



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: DECEMBER 14, 2021**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: FISCAL YEAR 2020/21 FOURTH QUARTER REPORT AND CARRYOVER OF UNEXPENDED FUNDS

ISSUE:

Receive and provide input on the Fiscal Year 2020/21 Fourth Quarter Financial Report; approve citywide carryovers; and provide direction on the use of surplus General Fund reserves.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on the Fiscal Year 2020/21 Fourth Quarter Financial Report;
2. With at least five affirmative votes, approve a carryover of unexpended funds of approximately \$2.3 million in the General Fund and \$38.7 million in other City funds into fiscal year 2021/22; and
3. Approve staff's recommendation on use of the \$47 million in surplus reserves in the General Fund contingent upon a successful certification of the General Fund Transfer election results.

BACKGROUND:

On June 16, 2020, the City Council adopted Resolution No. 23592 approving the Fiscal Year (FY) 2020/21 (Emergency) Annual Budget. The adopted budget was the product of a truncated budget process prompted by the COVID-19 pandemic and Orders that limited the City's ability to receive the usual level of engagement in the budget process. Further, the impacts of the COVID-19 pandemic on City finances were largely unknown at the time of budget adoption due to the ongoing shut-down Order and uncertainty at all levels of the economy. As a part of the adoption of the emergency budget, staff committed to the City Council and the public that interim reports and recommendations to the adopted budget would be made as needed. Throughout the fiscal year, the City's Chief Financial Officer has provided updates to the City Council via a standing item on the agenda.

On October 27, 2020, the City Council received an interim financial update that reported on the preliminary results of fiscal year ending June 30, 2020, as well as economic developments observed since the adoption of the FY 2020/21 emergency budget.

On April 13, 2021, the City Council received the FY 2020/21 Second Quarter Financial Update.

On June 15, 2021, the City Council received the FY 2020/21 Third Quarter Financial Update.

DISCUSSION:

Following the close of each fiscal year, the City's independent auditor performs an audit of the City's financial statements. The FY 2020/21 Fourth Quarter Financial Report precedes the audit report and therefore presents **unaudited financial projections**. The audit report is expected to be completed in December, followed by presentations to the Financial Performance and Budget Committee and City Council.

Refer to Attachment 1 for a comprehensive Financial Report of the City's General Fund and Measure Z.

General Fund

The General Fund's unaudited actuals present a net gain of \$28.6 million after carryovers, primarily due to sales tax revenues performing exceptionally well despite the pandemic. The emergency budget included a 10% contingency revenue reduction for the potential effects of the pandemic on City revenues, but sales tax exceeded the contingency estimate by \$18.7 million. CARES Act funding for public safety costs of \$5.8 million also added to strong revenue performance.

General Fund revenues were 9.8% (\$26.6 million) higher than the total revenue estimate in the adopted budget, which included a 10% (\$28.1 million) contingency revenue reduction.

Encumbrances and project/grant carryovers totaling \$5.0 million will be carried forward as allowed per the Riverside Municipal Code. An additional \$2.3 million in the carryover of restricted and discretionary funds is recommended for Council approval (refer to Attachment 1, Appendix A). If Council approves additional recommended carryovers of \$2.3 million, expenditures will be 2.2% (\$5.9 million) less than budgeted.

As a result of positive financial performance, the following two balancing measures adopted in the FY 2020/21 emergency budget are not required, and the funding remained intact in the respective funds:

1. Allocating \$6 million from the unexpended Measure Z Spending Contingency line item to the General Fund.
2. Transferring \$6.2 million of the Section 115 Trust's \$9.4 million value (at the time of budget adoption) to the General Fund to help pay for the FY 2020/21 UAL payment.

The General Fund is expected to end the fiscal year with a \$47.1 million in surplus reserves, which includes the \$15.6 million prior year surplus. The General Fund Reserve policy adopted by City Council on September 6, 2016, states: "If at any time the Surplus Reserves exceed 10% of the General Fund expenditure budget during a fiscal year (for a total of a 25% General Fund Reserve

balance), staff must present a plan to the City Council with options for appropriate uses for the excess funds to bring the General Fund Reserve balance to the 25% level or below.” Staff recommends the following use of surplus reserves, which will bring the General Fund Reserve balance to the 20% level:

RECOMMENDED USE OF SURPLUS RESERVES

(in millions)

Projected Surplus Reserves	\$47.08
Proposed Use of Surplus Reserves	
Electric GFT Settlement	\$24.00
General Liability Fund Pre-Payment	2.50
Section 115 Trust	10.00
Capital Replacement Fund	10.58
Total	\$47.08
Remaining Surplus Reserves	\$-

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. For the moment, we should hold onto all surplus funds in the event the court does not uphold the November 2nd election. Should an injunction on the certification of Measure C results be upheld, the recommendations for the use of surplus reserves should be reconsidered in the context of the fiscal impact of an injunction on City finances.

Measure Z

As with the General Fund, Measure Z tax revenue projection was downgraded 10% as a contingency measure for the potential impact of the pandemic on revenue performance. Total revenues came in \$16.5 million higher than budgeted and 15.1% higher than the previous fiscal year.

Total expenditures recorded in FY 2020/21 were \$50.9 million. An additional \$36.2 million in unexpended funds allocated to various spending items has accumulated and is expected to be carried over. Expenditure savings of \$8.3 million are primarily attributable to personnel savings and \$6 million allocated to General Fund balancing measures which were not needed and have been returned to Measure Z unallocated reserves.

Measure Z unallocated reserves are projected to be \$38.8 million at fiscal year-end, inclusive of \$14.0 million in unallocated reserves from the previous fiscal year, \$16.5 million in higher-than-expected revenues, and \$8.3 million in expenditure savings.

Electric Fund

The FY 2020/21 adopted budget for the Electric Fund includes a programmed \$16.4 million operating deficit and draw on fund reserves. This is a financial strategy employed to draw reserves down to keep rate increases as low as possible. Unaudited fiscal year-end results present a budgetary operating loss of \$16.7M, including outstanding encumbrances and carryovers of \$11.8M. Reserve levels at fiscal year-end are expected to be within established policy levels; results are pending the completion of the financial audit.

Water Fund

The adopted budget for the Water Fund included a projected \$7.1M operating gain to be used to fund capital projects in FY 2020/21, supplemented by a \$1.1M draw on reserves and \$22.4M of bond proceeds. Unaudited fiscal year-end results present a budgetary operating gain of \$9.1M after outstanding encumbrances and carryovers of \$5.0M. The Water Fund is expected to end the fiscal year with reserves within policy levels; results are pending the completion of the financial audit.

Refuse Fund

In the adopted budget, the Refuse fund was originally projected to end FY 2020/21 in a deficit position of approximately \$1.4 million. The approval of the Solid Waste Rate Plan, which took effect on January 1, 2021, resulted in an increase to revenue forecasts; unfortunately, revenues resulting from the rate increase were not as high as anticipated and were offset by increases in recycling and disposal costs, resulting in an operating deficit of \$1.22M before encumbrances and carryovers and budgetary deficit of \$4.28M after encumbrances and carryovers. The Refuse Fund is expected to end the fiscal year with \$3.33M in fund reserves, following a FY 2020/21 net loss of \$4.28M.

Sewer Fund

The FY 2020/21 adopted budget for the Sewer Fund Included a projected net operating gain of \$7.6M which would be used to help fund capital projects of \$14.0M. Unaudited fiscal year-end results show that the fund will perform on target, with a net operating gain of \$7.6M after outstanding encumbrances and carryovers of \$3.07M. The Sewer Fund is expected to end the fiscal year with \$71.4M in fund reserves, following a FY 2020/21 net gain of \$7.6M.

Carryovers

A total of \$38,688,027 is recommended for Council approval, consisting of \$3,802,286 in restricted funding and \$34,885,741 in discretionary funding.

Restricted Carryovers represent appropriations of funding designated for a specific use per a third-party agreement, including donations, endowments, and grant matches.

Discretionary Carryovers include amounts appropriated for a specific purpose in previous periods, but unexpended due to timing or for other reasons. Discretionary carryovers may also include a reallocation of amounts from their original purpose to a new purpose, e.g., use of savings to fund the July 4th fireworks show, which was not funded in the adopted budget due to budget constraints.

Refer to Attachment 1, Appendix A for a detailed listing of carryover requests.

STRATEGIC PLAN ALIGNMENT:

The reporting and presentation of financial results aligns with **Strategic Priority 5: High Performing Government** and **Goal 5.3:** Enhance communication and collaboration with community members to improve transparency, build public trust and encourage shared decision-making.

Financial reporting aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – Presentation of financial results provides a transparent view and communication of City finances in a forum that accommodates community engagement and the involvement of the Budget Engagement Commission.
2. **Equity** – The financial report is available to all members of the public via the City website, and the presentation of the financial report in a public forum accommodates community engagement from all members of the public.
3. **Fiscal Responsibility** – The financial report and proposed recommendations for the use of surplus reserves demonstrate the City's commitment to responsible management of the City's financial resources.
4. **Innovation** – The proposed recommendations for the use of surplus reserves demonstrate innovative ideas for the long-term fiscal health of the City.
5. **Sustainability & Resiliency** – The financial report includes proposed recommendations regarding the use of surplus reserves that invests in the City's future and plans for the long-term fiscal health of the City.

FISCAL IMPACT:

The General Fund ended FY 2020/21 in far better condition than projected despite the pandemic, allowing the City to maintain a 20% reserve level per the General Fund Reserve Policy and producing surplus reserves. As a result of the prior year's surplus (\$15.64 million) and current year's financial performance, General Fund surplus reserves are expected to be \$47.08 million after Council approval of carryover recommendations totaling \$2.3 million. For the moment, we should hold onto all surplus funds in the event the court does not uphold the November 2nd election. Should an injunction on the certification of Measure C results be upheld, the recommendations for the use of surplus reserves should be reconsidered in the context of the fiscal impact of an injunction on City finances. If the certification of Measure C is upheld, the recommended use of surplus reserves will enable the City to address current needs of the Electric GFT Settlement and self-insurance reserves, as well as bolster the long-term financial stability of the General Fund and preservation of City infrastructure.

Following Council approval of \$36.2 million in carryovers, the Measure Z Fund is expected to end the 2020/21 fiscal year with \$38.8 million in unallocated reserves.

The City's major enterprise funds (Electric, Water, and Sewer) are expected to end the fiscal year with positive reserve balances within established policy requirements. The final results are pending the conclusion of the City's financial audit.

There is no new fiscal impact for the approval of carryovers because the funding was approved by the City Council in June 2020 with the adoption of the FY 2020/21 budget.

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Attachments:

1. Financial Report and Carryover Recommendations
2. Presentation