



Financial Performance and Budget Committee

City of Arts & Innovation

TO: FINANCIAL PERFORMANCE AND BUDGET COMMITTEE MEMBERS **DATE: APRIL 14, 2023**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: FISCAL YEAR 2022/23 SIX MONTHS ENDING 12/31/2022 CASH, INVESTMENTS, AND DEBT REPORT

ISSUE:

That the Financial Performance and Budget Committee receive and provide input on the attached Fiscal Year 2022/23 six months ending 12/31/2022 Cash, Investments, and Debt Report.

RECOMMENDATIONS:

That the Financial Performance and Budget Committee receive and provide input on the attached Fiscal Year 2022/23 six months ending 12/31/2022 Cash, Investments, and Debt Report.

BACKGROUND:

On January 24, 2023, the City Council received and provided input on the Fiscal Year 2021/22 Fourth Quarter Cash, Investments, and Debt report.

DISCUSSION:

It is staff's intention to provide the Cash, Investments, and Debt Quarterly reports at the same City Council meeting as the Quarterly Financial Report for the General Fund and other City funds to provide a comprehensive review of all City Finance activities and to obtain City Council input related to those activities.

QUARTERLY CASH AND INVESTMENT REPORT

Sound investment practices are an essential component of the City's strong fiscal management. The Finance Department is responsible for managing the City's investment portfolio, focusing first on the safety of investments and then on liquidity and an appropriate rate of return. The investment results and portfolio composition are summarized and reported to the City Council each quarter. As of September 30, 2022, and December 31, 2022, the City's pooled investment portfolio's market value was \$900 million and \$909 million, respectively. The market value of investments held for the Section 115 Pension Trust Fund, fiscal agents (bond proceeds and reserve funds primarily), and other miscellaneous cash amounts to an additional \$152 million as of September 30, 2022, and \$149 million as of December 31, 2022, respectively. The weighted average yield of

the pooled investment portfolio is 1.62% as of September 30, 2022, and 2.18% as of December 31, 2022.

The authority to manage the City's investment program is provided by the California Government Code Sections 53600-53610 which allows the City Council to delegate to the Treasurer/CFO for a one-year period the authority to invest or to reinvest all funds of the City. In accordance with the City Charter and under authority granted by the City Council, the Chief Financial Officer is designated the responsibilities of the Treasurer and is responsible for investing the unexpended cash in the City Treasury consistent with the City's adopted investment policy.

The Cash and Investment Report, including a listing of cash balances by fund, is included in Attachments 1 and 2. These cash balances reflect each fund's share of the City's pooled investment portfolio. Also shown are interfund loan receivables, which are treated as available cash due to the Chief Financial Officer/Treasurer's authorization to move loan receivables to other funds as needed.

All listed funds have a positive cash balance except for the following funds as of December 31, 2022:

1. Civic Entertainment - Convention Center, Visitors Bureau, Sports Commission (\$235,537) has a negative cash balance due to the loss of revenues from the long-term effects of COVID-19. This account is being monitored and will return to positive by fiscal year-end.
2. Civic Entertainment – Cheech Marin Center (\$4,355,750) has a negative cash balance due to a pending submittal of a grant reimbursement and receivables to offset expenses and negative cash.
3. Urban Areas Security Initiative (\$1,535,946), Community Development Block Grant (\$131,897), Housing Opportunities for Persons with AIDS (\$1,108,798), NPDES Storm Drain (\$312,573), Special Districts (\$1,215,584), and Transportation Uniform Mitigation Fees (\$2,111,441), have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by receivables.
4. Debt Service Fund – General (\$19,105,424), which is fully offset by outstanding cash transfers from all funds related to their share of the Pension Obligation Bond (POBs) payments made by the Debt Service Fund (\$31.8 million) and other debt service payments.
5. Debt Service Fund – Public Works (\$524,939), which is fully offset by outstanding cash transfers from Measure A Capital Outlay Fund related to its share of the Certificates of Participation (COP) payments made by the Debt Service Fund – Public Works (\$1.5 million).
6. Special Deposits (\$19,540,203) has a negative cash balance from decreases in market value of investments primarily due to increased interest rates and related drop in market prices. The accounting adjustments to market value throughout the year are booked to the Special Deposits fund; however, at year-end, this adjustment will be proportionately booked through all related funds and the Special Deposits fund will return to positive by fiscal year-end. Securities acquired by the City are typically held until maturity; as a result, at maturity, there should not be a realized gain or loss as the maturity value will equal the carrying amount on the balance sheet.
7. Central Stores (\$888,987) has a negative cash balance resulting from recent price

increases. Inventory is charged out at average cost. While over time the total cost of inventory is recovered with this pricing methodology, the cash balance is negatively impacted as inventory is sold at a lower price than the cost of replenishment. Staff will review the current practice and reevaluate the traditional pricing methodology.

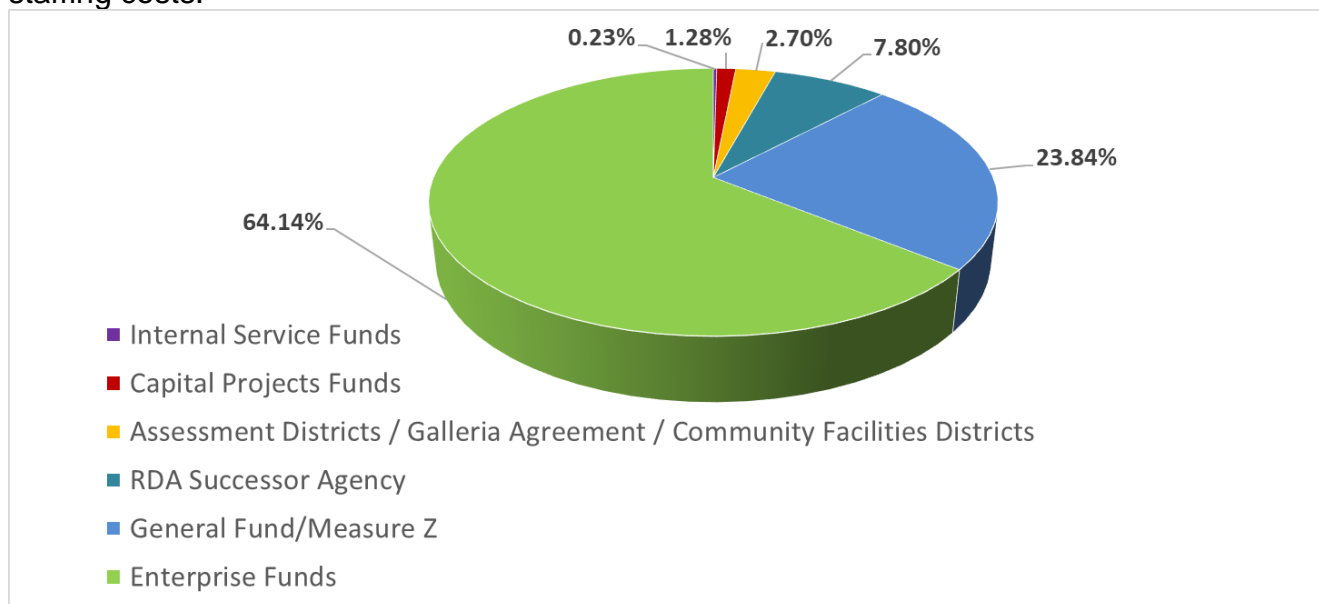
QUARTERLY DEBT REPORT

The Finance Department is responsible for managing the City’s debt portfolio, which includes issuing new debt and monitoring opportunities to refinance existing debt. The Six Months Debt Report (Attachment 3) summarizes the composition of the City’s debt portfolio, details the revenue sources utilized to pay the debt service associated with each outstanding debt, and provides detailed information regarding the total principal and interest payments made in the first two quarters of Fiscal Year 2023 by debt classification and fund.

Debt Summary Analysis

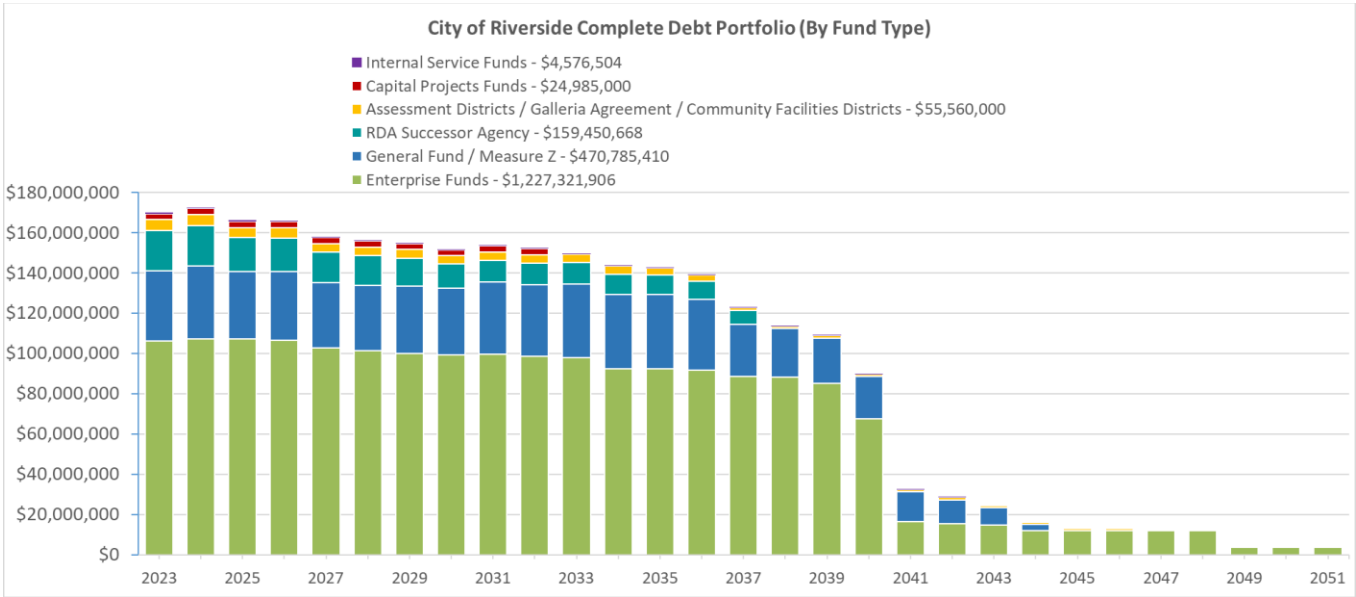
The City’s outstanding principal varies as a result of debt service payments, bond calls, new debt issuances, and refunding and defeasance activity. At the end of the first six months, the City’s outstanding principal balance increased \$5,206,347 from the end of the fourth quarter of fiscal year 2022. This principal increase is due to a \$58,025,000 new debt issuance of the 2022A Water Revenue Bonds, offset by debt service principal payments on the Measure G Fire Facility General Obligation Bonds, California Tower Lease Revenue Bonds Series 2003A and B, 2012A Lease Revenue Bonds, 2019A (Galleria) and 2019B (Library) Lease Revenue Bonds, Capital Leases, Interfund Loans, Fox Entertainment Plaza Loan, Convention Center Expansion Loan, Electric Revenue Bonds, Water Revenue Bonds, Sewer Revenue Bonds, Tax Allocation Bonds, and Mello Roos and Assessment District Bonds.

The following chart depicts the composition of the City’s debt portfolio at the end of the first six months. The Enterprise funds are responsible for most of the City’s debt and are primarily for capital project financing offset by the revenues generated by the newly financed facilities. The General Fund and Measure Z have the next largest percentage of debt, providing financing for projects and equipment related to public safety, downtown revitalization, and public facility and infrastructure improvements. Payment of debt service for the City’s Pension Obligation Bonds is allocated among many of the funds, distributing debt service in alignment with departmental staffing costs.



For purposes of this report, the Sewer, Water, Electric, Refuse, Special Transit, Civic Entertainment, Convention Center, and Parking funds are consolidated under the classification of Enterprise Funds. Measure Z and the General Fund are grouped together. Measure A is classified under Capital Projects Funds. While the Assessment Districts, Galleria Agreement, and Community Facilities Districts are part of the City debt portfolio, they aren't classified as City obligations. They are offset by individual Assessment and Community Facilities Districts, which are separate legal entities from the City formed to issue debt and levy assessments and/or special tax to finance improvements related to development in those districts.

The following chart provides the City's debt service obligations at the beginning of fiscal year 2022-2023 using the same classification methodology, depicting aggregate principal and interest payments on all City debt by fund. As illustrated below, the City has a stable debt service curve that results in steadily diminishing annual debt service payments, minimizing large upward spikes in payments that could negatively impact the City's ability to pay debt service in any one fiscal year.



Debt Related Activities in First Six Months

Finance staff regularly monitor the market to identify opportunities to maximize debt service savings through refunding and to issue debt when rates are most advantageous. Within the first six months, the Debt Division staff prepared documents and disclosure to issue new money Water Fund Revenue Bonds and an interest rate mode conversion and remarketing of the 2011A Water SIFMA Notes to VRDO's.

Other debt-related activities conducted within the first six months of FY 2023 includes:

- Preparation and approval of Arlington, Auto Center, and Downtown Business Improvement District annual levies.
- Approval and posting of the levies for all FY 2023 CFD, AD and GO Bonds with the County of Riverside.
- Conducted a TEFRA hearing to facilitate tax-exempt funding for The Aspire affordable housing facility and joined the California Public Finance Authority as a Non-Charter Additional Member.
- Preparation of various debt-related reports for submission to the California Debt and Investment Advisory Commission (CDIAC) and the State Controller's Office.
- Preparation and filing of the annual SB 165 Report.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **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.**

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The preparation and approval of the debt and investment quarterly report ensures transparency and demonstrates compliance with City Debt and Investment Policies.
2. **Equity** – The debt and investment portfolios detailed in this report are used to share and offset the long-term cost of growth, development, and expansion among Riverside businesses and residents.
3. **Fiscal Responsibility** – The Quarterly Report demonstrates fiscal responsibility and accountability to show the current financial situation of the City and closely related agencies.
4. **Innovation** – Innovative stewardship of investments and municipal debt is an effective way to track, fund, and finance, repair and improvements while ensuring sufficient cash to meet obligations.
5. **Sustainability & Resiliency** – Quarterly accounting and reporting helps to ensure City funds are used in a sustainable way without compromising future needs.

FISCAL IMPACT:

There is no direct fiscal impact associated with this report.

Prepared by: Heidi Schrader, Debt and Treasury Manager
Certified as to availability of funds: Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/City Treasurer
Approved by: Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/City Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Cash and Investment Report – Q1
2. Cash and Investment Report – Q2
3. Six Months Debt Report
4. Presentation