

CITY OF RIVERSIDE FISCAL UPDATE



EXECUTIVE SUMMARY

As the country experiences a strong rebound in business sectors heavily impacted by the COVID-19 pandemic, the impact to business sectors, governmental agencies, and individuals spans a broad spectrum. The rebound of businesses, travel, and entertainment appears positive for all and has resulted in extraordinary sales tax growth and a rebound in transient occupancy tax for the City. However, the accompanying supply chain issues and inflation have resulted in significant price increases for consumers in nearly all areas of spending. The City continues to monitor the impact of the pandemic on local businesses and residents and has allocated a significant portion of federal funding from the American Rescue Plan Act (ARPA) to disproportionately impacted communities and to offsetting the local negative economic impact of the pandemic. (Visit <https://www.riversideca.gov/citymanager/arpa>)

The second quarter of Fiscal Year (FY) 2021/22 brings mixed news for City financials as General Fund revenue continues to perform exceedingly well while some enterprise funds are confronting significant operational and financial challenges. As a result of rebounding business activity and high prices, strong sales tax growth is projected to fully offset the adopted General Fund deficit for the current fiscal year. While the travel and entertainment sectors continue to recover, the City's entertainment venues are experiencing a prolonged recovery. The Public Parking Fund, already experiencing operational and financial challenges prior to the pandemic, has seen a rapid depletion in fund reserves as parking activity was and continues to be impacted by decreased parking activity in the City's downtown area throughout the pandemic. Council recently took action to improve the sustainability of the Parking Fund through an allocation of ARPA funding and revision of parking rates and hours of operation. In the Refuse Fund, an increase in residential tonnage due to more people staying home during the pandemic alongside a shift in the recycling market caused an increase in costs; despite recent rate increases, refuse revenue is not keeping pace with costs in the Refuse Fund. Staff is engaging the City Council on these and other challenges. Overall, the City is actively addressing areas of fiscal concern, while enjoying a slight reprieve in General Fund concerns.

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ECONOMIC INDICATORS

INFLATION WATCH

Inflation Trends and Implications

The Consumer Price Index (CPI) is the broadest measure of the increases in the cost of living that the average consumer faces. CPI is still trending much higher, however, the pace of the gains should begin to abate in the next few months. The overall economy remains very hot (from an inflation standpoint) and will continue to remain in such a state, especially with ongoing supply chain issues. This constraint on supply is leading to higher prices for goods and services as demand outpaces supply by a large margin.

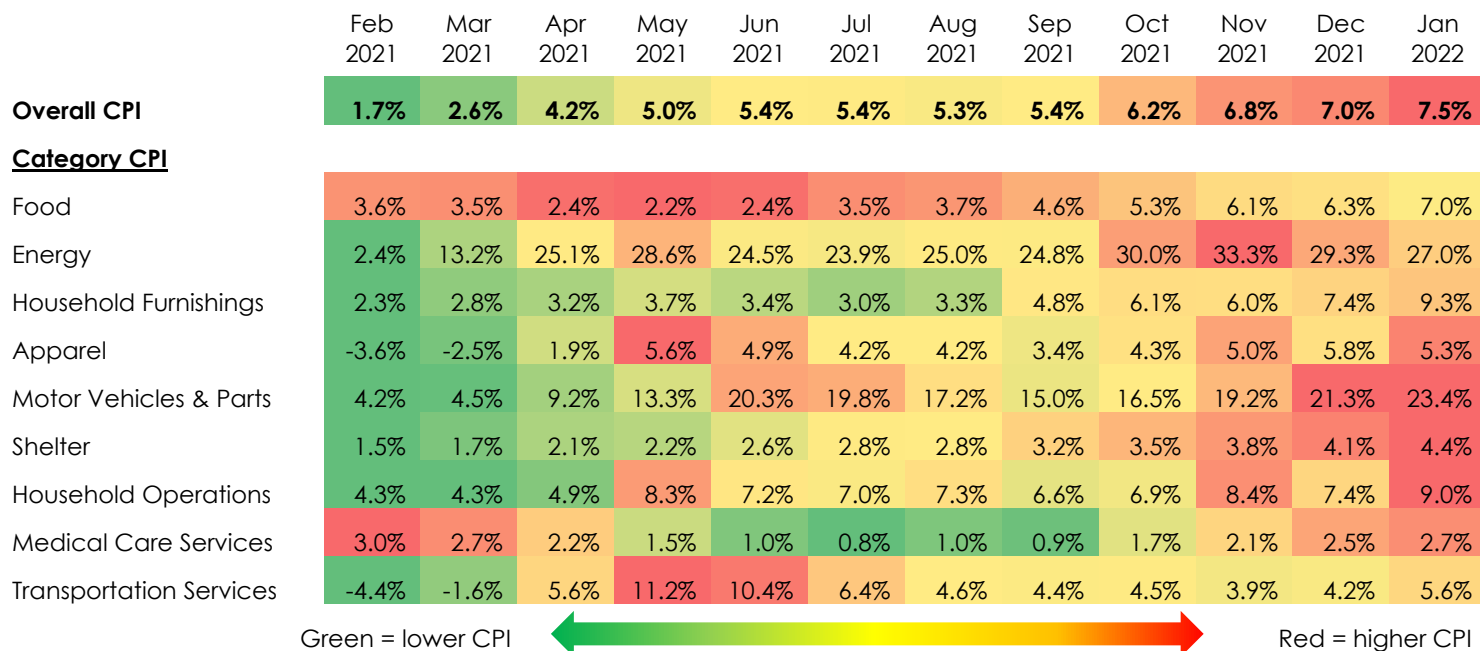
The main categories contributing to this inflation growth are food, energy, and transportation, specifically automobile prices, both new and used. This **annualized increase of over 20% in automobile prices** is stoking this area of inflation. Again, this can be directly traced back to supply chain issues and a lack of consistent inventory levels at auto dealers. The expectation remains for a cooling off in automobile prices as more auto parts manufacturing comes back to normal output levels.

Oil and gasoline continue their march upward. Oil prices are nearing the \$100-a-barrel mark amid tight supplies, coupled with a reopening economy that is outstripping available petroleum inventories. Reports are floating in about more oil production coming online soon, but that is at least a few quarters away before any material relief can be felt at the pump. Additionally, the continued political unrest between Russia and the Ukraine could potentially have a long term impact on gasoline prices.

Housing affordability is also impacted by supply chain issues, with the cost of materials driving up the cost of housing development. The California Association of Realtors' (CAR) Housing Affordability Index measures the percentage of households that can afford to purchase a median-priced, single-family home in California. Their December index lists the median price of Riverside housing at \$585,000, requiring a monthly housing payment of \$2,720 and a minimum qualifying income level of \$108,800. CAR reports that 25% of households can afford a home in California, up slightly due to higher incomes and slowing price growth, but well below the 56% affordability level of just a decade ago.

Meanwhile, **rental costs** in the Riverside-San Bernardino-Ontario region are more expensive than 65% of the state, according to *rentdata.org*. Median rental prices range from \$1,153 for a studio/efficiency apartment to \$2,761 for a 4-bedroom home. California law AB 1482 (the Tenant Protection Act) caps annual rent increase at 5% plus the change in the regional April CPI. Accordingly, the maximum allowable rental increase for the period of August 2021-July 2022 was 8.6%.

MONTHLY CPI HEATMAP

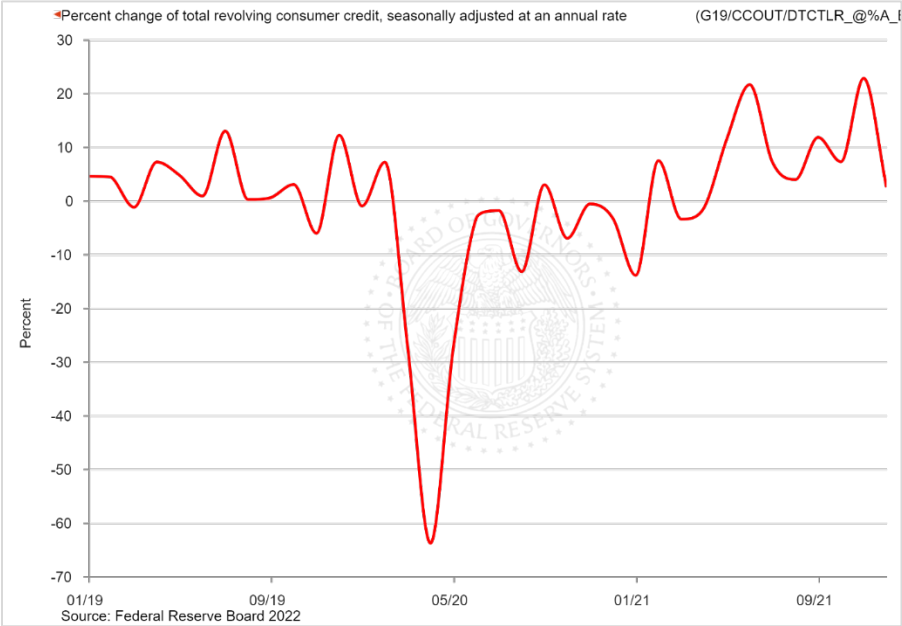


CONSUMER SPENDING TRENDS

Consumer Spending Trends

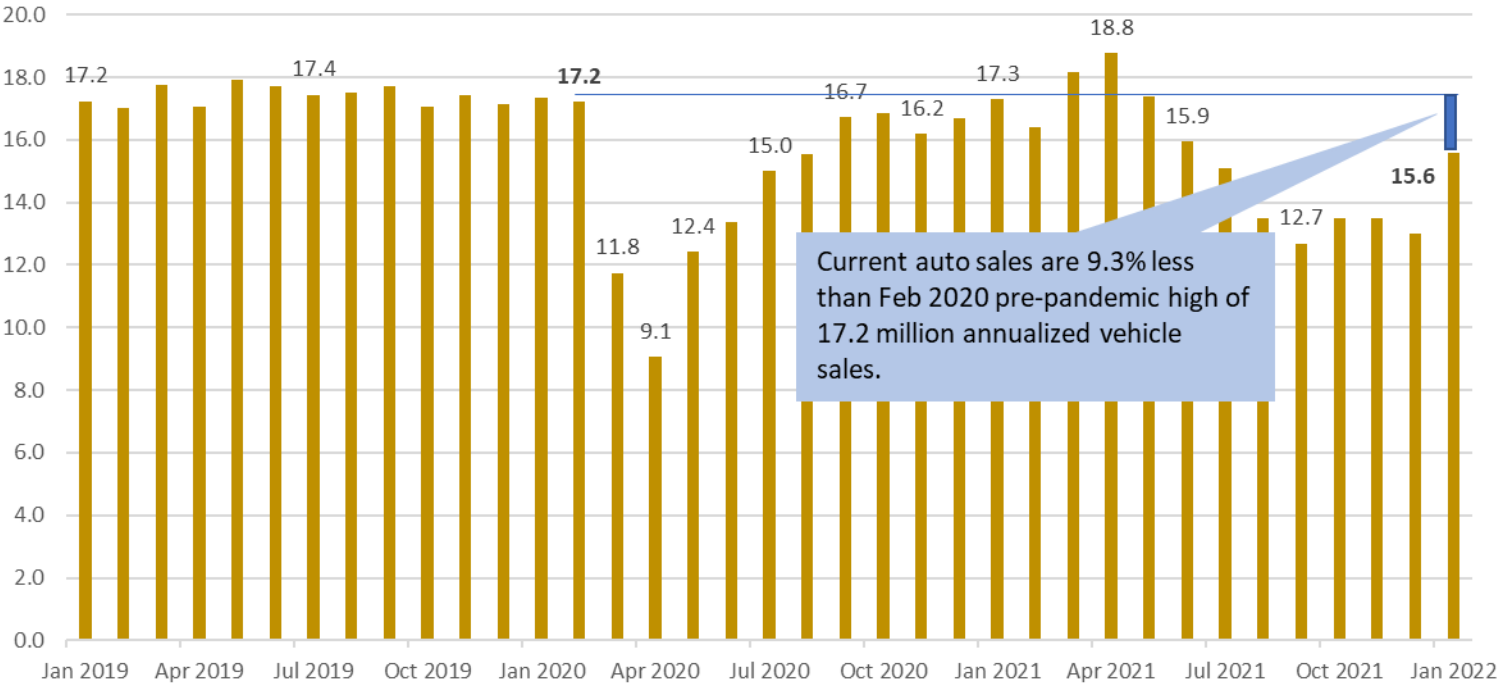
The City continues to enjoy relatively higher than expected sales tax receipts. Much of consumer spending has been impacted by higher prices. Among those categories are **auto sales**, which **account for 26% of City sales tax receipts**. While an overall decrease in auto unit sales has been realized since the start of the pandemic, there has been a steady, upward trend of units sold. Coupled with the increase in prices in both new and used autos, the City's portion of sales tax revenue from these sales continues its march upward and is exceeding expectations.

The City will continue to see significant growth in sales tax revenues until the slowdown and impacts of pricing pressures begin to crowd out other industry segments. Consumer spending does have limitations and data is showing that the consumer is beginning to get overburdened with household debt, especially on the revolving credit side of things. **June 2021 & November 2021 saw some of the largest increases in revolving debt** in many years (+21.6% & +22.8% respectively).



Vehicle Sales Per Month Millions of Units

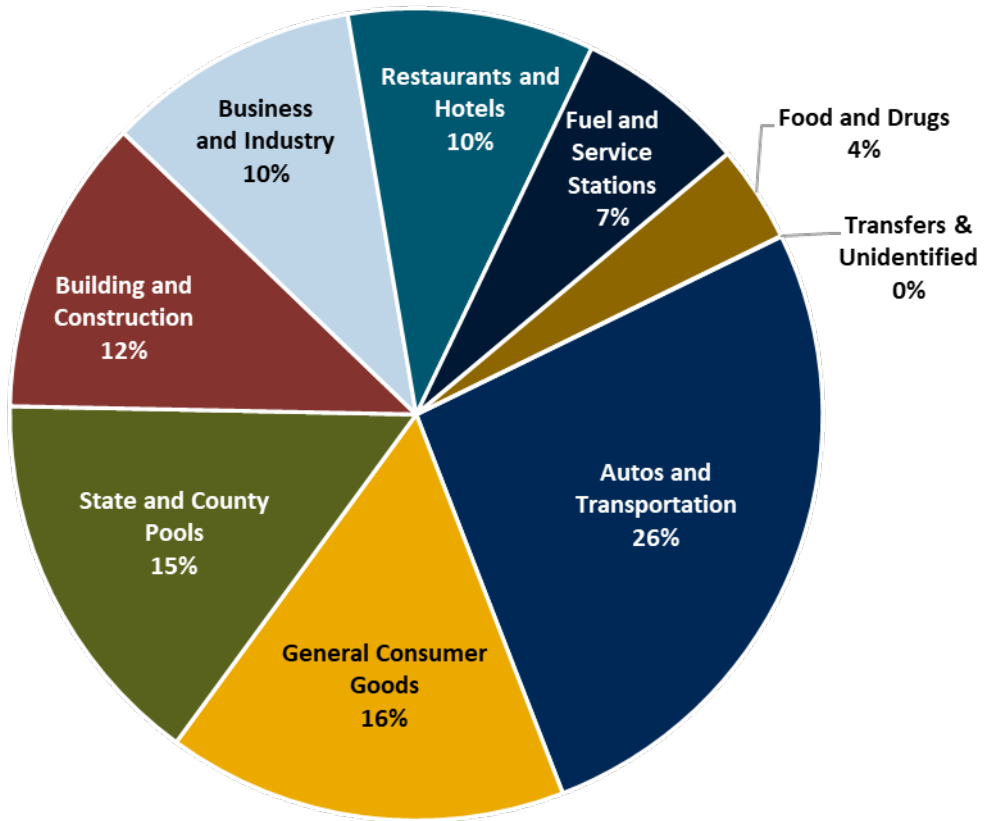
Source: Federal Reserve Bank of St. Louis
Monthly Vehicle Sales Data
<https://fred.stlouisfed.org/series/TOTALSA>



GENERAL FUND REVENUE

Overall, General Fund revenue is on target with revised revenue projections which are \$13.7 million above the adopted budget. Since the first quarter report, sales tax has continued a strong upward trend, prompting the City's sales tax consultant (HdL) to revise its previous 3.7% annual growth estimate to 8.1% higher than prior year revenue. Overall, sales tax is up 18% over the prior year for the same period. Based on sales tax receipts in the second quarter, sales tax revenue may come in \$5 million higher than the first quarter's revised revenue projections.

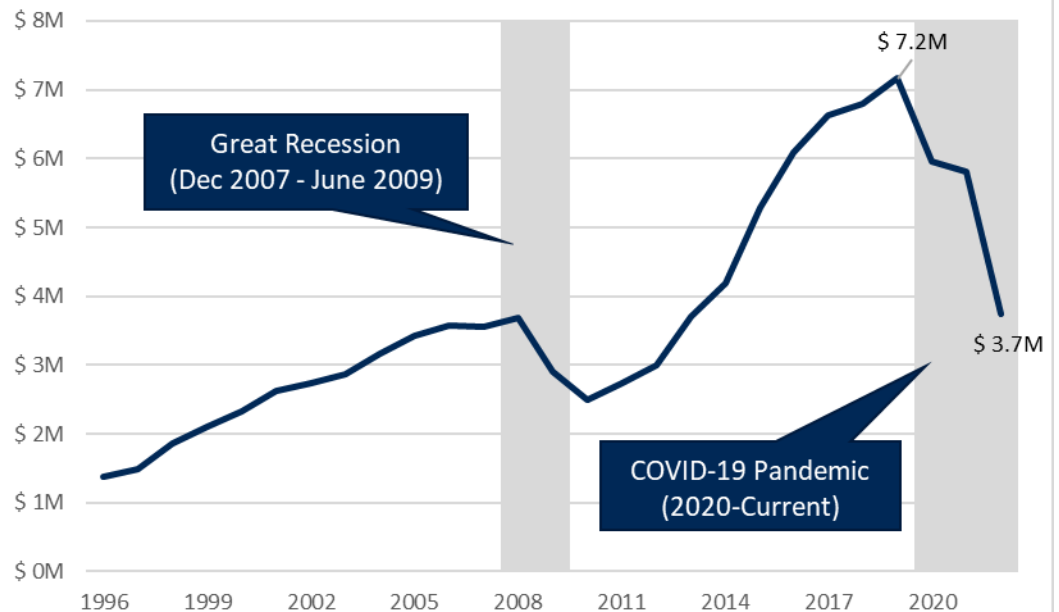
City Sales Tax Sources



Transient Occupancy Tax

As one of the hardest-hit revenue sources during the COVID-19 pandemic, transient occupancy tax was expected to experience a long, protracted recovery as the entertainment and travel sectors continued to deal with pandemic outbreaks and related health mandates. However, as of the second quarter end, FY 2021/22 receipts are trending 30% higher than receipts for the same period in pre-pandemic FY 2018/19 (\$7.2 million). If the trend continues, FY 2021/22 transient occupancy tax revenues could post an all-time high near or exceeding \$8 million.

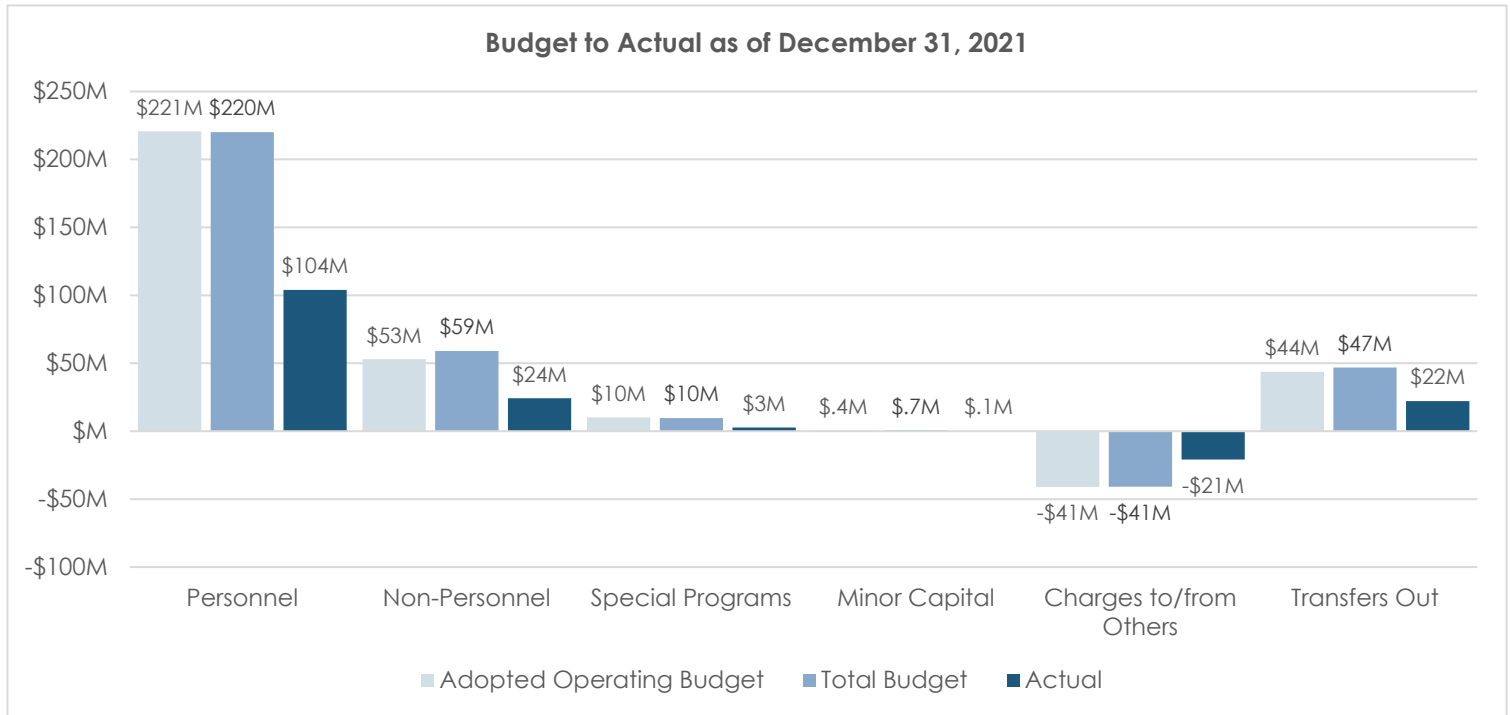
Transient Occupancy Tax History



GENERAL FUND EXPENDITURES

As of the second quarter, General Fund expenditures are trending within the approved appropriation limit. General Fund non-personnel expenditures are trending lower than prior years and may produce some savings at fiscal year-end; however, actual expenditures fluctuate during the fiscal year and are subject to carryover at fiscal year-end. 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. 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 savings from those departments may be sufficient to offset the Fire Department's budget overage in overtime costs.

In the chart below, General Fund expenditures recorded as of December 31, 2021, are presented in comparison to the Adopted Budget and the Total Budget. The Total Budget includes prior year encumbrances and carryovers as well as current year budget adjustments. Prior year encumbrances and carryovers represent the amount of unexpended appropriations from previous fiscal years.



Position Vacancies

The adopted budget includes a \$10 million vacancy savings factor. 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 successful certification of the General Fund Transfer election results (Measure C). If the General Fund Transfer election result (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. The legal matter is still pending in the courts.

The chart at right shows the vacancies by department as of December 31, 2021.

Position Vacancies by Department as of December 31, 2021

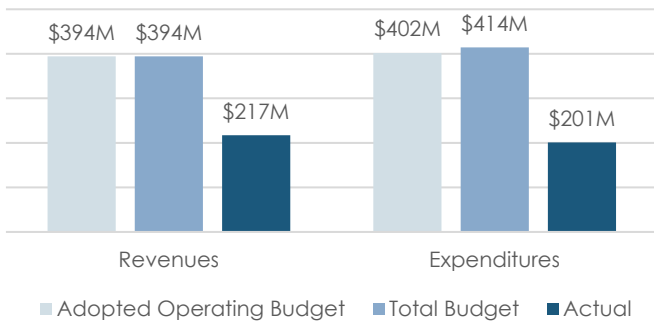
| Department | Budgeted | Vacant | % Vacant |
|---------------------------------------|----------------|--------------|------------|
| Mayor | 7.75 | 0.25 | 3% |
| City Council | 14 | 0 | 0% |
| City Manager | 29.55 | 6.45 | 22% |
| City Clerk | 11 | 1 | 9% |
| City Attorney | 34 | 6 | 18% |
| Human Resources | 31 | 5 | 16% |
| General Services | 30 | 6 | 20% |
| Finance | 55 | 10 | 18% |
| Innovation & Technology | 59.25 | 12 | 20% |
| Community & Economic Development | 106.5 | 26 | 24% |
| Public Works | 505 | 63 | 12% |
| Library | 219 | 12 | 5% |
| Parks, Recreation & Community Service | 134 | 33 | 25% |
| Museum | 60 | 13 | 22% |
| Police | 152.85 | 18 | 12% |
| Fire | 13.5 | 3 | 22% |
| Total | 1,462.4 | 214.7 | 15% |

ENTERPRISE FUNDS

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 minimize the impact on rate increases and keep them as low as possible. Reserve level estimates as of the second quarter end are within established policy levels. As of the end of the second quarter, Electric operating revenues are at 55.0% of budgeted projections and operating expenditures are 48.6% of total budget.

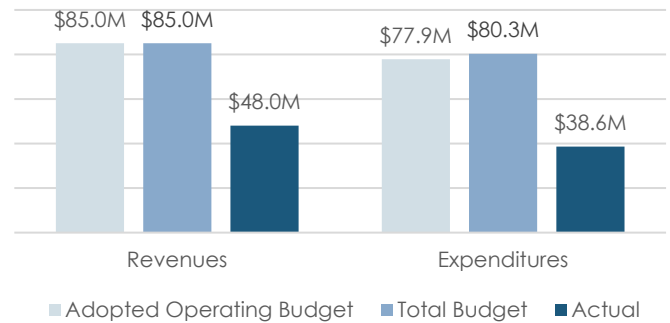
Budget to Actual



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. Total operating revenues for the Water Fund are 56.5% of projections as of second quarter end and operating expenditures are 48.1% of budget.

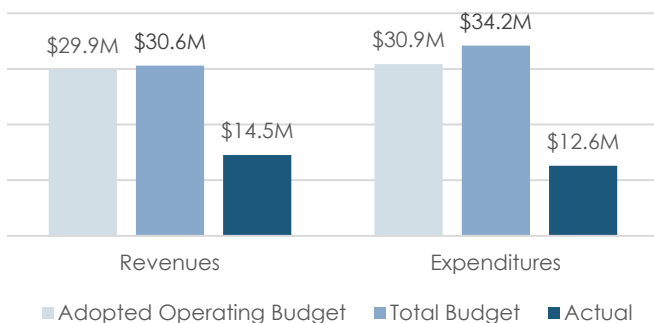
Budget to Actual



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 \$3.1 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 a recent rate increase, revenues are not keeping pace with rising costs. City Staff is in the process of bringing a comprehensive update to the City Council regarding ongoing challenges for the Refuse Fund.

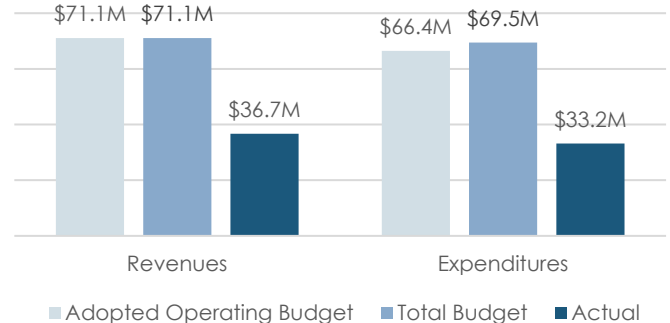
Budget to Actual



Sewer Fund

The FY 2021/22 adopted budget for the Sewer Fund projects a net operating gain of \$4.6 million. The operating gain, in addition to fund reserves will be used to fund \$22 million of planned capital projects. Based on an analysis of second quarter performance to date, the Sewer Fund is on track to meet revenue and expenditure projections. Chemical costs are higher than anticipated due to market volatility and supply shortages, and unplanned increases in biosolid removal due to truck driver shortages may cause overages 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.

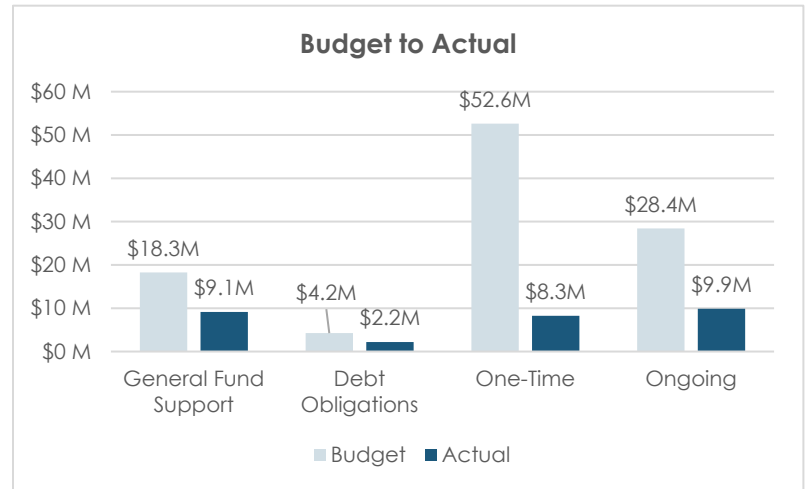
Budget to Actual



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. The City's sales tax consultant, HdL, has increased revenue projections from a 3.2% growth rate to a 6.5% growth rate in sales tax revenue over prior year actuals. If the current revenue trend continues through the fiscal year, tax revenue may come in \$2 million higher than the revised estimate.

The chart to the right displays the spending status as of December 31, 2021 of approved spending items of various types. Ongoing items are obligations that may increase annually and cannot be easily defunded, such as personnel. One-time items are spending items that can be defunded if necessary, depending on contractual obligations.



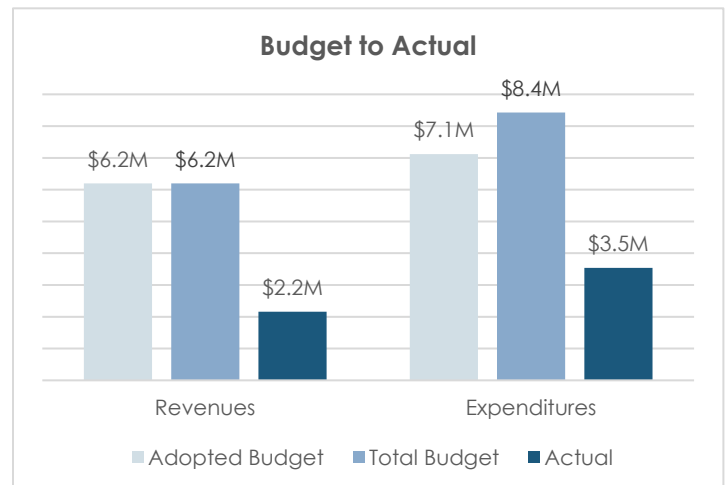
Public Parking Fund

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; however, actions executed after the second quarter may produce ending fund reserves of \$325,000 (refer to #6 and #7, following).

The Public Works Department has presented several 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.
- 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 contract at an estimated cost of \$925,000. 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.



BUDGET DEVELOPMENT

FY 2022-2024 Biennial Budget Development

The City is currently developing the FY 2022-2024 biennial budget. Public engagement is encouraged at numerous meetings during which budget presentations and discussion will be conducted and feedback will be received. The following meetings are currently scheduled (subject to change); additional public outreach meetings may also be scheduled. Get the latest information on public meetings related to the development of the FY 2022-2024 biennial budget by visiting the City's budget website at <https://riversideca.gov/finance/budget.asp>.

| Date | Time | Meeting Body | Subject Matter |
|----------|---------|----------------------------------|--|
| March 21 | 6:30 PM | Park & Recreation Commission | Parks, Recreation, & Community Services Department preliminary budget |
| March 23 | 3:00 PM | Museum of Riverside Board | Museum Department Preliminary Budget |
| March 31 | 5:00 PM | Budget Engagement Commission | Departments' Preliminary Budget Presentations (Meeting 1 of 3) |
| April 7 | 5:00 PM | Budget Engagement Commission | Departments' Preliminary Budget Presentations (Meeting 2 of 3) |
| April 11 | 5:00 PM | Board of Library Trustees | Library Department Preliminary Budget |
| April 11 | 6:30 PM | Board of Public Utilities | Public Utilities Preliminary Budget |
| April 14 | 5:00 PM | Budget Engagement Commission | Departments' Preliminary Budget Presentations (Meeting 3 of 3) |
| April 18 | 8:00 AM | City Council Budget Workshop | Budget Overview (General Fund & Measure Z) & Departments' Preliminary Budget Presentations |
| April 29 | 9:00 AM | Planning Commission | Proposed CIP Conformance to General Plan |
| May 12 | 5:00 PM | Budget Engagement Commission | FY 2022-2024 Proposed Biennial Budget |
| May 17 | 1:00 PM | City Council – Afternoon Session | FY 2022-2024 Proposed Biennial Budget |
| June 9 | 5:00 PM | Budget Engagement Commission | FY 2022-2024 Final Budget |
| June 21 | 6:15 PM | City Council – Evening Session | Public Hearing and Adoption of the FY 2022-2024 Biennial Budget |

Priority Based Budgeting (PBB)

Priority Based Budgeting is a decision-making tool that assists City leadership in aligning resources with activities closely aligned to the City's strategic plan. To date, the City has classified City activities into more than 500 programs, identified the revenue and costs associated with those programs, and scored the programs in relation to their alignment to the City's strategic plan, *Envision Riverside 2025*. Alignment to the City's strategic plan is considered separately for outward-facing programs (Community) and inward facing programs (Governance). Governance programs are internal programs that support the City function at large. Programs are also scored against "Basic Program Attributes" which define the level of necessity or impact of a program separately of the City's strategic plan.

PBB is a multi-year implementation process that emphasizes successful implementation and integration of PBB into organizational thought processes. For the upcoming budget cycle, the City focused on vetting critical unfunded needs through the lens of PBB, including relating those needs to existing programs and considering the alignment of those needs with the strategic plan. The needs mostly aligned with the strategic plan will be presented to the Budget Engagement Commission and City Council for direction on funding those items in the FY 2022-2024 biennial budget.

PBB Scoring Criteria

Programs are scored according to their alignment with the City's strategic priorities:

Community Programs

- Arts, Culture and Recreation
- Community Well-Being
- Economic Opportunity
- Environmental Stewardship
- Infrastructure, Mobility & Connectivity

Governance Programs

- Organizational Culture
- Diverse and Highly Skilled Workforce
- Financial Health
- Technology, Data and Process Improvement
- Communication and Collaboration

Basic Program Attributes

- Population Served
- Level of Cost Recovery
- Level of Reliance on the City to provide the program
- Whether the program is Mandated by Federal, State, or local rule, regulation, or law
- Level of Demand for the program
- Whether the program is Equally Accessible to stakeholders