



# Budget Engagement Commission

*City of Arts & Innovation*

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**TO: HONORABLE COMMISSIONERS** **DATE: MARCH 10, 2022**  
**FROM: FINANCE DEPARTMENT** **WARDS: ALL**  
**SUBJECT: FISCAL YEAR 2021/22 SECOND QUARTER FINANCIAL UPDATE**

## **ISSUE:**

Receive and provide input on the Fiscal Year 2021/22 Second Quarter Financial Update and recommend Council approve supplemental appropriations and interfund transfers.

## **RECOMMENDATIONS:**

That the Budget Engagement Commission:

1. Receive and provide input on the Fiscal Year 2021/22 Second Quarter financial update;
2. Recommend that the City Council authorize the Chief Financial Officer to record an increase in revenue and appropriate expenditures in the amount of \$1,000 in the Development Grants Fund for additional funding received from the State Office of Historic Preservation grant;
3. Recommend that the City Council authorize the Chief Financial Officer to record a supplemental appropriation in the amount of \$350,000 in the General Fund Parks, Recreation and Community Services department for the repair of Shamel Park pool;
4. Recommend that the City Council authorize the Chief Financial Officer to record a supplemental appropriation in the amount of \$191,816 in the Community Facilities District 90-1 Highlander Fund for irrigation maintenance; and
5. Recommend that the City Council authorize the Chief Financial Officer to record an interfund transfer of Wellness Program Donations from the General Fund to the Grants and Restricted Programs Fund in the amount of \$46,679.90.

## **BACKGROUND:**

On June 22, 2021, the City Council adopted Resolution No. 23720, approving the Fiscal Year (FY) 2021-2022 Annual Budget.

On January 18, 2022, the City Council received and provided input on the Fiscal Year 2021/22 First Quarter Financial Update and approved mid-cycle budget adjustments. Budget adjustments related to rescinding the adopted vacancy savings balance measure in the General Fund have not been recorded because they were approved contingent upon the certification of the General Fund Transfer election results (Measure C). As of the compilation of this report, the certification matter is still pending with the court.

The City's Chief Financial Officer provides financial updates to the City Council via a standing item on the City Council's agenda and to the Budget Engagement Commission (BEC) via a standing item on the BEC's agenda.

## **DISCUSSION:**

Throughout the fiscal year, City departments and the Budget Office monitor and analyze all City funds for potential issues that require attention and mitigating action. For the second quarter report, City departments analyzed the financial status for all funds and appropriations under their purview. This update spans the period of July 2021 through December 2021.

### **General Fund**

The second quarter analysis presents a positive outlook for the General Fund, with revenues performing better than anticipated and expenditures trending within budgeted appropriation limits.

**Adopted Budget:** The adopted FY 2021/22 budget for the General Fund is balanced and includes a \$10 million balancing measure in the form of a vacancy savings target to offset a projected structural deficit. The Fire department's \$2 million vacancy savings target was accommodated via a transfer of 14 Fire personnel to the Measure Z Fund for the adopted budget year.

On January 18, 2022, the City Council approved a supplemental appropriation in the General Fund of \$5.5 million to rescind a portion of the \$10 million adopted vacancy factor contingent upon a successful certification of the General Fund Transfer election results (Measure C). If Measure C is certified, staff will record a supplemental appropriation equal to or less than the approved amount proportionate to the point in time at which the certification occurs within the fiscal year.

**Revenues:** FY 2021/22 General Fund revenues recorded through December 2021 were reviewed in context of FY 2020/21 actual results, performance to date, and potential COVID-19 impacts through the end of the fiscal year. As disclosed in the first quarter report, General Fund revenue projections were increased by approximately \$13.7 million due largely to outstanding sales tax performance. Second quarter analysis reveals that General Fund revenue projections may exceed revised revenue estimates by \$5 million, primarily due to continued exceptional sales tax revenue performance. Based on strong sales tax performance through September 2021, the City's sales tax consultant, HdL, has increased revenue projections from a 3.7% growth rate to an 8.1% growth rate in sales tax revenue over prior year actuals. Transient Occupancy Tax continues to outperform expectations and is currently 30% higher than the same period last year. If the current pace continues, Transient Occupancy Tax may exceed pre-pandemic FY 2018/19 actuals of \$7.2 million.

**Expenditures:** As of the second quarter, General Fund non-personnel expenditures are trending lower than prior years and may produce some savings at fiscal year-end. For the General Fund as a whole, personnel is expected to end the fiscal year on target. Based on an analysis of

overtime trends to date, the Fire Department is likely to exceed its overtime budget in FY 2021/22 by approximately \$2 million. Overtime costs are largely impacted by vacancies; currently, the Fire Department has 10 vacant firefighter positions, all of which are in the hiring process and were not part of any managed hiring initiative. Illness due to the COVID-19 pandemic has also contributed to excess overtime costs in the Fire Department. As of the second quarter, year-to-date trends in all other General Fund departments combined show that total personnel savings from those departments may be sufficient to offset the Fire Department's budget overage in overtime costs.

During the first quarter of FY 2021/22, the City Council approved supplemental appropriations totaling \$257,244 in the General Fund:

- Debt Collaboration Software \$17,127 – use of existing funds in the Special Deposits Fund.
- Emergency Air Support (Corona) \$120,000 – as-needed emergency air support services to the City of Corona, fully offset by corresponding revenues.
- Police Facilities Renovations \$120,117: use of existing funds in the Special Deposits Fund, Evidence Trust Account.

During the second quarter of FY 2021/22, the City Council approved supplemental appropriations totaling \$15,000 in the General Fund:

- Board of Ethics \$15,000 – establish an outside legal counsel budget for the Board of Ethics.

### Measure Z

Based on the spending items approved to date and strong tax revenue performance, Measure Z is projected to end the fiscal year with approximately \$44.8 million in unallocated fund reserves. Separately, \$5 million is held in contingency reserves per the adopted Measure Z Reserve Policy to ensure sufficient funding for ongoing costs in the event of under-performing revenues.

If the General Fund Transfer election result (Measure C) is certified, \$2 million will be reinstated to Measure Z unallocated reserves. This amount represents the Fire Department's vacancy savings target that was funded by Measure Z via the temporary move of fourteen firefighters from the General Fund to Measure Z.

**Revenues:** The FY 2021/22 adopted budget included projected revenue of \$64.8 million. The local sales tax revenue projection was revised to \$74.3 million in the first quarter. Based on strong local sales tax performance through September 2021, the City's sales tax consultant, HdL, has increased revenue projections from a 3.2% growth rate to a 6.5% growth rate in local sales tax revenue over prior year actuals. If the revenue trend continues through the fiscal year, tax revenue may come in \$2 million higher than the revised estimate.

**Expenditures:** Measure Z funds include many projects and one-time expenditures, causing expenditures to appear to be trending behind budget. However, spending is progressing as planned and within appropriation limits. Refer to Attachment 2 for a listing of spending items and their spending status.

## Enterprise Fund Reserves

Enterprise funds are a fund type used to account for the City's utility and other business-type activities. Enterprise funds are intended to be self-sufficient, with operating, debt, and capital needs covered by revenue generated from fees charged to external users for goods and services. Working capital represents the current (liquid) resources available to fund ongoing operations and is calculated as current assets less current liabilities. In this report and accompanying attachments, working capital is presented as "Fund Reserves" for the Sewer, Refuse, and Public Parking funds. The Electric and Water funds present undesignated reserves labeled as "Cash Reserves" per the Riverside Public Utilities' Cash Reserve Policy. These undesignated cash reserves contain several layers of reserve requirements (operating/working capital, rate stabilization, emergency capital, etc.). It is essential that enterprise funds maintain sufficient working capital to mitigate the risk of revenue shortfalls or unanticipated expenditures. Reserve policies for the Electric, Water and Sewer funds require operating (working capital) reserves equal to a minimum of 60 days of operating and maintenance expenses.

### Electric Fund

The FY 2021/22 adopted budget for the Electric Fund includes a programmed \$7.4 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. Reserve level estimates as of the second quarter end are within established policy levels.

**Revenues:** As of the end of the second quarter, Electric operating revenues are at 55.0% of budgeted projections. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 53.9% of total budget through December 2021. Retail sales are at 54.3% of total budget through December 2021 and 0.4% higher than expected. As of December 31, 2021, retail sales have resulted in higher than anticipated residential retail revenues and lower than anticipated retail revenue from commercial and industrial customers, which may be attributed to the impacts of COVID-19. Residential revenues were 5.4% higher than budgeted as of the second quarter. Commercial/industrial revenues remained 2.5% below budget through the second quarter. Transmission revenues are projected to perform as anticipated for the remainder of FY 2021/22.

**Expenditures:** Electric operating expenditures are 48.6% of total budget at the end of the second quarter. Year-to-date personnel costs are 21.4% lower than budget due to vacancies and attrition. On December 31, 2021, the Electric Fund had 91 vacancies out of a total 468.50 budgeted positions, for a vacancy rate of 19%. Year-to-date power supply costs are 2.9% higher than budget due to higher-than-expected energy costs. Some costs vary in their timing throughout the fiscal year; overall, Electric Fund expenditures are projected to remain within the budgeted appropriation limit at fiscal year-end.

### Water Fund

The Water Fund is in a healthy position with estimated reserve levels at the end of the second quarter within the required policy reserve range (including the available line of credit). Budgeted operating gains of \$7.2 million are anticipated, with approximately \$3.4 million to be used to fund \$21.5 million in capital projects in FY 2021/22, supplemented by bond proceeds.

**Revenues:** Total operating revenues for the Water Fund are 56.5% of projections as of second quarter end. With the summer season at the beginning of the fiscal year, projected retail sales

were expected to be at 57% of total budget through December 2021. Retail sales are at 57.6% of total budget through December 2021 and \$400,000 higher than expected. Residential revenues were 0.6% less than anticipated during the second quarter. Commercial, industrial and other revenues were 2.9% higher than budgeted.

**Expenditures:** Water Fund operating expenditures are 48.1% of budget at the end of the second quarter. Year-to-date personnel costs of are 11.8% lower than budget due to vacancies and attrition. On December 31, 2021, the Water Fund had 18.5 vacancies out of a total 164.50 budgeted positions, for a vacancy rate of 11%. Overall, Water Fund expenditures are projected to remain within the budgeted appropriation limit at fiscal year-end.

### Sewer Fund

The overall financial position of the Sewer Enterprise fund is in line with the Sewer Fund Reserve Policy objectives. Fund reserves were \$94.5 million at the beginning of FY 2021/22 or \$69.8 million net of prior year encumbrances and carryovers. The FY 2021/22 adopted budget projects a net operating gain of \$4.6 million which will be used alongside fund reserves to fund \$22 million of planned capital projects included in the FY 2021/22 adopted budget and capital improvement plan.

**Revenues:** Based on an analysis of second quarter performance to date, the Sewer Fund is on track to meet revenue projections and trending slightly higher than prior year revenues. At the end of the second quarter, 51.7% of projected revenues have been recorded.

**Expenditures:** Operating expenditures are 47.7% of total budget at the end of the second quarter. The Sewer Fund is experiencing chemical market volatility and temporary supply shortages resulting in an increase in unit cost of chemicals. That coupled with unplanned increases in biosolid removal due to truck driver shortages results in a projected overage in the non-personnel budget. Despite these unplanned increases, the Sewer Fund is expected to remain within total adopted appropriation limits through the fiscal year.

### Refuse Fund

The adopted budget for the Refuse fund projects a draw on fund reserves of approximately \$1 million due to revenues not keeping pace with rising costs. The Refuse Fund began the fiscal year with fund reserves of \$6.5 million, or \$3.5 million net of prior year encumbrances and carryovers. As of the second quarter, the reserve balance is expected to be sufficient to accommodate a current year deficit.

The Refuse Fund is currently experiencing both financial and operational challenges. Despite the recent rate increase, revenues are not keeping pace with rising recycling costs and increased tonnage from the pandemic, and a deficit is anticipated in FY 2022/23. Residential waste tonnages within the City have increased by 15%, causing the City to incur additional fees. Furthermore, state mandated programs under Senate Bill 1383 requiring residential food waste to be sorted are expected to increase the cost of processing residential green waste. While the costs of implementation of the food waste sorting program are currently unknown, it is anticipated that this new State program will lead to an increase in the projected deficit.

Maintenance costs are rising due to an aging fleet. Three refuse trucks have been ordered and were funded by a combination of cash and capital lease financing. The current budget includes funding for one new refuse truck and a new sweeper. The Public Works Department is exploring

funding options for the purchase of 7 or 8 additional refuse trucks. Refuse operations are also severely impacted by a high vacancy rate and retention issues. Within the Solid Waste Collections division, 14 of the 44 budgeted positions (32%) are currently vacant; recruitment to fill the positions is ongoing. Crews have worked significant overtime in an effort to provide continuity of service. The Parking Services Division has experienced similar difficulties recruiting new staff members, which has caused a loss of revenues on street sweeping days for the Refuse Fund.

City Staff are in the process of bringing a comprehensive update to the City Council regarding the state of equipment, recruitment, and ongoing challenges for the Solid Waste Division.

**Revenues:** The Solid Waste rate plan adopted by City Council in September 2020 included a Year 2 increase in rates effective July 1, 2021. As of the end of the second quarter, revenues are trending 16% higher than the same period last year and are at 47.5% of projected revenue. Street sweeping revenues may come in lower than anticipated due to street sweeping activities being negatively impacted by vacancies in the Public Parking Fund.

**Expenditures:** Operating expenditures are 36.9% of total budget at second quarter end; spending in some categories does not occur evenly throughout the year. Increases in recycling costs and tonnage as well as the impact of State mandates are resulting in higher than anticipated costs. Staff will continue to monitor expenditure needs to ensure the fund remains within the adopted appropriations limit and if necessary, will request Council approval for an increase in appropriations at a future date.

### Public Parking Fund

The Parking Fund is added to the quarterly financial report as a fund with ongoing financial concerns that may ultimately impact the General Fund if financial stability is not achieved: if the Parking fund exhausts its reserves, a General Fund subsidy will be necessary to pay Parking Fund debt obligations and sustain parking operations.

Parking Fund reserves at the beginning of FY 2021/22 are \$1.6 million, or \$300,000 net of prior year encumbrances. The adopted FY 2021/22 budget projects a draw on fund reserves of \$923,000 due to the lingering impacts of the pandemic on parking revenues, maintenance costs of aging infrastructure, and parking fees not keeping pace with operating costs. Based on second quarter analysis, the Public Works Department projected a net operating loss of \$1.6 million for FY 2021/22 which would fully deplete fund reserves.

On February 15, 2022, the City Council adopted revised parking rates and hours, and approved moving forward with a Parking Access and Revenue Control Systems (PARCS) contract. With these changes scheduled to be in place by July 1, 2022, net operating gains of \$214,000 are projected for FY 2022/23. In order to account for the ongoing impacts of COVID-19, this projection assumes a 60% utilization rate compared to normal parking volumes. Had the changes to rates, hours and operations not been adopted, a revenue loss of \$1.3M was projected for FY 2022/23. A history of efforts undertaken to reach this point, along with additional information about Parking Fund performance during FY 2021/22 are described below.

The Public Works Department has presented a number of strategies to address infrastructure needs and revenue requirements to achieve financial sustainability in the Parking Fund, and some corrective actions have been approved. Major strategies and actions include:

- 2016-2017: A recommended Strategic Parking Plan (SPP) addressed future parking needs with a phased approach to rate revisions; in 2017, the City Council approved an alternate

plan consisting of six incremental rate changes and six program enhancements over two fiscal years.

- 2018-2019: Program updates to the City Council and Transportation Committee included an operations overview, technology challenges, recommendations to pursue strategies, and balancing measures.
- 2020: Staff developed and recommended a Parking Ecosystem Sustainability Plan for program solvency, including infrastructure and equipment needs and parking strategies with rate changes.
- 2020-2022: Replace end-of-life single-space meters with multi-space meters (total cost approximately \$836,000).
- 2021: The City Council declared Garages 1 & 2 surplus property and directed their sale.
- 2021: On March 11, 2021, President Biden signed into law the American Rescue Plan Act (ARPA) to facilitate the recovery from the devastating economic and health effects of the COVID-19 pandemic. On November 9, 2021, the City Council approved the City's ARPA expenditure plan which includes \$1,300,000 in revenue loss funding for the Parking Fund.
- 2022: On February 15, 2022, the City Council adopted revised parking rates and hours and approved moving forward with the award of a Parking Access and Revenue Control Systems (PARCS) contract to replace outdated garage equipment at an estimated cost of \$925,000.

**Revenues:** As of the second quarter, parking revenues continue to lag due to the ongoing impact of the pandemic on parking activity and a scaled back Festival of Lights event for the second consecutive year. Although the adopted budget incorporated anticipated impacts of the pandemic on revenue performance, the Public Works Department projects a revenue shortfall of \$554,000 (9%) for the fiscal year as compared to the adopted budget. Position vacancies have limited some revenue-generating operations, such as parking code enforcement.

**Expenditures:** Expenditures are 42% of the total budget as of the end of the second quarter. Personnel savings resulting from position vacancies are expected to offset some revenue shortfalls. On December 31, 2021, the Public Parking Fund had 8 vacancies out of a total 18 budgeted positions, for a vacancy rate of 44%. The Public Works Department projects expenditure savings of approximately \$1.2 million (14.5%) for the fiscal year as compared to the total budget, inclusive of prior year encumbrances.

*Budget Adjustments*

Throughout the fiscal year, staff assesses the need for adjustments to the adopted budget. The following budget adjustments are recommended for Council approval; sufficient funds are available in the respective funds to accommodate the recommendations.

1. **General Fund - Parks, Recreation & Community Services (\$350,000 supplemental):** Shamel Park Pool currently requires the replacement of the 10-foot perimeter concrete pool decking. The decking is cracked and sinking, causing potential safety issues to the public because of structural integrity. A temporary fix is in the process being completed to allow programming to continue, but the fix does not address the structural and safety issues of the pool. If the pool is not promptly repaired, progressive damage may result in the pool being closed. Historically, Shamel is one of the busiest pools year-round: over 250 swimmers are using the pool on a daily basis. The pool is used daily for swim practice, high

school practices/competitions, senior and disabled aqua programs, and lap swim. City programming is offered from May – August and consists of youth and adult swim lessons and recreation swim. In addition, the pool is currently being used to conduct aquatic staff in-water training. Initial inquiries estimate pool repair at \$300,000; a formal bid will need to be issued for an official figure. With a projected gain of potentially \$18 million in the General Fund, there are sufficient funds to accommodate this supplemental request.

2. **General Fund / Grants & Restricted Programs Fund (\$46,679.90 interfund transfer):** Transfer Wellness Program Donations from the General Fund to the Grants and Restricted Programs Fund where General Fund donations are recorded and accounted for.
3. **Development Grants Fund – Community & Economic Development (\$1,000):** Supplemental appropriation of \$1,000 and an offsetting increase in revenues due to additional grant funds awarded from the State Office of Historic Preservation. Acceptance of the original grant award amount of \$9,000 was approved by City Council on December 17, 2019.
4. **Community Facilities District 90-1 Highlander Fund (\$191,816):** Supplemental appropriation from fund reserves of \$191,816 for irrigation timer upgrades to allow better monitoring of the irrigation systems and for additional plant material throughout the parkways along Lochmoor and Fair Isle to fill in bare areas and prevent erosion. There are sufficient fund reserves to accommodate this supplemental request.

### **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 demonstrate the City’s commitment to responsible management of the City’s financial resources.
4. **Innovation** – The financial reports, methodologies, and strategies proposed by staff demonstrate innovative management of City finances.
5. **Sustainability & Resiliency** – The financial reports, methodologies, and strategies proposed by staff demonstrate the City’s commitment to the long-term fiscal health of the City and preservation of City services.



**FISCAL IMPACT:**

As of the second quarter, the General Fund is anticipated to end the fiscal year with savings primarily due to exceptional sales tax revenue performance. However, the City is currently addressing a challenge to the certification of the General Fund Transfer ballot measure (Measure C); should the City not prevail on the legal issue, immediate fiscal action to preserve General Fund resources will be required.

The Measure Z fund has a significant amount of unallocated reserves available for new spending initiatives; however, staff recommends holding off on allocating the funds pending the outcome of the Measure C certification.

The City's Sewer, Electric, and Water Funds are healthy, with projected operating gains or strategic drawdowns of reserves to keep rates low. The reserves of each of the three funds are within policy reserve requirements.

Costs continue to outpace revenues in the Refuse fund, but as of the second quarter, fund reserves are sufficient to accommodate a potential operating deficit which may exceed the projected draw of \$1M based on revenue performance and rising costs.

The Public Parking Fund is projected to fully deplete its fund reserves; however, ARPA revenue loss funding in the amount of \$1.3 million, partially offset by an estimated expenditures of \$925,000 for the PARCS contract should allow the fund to end the fiscal year in a positive position. Additionally, recent Council action to revise parking rates and hours is expected to generate an operating gain of \$214,000 in the next fiscal year (FY 2022/23).

Following Council approval, the recommended supplemental appropriations and interfund transfers will be recorded; sufficient funds exist for all recommended actions.

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- Attachments:
1. Fiscal Update
  2. Measure Z Spending Status
  3. Presentation