



City of Arts & Innovation

Financial Performance and Budget Committee

**TO: FINANCIAL PERFORMANCE AND
BUDGET COMMITTEE MEMBERS**

DATE: DECEMBER 10, 2021

FROM: FINANCE DEPARTMENT

WARDS: ALL

**SUBJECT: FISCAL YEAR 2022-2024 BASELINE BUDGETS FOR THE GENERAL FUND
AND MEASURE Z - DIRECT SUBMITTAL**

ISSUE:

Receive and provide input on the Fiscal Year 2022-2024 General Fund and Measure Z Baseline Budgets and budget goals.

RECOMMENDATION:

That the Financial Performance and Budget Committee receive and provide input on the Fiscal Year 2022-2024 General Fund and Measure Z Baseline Budgets and budget goals.

COMMISSION RECOMMENDATION:

On December 9, 2021, the Budget Engagement Commission (BEC) will meet to receive a report on the Fiscal Year 2022-2024 General Fund and Measure Z Baseline Budgets and budget goals. Feedback from the BEC will be shared verbally, during the presentation of this report to the Financial Performance and Budget Committee.

BACKGROUND:

On June 16, 2020, the City adopted a one-year emergency budget for Fiscal Year (FY) 2020/21 due to the onset of the COVID-19 pandemic and potential fiscal impacts of the pandemic on City finances.

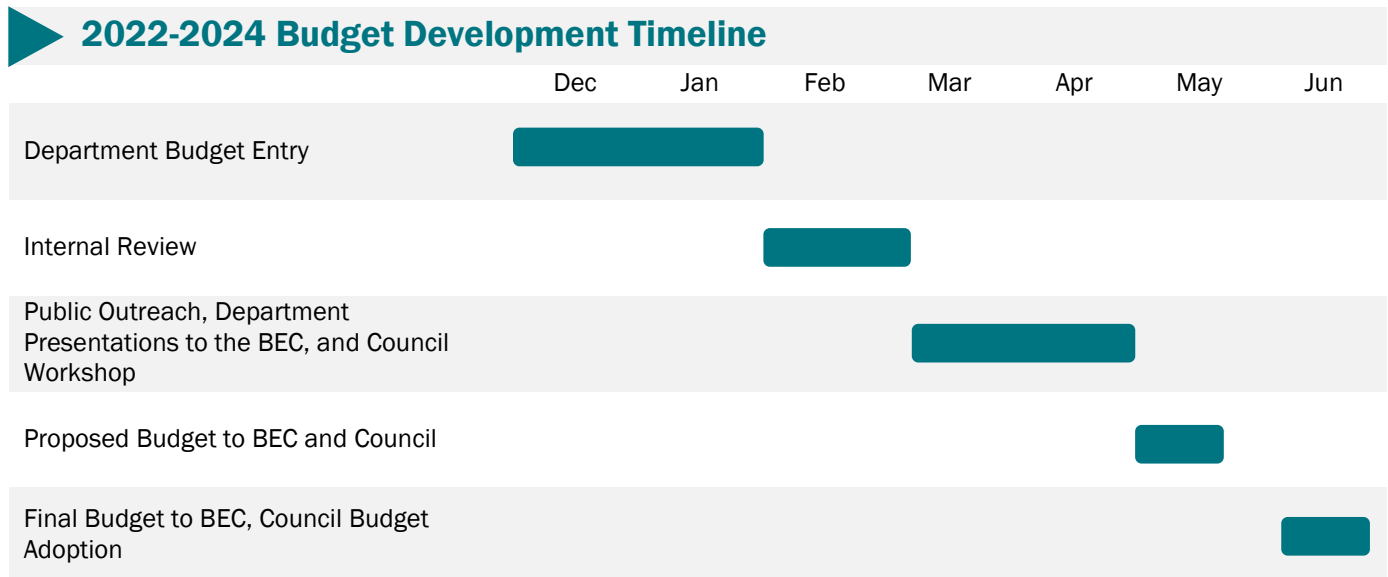
On June 22, 2021, the City adopted a one-year budget for FY 2021/22 due to the continued uncertainty of the pandemic on City finances; the pending outcome of the legal challenge to the General Fund Transfer (GFT) from the Electric Fund and ongoing contingency planning efforts; and the planned implementation of Priority Based Budgeting (PBB) in the FY 2022-2024 biennial budget.

The City will return to the development and adoption of a two-year (biennial) budget for fiscal years 2022/23 and 2023/24.

On November 18, 2021, the BEC received an update on the development of the Fiscal Year 2022-2024 Biennial Budget and the adoption of the priority-based budgeting methodology; discussed the result of the Measure C ballot measure on City finances; and provided feedback and recommendations related to the prioritization and funding of critical unfunded needs.

DISCUSSION:

The City will return to a biennial budget with the FY 2022-2024 budget. The anticipated schedule for budget development is illustrated below.



FY 2022-2024 General Fund Budget Goals

Two primary goals have been established for the FY 2022-2024 budget development cycle:

1. Leverage PBB to identify and reallocate funding to critical unfunded needs.
2. Implement a financing strategy of planned contributions and withdrawals to/from the Section 115 Trust to smooth the annual fiscal impact of the combined CalPERS UAL and 2020 Pension Obligation Bond payments.

PBB and Critical Unfunded Needs

The implementation of PBB has continued with the updating of program inventory, allocation of the adopted FY 2021/22 line-item budget to programs, and rescoring programs in alignment with the strategic plan. The PBB methodology will be utilized in preparation for the upcoming budget cycle to identify a potential reallocation of resources toward funding critical needs, as illustrated in Attachment 1. As of the time of this report:

1. Staff identified critical unfunded needs.
2. The Deputy Leadership Team ranked the critical unfunded needs in order of highest to lowest priority within each PBB quartile¹.

¹ PBB Quartiles, numbered 1 through 4, indicate how closely a program is aligned with the City's strategic plan, with "1" indicating the highest alignment and "4" indicating the lowest alignment.

3. The Executive Leadership Team identified items that they believe are important to fund in FY 2022/23. (All steps in this process will be repeated annually, including for the FY 2023/24 mid-cycle budget update.)
4. The BEC provided feedback on the preliminary listing and prioritization of critical unfunded needs.
5. City staff participated in two PBB Insights workshops to identify potential funding for critical unfunded needs.

Throughout the month of November, ResourceX facilitated a series of Insights workshops in which City staff identified opportunities to free up resources and enhance revenue to fund critical needs. Those efforts are expected to result in the identification of the total funding available to reallocate to critical unfunded needs. City leadership will then reconvene to finalize the list of critical needs that can and will be funded through the reallocation of program resources or new revenues identified during the Insights workshops.

Baseline Budget Projections – General Fund

The following summarizes the methodologies and assumptions applied to the development of the General Fund baseline budget (Attachment 1).

Revenue projections in the General Fund baseline budget were developed based on a review of FY 2020/21 actual (unaudited) results; FY 2021/22 fiscal year-to-date performance and updated projections; trend analysis; consultant advice; consideration of ongoing pandemic impacts on City revenue sources; and other resources. In total, the FY 2022/23 baseline revenue budget is projected 3.4% higher than updated FY 2021/22 projections, and revenue growth of 2.6% is projected for FY 2023/24. The City's property and sales tax consultant has provided preliminary revenue estimates for the baseline budget and will provide refined revenue estimates in January 2022. Currently, healthy revenue growth is expected in both revenue categories. A significant, unexpected, and very unusual 18.2% growth in FY 2020/21 sales tax revenue as compared to the prior fiscal year has bolstered General Fund revenues to the extent that staff does not expect a need for balancing measures in the biennial budget.

Expenditure projections in the baseline budget are based on current employee demographics and active MOU requirements; current debt obligations; updated worker's compensation and general liability rates; and other known items. In FY 2022/23, the 2004 Safety Pension Obligation Bond will be paid in full, allowing the City to reallocate a portion of those funds in future years to the Section 115 Trust for the long-term management of the CalPERS UAL; an \$11M reduction in debt allocations in FY 2023/24 is allocated to the Section 115 Trust in the baseline budget. The FY 2022/23 baseline is 6.3% higher than the FY 2021/22 adopted budget (2.7% if the \$10 million vacancy savings target in the FY 2021/22 adopted budget is excluded); an increase of 1.8% is projected for FY 2023/24.

Due almost entirely to the robust sales revenue estimates, the FY 2022-2024 biennial budget is expected to be balanced, with no requirement for balancing measures.

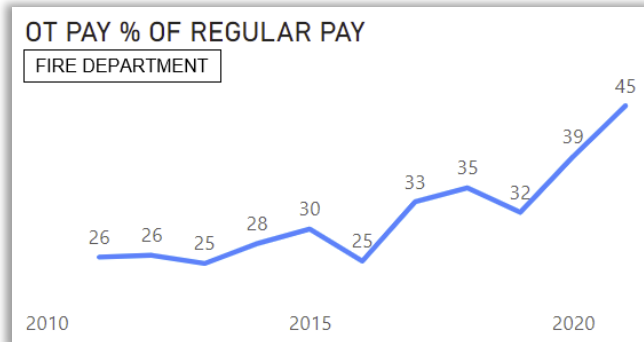
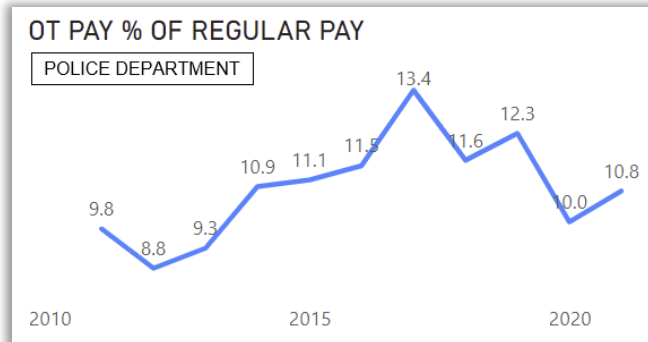
GENERAL FUND BASELINE BUDGET FY 2022-2024

(\$ in millions)

	FY 2018/19 Actuals	FY 2019/20 Actuals	FY 2020/21 Actuals	FY 2021/22 Projections	FY 2022/23 Baseline	FY 2023/24 Baseline
Revenue	\$278.67	\$279.45	\$298.03	\$300.65	\$310.89	\$319.03

Expenditures	271.38	280.48	262.14	288.04	306.12	311.52
Surplus/(Deficit)	\$7.29	\$(1.03)	\$35.89	\$12.61	\$4.77	\$7.51

The baseline does not include contingencies for pending labor negotiations. If the fiscal impact of labor negotiations exceeds the surpluses displayed in the table, balancing measures will be required in the biennial budget. Additionally, the impact of potential salary increases on overtime costs must be considered. The following charts illustrate the historical overtime rate for the Police and Fire departments as a percentage of regular pay. The baseline budget includes an overtime rate of 11.5% for Police and 35% for Fire.



The baseline assumes uninterrupted receipt of the Electric GFT as a revenue source in the General Fund. The City is currently responding to a legal challenge to the certification of the results of the Measure C ballot measure that was approved by voters in November 2021. Should an injunction on the certification of Measure C results be upheld, the budget strategy will require a significant shift to reflect the revenue loss and address the resulting deficits displayed in the following table. A contingency plan was developed prior to the November election and would be implemented to address a loss in the Electric GFT. The initial action would be to eliminate the contributions to the Section 115 Trust to minimize the immediate impact on City operations, such as police and fire, street repair, building maintenance, and community programs and services. Refer to Attachment 2 for a baseline budget reflecting the removal of the Electric GFT and the Section 115 Trust contributions.

POTENTIAL IMPACT OF MEASURE C CHALLENGE ON GENERAL FUND BASELINE BUDGET

(\$ in millions)

	FY 2018/19 Actuals	FY 2019/20 Actuals	FY 2020/21 Actuals	FY 2021/22 Projections	FY 2022/23 Baseline	FY 2023/24 Baseline
Baseline Revenue	\$278.67	\$279.45	\$298.03	\$300.65	\$310.89	\$319.03
Electric GFT					(42.83)	(44.74)
Revenues	\$278.67	\$279.45	\$298.03	\$300.65	\$268.06	\$274.29
Baseline Expenditures	\$271.38	\$280.48	\$262.14	\$288.04	\$306.12	\$311.52
Trust Contribution					(0.89)	(11.00)
Expenditures	\$271.38	\$280.48	\$262.14	\$288.04	\$305.23	\$300.52
Surplus/(Deficit)	\$7.29	\$(1.03)	\$35.89	\$12.61	\$(37.17)	\$(26.23)

Baseline Budget Projections – Measure Z

The Measure Z Spending Plan (Attachment 3) has been updated to report projected (unaudited) FY 2020/21 results and proposed carryovers as well as FY 2021/22 projections. FY 2020/21 transaction & use tax revenue posted a 15.4% gain over the prior year, providing a much higher base than anticipated for the projection of baseline revenues. Baseline tax revenues include a 2.9% projected annual growth rate over the updated FY 2021/22 projection.

On November 16, 2021, the City Council approved a use of unallocated Measure Z reserves for the following items:

- \$3.5M additional funding for Spending Item #29 – Maximize Roads/Streets (street maintenance projects). This allocation is reflected in the Spending Plan.
- \$10.8M (estimated) for the purchase of two Police helicopters, funded by a capital lease. This allocation will reduce the unallocated Measure Z reserves in an amount to be determined following the estimation of annual lease payments. This allocation is not reflected in the Spending Plan.

MEASURE Z SPENDING PLAN – FY 2023 & 2024 BASELINE BUDGETS

(\$ in millions)

	2019	2020	2021	2022	2023	2024
Revenue	\$62.81	\$63.14	\$72.65	\$74.65	\$76.80	\$79.02
Expenditures	(40.99)	(49.56)	(50.85)	(67.54)	(65.85)	(63.84)
Encumbrances & Carryovers	-	-	(36.16)	-	-	-
Net Change in Fund Balance	\$21.82	\$13.58	\$(14.36)	\$7.11	\$10.95	\$15.18
Beginning Fund Reserves	\$22.74	\$39.56	\$53.14	\$38.78	\$45.89	\$56.84
Net Change in Fund Balance	21.82	13.58	(14.36)	7.11	10.95	15.18
Policy Reserve Set-Aside	(5.00)	-	-	-	-	-
Ending Unallocated Reserves	\$39.56	\$53.14	\$38.78	\$45.89	\$56.84	\$72.02

Next Steps

City departments will prepare their proposed budgets during the months of December and January, followed by review with the City Manager's team. Based on the City Manager's review and approval of departments' proposed budgets, departments' budget proposals will be presented to various Boards, Commissions, and Committees, and subsequently presented to the City Council at a budget workshop on April 18, 2022. The City will also explore additional options for community engagement in the budget process. Following feedback from these forums, a formal proposed budget will be developed for BEC and City Council consideration in May, with budget adoption by the City Council required in June.

STRATEGIC PLAN ALIGNMENT:

The topics included in this report align with **Strategic Priority 5: High Performing Government and Goal 5.4:** Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

The report item aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – The development of the FY 2022-2024 Biennial Budget is an inclusive and transparent process that incorporates community engagement, involvement of City Boards & Commissions, and timely and reliable information.
2. **Equity** – The Riverside community at large is invited to participate in community engagement efforts and public meetings related to the development of the FY 2022-2024 Biennial Budget. Equity is a major component of the strategic plan and is a primary consideration in determining how programs score during the PBB process.
3. **Fiscal Responsibility** – The thoughtful and deliberate nature of the City's budget development process and focus of PBB to prioritize the allocation of City resources in alignment with the strategic plan demonstrates the City's commitment to responsible management of the City's financial resources while providing quality public services to all.
4. **Innovation** – PBB is an innovative approach to decision-making and combines technology with a collaborative working approach to create data about programs that can be applied during the budgeting process.
5. **Sustainability & Resiliency** – The budget development process and adoption of PBB methodology facilitate the balancing of current and future needs, thereby supporting the ultimate goal of long-term fiscal stability for the City.

FISCAL IMPACT:

There is no immediate fiscal impact as a result of this report. The input received from the Financial Performance and Budget Committee on the General Fund and Measure Z baseline budgets and budget goals will be incorporated into development of the City's FY 2022-2024 biennial budget.

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Approved as to availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Kris Martinez, Interim Assistant City Manager
Approved as to form: Phaedra A Norton, City Attorney

Attachments:

1. General Fund Baseline Budget
2. General Fund Baseline Budget – Measure C Challenge
3. Measure Z Baseline Budget
4. Presentation