



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS

DATE: APRIL 7, 2022

FROM: FINANCE DEPARTMENT

WARDS: ALL

SUBJECT: FISCAL YEAR 2022-2024 BUDGET DEVELOPMENT: DEPARTMENTAL PRELIMINARY BUDGET PRESENTATIONS FOR THE PARKS, RECREATION AND COMMUNITY SERVICES DEPARTMENT; OFFICE OF THE MAYOR, OFFICE OF THE CITY CLERK; MUSEUM OF RIVERSIDE; POLICE DEPARTMENT; INNOVATION AND TECHNOLOGY DEPARTMENT; AND FINANCE DEPARTMENT

ISSUE:

Receive and provide input on the development of the Fiscal Year 2022-2024 Biennial Budget: departments' presentations of their preliminary budget proposals.

RECOMMENDATIONS:

That the Budget Engagement Commission receive and provide input on the preliminary budget proposals of the Parks, Recreation and Community Services Department; Office of the Mayor, Office of the City Clerk; Museum of Riverside; Police Department; Innovation and Technology Department; and Finance Department.

BACKGROUND:

City staff is currently engaged in the development of the Fiscal Year (FY) 2022-2024 Biennial Budget, encompassing FY 2022/23 and FY 2023/24. Budget Development began in October 2021 and will continue until City Council adoption of the budget in June 2022.

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. The BEC also approved adding special meeting dates of March 31, 2022, and April 7, 2022 to accommodate departmental budget presentations, which will continue through the regular BEC meeting date of April 14, 2022.

On December 9, 2021, the baseline budgets for the General Fund and Measure Z were presented to the Budget Engagement Commission (BEC). The General Fund baseline budget served as the starting point for the development of the General Fund budget and the basis of budget targets

established for City departments' budget proposals. The BEC also received a preliminary listing of critical unfunded needs identified through the Priority Based Budgeting (PBB) process that spanned July 2021 through December 2021.

On March 31, 2022, the BEC received and provided input on the development of the Fiscal Year 2022-2024 Biennial Budget: General Fund and Measure Z overview; received the listing of critical unfunded needs for reference throughout the three Commission meetings designated for department presentations of their respective preliminary budgets; and received and provided input on the preliminary budget presentations of the City Manager's Office, Community and Economic Development Department, Human Resources Department, Public Works Department, General Services Department, Fire Department, and City Attorney's Office.

DISCUSSION:

Internal review of departments' preliminary budget proposals has concluded, and staff now seeks the feedback of various Boards, Commissions, and the City Council, as well the public at large through engagement at the various meetings, on the preliminary budget proposals of City departments. Feedback will be incorporated into the preliminary budget as directed by City Council and will result in a Proposed FY 2022-2024 Biennial Budget that will be presented to the BEC and City Council in May 2022, followed by BEC review and City Council adoption of the final proposed budget in June 2022. The BEC received or will receive departmental budget presentations on March 31, April 7, and April 14, 2022.

General Fund

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

1. Leverage PBB to identify and reallocate funding to critical unfunded needs.

Process: A simultaneous process of identifying funding through the PBB insights and identifying and ranking critical needs through the lens of PBB was conducted during a series of workshops through December 2021. All subsequently identified unfunded needs were also reviewed through the lens of PBB.

Status: During budget development and departments' evaluation of their operational and financial needs, departments identified additional critical unfunded needs. Those needs were described through the lens of PBB, including relating the requests to existing programs, and answering fundamental questions to assess the level of criticality of the need:

- How is this a critical unfunded need?
- What is the impact to operations should this budget request not be approved?
- How does this request benefit City stakeholders?

Departments were granted CPI increases in their discretionary budgets of 4.5% for FY 2022/23 and 3% in FY 2023/24. Some of the previously identified critical needs were able to be funded by the CPI increases and rebalancing of resources. Refer to Attachment 3 for a final listing of critical unfunded needs. Staff requests BEC feedback and City Council direction on the funding of the critical unfunded needs in the FY 2022-2024 Biennial Budget.

During a review of PBB Insights (the process by which staff identified potential resources for the funding critical unfunded needs), it became apparent that the implementation of the

insights will not be timely enough to produce resources for the FY 2022-2024 budget. Numerous insights require additional research, initial investment funding, and/or are sensitive topics that will require City Council direction on their implementation. Therefore, the formal proposal and implementation of insights will be pursued separately of the budget development process.

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.

Process: Staff analyzed the unfunded accrued liability (UAL) payment schedule per the CalPERS actuarial report and the pension obligation bond (POB) payment schedule and determined a feasible amount and optimal series of Section 115 Trust contributions and withdrawals to smooth the fiscal impact of the payment obligations. The proposed smoothing will result in level payments of \$37,925,000 annually for a period of 12 years, from FY 2024/25 through FY 2035/36. Without this smoothing effect, the payment obligation would exceed \$38 million beginning in FY 2026/27 and eventually exceed \$42 million annually from FY 2029/30 through FY 2034/35.

Status: The proposed smoothing will result in level payments of \$37,925,000 annually for a period of 12 years, from FY 2024/25 through FY 2035/36. The City Council approved a \$10 million contribution to the Section 115 Trust from FY 2020/21 excess reserves, contingent upon the certification of Measure C (General Fund Transfer election). Contributions totaling nearly \$12 million are incorporated into the FY 2022-2024 Biennial budget, with \$11 million occurring in FY 2023/24 made possible by the payoff of the 2004 Safety POB in FY 2022/23. The combination of current reserves and the proposed contributions will build the Section 115 Trust Fund to a balance of approximately \$40 million which is projected to be sufficient to smooth the volatile required liability payments over the course of 12 years.

While PBB provides data that can guide decision making related to the allocation of finite City resources, the General Fund baseline budget provides the overall constraints within which the budget must be developed. Due almost entirely to the robust sales tax revenue estimates, the FY 2022-2024 biennial budget is expected to be balanced, with no requirement for balancing measures. Departments' discretionary budget targets included an increase over their FY 2021/22 budget of 4.5% in FY 2022/23 and an additional 3.0% in FY 2023/24, consistent with increases in the Consumer Price Index (CPI). The increase applies to discretionary budgets including professional services, materials, supplies, maintenance, fuel, utilities, training, special projects, etc. These modest increases provided some relief to departments following two years of no budget increases and adopted vacancy savings targets. The discretionary budget is approximately 16.4% of the total General Fund budget.

The preliminary General Fund budget (Attachment 1) includes small surpluses in each fiscal year which may be considered for allocation to critical unfunded needs. However, it is important to note that the preliminary budget does not include any personnel increases which may result from ongoing labor negotiations for Memorandums of Understanding (MOUs) which have expired or will be expiring soon. Additionally, the City is currently awaiting a ruling on a legal challenge to the certification of Measure C (General Fund Transfer election) results. If Measure C is not certified, the budget will need to be revised to address revenue losses in excess of \$40 million annually. 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. A ruling is due from the court before May 2022.

GENERAL FUND PRELIMINARY 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 Preliminary	FY 2023/24 Preliminary
Revenue	\$278.67	\$279.45	\$298.03	\$300.65	\$310.63	\$318.23
Expenditures	271.38	280.48	262.14	287.55	305.86	311.27
Surplus/(Deficit)	\$7.29	\$(1.03)	\$35.89	\$13.10	\$4.77	\$6.96

Measure Z

The preliminary five-year Measure Z Spending Plan for FYs 2022/23 through 2026/27 assumes the continuation of spending items that were not initially adopted with a defined end date (Attachment 2). Other one-time items, such as Library security guards and a portion of street improvement funding, were adopted for a specific period of time; those items have not been assumed to continue in the updated spending plan. The BEC’s formal recommendations for spending plan revisions will be communicated to the City Council on April 18, 2022, at the City Council Budget Workshop.

Measure Z unallocated fund reserves are projected to be \$44.79 million at the end of FY 2021/22. This amount is available for allocation to new or enhanced spending items. Additionally, annual projected surpluses are available for allocation. However, as with the General Fund, it is important to note that the preliminary budget does not include any personnel increases which may result from ongoing labor negotiations for Memorandums of Understanding (MOUs) which are expiring. Measure Z currently funds 135.0 FTE within previously approved spending items.

MEASURE Z SPENDING PLAN – PRELIMINARY BUDGET

(\$ in millions)

<i>(in millions)</i>	2022	2023	2024	2025	2026	2027
Revenue	\$74.65	\$76.80	\$79.02	\$80.91	\$82.12	\$83.35
Expenditures	(68.64)	(66.03)	(66.63)	(65.71)	(67.75)	(69.13)
Encumbrances & Carryovers	-	-	-	-	-	-
Net Change in Fund Balance	\$6.01	\$10.77	\$12.39	\$15.20	\$14.37	\$14.22
Beginning Fund Reserves	\$38.78	\$44.79	\$55.56	\$67.94	\$83.14	\$97.51
Net Change in Fund Balance	6.01	10.77	12.39	15.19	14.37	14.22
Policy Reserve Set-Aside	-	-	-	-	-	-
Ending Unallocated Reserves	\$44.79	\$55.56	\$67.94	\$83.14	\$97.51	\$111.73

Yellow highlight indicates funding available for allocation to new or enhanced spending items.

Critical Unfunded Needs

To the extent possible, departments used CPI increases to fund critical unfunded needs; however, all needs could not be funded, and additional needs were identified. Critical needs were assessed through the lens of the City’s strategic plan and PBB which are summarized in Attachment 3. Departments will discuss their critical unfunded needs during their budget presentations and seek BEC funding recommendations for City Council consideration and approval. Recommendations for critical unfunded needs by the BEC should be taken in context of the Measure C challenges faced by the City.

The BEC is encouraged to consider both General Fund and Measure Z resources for funding critical unfunded needs. Resources available from the General Fund include projected surpluses of \$4.77 million in FY 2022/23 and \$6.96 million in FY 2023/24. Resources available from the Measure Z fund are highlighted in the preceding Measure Z Table.

Decisions related to the critical unfunded needs include whether to incorporate the item into the proposed budget, the fiscal year in which to begin funding the item, as well as the funding source. Critical unfunded needs have been categorized into several types that may facilitate decision-making:

- Annual, ongoing: Requests for a fixed amount with no specified end date.
- Annual, limited duration: Requests for a fixed amount of limited duration.
- One-Time: Requests for a one-time, fixed amount. These items are time sensitive to the year in which they are requested.
- Ongoing, escalating costs: These requests include position enhancements or FTE increases. Personnel costs are expected to increase annually with merit increases and increases per the applicable Memorandum of Understanding (MOU). MOU increases are not included in the cost estimate because the MOUs are expiring and are subject to negotiation. These requests may also include a one-time cost component (e.g., equipment expense) as well as ongoing non-personnel costs (e.g., training, fuel, etc.).

SUMMARY OF CRITICAL UNFUNDED NEEDS

Funding Request Type	FY 2022/23	FY 2023/24
Annual, Ongoing	\$6,318,438	\$6,319,438
Annual, limited duration	2,650,000	2,650,000
One-Time	1,505,000	875,000
Ongoing, escalating costs		
Personnel (25.25 FTE)	2,135,555	2,215,676
Non-Personnel	1,372,826	945,896
Total Ongoing, escalating costs	\$3,508,381	\$3,161,572
Total Requested*	\$13,981,819	\$13,005,010

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 assessment of critical unfunded needs through the lens of PBB align the allocation of City resources 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 and the methodologies applied to the vetting and presentation of critical unfunded needs is an innovative approach to decision-making and combines technology with a collaborative working approach to allocate resources during the budgeting process.
5. **Sustainability & Resiliency** – The budget development process and application 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 related to this report. On April 14th, 2022, the BEC will be asked for formal recommendations to City Council regarding funding critical needs and revisions to the Measure Z Five-Year Spending Plan. The recommendations will be communicated to the City Council for consideration at their April 18th, 2022, Budget Workshop. Council direction on the critical unfunded needs will be incorporated into the proposed budget which will then be presented to the BEC for review and input on May 12, 2022.

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Approved by: Kris Martinez, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. General Fund Preliminary Budget
2. Measure Z Preliminary Five-Year Spending Plan
3. Critical Unfunded Needs
4. Presentation – Parks, Recreation and Community Services Department
5. Presentation – Office of the Mayor
6. Presentation – Office of the City Clerk
7. Presentation – Museum of Riverside
8. Presentation – Police Department
9. Presentation – Innovation and Technology Department
10. Presentation – Finance Department