



City of Arts & Innovation

Financial Performance and Budget Committee

TO: FINANCIAL PERFORMANCE AND BUDGET COMMITTEE MEMBERS

DATE: JUNE 10, 2022

FROM: FINANCE DEPARTMENT

WARDS: ALL

SUBJECT: FISCAL YEAR 2021/22 THIRD QUARTER FINANCIAL UPDATE

ISSUE:

Receive and provide input on the Fiscal Year 2021/22 Third Quarter Financial Update.

RECOMMENDATIONS:

That the Financial Performance and Budget Committee receive and provide input on the Fiscal Year 2021/22 Third Quarter financial update.

BACKGROUND:

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

On January 13, 2022, the Budget Engagement Commission received and provided input on the Fiscal Year 2021/22 First Quarter Financial Update and mid-cycle budget adjustments.

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). The City recently received a ruling on the Measure C certification which does not present an immediate fiscal impact to the City. However, given the timing of the ruling, there is no benefit to rolling back the vacancy savings target at this point in the fiscal year. All positions are funded in the proposed FY 2022-2024 Biennial Budget that will be presented to the City Council for adoption on June 21, 2022.

On March 10, 2022, the Budget Engagement Commission received and provided input on the Fiscal Year 2021/22 Second Quarter Financial Update, supplemental appropriations, and interfund transfers.

On March 15, 2022, the City Council received the Fiscal Year 2021/22 Second Quarter Financial Update and approved supplemental appropriations and interfund transfers.

On June 9, 2022, the Budget Engagement Commission received and provided input on the Fiscal Year 2021/22 Third Quarter Financial Update.

The City's Chief Financial Officer provides financial updates 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 third 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 March 2022.

Refer to the Fiscal Update (Attachment 1) for a discussion of current social and economic impacts on City finances, identified areas of fiscal risk, and their quarter results for the City's major funds (General Fund, Measure Z, Electric, Water, Refuse, and Sewer).

General Fund

The third quarter analysis continues to present a positive short-term 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.

Revenues: FY 2021/22 General Fund revenues recorded through March 2022 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. Third quarter analysis reveals that General Fund revenue projections may exceed revised revenue estimates by \$12 million, primarily due to continued exceptional sales tax revenue performance. Based on strong local sales tax performance through December 2021, the City's sales tax consultant, HdL, has increased revenue projections for year-over-year growth in local sales tax revenue over prior year actuals from a rate of 8.1% last quarter to a rate of 12.9% for this quarter. Unlike prior year increases in sales tax revenue which were driven by consumption, the current trend and increase in sales tax revenue is predominantly the result of inflationary factors. Transient Occupancy Tax continues to perform very strongly and is currently 98% higher than the same period last year. Recreation and development revenue categories remain below pre-Covid levels but are exhibiting gradual recovery.

Expenditures: As of the third 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 still expected to exceed its overtime budget in FY 2021/22, largely due to illness related to the pandemic and vacancies. As of the third quarter, year-to-date trends in all other General Fund departments combined show that total personnel savings from those departments will likely 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.

During the third quarter of FY 2021/22, the City Council approved supplemental appropriations totaling \$350,000 in the General Fund:

- Shamel Park Pool \$350,000 – replacement of the 10-foot perimeter concrete pool decking.

While the short-term outlook for the General Fund has improved there are still significant financial challenges that continue to impact the long-term fiscal health of the General Fund. The financial markets continue to impede the financial performance of the CalPERS retirement fund which will likely end the fiscal year in negative territory. This will result in a significant increase to the City's unfunded accrued liability. Additionally, while Measure Z has provided much needed support to the General Fund and has been able to financially support critical unfunded needs, the City has been unable to establish a long-term program for infrastructure investment in much needed deferred maintenance and capital improvements. While the City has received a temporary reprieve in the Measure C litigation there are sure to be ongoing challenges to the General Fund transfer that will require the City to strategically position itself against further challenges to such a heavily relied upon revenue source for the General Fund. The ongoing risk of losing the General Fund transfer puts key City services at tremendous risk.

Measure Z

History: Measure Z is a one-percent transaction and use tax (sales tax) that was approved by the residents of Riverside on November 8, 2016. Measure Z will sunset in 2037 unless it is approved again in a mandatory election in November 2036.

To help address the service cuts as well as a portion of the City's critical unfunded needs, at staff's recommendation, the Mayor and the City Council placed a measure on the November 8, 2016, ballot for a one-percent increase in the City's sales tax rate. The November 8, 2016, Measure Z ballot presented to voters asked them to consider a yes or no vote to:

“...prevent cutting police, firefighters, paramedics, 911 emergency response, antigang/drug programs, homelessness reduction and youth after-school/senior/disabled services; to repair local streets/potholes/infrastructure; and to provide other general services, shall a one-cent transaction and use tax (sales tax) be implemented providing \$48,000,000 annually through 2036 unless

extended by the voters, requiring independent audits with no funds to Sacramento, all funds remaining for Riverside?”

The residents of Riverside approved Measure Z with almost a 60% approval. The Measure Z tax became effective April 1, 2017, increasing the City's sales tax rate from 7.75% to 8.75%.

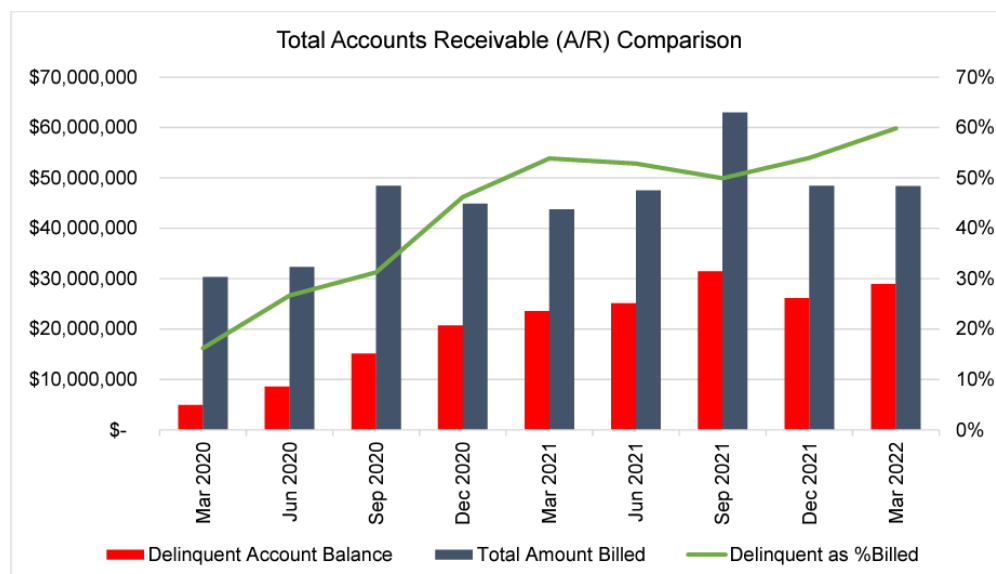
Overview: Based on the spending items approved to date and strong tax revenue performance, Measure Z is projected to end the fiscal year with approximately \$39.29 million in unallocated fund reserves. Separately, \$5 million is held in contingency reserves per the adopted Measure Z Reserve Policy to ensure sufficient funding for ongoing costs in the event of under-performing revenues.

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 second quarter. Based on strong local sales tax performance through December 2021, the City's sales tax consultant, HdL, has increased revenue projections for year-over-year growth in Measure Z tax revenue over prior year actuals from a rate of 6.5% in the second quarter to a rate of 12.5% in the current quarter. If the revenue trend continues through the fiscal year, tax revenue may come in \$6.7 million higher than the revised estimate. Similar to what drove the General Fund sales tax revenue increases, the current year increase in Measure Z revenue is predominantly the result of inflationary factors rather than increased consumption compared to prior year.

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.

Utility Account Delinquencies

The Electric, Water, Sewer and Refuse funds continue to be impacted by the suspension of utility shutoffs in response to the pandemic. The combined delinquent accounts receivable for the four utilities, shown as the blue bar in the following chart, increased from March 2020 to March 2022 by \$24.0 million, or 488.3%. The delinquent account balance is comprised of 74.4% residential customers and 25.6% commercial customers.



In March 2020, Riverside Public Utilities (RPU) developed the Emergency Recovery Assistance Program (ERAP). This program was established in response to the COVID-19 pandemic to provide a one-time bill credit (assistance) for residential electric customers whose incomes were negatively impacted. Since May 2020, approximately 5,285 customers have benefitted from this of assistance.

In July 2021, Governor Newsom signed AB 135, which created the California Arrearage Payment Program (CAPP) to administer funding for electric utility customer arrearages. RPU applied for CAPP assistance on behalf of electric customers who incurred a past due balance of 60 days or more on their energy bill during the COVID-19 pandemic relief period covering March 4, 2020 through June 15, 2021. In December 2021, \$11.1 million was applied to 12,599 electric customers' accounts.

In July 2021, Governor Newsom signed AB 148, which created the California Water and Wastewater Arrearage Management Program (CWWAPP) to administer funding for water/wastewater utility customer arrearages. RPU applied for CWWAPP assistance on behalf of water customers who incurred a past due balance of 60 days or more on their water bill during the COVID-19 pandemic relief period covering March 4, 2020 through June 15, 2021. In December 2021, \$1.9 million was applied to 4,390 water customers' accounts.

In February 2022, RPU applied for the CWWAPP for wastewater customers in the amount of \$2.6 million. Funding was approved at \$2.3 million and was applied to accounts in April 2022.

The California Low-Income Household Water Assistance Program (LIHWAP) is administered by the California Department of Community Services & Development. This program provides financial assistance to low-income customers where qualified. Low-income households can apply to their Local Service Provider to receive a one-time credit (up to \$2,000) on their water or wastewater bill. The Local Service Provider for RPU customers is Community Action Partnership of Riverside County.

On May 17, 2022, the City Council voted unanimously to:

1. Approve the Public Utilities Restart Utility Bill Repayment Program for customers who were unable to pay their Riverside Public Utilities bills due to the ongoing COVID-19 pandemic, and
2. Direct the City Manager to reverse the March 17, 2020 suspension discontinuing water, electric, sewer and refuse utility service for non-payment.

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 third quarter end are within established policy levels.

Revenues: As of the end of the third quarter, Electric Fund operating revenues are at 77.9% of budgeted projections. Current year actual retail sales are \$9.5 million (3.8%) higher than prior year primarily due to rate plan increases. 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. By the end of the third

quarter, residential revenues were 4.5% higher than budgeted and commercial/industrial revenues remained 2.9% below budget. Transmission revenues are projected to perform as anticipated for the remainder of FY 2021/22.

Expenditures: Electric Fund operating expenditures are at 70.3% of total budget at the end of the third quarter. Year-to-date personnel costs are trending 19.4% lower than budget due to vacancies and attrition. At March 31, 2022, the Electric Fund had 94.25 FTE vacancies, representing a vacancy rate of 20%. Year-to-date power supply costs are 5.8% 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 third quarter within the required policy reserve range (including the available line of credit). The adopted budget includes an operating gain of \$7.2 million, 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: As of the end of the third quarter, Water Fund operating revenues are at 79.1% of budgeted projections. Projected retail sales were expected to be at 76.0% of total budget through March 2022 and are at 77.8% of total budget, which is 2.4% higher than expected. Residential revenues were 0.9% higher-than-anticipated and commercial, industrial and other revenues were 4.3% higher-than-anticipated. Weather, including lower-than-anticipated precipitation and higher-than-anticipated evaporation, has had a positive impact on water retail revenues to-date and will continue to be monitored throughout the remainder of the fiscal year.

Expenditures: Water Fund operating expenditures are at 68.8% of budget at the end of the third quarter. Year-to-date personnel costs are trending 10.6% lower than budget due to vacancies and attrition. At March 31, 2022, the Water Fund had 18.5 FTE vacancies, representing a vacancy rate of 11%. Year-to-date production costs are 5.1% below budget due to lower than anticipated chemical costs for water production. 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. Reserve level estimates as of the third quarter end indicate that this target will be met.

Revenues: Based on an analysis of third quarter performance-to-date, the Sewer Fund is on track to meet revenue projections and is trending slightly higher than prior year revenues. At the end of the third quarter, 77.9% of projected revenues have been recorded.

Expenditures: Sewer Fund operating expenditures are at 71.3% of total budget at the end of the third quarter. The Sewer Fund is continuing to experience the challenges mentioned in the second quarter report, such as increased unit cost of chemicals and truck driver shortages; however, 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 rising costs outpacing revenues. 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 third quarter, the reserve balance is expected to be sufficient to accommodate a projected current year deficit.

Updates to financial and operational challenges noted in the March 2022 second quarter report are as follows:

1. **Maintenance costs are rising due to an aging fleet:** Three refuse trucks were ordered in the first quarter; however, challenges in the supply chain have delayed delivery of the vehicles until August 2022. The current budget includes funding for one new refuse truck and a new sweeper that will not be ordered this year due to the projected deficit resulting from costs anticipated to exceed budget in other areas. The Public Works Department is continuing to explore funding through the American Rescue Plan Act (ARPA) for the purchase of 7 or 8 additional refuse trucks.
2. **Refuse operations are severely impacted by a high vacancy rate and retention issues:** At March 31, 2022, the Refuse Fund had 16.75 FTE vacancies, representing a vacancy rate of 27%. Recruitment to fill the positions is ongoing. Crews continue to work 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 third quarter, revenues are trending 18% higher than the same period last year and are at 73.8% of the revenue target. Street sweeping revenues may come in lower than anticipated due to street sweeping activities being negatively impacted by vacancies in the Public Parking Fund.

The Refuse Fund is seeking \$2 million of ARPA funding for revenue replacement to offset increased processing fees; the City Council will be asked to consider this item in the near future.

Expenditures: Refuse Fund operating expenditures are 58.1% of total budget at third 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. Additional expenditures are anticipated in the fourth quarter as the department has relied on Burrtec Waste Industries for emergency route assistance. Overall, Refuse Fund expenditures are projected to remain within the budgeted appropriation limit at fiscal year-end.

Public Parking Fund

The Public Parking Fund was added to the second 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 Public Parking Fund exhausts its reserves, a General Fund subsidy will be necessary to pay Public Parking Fund debt obligations and sustain parking operations.

Public Parking Fund reserves at the beginning of FY 2021/22 are \$1.6 million, or \$0.3 million net of prior year encumbrances. The adopted FY 2021/22 budget projects a draw on fund reserves of \$0.9 million 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 third quarter analysis, the Public Works Department projected a net operating loss of \$0.17 million for FY 2021/22.

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. The second quarter financial report presented a history of efforts undertaken to reach this point, along with additional information about Public Parking Fund performance during FY 2021/22. These changes, which are scheduled to be in place by July 1, 2022, are expected to enable the Public Parking Fund to operate in a positive position beginning in FY 2022/23. As of the third quarter, the reserve balance is expected to be sufficient to accommodate a projected current year deficit.

Revenues: 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. The Public Works Department projects a revenue shortfall of \$712,000 as position vacancies have limited some revenue-generating operations, such as parking enforcement. A \$1.3 million ARPA allocation for revenue loss will be recognized later this year to help offset some of the financial impacts of the Pandemic on this fund.

Expenditures: Public Parking Fund expenditures are 51.8% of the total budget as of the end of the third quarter. Personnel savings resulting from position vacancies are expected to offset some revenue shortfalls. As of March 31, 2022, the Public Parking Fund had 5 vacancies, representing a vacancy rate of 26.3%. The Public Works Department projects expenditure savings for the fiscal year.

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 monitoring and management of City finances.
5. **Sustainability & Resiliency** – The financial reports, methodologies, and strategies implemented by staff demonstrate the City's commitment to the long-term fiscal health of the City and sustainable provision of City services.

FISCAL IMPACT:

As of the third quarter, the General Fund is anticipated to add to reserves at the end the fiscal year primarily due to exceptional sales tax revenue performance. 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). The City recently received a ruling on the Measure C certification which does not present an immediate fiscal impact to the City. However, given the timing of the ruling, there is no benefit to rolling back the vacancy savings target at this point in the fiscal year.

The Measure Z fund has a significant amount of unallocated reserves available for new spending initiatives. The proposed FY 2022-2024 Biennial Budget scheduled for adoption on June 21, 2022 draws on Measure Z fund reserves with anticipated ending reserves by FY 2026/27 or approximately \$6.3 million.

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 third quarter fund reserves are sufficient to accommodate a projected operating deficit.

At this time, the reserve balance for the Public Parking Fund is expected to be sufficient to accommodate a projected current year deficit, due in large part to a \$1.3 million ARPA allocation for revenue loss. Changes to parking rates and hours, in addition to moving forward with a Parking Access and Revenue Control System, are expected to enable the Public Parking Fund to operate in a positive position beginning in FY 2022/23.

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Attachments:

1. Fiscal Update
2. Measure Z Spending Status
3. Presentation