



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: NOVEMBER 14, 2017

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: FISCAL YEAR 2016-17 YEAR-END UNAUDITED FINANCIAL RESULTS, INCLUDING GENERAL FUND, MEASURE Z, CASH AND INVESTMENT REPORT, DEBT REPORT, AND CARRYOVERS OF UNSPENT BALANCES

ISSUES:

Receive and provide input on the fiscal year 2016-17 unaudited financial results, which include the analysis of General Fund, Measure Z, cash and investment report, and debt report; approve carryovers of unspent balances.

RECOMMENDATIONS:

That the City Council:

- 1) Receive and provide input on the attached fiscal year 2016-17 Fourth Quarter Financial Report for the General Fund, Measure Z, cash and investment report, and debt report;
- 2) Approve for carryover into fiscal year 2017-18, the balance of previously appropriated and unspent funds totaling \$7,916,112 across all funds, including \$4,012,960 in the General Fund (See Attachment D);
- 3) Approve fiscal year 2017-18 appropriations from fiscal year 2016-17 General Fund surplus for capital needs at the Convention Center (\$140,000 – account no. 2250000-462050), Fox Entertainment Plaza (\$70,000 – account no. 5310100-462050), and Riverside Municipal Auditorium (\$70,000 – account no. 5310200-462050), Citywide Building repair and maintenance (\$1 million – account no. 2210000-470020), and Liability Funds Reserve (\$2.5 million – account 0000620-298000); and
- 4) Approve a fiscal year 2016-17 increase in revenue and supplemental appropriations for two \$25,000 Historic Preservation Fund grants in the Parks, Recreation and Community Services Department for the Harada House project (\$25,000 – account no. 9895710-339000 and 9895710-440309) and in the Museum for the Heritage House Project (\$25,000 – accounts no. 9848510-339000 and 9848510-440301).

BACKGROUND:

In December 2015, the City Council approved changing the annual budget to a two-year budget

in the context of a five-year plan. Since that time, the City Council has been presented with reports on the City's unfunded needs, approved departmental reductions, established a Budget Engagement Commission (BEC), adopted a Responsible Spending Pledge, and led successful efforts to pass Measure Z, a one-cent sales tax increase to fund public safety and quality of life programs. **The culmination of these City Council actions, combined with strong executive leadership, have laid a new, stronger financial foundation for the City.** One important outcome of the City's disciplined focus on financial transparency and responsibility has been the recent upgrade of the City's general obligation bond rating from A+ to AA- by S&P.

During the development of the current two-year budget and five-year spending plan, the City laid out an aggressive plan for financial accuracy and accountability. Additionally, with the adoption of the Five-Year Measure Z Spending Plan in May 2016, the City made financial and operational promises to the Riverside community. **The City is ending fiscal year (FY) 2016-17 in a financial position that follows through on these promises.** For example, the General Fund Reserve will reach approximately \$41.5 million, or 15.4% of FY 2016-17 operating expenditures, and the City will begin to address other unfunded needs (e.g. capital repairs and Self-Insurance Trust Funds Reserve). In addition, thanks to effective financial management during the fiscal year, many City departments have ended the year with operational savings, which, pursuant to the two-year budget appropriation, they get to keep in FY 2017-18. On the other hand, three departments overspent their FY 2016-17 appropriations, and their FY 2017-18 budgets will be reduced accordingly.

DISCUSSION:

The FY 2016-17 year-end unaudited financial report summarizes the anticipated results from the City's official financial audit - the Comprehensive Annual Financial Report (CAFR) - and will be presented to the City Council in early January 2018, after it is reviewed by the Public Utilities Board (November 2017) and the Finance Committee (December 2017).

GENERAL FUND FINANCIAL ANALYSIS

The Fourth Quarter Financial Analysis projects the City will be in a surplus position by year-end of approximately \$5.6 million. This surplus is the reflection of better than anticipated revenues in FY 2016-17 and strong fiscal management on the expenditure side.

General Fund Revenues

The fourth quarter General Fund revenues for FY 2016-17 are estimated to be \$5.2 million higher than the third quarter projections (Attachment A-5). Differences of \$200,000 or more between the third and fourth quarters are explained below:

- *Sales Tax* is \$1.5 million lower, based on slower growth and large corrections of prior receipts by various businesses that negatively impacted the City (e.g. CDW, T-Mobile, large tool manufacturer). Additionally, the City continues to be impacted by the loss of a used car dealership (Paul Blanco) and increasing competition from surrounding cities (e.g. new CarMax in Murrieta). Historically, sales tax revenues have been the most subjective General Fund revenue to economic conditions and the hardest to predict.
- *Property Tax* revenue is a \$1.2 million higher as a result of Successor Agency properties sold and placed back on the County tax roll.
- *Franchise Fee* revenue is \$460,000 lower as a result of Southern Cal Gas Company

changing its franchise fee calculation methodology due to recent litigation.

- *General Fund Transfers* amounts are \$900,000 higher due to the recovery of past due sewer expenditures from the Sewer Fund. For a number of years now, the City's Liability Fund (and, by extension, the General Fund) were utilized to pay for claims related to sewer laterals from the sewer main to the resident's property line. Effective FY 2016-17, the Sewer Fund has begun to pay these costs, estimated at \$450,000 per year. In addition, the General Fund will recover the \$1.35 million incorrectly charged for these claims over the past three years (\$450,000 per year). In FY 2016-17 and FY 2017-18, the total savings to the General Fund will be approximately \$900,000 per year.
- *Charges for Development and Building Services* revenue is \$330,000 higher, driven by the expedited development review through the One-Stop Shop. Currently, the City is experiencing the highest construction permit valuation (i.e. investment in the City) in 11 years. In fact, April 2017 set a monthly construction valuation record for the past 14 years, which included the building boom that peaked in 2004, 2005, and 2006.
- *Entertainment Revenue* is \$1.6 million higher due to increased receipts at the Fox Entertainment Plaza, the Municipal Auditorium and the Convention Center. Some of these revenue increases are offset by additional payments to the facility operators.
- *Charges for Services* revenue is \$360,000 higher due to increased receipts for park rentals, special recreation programs, and the AMR Paramedic program.
- *Fines and Forfeits* revenue is \$525,000 higher due to Code Enforcement activities, including administrative citations, rehabilitation reimbursements, and receipt of deferred revenues.
- *Intergovernmental Revenue* is \$500,000 higher due to mutual aid revenues, which are offset by the associated Fire overtime expenditures, as discussed in the next section. In addition, the City received storm drain damage revenues from federal and state agencies, which were not budgeted for.
- *Other Miscellaneous* revenues are \$1.55 million higher than estimated due to savings associated with the refunding of the Bond Anticipation Note into a Pension Obligation Bond in 2017.

General Fund Expenditures

Due to continued successful efforts of all City departments, General Fund year-end expenditures are \$450,000 below third quarter projections (Attachment A-2). Differences of \$200,000 or more between the third and fourth quarters are explained below:

- *Fire Department Overtime and Retirement Payoffs* are projected to exceed the FY 2016-17 personnel budget by a combined total of \$900,000, which is \$300,000 less than third quarter estimates. The Fire Department has done well to manage its budget to account for these overages, but are unable to meet their managed savings target of \$7500,000. With a constant staffing requirement for 211 of the 242 FTEs, achieving managed savings will be difficult for the Fire Department moving forward. In the upcoming FY 2018-2020 Two-Year Budget, the managed savings targets will be eliminated. At this time, the Fire Department's budget in FY 2017-18 will not be reduced to address the FY 2016-17 shortfall. The Finance Department and City Manager's Office will work with the Fire Department in FY 2017-18 to

develop ways to save money.

- *Police Retirement Payoffs and Overtime* are projected to be lower than third quarter estimates by \$300,000. The total Police Department General Fund budget remains over budget by approximately \$880,000, which is attributed to overtime and employee retirement payoffs. The City does not budget for all earned compensation accruals, such as unused vacation, sick leave, and compensation time. Each department is responsible for managing their budget to account for these payoffs, which, depending on the timing of the retirements (e.g. end of year), may be difficult.
- *Non-Departmental* expenditures are projected to exceed estimates by \$208,000. These expenditures are related to overages in property maintenance, development agreements, and employee parking.

Measure Z

The collection of the additional one-cent sales tax authorized by voters through Measure Z began on April 1, 2017 and the City began receiving these revenues in May/June 2017. Based on projections from the City's sales tax consultant, Hinderliter, de Llamas & Associates (HdL), the anticipated collection of Measure Z revenues in FY 2016-17 was \$10 million. On May 16, 2017, the City Council approved the Measure Z Five-Year Spending Plan, which appropriated \$9.5 million in FY 2016-17 to cover the General Fund structural deficit, including maintaining the General Fund Reserves at 15%.

Unaudited actual Measure Z revenue for FY 2016-17 was approximately \$12.6 million, with \$2.6 million deposited into the Measure Z fund balance for future unfunded needs.

End-of-Year Financial Management Actions

As a result of continued strong financial management, the City is ending FY 2016-17 better than anticipated. Management recommends utilizing the surplus revenues from the General Fund to start addressing the following unfunded needs, previously identified during the five-year financial planning process that culminated in the passage of Measure Z:

- Fund critical capital needs at revenue-generating City facilities and set aside \$140,000 for the Convention Center, \$70,000 for the Fox Entertainment Plaza, and \$70,000 for the Riverside Municipal Auditorium.
- Set aside an additional \$1 million to fund repair and maintenance activities in other City facilities, as needed.
- Allocate \$2.5 million to the City's Liability Funds Reserve. The recently approved City policy sets a minimum reserve level of 40% by June 30, 2018 and 50% by June 30, 2020. Maintaining these essential reserve levels will require continuous contributions of additional resources to the Liability Funds.

Budget Changes to Reflect Grant Funding

In FY 2016-17, the Community and Economic Development Department's Planning Division approved Historic Preservation Fund grants in the amount of \$25,000 each for Heritage House and Harada House projects. Staff recommends transferring \$50,000 in Historic Preservation Funds to the Parks, Recreation and Community Services department (\$25,000) and the Museum (\$25,000) for these projects, and allocating expenditures of the same amount, with a neutral effect, to the General Fund.

Carryovers of Unspent Balances

Per the City Charter, all appropriations lapse at fiscal year-end except for capital projects. Therefore, City Council action is required to carry over the balance of appropriations for all ongoing special programs, grants, and other restricted balances. As such, included with the Budget Resolution 23012 adopting the FY 2016-2018 Two-Year Budget, Section 6 authorized the carryover of contractual obligations (e.g. Purchase Orders) and "...budgeted funds for certain items or projects in various states of acquisition or development that have been previously approved or will be approved by the City Council."

The FY 2016-2018 Two-Year Budget provided a carryover plan for the balance of previously appropriated and unspent funds that were not approved by the Budget Resolution for the City's General Fund. The carryover plan includes the following guidelines:

- At the end of the first year of the two-year budget, barring any significant unforeseen revenue shortfalls, departments with savings will automatically carry over the unspent funds to the second year. Similarly, departments that overspend in the first year will not be given a higher budget allocation in the second year; they will have less to spend.
- At the end of the second year, barring any significant unforeseen revenue shortfalls, departments with savings will be able to retain 50% of the unused funds for capital or other one-time needs. The other 50% will be used to balance the General Fund or be returned to the General Fund reserves.

As of June 30, 2017, the balance of previously appropriated and unspent funds that were not approved by the Budget Resolution, but recommend to be carried over, is \$7,916,112 across all funds. The City Manager's Office reviewed the request and concurs with all items. The total General Fund portion of these requested carryovers are \$4,012,960, which is consistent with prior years (FY 13/14 - \$1,833,761, FY 14/15 - \$3,356,951, FY 15/16 - \$2,927,982).

General Fund Reserve

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.

With transfers from Measure Z to the General Fund to cover operational shortfalls and to build up reserves, the General Fund reserve is projected to be \$41.5 million, or approximately 15.4% of FY 2016-17 operational expenditures (Attachment A-2). The savings over the 15% target are recommended to address various unfunded needs, as discussed above.

Consolidated Annual Financial Report (CAFR)

The City's independent auditor, Macias, Gini & O'Connell L.L.P. (MGO), has completed the fieldwork pursuant to the annual audit of the City's financial statements and other financial reports subject to audit, including:

1. Comprehensive Annual Financial Report (CAFR)
2. Successor Agency to the Redevelopment Agency of the City of Riverside Financial Report
3. Riverside Public Financing Authority Financial and Compliance Report
4. Air Quality Management District Report

5. Riverside Public Utilities Annual Financial Report
6. Appropriations Limit (Gann) Calculation Compliance Opinion
7. Single Audit Report on Federal Awards

Staff is currently working with MGO to complete the CAFR and anticipates presenting the results of the audited financials to the Public Utilities Board on December 11, 2017 (Electric and Water Funds only), the Finance Committee on December 13, 2017, and the City Council on January 9, 2018. At the December 11, 2017 Finance Committee meeting, staff will present these reports and the City's Management Letter from MGO, which attests to the accuracy of the financial statements. The report will provide a complete analysis of the health of the organization and highlight the City's major funds (e.g. General Fund, Electric Fund, Water Fund and Sewer Fund). The information included in this Fourth Quarter Financial Report is based on the preliminary CAFR information and is not expected to change.

QUARTERLY INVESTMENT AND CASH REPORT

Sound investment practices are an essential component of the City's strong fiscal management. The Finance Department is responsible for managing the City's investment portfolio, focusing first on the safety of investments, and then on liquidity and an appropriate rate of return. The investment results and portfolio composition are summarized and reported to the City Council on a quarterly basis. As of June 30, 2017, the City's pooled investment portfolio's market value was \$625 million, with the market value of investments held by fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$191 million. The weighted average yield of the pooled investment portfolio is 1.135%. Through prior City Council approval, the Chief Financial Officer/Treasurer has the authority to invest/reinvest funds and to sell or exchange purchased securities, consistent with the City's adopted investment policy. This approval is required by State law and is presented to the City Council at the start of each fiscal year.

The Investment Report, including a listing of cash balances by fund, is included in Attachment B. These cash balances reflect each fund's share of the City's pooled investment portfolio. Also shown are interfund loan receivables, which are treated as available cash due to the Finance Director/Treasurer's authorization to move loan receivables to other funds as needed.

All listed funds have a positive cash balance with the exception of the following funds:

1. Housing Opportunities for Persons with AIDS (\$450,004), which is fully offset by outstanding grant receivables.
2. Certificates of Participation Projects (\$494,052), Capital Outlay (\$3.8 million), and Transportation Uniform Mitigation Fees (\$1.85 million) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.
3. The Self-Insurance Liability Trust Fund has a negative cash balance of approximately \$1.7 million, but is consolidated with the positive cash balances of the Workers Compensation Insurance Trust Fund (\$16.0 million) and Unemployment Insurance Trust Fund (\$415,220) for financial reporting purposes. As requested in this report, staff recommends adding \$2.5 million to the Liability Insurance Trust Fund in FY 2017-18, using General Fund balance from FY 2016-17. Further, the City Council approved a total of \$5 million from Measure Z over the next two years to return the Liability Insurance Trust Fund to an improved financial condition (cash and fund balance levels) over the next five years.

QUARTERLY DEBT REPORT

The Finance Department is responsible for managing the City's debt portfolio, which includes issuing new debt and monitoring opportunities to refinance existing debt when opportunities to reduce interest costs arise. The Quarterly Debt Report (Attachment C) summarizes the composition of the City's debt portfolio, details the revenue sources utilized to pay the debt service associated with each outstanding debt, and provides detailed information regarding the total principal and interest payments due in the current fiscal year by Fund. As of the fourth quarter, the City's outstanding principal balance decreased by \$76,675,318. The principal balance reduction includes the payoff of the City's interest only Bond Anticipation Note (BAN) that was converted to a 10-year Pension Obligation Bond in May of 2017 and the payoff by the developer of the Hyatt Hotel Project for \$19.8 million, coupled with other annual principal payments. This was offset by converting the City's interest only Bond Anticipation Note (BAN), which was refunded yearly into a 10-year Pension Obligation Bond (2017A POB) in May 2017.

FISCAL IMPACT:

Over the past fiscal year, the City of Riverside has made tremendous fiscal progress. Specifically, the City Council has received reports on the City's unfunded needs, approved departmental reductions, established a Budget Engagement Commission (BEC), adopted a Responsible Spending Pledge, and led the charge for the passage of Measure Z. The culmination of these City Council actions, combined with strong executive leadership, have laid a new, stronger financial foundation for the City.

The strong financial foundation for the City has resulted in FY 2106-17 financial outcomes that leave the City with an operating General Fund Reserve of 15% and the ability to address previously unfunded capital needs (e.g. Convention Center and Fox Entertainment Plaza) and unfunded liabilities (e.g. Self-Insurance Liability Trust Fund).

The total fiscal impact of the action is \$7,916,112 in carryovers, including \$4,012,960 in the General Fund, which will allow departments to continue to press forward on meeting their Riverside 2.1 goals and objectives.

The management actions recommended for approval by the City Council also include the funding of critical building needs for City facilities in FY 2017-18. These items include the Convention Center (\$140,000), Fox Entertainment Plaza (\$70,000), Municipal Auditorium (\$70,000), and other facilities (\$1 million) that will make an impact across the entire City. Additionally, staff is recommending approval for appropriation of two Historic Preservation grants, totaling \$50,000, for the Museum.

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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:

- A. FY 2016-17 Fourth Quarter General Fund and Measure Z Financial Report
- B. FY 2016-17 Fourth Quarter Cash and Investment Report
- C. FY 2016-17 Fourth Quarter Debt Report
- D. FY 2016-17 Carryover Analysis
- E. Presentation