



Budget Engagement Commission

City of Arts & Innovation

TO: BUDGET ENGAGEMENT COMMISSION **DATE: APRIL 13, 2023**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
**SUBJECT: FISCAL YEAR 2022/23 SECOND QUARTER FINANCIAL UPDATE AND MID-
CYCLE BUDGET ADJUSTMENTS - \$46,502,618 SUPPLEMENTAL
APPROPRIATION**

ISSUE:

Receive and provide input on the Fiscal Year 2022/23 Second Quarter Financial Update; recommend Council approve mid-cycle budget adjustments totaling \$46,502,618.

RECOMMENDATIONS:

That the Budget Engagement Commission:

1. Receive and provide input on the Fiscal Year 2022/23 Second Quarter Financial Update; and
2. Recommend the City Council approve mid-cycle budget adjustments resulting in total supplemental appropriations of \$46,502,618 for all City funds as detailed in Attachment 1.

BACKGROUND:

On June 21, 2022, the City Council adopted Resolution No. 23866 approving the Fiscal Year (FY) 2022-2024 Biennial Budget.

The City's Chief Financial Officer provides pertinent financial updates during the fiscal year to the City Council via a standing item on the City Council's agenda and to the Budget Engagement Commission via a standing item on the Commission'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 of all funds and appropriations under their purview. The results of the City's major funds and areas of concern in other funds (if any) are included in this report. This update spans the period of July through December 2022.

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 2022/23 budget for the General Fund projected a \$4.96 million surplus; however, it is important to note the adopted budget did not include the impact of personnel increases resulting from labor negotiations for Memorandums of Understanding (MOU). As of the compilation of this report, labor negotiations are ongoing with the last labor group, Fire Management.

Revenues: FY 2022/23 General Fund revenues recorded through December 2022 were reviewed in the context of FY 2021/22 actual results and performance-to-date. Second quarter analysis reveals that General Fund revenue projections may exceed revenue estimates by approximately \$14.4 million, largely due to higher collections of Property Tax, Sales Tax, and Transient Occupancy Tax.

UPDATED REVENUE PROJECTIONS

(in millions)	Adopted Budget	Updated Projection	\$ Change	% Change
Property Taxes	\$ 79.28	\$ 80.78	\$ 1.50	1.9%
Sales Tax	83.51	94.44	10.93	13.1%
Utility Users Tax	32.80	33.10	0.30	0.9%
Transient Occupancy Tax	7.10	8.41	1.31	18.5%
Franchise Fees	5.72	5.72	-	0.0%
Licenses & Non-Developer Permits	8.98	9.48	0.50	5.6%
Non-Development Charges for Services	10.03	10.03	-	0.0%
Development Fees & Charges	6.80	6.80	-	0.0%
General Fund Transfer	50.81	50.50	(0.31)	-0.6%
Measure Z Transfer	18.27	18.27	-	0.0%
Other Revenues & Transfers In	7.33	7.51	0.18	2.5%
Total Revenues & Transfers In	\$ 310.63	\$ 325.04	\$ 14.41	4.6%

Explanation of Significant Projection Adjustments:

- **Property Tax:** Property tax revenue reflects activity occurring 18-24 months prior to the current period, as property sales and transfers activity make their way onto the County’s tax assessment rolls. In the summer of 2021, Riverside saw median price increases, likely due to low interest rates, high demand, and limited properties for sale.
- **Sales Tax:** FY 2021/22 sales tax revenue continued to experience exceptional results, posting a growth rate of 16.0% over the prior year. Based on fiscal year performance to date, the higher sales tax base is expected to stabilize, providing a new baseline for revised FY 2022/23 projections. The City’s sales tax consultant, HdL, projects sales tax revenue will come within 4.1% of prior year actuals, which is 13.1% more than the amount budgeted.
- **Utility Users Tax:** In the prior year, utility users tax on natural gas brought in \$1.4 million through January. An increase in natural gas prices has resulted in 30% (\$386,000) higher utility users tax collected through January 2023 for natural gas, as compared to the same

period last year. An adjustment of \$300,000 for the category overall is recommended, due to slight decreases in other line items.

- *Transient Occupancy Tax*: Collections in FY 2021/22 were 50.9% higher than those for FY 2020/21. Second-quarter results are tracking about 5% behind last year's pace, and 18.4% higher than original projections.
- *Licenses & Non-Developer Permits*: Business License revenue is trending 5% higher than the prior year, attributable to positive business growth and the ongoing amnesty program to bring businesses in compliance with business license regulations.
- *General Fund Transfer*: The adjustment is based on FY 2021/22 actual revenue receipts.
- *Other Revenues & Transfers In*: The updated projection includes revenues offsetting supplementals appropriations approved by Council through the second quarter.

Expenditures: The amended budget presented in the table below reflects encumbrances and carryovers of \$9.8 million carried forward from FY 2021/22 as provided for in the Riverside Municipal Code as well as supplemental appropriations approved by Council through the second quarter.

EXPENDITURE PROJECTIONS

(in millions)	Adopted Budget	Amended Budget	Projection	Over / (Under) Budget	% Variance
Personnel	\$ 217.56	\$ 234.47	\$ 224.47	\$ (10.00)	-4.3%
CalPERS UAL – Safety	11.16	11.16	11.16	-	0.0%
CalPERS UAL – Miscellaneous	5.05	5.05	5.05	-	0.0%
Non-Personnel Costs	57.35	66.26	67.02	0.76	1.1%
Special Projects	7.14	8.56	8.56	-	0.0%
Minor Capital & Grants	0.42	1.04	1.04	-	0.0%
Debt Service	32.94	32.94	32.94	-	0.0%
Charges To/From	(17.90)	(17.93)	(17.93)	-	0.0%
Cost Allocation Plan	(21.65)	(21.65)	(21.65)	-	0.0%
Operating Transfers	0.89	0.89	1.14	0.25	28.1%
Special Districts Fund Subsidy	1.40	1.40	1.40	-	0.0%
Convention Center Fund Subsidy	6.00	6.00	6.00	-	0.0%
Entertainment Fund Subsidy	4.32	4.32	4.32	-	0.0%
Cheech Marin Center Fund Subsidy	0.99	0.99	0.99	-	0.0%
Total Expenditures & Transfers Out	\$ 305.67	\$ 333.50	\$ 324.51	\$ (8.99)	-2.7%

Explanation of Significant Items:

- *Personnel:* Projected MOU impacts of nearly \$17 million were recorded as of second quarter-end, inclusive of \$9.8 million in one-time stipends. This projected increase is offset by anticipated personnel savings of at least \$10 million due to the average 18% vacancy rate General Fund departments experienced for the fiscal year to date.
- *Non-Personnel:* The Amended Budget includes \$7.69 million of prior year encumbrances and carryovers. Non-personnel expenses fluctuate during the fiscal year and unexpended funds are often carried over at fiscal year-end. To date, non-personnel spending is trending slightly higher than the prior year in which \$2 million in non-personnel savings was returned to fund balance. These potential savings are expected to be partially offset by an increase in utility and fuel costs. (Refer to Attachment 1 for more details.)
- *Operating Transfers:* The Parks Special Capital Improvement Fund may require an unbudgeted General Fund subsidy of \$245,000 at fiscal year-end if revenues do not improve. Residential development impact fees and aquatic facility fees are recorded in this fund and are intended to cover debt service for park improvements made as part of the Riverside Renaissance. Revenues are currently trending at just 33% of prior year revenue collections and may fall short of the amount required to cover the fund’s debt obligations.

During the first two quarters of FY 2022/23, the City Council approved the following supplemental appropriations in the General Fund, totaling approximately \$18 million:

- Economic and Fiscal Impact Analysis of the University of California, Riverside Campus: \$220,000.
- Specialized Legal Assistance in Support of the Riverside Alive Project: \$218,350.
- Novation Agreement between the City of Riverside through its Riverside Public Library and Columbia Telecommunications Corporation for the provision, installation, and maintenance of advanced network services, fully offset by corresponding revenues: \$57,350.
- Emergency Air Support (Corona) – As-needed emergency air support services to the City of Corona, fully offset by corresponding revenues: \$120,000
- Revisions to various MOUs and the Unrepresented Employee’s Compensation and Benefits Package: \$16,831,963
- Park and Recreation Donation for exercise equipment repair costs at Hunt Park: \$500
- Covid-19 Pandemic After Action Report: \$134,981
- Fire Emergency Medical System Optimization Plan: \$41,082
- Fireworks at Mt. Rubidoux: \$66,500
- Parks Facility Rental Cleaning (fully offset by deposits): \$47,082
- Contracted Grant Writing Pool: \$150,000
- Police Service Dog (fully offset by donated funds): \$45,000
- Housing and Urban Development Annual Action Plan – General Fund Impact: \$72,467

Summary: As of the second quarter end, the General Fund appears poised to end the fiscal year with a net gain of approximately \$23 million, largely attributable to strong sales tax performance and significant personnel savings due to a high vacancy rate.

Mid-cycle Budget Adjustments:

Staff recommends \$21.07 million in General Fund supplemental appropriations. These items are fully described in Attachment 1. The most significant supplemental appropriations are as follows:

- Streets Projects: Based on the positive performance of the General Fund to date, staff recommends allocating \$10 million of projected savings toward street improvement projects. This one-time allocation will supplement current year Measure Z funding of \$15.9 million, for a total investment of \$25.9 million from general revenues sources in FY 2022/23.
- Miscellaneous Capital and Infrastructure: A total allocation of \$2.6 million from projected General Fund Savings is recommended to address miscellaneous capital needs, including median maintenance, City Hall infrastructure, and generators at the City’s fire stations and Magnolia police station.
- Parks, Recreation and Community Services Department: The department has experienced costs outside of its control related to vandalism, theft, and other emergencies. To date, these events have resulted in increased costs of \$338,599. Staff recommends a supplemental appropriation of \$700,000 to reimburse past events and to address future events as they arise.
- Water Costs: Water costs for the City’s parks and landscape are trending 18% higher than the previous fiscal year with 75% of the budget expended to date. A total increase of \$725,000 is recommended to bring the budget in line with projected costs.

- **Fuel Costs:** The cost of fuel for the City's vehicles has continued to outpace projections, with the Police and Fire Departments expected to exceed the current budget by \$640,000 combined. A mid-cycle adjustment is requested to accommodate the increased costs.
- **Animal Control:** Costs related to the animal services contract with the County of Riverside are projected to be over budget by approximately \$800,000 due to continued cost increases implemented by the County Board of Supervisors. Costs associated with a one-year extension are being discussed between City and County leadership.
- **Use of Infrastructure Reserve - \$5 million one-time subsidy to the Refuse Fund – Capital Outlay:** The solid waste program is experiencing significant vehicle maintenance issues that are impacting the timeliness and quality of service to City residents. Refuse Fund user rates are insufficient to cover ongoing operating costs and capital needs. Therefore, staff recommends utilizing \$5 million of the General Fund's \$20.6 million Infrastructure Reserve to provide funding for vehicle replacement in the Refuse Fund.
- **Use of Infrastructure Reserve - \$2 million interfund loan to the Parking Fund – Capital Outlay:** Parking Garages 1 & 2, previously categorized as surplus properties, will be operated for several more years. They require an estimated \$1.2 million of urgent and significant maintenance as described in structural engineering reports from 2016 and 2022. Additionally, the Parking Access Revenue Control Systems (PARCS) and LED lighting will be installed. The Parking Fund has insufficient reserves and user rate revenue to support these capital investments; the amount is expected to be repaid to the General Fund from future Parking Fund revenues.

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?"

Overview: Due to a significant increase in sales tax revenue projections, the preliminary budget for the Measure Z Fund presented to the City Council on April 18, 2022, provided the City Council with the opportunity to allocate approximately \$100 million in increased resources to various spending items over the next five years of the spending plan. The new allocations resulted in an annual drawdown of fund reserves, leaving an estimated \$6.31 million remaining at the end of FY 2026/27; potential MOU impacts from ongoing and future labor negotiations were not included in the adopted budget and would therefore come from that residual projected balance. The new allocations included the following:

MEASURE Z – NEW ALLOCATIONS IN ADOPTED BUDGET

Spending Item	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	Total
#25 - RPD Headquarters (Increase)	\$ -	\$1,237,977	\$1,282,282	\$1,318,087	\$1,345,392	\$5,183,738
#28 - Annual Deferred Maintenance	500,000	500,000	500,000	500,000	500,000	2,500,000
#29 - Maximize Roads/Streets	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	40,000,000
#30 - Tree Trimming	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	12,500,000
#39 - Public Safety & Engagement Team Program (PSET) – Urban	412,269	1,834,571	1,681,847	1,922,940	2,194,920	8,046,547
#48 - Office of Homeless Solutions Expansion	157,307	162,479	168,518	174,961	181,727	844,992
#49 - PSET – Wildlands	5,859,685	4,633,429	4,750,315	4,853,583	4,865,277	24,962,289
#50 - Public Safety Enterprise Communication System Radios	343,438	343,438	343,438	343,438	-	1,373,752
#51 - Office of Sustainability	391,293	398,636	418,127	423,994	430,050	2,062,100
#52 - Sidewalk Repair	600,000	600,000	600,000	600,000	600,000	3,000,000
Total New Allocations	\$18,763,992	\$20,210,530	\$20,244,527	\$20,637,003	\$20,617,366	\$100,473,418

Revenues: Sales tax revenue continued to increase during the second year of the Covid-19 pandemic, resulting in an additional \$8.81 million in unanticipated sales tax revenue in FY 2021/22. Over the two years of the pandemic, sales tax revenue rose by a remarkable 33%. Further, while sales tax is expected to level off as inflation is corrected, the new base level of sales tax revenue is currently anticipated to remain fairly level, providing a revised basis for future sales tax projections. With this new basis, staff is projecting an additional \$32 million in sales tax revenue over the term of the five-year spending plan as compared to the Spending Plan projections presented with the adopted budget.

Expenditures: Since the adoption of the budget, two significant updates to the Spending Plan have taken place:

1. The \$6.5 million in contingency funding set aside as a City match for a Library Infrastructure grant has been returned to unallocated reserves; the grant was not awarded to the City. City staff will return with a project update and a request to complete the anticipated Eastside Library project.
2. Spending Item #53 - Mt Rubidoux Trail Resurfacing: On November 15, 2022, the City Council approved an allocation of \$1.2 million for the design and construction of the Mount Rubidoux Trail Improvements Project. \$250,000 previously allocated to Mount Rubidoux Trail Improvements in Spending Item #44 - PRCSD Infrastructure, Vehicles, and Equipment has been moved to the new spending item for a total of \$1.45 million.

Summary: The following table incorporates revised revenue projections and the fiscal impact of MOUs approved by the City Council through the second quarter. MOU impacts that will result from ongoing labor negotiations with the Fire and Fire Management labor groups are not included in the projections.

MEASURE Z SPENDING PLAN

(in millions)	2023 Projected	2024 Projected	2025 Projected	2026 Projected	2027 Projected
Revenue	\$ 84.43	\$ 84.45	\$ 86.69	\$ 88.42	\$ 90.17
Expenditures	(89.55)	(90.80)	(90.16)	(92.42)	(93.53)
Encumbrances & Carryovers	(32.43)	-	-	-	-
Net Change in Fund Balance	\$ (37.55)	\$ (6.35)	\$ (3.47)	\$ (4.00)	\$ (3.36)
Beginning Unallocated Fund Reserves	\$ 91.39	\$ 53.84	\$ 47.49	\$ 44.02	\$ 40.02
Net Change in Fund Balance	(37.55)	(6.35)	(3.47)	(4.00)	(3.36)
Ending Unallocated Fund Reserves	\$ 53.84	\$ 47.49	\$ 44.02	\$ 40.02	\$ 36.66

Mid-cycle Budget Adjustments:

Following the updates to the spending plan, available unallocated reserves through FY 2026/27 total \$36.66 million. Recommendations for the use of surplus unallocated reserves were scheduled for BEC discussion in February and again in March, but those BEC meetings were canceled due to lack of quorum. In lieu of BEC discussion, staff will engage the Financial Performance and Budget Committee and will return to Council with recommendations on this topic. One use of unallocated reserves is recommended as a mid-cycle adjustment in this report:

1. Staff recommends allocating \$140,000 in one-time funding for the replacement of up to five Police Service Dogs (PSDs). Within the past year, the K9 Trust fund has been used to purchase three PSDs and provide training for five PSD and Handler teams. The Police Department has experienced an increase in the cost to purchase the PSDs, as well as increased training costs and the cost of other standard equipment over the years. Due to these reasons, expenditures have outpaced donations and the K9 Trust Fund has been depleted.

Electric Fund

The FY 2022/23 adopted operating budget for the Electric Fund includes a strategic drawdown on fund reserves of \$22.0 million. This is a financial strategy employed to draw reserves down to keep rate increases as low as possible. The amended operating budget reflects a \$43.0 million draw on reserves; the increase from the adopted budget is attributable to \$13.8 million of encumbrances and unexpended funds carried forward from FY 2021/22, and \$6.7 million resulting from approved MOUs.

Revenues: As of the end of the second quarter, Electric operating revenues are at 57.9% of budgeted projections. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 54.0% of total budget through December 2022. Retail sales are at 56.5% of total budget through December 2022 and 4.6% higher than expected. Residential consumption is 15.7% higher than projections, while commercial/industrial consumption is 1.6% lower than projected. Projected revenue for the fiscal year remains unchanged.

Expenditures: Electric operating expenditures are 50.3% of the total budget at the end of the second quarter. Personnel savings are anticipated due to a vacancy rate of nearly 20%. Power Supply costs are trending 9% over budget due to significantly higher-than-expected increases in market energy and natural gas prices. This increase is expected to be offset by the increase in retail sales and savings in other operating budget line items.

Water Fund

The FY 2022/23 adopted budget for the Water Fund projected an operating gain of \$5.0 million. The amended budget, inclusive of \$3.3 million of encumbrances and unexpended funds carried forward from FY 2021/22 and \$2.4 million resulting from approved MOUs, projects a near break-even for the fund.

Revenues: Total operating revenues for the Water Fund are 54.2% of budgeted 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 56.7% of the total budget through December 2022. Actual retail sales are at 54.2% of the total budget. Residential consumption is 5.9% lower than projected; consumption in the other categories combined is 3.5% lower than anticipated. Projected revenue for the fiscal year remains unchanged.

Expenditures: Water Fund operating expenditures are 44.7% of budget at the end of the second quarter. Personnel savings are anticipated due to a 10% vacancy rate. Non-personnel expenditures are trending slightly behind last year's spending pace; however, it is important to note some expenditures vary in their timing throughout the fiscal year. Overall, water expenditures are projected to remain within the budgeted appropriation limit at fiscal year-end.

Sewer Fund

The FY 2022/23 adopted budget projects a net operating gain of \$2.3 million. Quarter 2 analysis projects a slightly higher operating gain due to high-performing revenues.

Revenues: At the end of the second quarter, 53.8% of projected revenues have been recorded. Based on an analysis of performance to date, the Sewer Fund is on track to exceed revenue projections, primarily due to higher than anticipated sewer connection fees from two large housing developments.

Expenditures: Operating expenditures are 47.7% of total budget at the end of the second quarter. Personnel savings are anticipated due to a vacancy rate of nearly 19%, partially offset by overtime costs. The vacancies require staff to work overtime to cover shifts and manage an increased workload. Inflation is impacting the cost of construction materials, chemicals, and fuel, thereby resulting in increased contract costs. Staff will continue to monitor operating expenditures and rebalance spending as necessary to remain within the adopted appropriations limit without impacting operations.

Refuse Fund

The adopted budget for the Refuse fund projected a draw on fund reserves of approximately \$1.4 million due to a decline of recycling revenues precipitated by a reduction in industry demand, rising recycling costs, increased tonnage, and anticipated increases in parking fines assessed for street sweeping; updated projections present a net operating loss of \$1.5 million. On February 7, 2023, the City Council approved an allocation of \$2 million in American Rescue Plan Act (ARPA) revenue replacement funds, which will offset the projected loss.

Revenues: The Solid Waste rate plan adopted by City Council in September 2020 included a Year 3 increase in rates effective July 1, 2022. As of the end of the second quarter, service revenues are 50.6% of projections and total revenues are 50.1% of projections. Street sweeping

finances are 39.1% of budget due to vacancies; however, the revenue shortfall has been offset by slightly higher revenues in other categories.

Expenditures: Operating expenditures are 40.3% of total budget at second quarter end. As of mid-January, Burrtec Waste Industries is no longer providing additional route services. With a vacancy rate exceeding 18%, the Refuse Fund continues to experience high turnover and staffing shortages despite enhanced recruitment and hiring efforts. Overtime costs are anticipated to be over-budget as Street Sweeping staff are assisting with routes. An aging fleet and related maintenance costs are also placing pressure on fund finances. With user rates insufficient to support operating costs and capital needs, staff recommends utilizing \$5 million from the General Fund’s Infrastructure Reserve to purchase refuse and street sweeping vehicles.

Mid-cycle Budget Adjustment:

Capital Outlay: The solid waste program is experiencing significant vehicle maintenance issues that are impacting the timeliness and quality of service to City residents. Refuse Fund user rates are insufficient to cover ongoing operating costs and capital needs. Therefore, staff recommends utilizing \$5 million of the General Fund’s \$20.6 million Infrastructure Reserve to provide funding for vehicle replacement in the Refuse Fund.

Utility Account Delinquencies

The Electric, Water, Sewer and Refuse funds were impacted by the suspension of utility shutoffs in response to the pandemic. In December 2021, Riverside Public Utilities (RPU) provided credits to water and electric customer accounts of \$13.0 million from the California Arrearage Payment Program (CAPP) and California Water and Wastewater Arrearage Management Program (CWWAPP). In April 2022, RPU provided credits of \$2.3 million to sewer customer accounts from CWWAPP.

In August 2022, Riverside Public Utilities (RPU) resumed shutoffs for non-payment along with issuing 48-hour tag notifications. RPU approved the RESTART program, which allows for eighteen-month payment arrangements for residential customers who signed up by August 2022. RPU continues to offer standard twelve-month arrangements for customers with delinquent payments. As of the close of the second quarter, the combined delinquent accounts receivable for the four utilities is \$28.4 million, which is \$1.8 million less than at the close of the first quarter. Of the current \$28.4 million delinquent accounts receivable, \$3.8 million will be paid under the RESTART program and \$5.8 million will be repaid under the standard installment program. The balance of \$18.8 million is delinquent without an installment plan.

Public Parking Fund

Parking Fund reserves at the beginning of FY 2022/23 total \$3.1 million. On July 19, 2022, the City Council engaged staff in a discussion of the impacts of the Parking Ecosystem Sustainability Plan (PESP) on the Public Parking Program and ultimately directed staff to reinstate the parking program rates and hours of operation in place prior to July 1, 2022. On September 6, the City Council directed staff to bring back the amended parking rates and hours scheduled by the end of March 2023. On February 7, 2023, the City Council approved an allocation of \$1.5 million in ARPA revenue replacement funds, which will help to maintain fund reserves while rate increases are reconsidered.

Revenues: Downtown parking utilization is mixed. There was a 15% increase between August and September during the weekdays as workers returned to the office; however, there was a 27% decline during weeknights, likely attributable to reduced discretionary spending on entertainment

and dining being reported by downtown businesses. The second quarter has remained relatively flat since September, with a very slight upward trend. Parking revenue during the Festival of Lights was on par with revenues collected in 2019 for the event.

Expenditures: As of the second quarter end, expenditures are 33.1% of total budget. Due to the financial status of the Public Parking Fund, some capital projects will be deferred to FY 2023/24.

Mid-cycle Budget Adjustments:

- Mid-cycle budget adjustments include the restatement of revenue projections to reflect the rescinded rate increase as well as balancing measures to offset the revenue loss.
- Capital Outlay - \$2 million interfund loan from the General Fund: Parking Garages 1 & 2, previously categorized as surplus properties, will be operated for several more years. They require an estimated \$1.2 million of urgent and significant maintenance as described in structural engineering reports from 2016 and 2022. Additionally, the Parking Access Revenue Control Systems (PARCS) and LED lighting will be installed. The Parking Fund has insufficient reserves and user rate revenue to support these capital investments; the amount is expected to be repaid to the General Fund from future Parking Fund revenues.

STRATEGIC PLAN ALIGNMENT:

The reporting and presentation of financial results support **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 five 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.
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 the preservation of City services.

FISCAL IMPACT:

The total fiscal impact of the recommended mid-cycle budget adjustments is summarized by fund in the following table. Sufficient resources are available in the respective funds to accommodate the recommendations.

MID-CYCLE BUDGET ADJUSTMENTS

Fund	Revenue	Expenditures	Net Impact to Fund Reserves
101 - General Fund	\$14,230,000	\$23,020,803	\$(8,790,803)
110 - Measure Z Fund	7,631,000	140,000	7,491,000
215 - Grants and Restricted Programs	-	2,338,176	(2,338,176)
401 - General Capital Fund	12,835,000	12,835,000	-
520 – Water	-	1,448,425	(1,448,425)
540 – Refuse	5,000,000	5,000,000	-
570 – Public Parking	(590,983)	1,510,000	(2,100,983)
742 - Hunter Business Park Assessment District	-	40,682	(40,682)
745 - Riverwalk Assessment District	-	14,923	(14,923)
746 - Riverwalk Bus. Assessment District	-	5,975	(5,975)
756 - CFD-Riverwalk Vista	-	69,729	(69,729)
758 - CFD Sycamore Canyon 92-1	-	15,938	(15,938)
759 - CFD 2006-1-RW Vista Area #2	-	11,980	(11,980)
760 - CFD 2014-2 Highlands	-	13,493	(13,493)
762 - CFD 2015-1 Orangecrest Grove	-	37,494	(37,494)
Citywide Total	\$39,105,017	\$46,502,618	\$(7,397,601)

The General Fund and Measure Z are both performing better than expected, buoyed by high sales tax revenue. The General Fund is also expected to see significant personnel savings due to a high vacancy rate through the second quarter. Mid-cycle adjustments leverage the good news by allocating additional funding to street projects and other critical needs. In the General Fund, \$7 million of the \$20.6 million Infrastructure Reserve is recommended to fund the purchase of Refuse vehicles, as user rates in the Refuse Fund are insufficient to support the solid waste program for City customers. The outcome of this action is the use of general tax dollars to support a rate-payer service. An additional \$2 million from the Infrastructure Reserve is recommended to fund critical needs for Parking Garages 1 and 2 as the Public Parking Fund reserves and user rates are insufficient to fund these needs. This amount will be structured as an interfund fund loan, repayable to the General Fund from future parking revenues. Approximately \$13.6 million will remain in the General Infrastructure Reserve following these allocations.

The City’s Electric and Water funds are expected to remain within their appropriation limits, and fund reserves are expected to remain within policy levels.

The Sewer Fund is expected to end the fiscal year with an operating gain due to high performing sewer connection revenues.

The Refuse Fund continues to experience staffing shortages and increased maintenance costs for an aging fleet. These challenges are being addressed through escalated hiring measures and vehicle replacement strategies, including a \$5 million transfer from the General Fund for the purchase of new vehicles.

The Public Parking Fund continues to be closely monitored as a fund with ongoing financial concerns that may ultimately impact the General Fund if financial stability is not achieved later this fiscal year. 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. In the current fiscal year, ARPA funding will help to maintain fund reserves while rate increases are reconsidered. A \$2 million interfund loan from the General Fund, repayable from future rate revenue, will allow staff to address critical structural and maintenance needs at Garages 1 and 2.

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Attachments:

1. Mid-cycle Budget Adjustments
2. Fiscal Update
3. Measure Z Spending Plan
4. Measure Z Accomplishments
5. Presentation