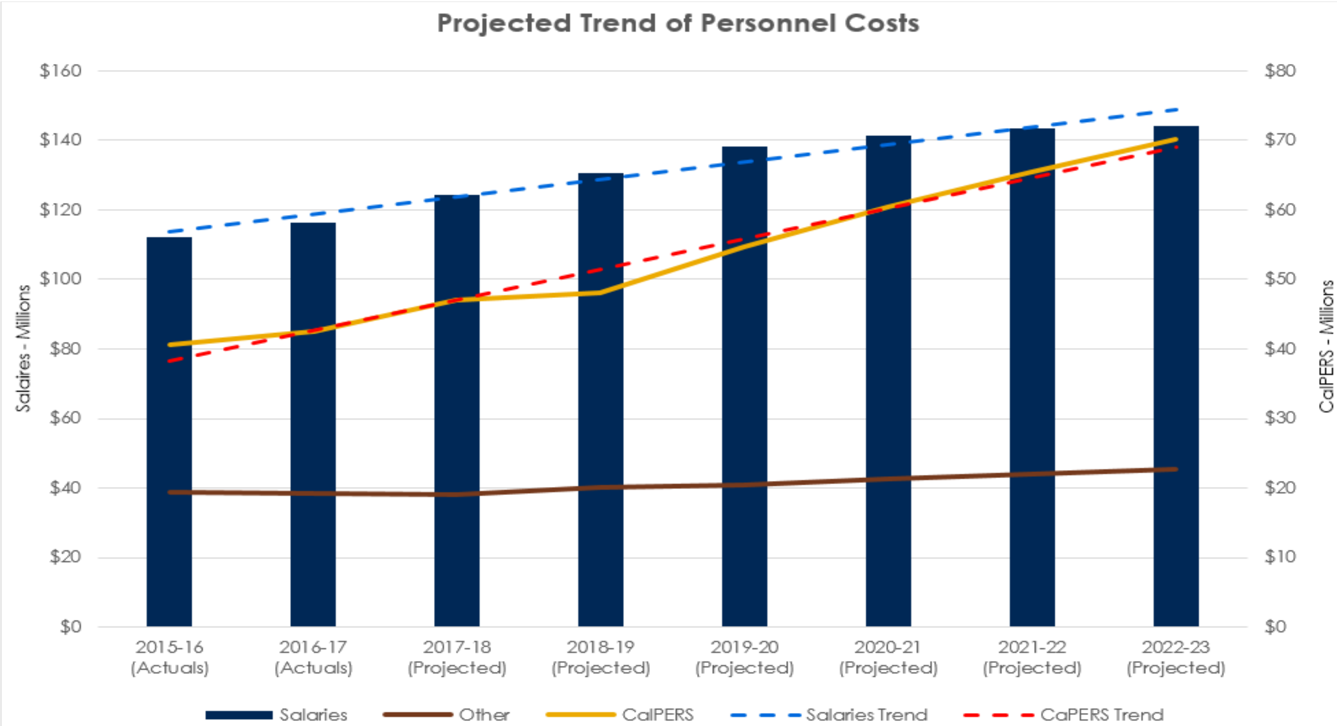
Similar to revenue estimates, staff takes a comprehensive approach to budgeting expenditures. This effort involves City departments in the analysis of their current and projected financial needs, resulting in increased accountability over budget numbers, better analysis of fiscal impacts, and accurately assessing the City's unfunded needs. Additionally, a restructuring of General Fund items, maintaining existing service levels and achievement of Riverside 2.1 strategic initiatives are the primary goals of the FY 2018-20 budget.

Personnel Costs

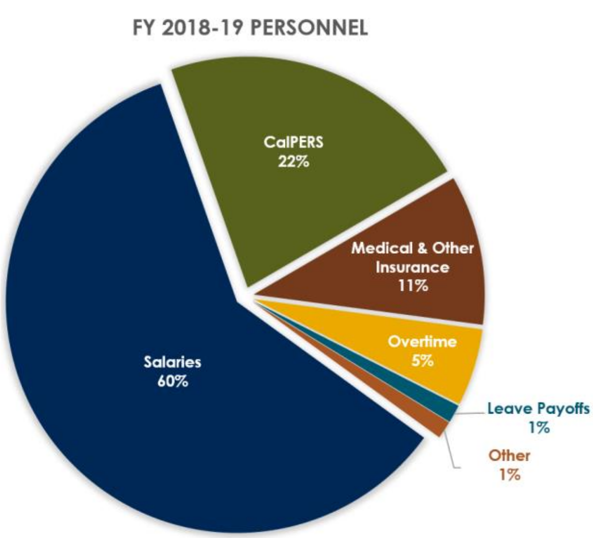
In the FY 2018-20 budget, personnel costs represent approximately 80.5% of total General Fund costs in FY 2018-19 and 82% in FY 2019-20; this is consistent with other full-service cities. Personnel costs are projected to increase approximately 7% annually over the next 5 years, with CalPERS as the largest cost driver. The City has taken steps over the last several years to control personnel and CalPERS costs through union negotiations and expedited pay down of pension obligation bonds. In 2016, the City Council approved Memoranda of Understanding for several City bargaining units that tie pay increases to the performance of the City's key revenue sources, referred as to the Balance Revenue Index (BRI). Salary increases projected in the baseline Five-Year Plan are based upon the projected revenue included in the BRI; increases will vary depending upon the actual performance of those key revenue sources. Also included in the Partnership Compensation Model is a 50/50 cost-sharing of employee health insurance benefits, including any future increases in premiums.

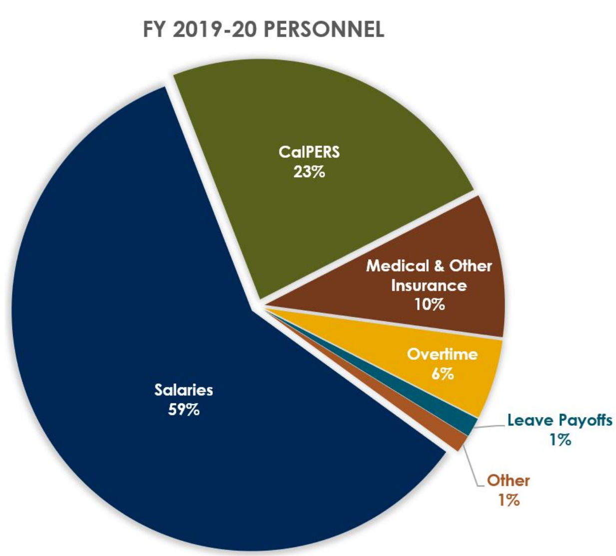
In relation to CalPERS, the City refinanced pension obligation bonds with an accelerated payoff of the principal balance, with the General Fund portion being paid by Measure Z. Between 2011 and 2013, all new City employees were moved to less generous pension plans and required to pay their full share of retirement costs. In addition, in 2017 the City signed long term union contracts that now require all existing employees to fully pay for their retirement. Despite these retirement reforms by the City, the December 2016 action by CalPERS to reduce the projected rate of return on investments (discount rate) significantly increased the City's CalPERS obligations. A change in billing methodology to separate the prior Unfunded Accrued Liability (UAL) from the active member contributions also increased CalPERS payments. Additional information about the CalPERS effect on the City's financial future is available at the City's website and Attachment 3.

Overall, salary costs are projected to level out in 2022-23, while CalPERS obligations continue to grow at a faster pace.

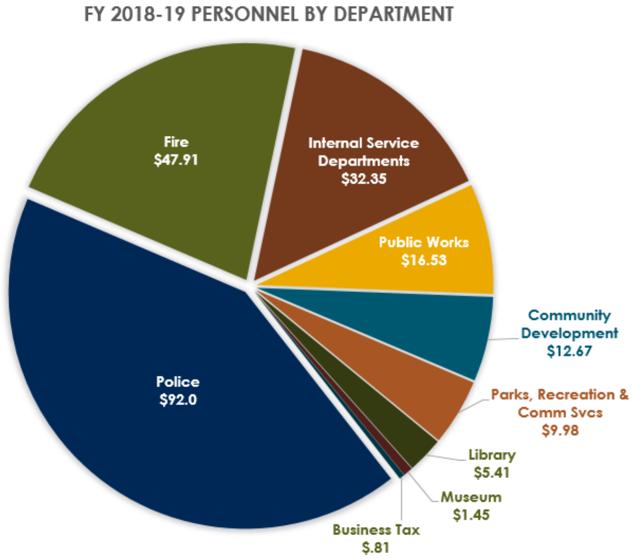


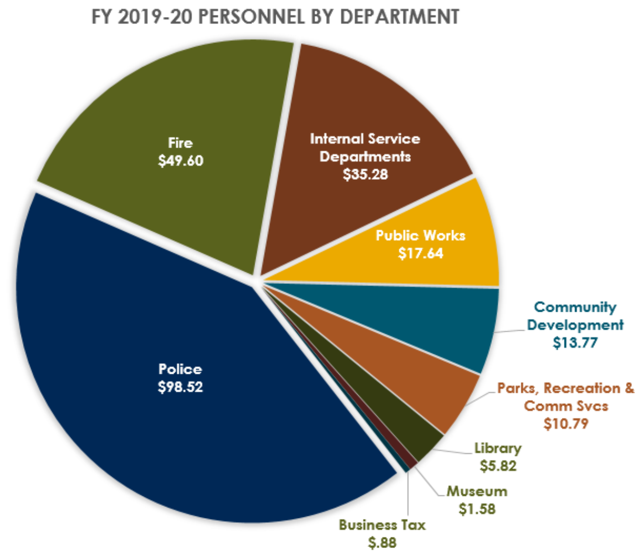
Total General Fund personnel expenditures are anticipated to be $219.1 million in FY 2018-19 and $233.9 million in FY 2019-20. The majority of these costs are related to salaries (59-60%) and CalPERS (22-23%). It is anticipated that CalPERS related costs will continue to represent a larger percentage of overall personnel expenditures for the next 10 years.





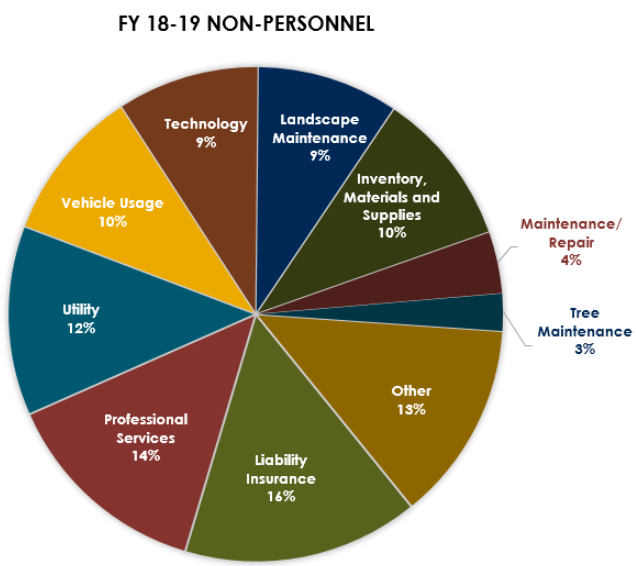
Safety accounts for the majority of total General Fund personnel costs, at a total of $140 million (64%) in FY 2018-19 and $148 million (63%) in FY 2019-20. Operating departments, including Public Works, Parks, Recreation and Community Services, Community and Economic Development, Library, and Museum make up 21% of personnel costs in FY 2018-19 and 22% in FY 2019-20. The balance (15% in each fiscal year) is in Internal Service Departments which support City operations and maintain City facilities.

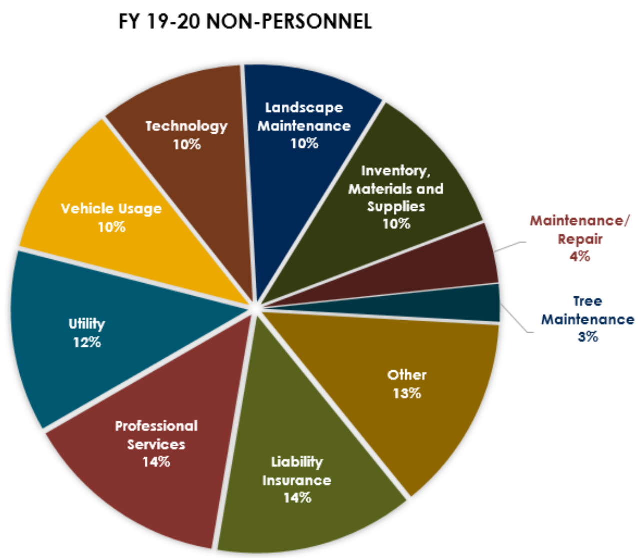




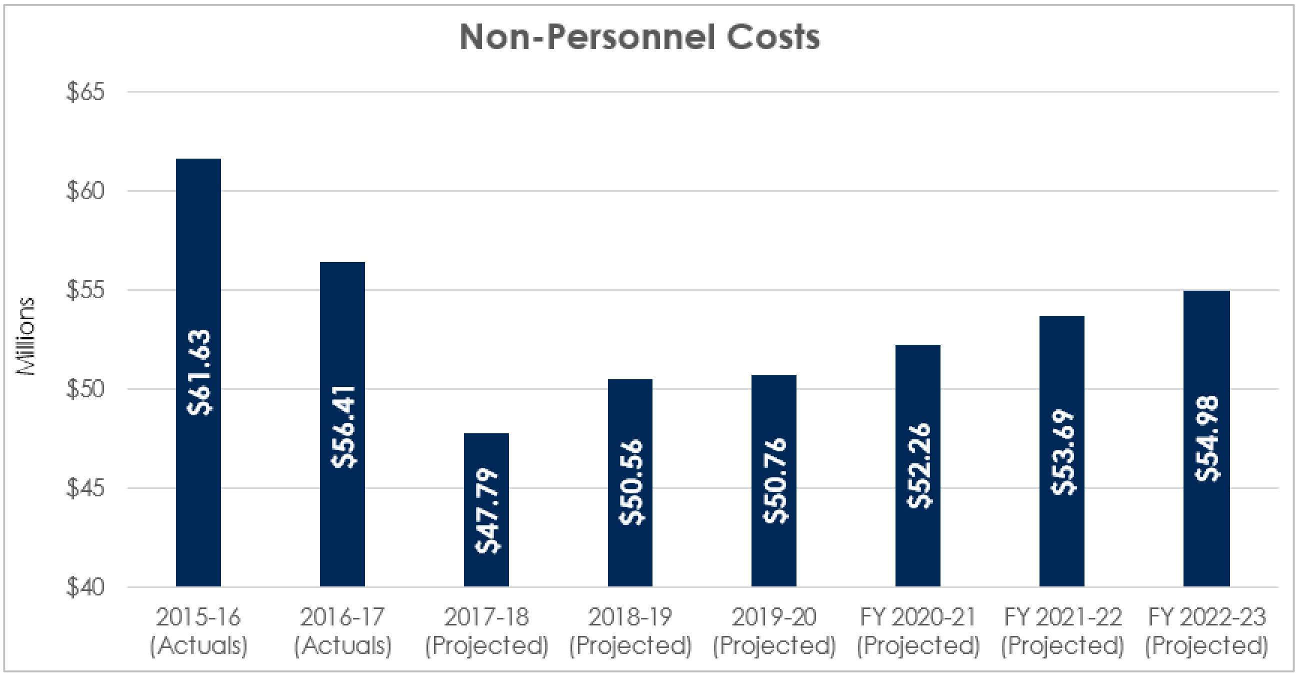
Non-Personnel Costs

Non-Personnel costs represent approximately 19% ($50.6 million) of all General Fund expenditures in FY 2018-19 and 18% ($50.8 million) in FY 2019-20. During the FY 2018-20 budget development process, departments were tasked with categorizing non-personnel costs as either discretionary or non-discretionary. Discretionary costs include items that are not essential to core business functions, such as travel, supplies, training, etc. Although reductions of discretionary costs will have an impact on operations, they can be reduced in times of financial stress. Non-discretionary costs are mandated by law, local policies, contractual agreements, or are critical to the operations of the City. Non-discretionary costs include debt obligations, property insurance, utilities, technology licensing and maintenance agreements, other contracted professional services, merchant fees, etc.





Non-Personnel costs have decreased significantly in past years due to cost-savings efforts and sound fiscal management. Increases in FY 2018-19 as compared to FY 2017-18 are largely due to higher contributions to the City's Self-Insurance fund ($1.5 million) which will increase reserves to prudent funding levels. Anticipated increases in service contracts and supplies based on the Consumer Price Index are also included in the baseline budget, however departments will continue to review non-personnel spending for opportunities to reduce costs.



Special Project Costs

Special project costs represent approximately 3% ($8 million) of all General Fund expenditures in both FY 2018-19 and FY 2019-20. This category of expenditures includes:

- Costs mandated by the City's Charter, such as board and commission support costs;
- Programs funded by restricted funding such as cell tower revenues or Public, Educational and Government (PEG) fees;
- The support of various community organizations, City events, and City venues, including the Janet Goeske Center, the Festival of Lights; and
- Management and incentive fees for operators of the Fox Theater, Riverside Municipal Auditorium, and the Convention Center.

Equipment

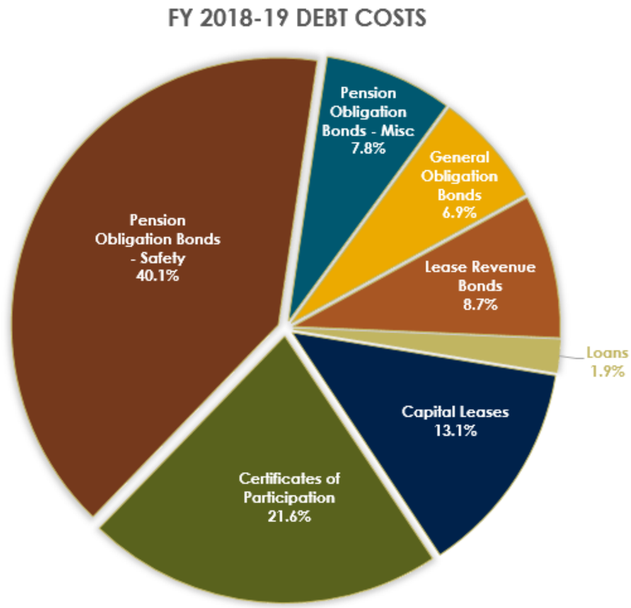
Historically, the General Fund includes minimal equipment funding, a trend that is projected to continue for the foreseeable future. An equipment budget of $400,000 per year is allocated to facility and maintenance, including furniture and equipment capital leases ($144K), technology replacement ($68K), and building and structure improvements ($188K).

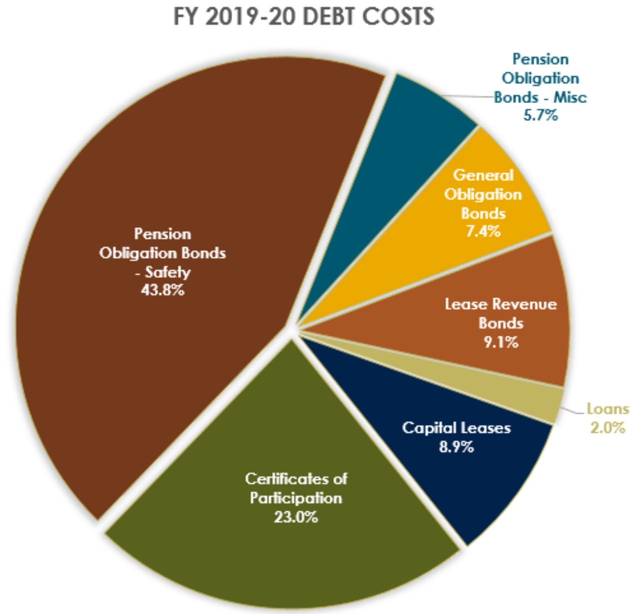
Minor Capital

At approximately $2 million per year, Minor Capital costs are projected to represent about 1% of all General Fund expenditures in both FY 2018-19 and FY 2019-20. This category of expenditures includes quiet zone maintenance ($130K), shopping cart retrieval ($150K), developer agreements ($1.2 million), and county booking fees ($200K). The developer agreements category represents tax sharing agreements and other economic development incentives entered into at the time of the Great Recession.

Debt (allocated from 390 Fund)

Debt costs account for 9% of total General Fund spending in FY 2018-19 and 8.1% in FY 2019-20. Pension Obligation Bonds (POBs) make up a majority of General Fund debt: in FY 2018-19 $9.8 million will be paid toward the 2004 POBs related to Public Safety pensions and $1.9 million will be paid toward 2005A POBs for the Miscellaneous CalPERS group.





General Fund Cost Plan

The purpose of a cost plan is to allocate costs of internal support departments to other operations. Finance, Human Resources, Innovation and Technology, and General Services departments are classified as "internal service departments" and provide services to the City's "operating departments," including, but not limited to, Public Works, Public Utilities, Police, Fire, and Community and Economic Development. Best practices, accounting standards and federal requirements make it necessary for the City to maintain a well-documented cost allocation plan. This plan, in addition to appropriately allocating general and administrative costs in its budget, allows the City to properly identify overhead rates that can be used in the calculation of billable hourly rates for federal and state grants, user fees, and reimbursements from other governmental agencies.

In past years, the finalization of the cost plan has occurred after budget adoption, which creates challenges and potentially impacts various departmental bottom lines. In order to avoid this delay, ensure a comprehensive review and update of all allocation elements, and to save more than $50,000 per year, the Finance Department has taken over this process from an outside contractor. In conjunction with each budget adoption, the City studies what services are provided by internal service departments to operating departments and allocates costs accordingly. For preparation of the FY 2018-20 budget, the Finance Department met with each internal service department to thoroughly review and update the base elements, such as the number of Purchase Orders issued for the allocation of Purchasing Division Costs.

For the baseline FY 2018-2020 Two-Year Budget, staff anticipates the cost plan to result in a redistribution of costs shown in the table below. As the City progresses through the budget cycle, the cost allocation plan will be refined and adjusted to achieve final allocation amounts for FY 2018-19 and FY 2019-20.

Cost Allocation Redistribution

	FY 18-19	FY 19-20
General Fund	-$25,518	-$25,990
Special Revenue Funds	$613	$616
Debt Service Fund	$192	$194
Capital Project Funds	$105	$106
Enterprise Funds	$21,189	$21,478
Internal Service Funds	$3,218	$3,393
Trust & Agency Funds	$201	$202
Net	-	-

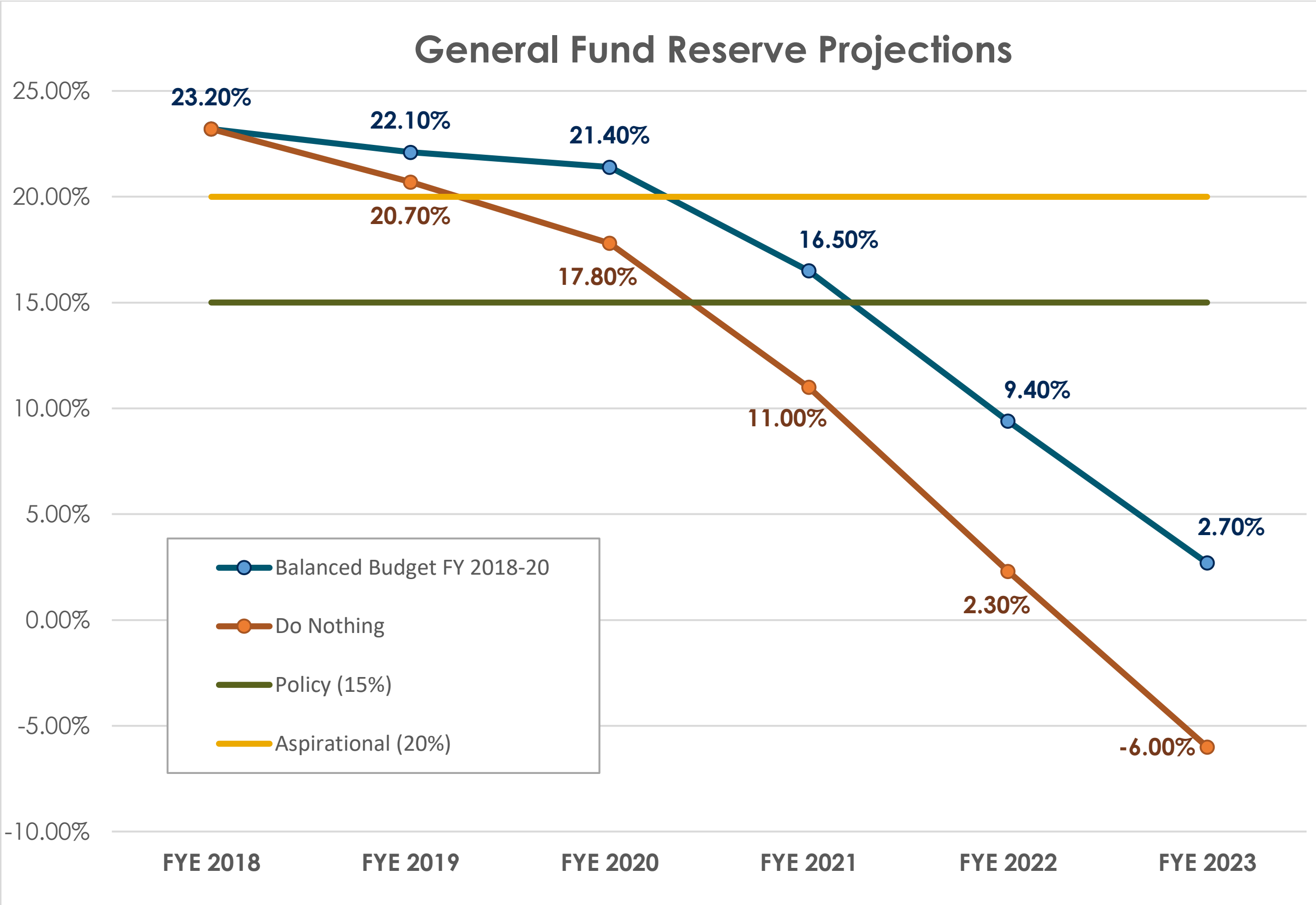
(Amounts expressed in thousands)

Reserves

The City's General Fund Reserve Policy, adopted by the City Council on September 6, 2016, requires maintaining the General Fund reserve at 15%. The City Council set an aspirational goal of the General Fund Reserve at 20%; this goal was recently reaffirmed through adoption of the Responsible Spending Vision Pledge on October 4, 2016.

Based on the First Quarter Financial Report for FY 2017-18, the General Fund reserve is projected to be $59 million or approximately 23.2% of operational expenditures by June 30, 2018. This is the result of strong fiscal action taken by the City Council and the City's Executive Leadership Team during the last two year budget cycle.

The FY 2018-2023 Five-Year plan projects increasing deficits in each fiscal year as expenditures - and most notably CalPERS costs - continue to outpace flattening revenues. By implementing a combination of reductions and efficiencies totaling $3 million in FY 2018-19 and $6 million in FY 2019-20, the City is projected to maintain General Fund reserve levels of at least 20%. **Without permanent and ongoing balancing measures, General Fund reserves will be fully depleted in FY 2022-23**. The FY 2018-20 budget will include a combination of cost savings and efficiency measures designed to preserve existing service levels. Reducing FY 2018-20 costs to eliminate the projected deficits will ensure that General Fund reserves are available for future years, if needed.



Analysis of Key Items to Develop Budget Balancing Measures with Minimal Service Impacts:

In developing the FY 2018-20 baseline budgets, City departments were tasked with:

1. Reviewing and reducing discretionary non-personnel costs, including travel, materials and supplies, advertising, and general office expense, as well as eligible professional services.
2. Reviewing and renegotiating contractual services.
3. Permanently implementing cost reductions previously achieved through managed savings.
4. Identifying and recommending opportunities for revenue enhancement.
5. Reviewing subsidies, currently in excess of $5 million annually, for conformance with Riverside 2.1 goals and objectives. For example, the table below lists General Fund subsidies in excess of $20,000.

General Fund Subsidies by Major Category

Organization/Event	FY 18-19	FY 19-20
Miscellaneous Subsidies	**$3,041,957**	**$3,072,964**
Crossing Guards	$888,731	$916,006
Festival of Lights*	$750,000	$750,000
Janet Goeske Center	$378,590	$378,590
Art Organizations Support	$280,000	$280,000
Miscellaneous Sponsorships (CEDD - Arts & Cultural Affairs)	$146,150	$146,150
Riverside Arts Council	$98,194	$98,194
Riverside Go Transit	$90,000	$90,000
RCC Pool Maintenance	$80,000	$80,000
Fireworks – Mt. Rubidoux & La Sierra	$68,850	$72,290
Mission Inn Museum	$67,104	$67,104
Keep Riverside Clean (Chamber of Commerce)	$58,338	$58,630
Neighborhood Programs	$53,000	$53,000
Farmer's Market*	$38,000	$38,000
Renaissance BLK – RCCD	$25,000	$25,000
Employee City Bus Pass Program	$20,000	$20,000
Developer Agreements	**$1,222,000**	**$1,433,000**
Auto Center	$411,000	$413,000
Riverside Plaza	$411,000	$420,000
Riverside Community Hospital	$300,000	$500,000
Riverside New Car Dealer	$100,000	$100,000
Business Improvement Districts	**$300,000**	**$300,000**
Riverside Auto Center	$100,000	$100,000
Arlington	$100,000	$100,000
Downtown	$100,000	$100,000
Landscape & Lighting Maintenance Districts	**$1,080,000**	**$1,080,000**
Riverwalk	$30,000	$30,000
Street Lighting	$1,050,000	$1,050,000
TOTAL	**$5,643,957**	**$5,885,964**

**Amounts presented before accounting for offsetting revenues*

Baseline Assumptions – Measure Z

The collection of the additional one-cent sales tax authorized by voters through Measure Z began on April 1, 2017. After hearing recommended Measure Z spending options from City staff and the Budget Engagement Commission (BEC), on May 16, 2017, the City Council approved the Measure Z Spending Plan for 33 initiatives covering public safety, financial discipline/responsibility, critical operating needs, facility capital needs, quality of life, and technology.

Attachment 2 provides an update on the adopted Measure Z spending plan, any City Council approved amendments, and proposed amounts for the next five years based on direction provided by the City Council. Based on the updated Measure Z Five-Year Spending Plan, it is anticipated that Measure Z will have approximately $12.5 million in fund balance through FY 2022-23, which is a result of effectively managing expenditures and taking advantage of current interest rates for proposed capital projects.

Revenues

The City began receiving these revenues in May-June 2017, with the anticipated collection of

$51.5 million in FY 2017-2018. 1% annual increases are assumed for the next five years, consistent with projections for the first two years of the Spending Plan.

Expenditures

The Measure Z Spending Plan has been updated to serve as a baseline budget for FY 2018-23 (Attachment 2). Staff's projections assume a continuation of the spending priorities defined in the May 2017 adoption of the FY 2016-21 spending plan and include adjustments made to the plan per subsequent City Council action, such as the redirection of Contingency Funds for the Archives for the New Main Library project. Key changes from the initial five-year plan are discussed below, and will be presented for input to the Budget Engagement Commission during the budget development process.

Measure Z Updated 5-Year Spending Plan - Baseline Budget

Spending Category	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	5-Year Projection
Financial Discipline/Responsibili	5,173,554	2,674,489	1,674,489	1,674,478	1,673,062	12,870,072
Public Safety	14,369,254	18,473,489	21,449,855	22,676,696	23,240,317	100,209,612
Critical Operating Needs	15,438,873	20,474,939	12,452,285	12,814,864	13,187,480	74,368,441
Facility Capital Needs	3,954,500	7,751,500	9,583,925	11,034,438	11,034,440	43,358,803
Quality of Life	4,284,500	4,304,975	4,326,474	4,349,047	4,372,750	21,637,746
Technology	2,000,000	2,000,000	2,000,000	1,000,000	1,000,000	8,000,000
Totals	**45,220,681**	**55,679,392**	**51,487,028**	**53,549,523**	**54,508,049**	**260,444,673**
Projected Revenue	52,072,570	52,593,296	53,119,229	53,650,421	54,186,925	265,622,441
Net Revenue/Expenditures	**6,851,889**	**(3,086,096)**	**1,632,201**	**100,898**	**(321,124)**	**5,177,768**
Projected Reserves[1]	**14,334,296**	**11,248,200**	**12,880,401**	**12,981,299**	**12,660,175**	**12,660,175**

[1] *Includes June 20, 1028 Projected reserves of $7,482,407*

Financial Discipline/Responsibility

If budget balancing measures are enacted in the General Fund as recommended by staff, General Fund reserves will remain above 20% and Measure Z funding will not be required to support General Fund reserve balances. Contributions to the General Fund are expected to relate only to operating expenditures, as provided for in Spending Item # 18 – Funding Gap. To provide cushion against potential future funding gaps in Measure Z and to address unanticipated expenses, staff is recommending that a Measure Z Spending Contingency (Spending Item #4) be included for FY 2018-19 and FY 2019-20 in the amount of $1 million each year. Also within the Financial Discipline/Responsibility spending category, estimates have been updated to reflect the actual cost to Measure Z as a result of the refinancing of the interest-only bond anticipation note. The City's increased bond rating helped to save approximately $225,000 per year over the initial projections, and $2.25 million over ten years.

Public Safety

The resounding success of the Police vehicle refurbishment program (Spending Item #12) resulted in an estimated savings of $2.74 million over four years and eliminated the need for vehicle financing. The baseline budget assumes a continuation of the vehicle refurbishment program with nominal 2% cost increases each year. Spending Item #14 – Fire Vehicle Replacement, has been updated for actual debt service costs. Total estimated savings based on the City's enhanced financial position and vehicle negotiation is approximately $700,000. There are no changes to the staffing levels approved in the FY 2016-21 Measure Z Spending Plan; costs for these positions have been extended in the plan through FY 2022-23. The anticipated savings have been reallocated to the Contingency Category.

Critical Operating Needs

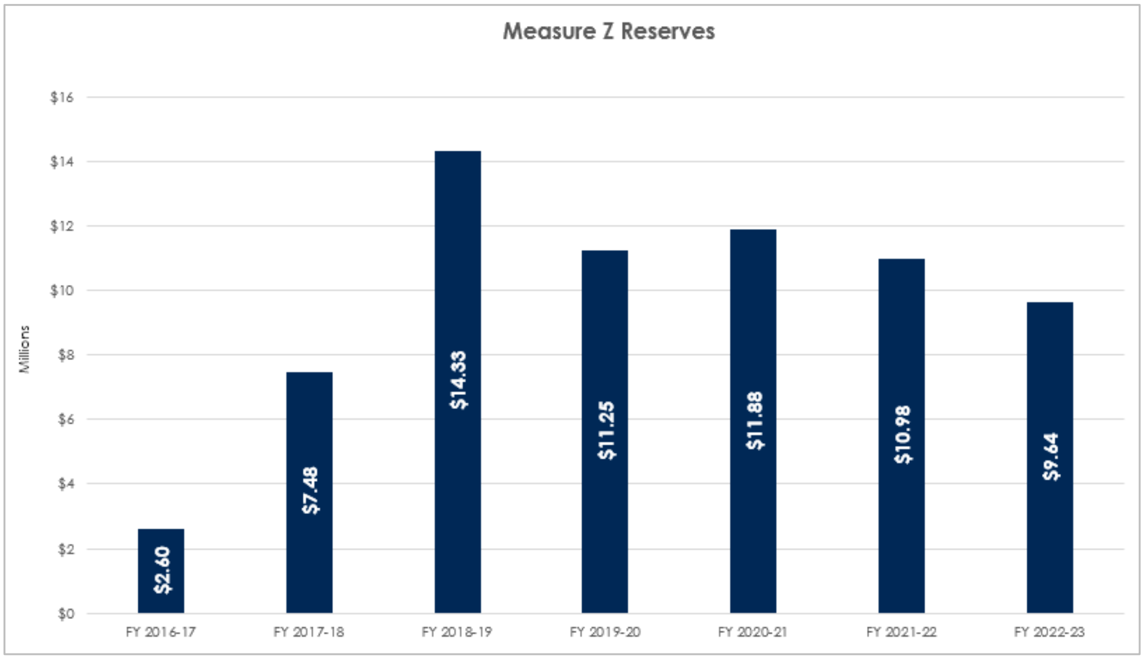
In the initial Measure Z Spending Plan, Spending Item # 18 – Funding Gap estimates were based on a five-year model largely associated with union contracts and a slowing of revenue growth. In the FY 2018-23 baseline, this line item has been updated and extended to FY 2022-23 with 3% annual increases in costs based on historical CPI. No changes were made to other items in this category.

Facility Capital Needs
On October 3, 2017, City Council approved a swap of Main Library and Police Headquarters Measure Z funding of approximately $10 million. The revised debt service estimate is reflected in the updated plan. Additionally, Spending Item #23a – New Downtown Main Library Archives has been added to reflect City Council's approval to redirect Measure Z Contingency funds of $1 million toward the construction of archives in conjunction with the New Main Library project. Also in this category, revised debt service estimates for a $13.7 million Museum Expansion and Rehabilitation project (Spending Item #26) are reflected. On December 19, 2017, the City Council approved a reduction in the estimated costs of this project from $15 million to $13.7 million, in order to provide $1.3 million of funding for the construction of the New Downtown Main Library Archives. Funding for annual deferred maintenance of City facilities (Spending Item #28) has been modified from amounts ranging from $250,000 to $1.5 million to a flat $1 million per year to allow for better project management. The initial $3.2 million over the three year period of 2018-21 has been extended to a total of $5 million over five years (FY 2018-23).

Quality of Life
The originally adopted amounts for the Spending Items in these categories was extended through FY 22-23. Staffing levels and related costs remain unchanged.

Technology
The Measure Z FY 2018-2023 baseline budget includes $1 million in Spending Item # 33 – Technology Projects for future technology projects and needs based on Citywide audit programs and other assessments. Funding may be used for hardware, new software, and cybersecurity. A comprehensive plan for use of funds will be presented to City Council at a later date.

Reserves
The Measure Z fund is expected to end FY 2017-18 with reserves of approximately $7.5 million. Over the next few years, reserves will fluctuate depending upon the progress of major capital projects such as the New Downtown Main Library, Police Headquarters, and Museum Expansion and Rehabilitation.



Budget Adoption Timeline

Five-Year Financial Plans

In conjunction with the City's proposed Long-Term Budget Policy, staff will prepare five-year financial plans for the General Fund, Measure Z, Electric Water and Sewer. Staff will be preparing long-term financial plans for Electric, Water, and Sewer and for presentation to the Budget Engagement Commission and City Council by March 2018. These major funds collectively represent approximately 90% of the City's 2018-2020 Two-Year Budget:

- General Fund: 27.2%
- Measure Z: 4.5%
- Electric: 40.5%
- Water: 7.5%
- Sewer: 7.5%

Public Participation

The FY 2018-2020 Two-Year Budget process will include many of opportunities for public input. During this process, the City will address the financial pressures of a slowing economy and rapidly increasing CalPERS costs, while attempting to limit the impact to services provided to the Riverside community. Additionally, by March 2018, staff will return to the City Council with five-year plans for the Water, Sewer, and Electric funds.

The City Council and staff encourage the residents of Riverside to engage in the budget process by attending public meetings and providing feedback. Community Budget Workshops are scheduled to take place in each Ward between February 7, 2018 and February 15, 2018. Additionally, opportunities to participate in the budget process are available at Budget Engagement Commission meetings in January 2018. Calendar dates, times and locations are posted at www.riversideca.gov. (Attachment 4)

Schedule of Events (Attachment 5)

1. **January:** Baseline budget projections presented to City Council and the Budget Engagement Commission
2. **February:** Community Budget Workshops.
3. **March:** Five-Year Plans for Electric, Water & Sewer presented to City Council and the Budget Engagement Commission
4. **May:** Proposed FY 2016-2018 Biennial Budget presented to City Council in May
5. **June:** Final budget, submitted for City Council adoption

FISCAL IMPACT:

There is no direct fiscal impact through the recommended actions in this report. The City of Riverside has made tremendous financial progress during the FY 2016-2018 Two-Year Budget. Based on the First Quarter Financial Report for FY 2017-18, the new financial foundation for the City has resulted in an estimated General Fund Reserve of $59 million (23.2%) by June 30, 2018.

The Fiscal Year 2018-2023 Five-Year General Fund Plan projects increasing shortfalls each of the next five-years, largely associated with a flattening of the City's major General Fund revenues and quickly escalating CalPERS costs. By implementing historical managed savings amounts, staff projects the FY 2018-2020 Budget will be mostly balanced.

The FY 2018-2023 Five-Year Five Year Measure Z Plan projects the City will have approximately $9.6 million in fund balance by FY 2022-23. This amount is in addition to the $5 million being set aside for other contingencies over the next five years.

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. 5-Year Financial Plan – General Fund
2. 5-Year Financial Plan – Measure Z
3. CalPERS
4. Public Meetings
5. Budget Timeline
6. Presentation