

the General Fund which leveraged a portion of the projected fiscal year end surplus and \$7 million in the allocation of General Fund Infrastructure Reserves to support capital needs of the Refuse and Public Parking funds.

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 third 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 March 2023.

General Fund

The third quarter analysis presents a positive outlook for the General Fund for FY 2022/23 which will assist the City with confronting an expected flattening and potential downturn in revenues in the next fiscal year. With the second quarter financial report, staff increased General Fund revenue projections by 5% based upon revenue trends and a two-year shift in sales tax revenues produced by the pandemic and change in consumer spending. This provided the City with the opportunity to address critical needs such as street projects and rising costs, as well as subsidizing the Refuse and Public Parking funds' capital needs with a total \$7 million cash infusion from the General Fund infrastructure reserve. However, the one-time anomaly in the sales tax trend has concluded, with the current year expected to produce much slower growth as compared to the previous two years, and zero growth expected next year.

In April 2023, the Federal Reserve cautioned that the U.S. economy is headed for a "mild recession" and further stated in May 2023 that "Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation." While sales tax revenue is still buoyed by inflation this year, the Federal Reserve continues to take action to correct inflation through the adjustment of interest rates. Higher interest rates make borrowing more expensive for individuals, dampening the prospects for large purchases, such as housing, home improvements, vehicles, and travel, all of which are factors that impact the City's property and sales tax revenue which account for more than half of the General Fund's annual revenue.

Revenues: FY 2022/23 General Fund revenues recorded through March 2023 were reviewed in the context of FY 2021/22 actual results and performance-to-date. Third quarter analysis reveals that General Fund revenue projections overall are on target with projections as revised in the second quarter report. In addition, revenue replacement funds totaling \$15.9 million from the American Rescue Plan Act (ARPA) have been recorded in the third quarter. There are no recommendations to revise revenue estimates as a result of the third quarter analysis. The following table incorporates adjusted revenue projections from the second quarter analysis and adds the ARPA revenue.

REVENUE PROJECTIONS

(in millions)	Adopted Budget	Amended Budget	Projected	\$ Change	% Change
Property Taxes	\$ 79.28	\$ 80.78	\$ 80.78	\$ -	-
Sales Tax	83.51	94.44	94.44	-	-
Utility Users Tax	32.80	33.10	33.10	-	-
Transient Occupancy Tax	7.10	8.41	8.41	-	-
Franchise Fees	5.72	5.72	5.72	-	-
Licenses & Non-Developer Permits	8.98	9.47	9.47	-	-
Non-Development Charges for Services	10.03	10.03	10.03	-	-
Development Fees & Charges	6.80	6.80	6.80	-	-
General Fund Transfer	50.81	50.50	50.50	-	-
Measure Z Transfer	18.27	18.27	18.27	-	-
Other Revenues & Transfers In	7.33	7.61	7.61	-	-
ARPA Revenue Replacement	-	15.91	15.91	-	-
Use of Infrastructure Reserve	-	N/A	7.00	-	-
Total Revenues & Transfers In	\$ 310.63	\$ 341.04	\$ 348.04	\$ -	-

Expenditures: The second quarter report included supplemental appropriations of approximately \$16 million allocated from projected revenue enhancements and personnel savings totaling \$23.4 million, leaving approximately \$7 million in projected savings as a buffer against an expected mild recession. Separately, \$7 million was allocated to the Refuse and Public Parking Funds from the General Fund's Infrastructure Reserves. Updated projections in the third quarter reveal additional projected savings at fiscal year-end due to a high vacancy rate in the General Fund and supplemental appropriations which increased the adopted budget.

- *Personnel:* During the fiscal year, the personnel budget was increased by approximately \$18.40 million for estimated MOU fiscal impacts, including \$11.6 million in employee stipends. The General Fund continues to experience a high vacancy rate of 13% as of the end of the third quarter, presenting a potential \$15 million in additional personnel savings through the end of the fiscal year against an amended budget which includes the \$11.6 million for employee stipends. As the City continues to exert extra efforts and resources to fill vacancies the vacancy rate percentage will decrease to a low single digit percentage over the next several months.
- *Non-Personnel:* Non-personnel expenses fluctuate during the fiscal year and unexpended funds are scrutinized for fiscal year-end carryover, making potential year-end savings largely unpredictable. Current fiscal year non-personnel spending is trending 5% higher than the prior year.

EXPENDITURE PROJECTIONS

(in millions)	Adopted Budget	Amended Budget	Projected	Change	% Variance
Personnel	\$ 217.56	\$ 226.08	\$ 211.08	\$ (15.00)	-6.6%
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	71.16	71.16	-	0.0%
Special Projects	7.14	9.38	9.38	-	0.0%
Minor Capital & Grants	0.42	1.17	1.17	-	0.0%
Debt Service	32.94	32.94	32.94	-	0.0%
Charges To/From	(17.90)	(18.14)	(18.14)	-	0.0%
Cost Allocation Plan	(21.65)	(21.65)	(21.65)	-	0.0%
Operating Transfers	0.89	18.95	18.95	-	0.0%
Special Districts Fund Subsidy	1.40	1.40	1.40	-	0.0%
Convention Center Fund Subsidy	6.00	6.38	6.38	-	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	\$ 349.19	\$ 334.19	\$ (15.00)	-4.3%

During the first three quarters of FY 2022/23, the City Council approved the following supplemental appropriations in the General Fund, totaling approximately \$43 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: \$18,691,963
- 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
- 3.5 FTE Council Assistants: \$70,875

- Donations: \$1,000
- Sponsorship Consultant: \$347,625

Supplemental appropriations totaling \$23 million approved in the second quarter financial report include:

- Capital Investment in Streets and Medians: \$11,700,000
- Replace transformer switch and generators at City buildings: \$850,000
- Increase in various utility costs: \$1,595,000
- Other needs, including animal control; security, vandalism & theft issues at the Heritage House and City parks; and other miscellaneous items as described in the second quarter financial report: \$1,875,803
- Use of Infrastructure Reserves for Refuse (\$5 million) and Public Parking (\$2 million) funds.

Summary: As of the third quarter end, the General Fund appears poised to end the fiscal year with a net gain of approximately \$13.85 million, inclusive of ARPA revenue replacement funds totaling \$15.9 million and a use of Infrastructure Reserves totaling \$7 million. Staff recommends replenishing the second quarter \$7 million withdrawal from the Infrastructure Reserves as well as establishing a \$3 million Technology Reserve. A Technology Reserve will enable the City to maintain much needed inventory, address critical technology events, and invest in the City’s technology infrastructure. Following these allocations, the General Fund is projected to end the fiscal year with a \$3.85 million net gain. A portion of this projected net gain will be required to maintain the General Fund’s 20% policy reserves.

General Fund Summary			
Category	Adopted Budget	Amended Budget	Projected
Revenues and Other Resources	\$ 310.63	\$ 341.04	\$ 348.04
Expenditures and Transfers Out	(305.67)	(349.19)	(334.19)
Surplus/(Deficit)	\$ 4.96	\$ (8.15)	\$ 13.85
Replenish Infrastructure Reserve			(7.00)
Establish Technology Reserve			(3.00)
Remaining Balance	\$ 4.96	\$ (8.15)	\$ 3.85

Supplemental Appropriations: In May 2023, a vacant City facility at 3480 Orange Street was destroyed by a fire. As of the date of this report, the City has received an insurance reimbursement in the amount of \$500,000; Council approval is required to appropriate the funds to cover the demolition costs expended to date.

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.

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%, surprising economists and the City's sales tax consultant. 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, several 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 SPC Jesus S. Duran Eastside Library project.
2. Spending Item #29 – Maximize Roads/Streets: On December 6, 2022, the City Council approved an additional \$3.5 million allocation in Measure Z funding for street projects.
3. 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. On March

7, 2023, the City Council approved an additional allocation of \$330,000 for this spending item.

4. Spending Item #54 - Police K9: On April 18, 2023, the City Council approved a one-time allocation of \$140,000 for the replacement of up to five police service dogs.
5. Spending Item #55 – PRCS Capital and Maintenance: On June 13, 2023, the City Council approved a one-time allocation of \$6.5 million for underfunded parks projects and an annual allocation of \$3.5 million for parks facilities deferred maintenance projects beginning in FY 2024/25.

Summary: The following table incorporates revised revenue projections and the fiscal impact of MOUs approved by the City Council through the third quarter. Not included in the table below is a potential \$4 million in personnel savings resulting from unfilled positions. There are currently 46.75 vacancies within the 181 Measure Z funded positions, with 35 vacancies in the two Public Safety and Engagement Team programs.

MEASURE Z SPENDING PLAN

(in millions)	2019 Actuals	2020 Actuals	2021 Actuals	2022 Actuals	2023 Projected
Revenue	\$ 62.82	\$ 63.14	\$ 72.65	\$ 83.91	\$ 84.43
Expenditures	(40.99)	(49.56)	(50.85)	(67.45)	(96.51)
Encumbrances & Carryovers				(32.44)	
Net Change in Fund Balance	\$ 21.83	\$ 13.58	\$ 21.80	\$ (15.98)	\$ (12.08)
Beginning Unallocated Fund Reserves	\$ 22.73	\$ 39.56	\$ 53.14	\$ 74.94	\$ 58.96
Net Change in Fund Balance	21.83	13.58	21.80	(15.98)	(12.08)
Fund Balance Reserve Policy	(5.00)	-	-	-	-
Ending Unallocated Fund Reserves	\$ 39.56	\$ 53.14	\$ 74.94	\$ 58.96	\$ 46.88

Supplemental Appropriation:

- **Spending Item #20 – Homeless Services \$178,155:** City Council awarded the Riverside Access Center Rehabilitation project \$661,000 in Community Development Block Grant (CDBG) funds. The total project cost is \$839,155 leaving a project funding gap of \$178,155. The Riverside Access Center Rehabilitation project will include replacing the roof, windows, doors, remodel the staff and client restrooms, new HVAC system, create office space for the Street Outreach staff and a training room, repaint and install new flooring. The facility was last rehabilitated in 2010. The Access Center serves as the entry point and service hub of the City’s continuum of care offering a wide-range of services under-one-roof including street outreach, shelter placement, benefits enrollment, life skills training, education services, client stabilization resources, computer resources, and transportation assistance.

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 third quarter, Electric operating revenues are at 81.4% of budgeted projections. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be at 76.3% of total budget through March 2023. Retail sales are at 78.1% of total budget through March 2023 and 2.4% higher than expected. Residential consumption is 10.4% higher than projections, while commercial/industrial consumption is 3.6% lower than projected. Projected revenue for the fiscal year remains unchanged.

Expenditures: Electric operating expenditures are 72.0% of the total budget at the end of the third quarter. Personnel savings of approximately \$14 million are anticipated due to a high vacancy rate during the fiscal year. As of the end of May 2023, the vacancy rate is about 15%, a 5% reduction from the second quarter. Power Supply costs are trending 12% (about \$14 million) over budget due to significantly higher-than-expected increases in market energy and natural gas prices. In total, the fund is expected to remain within the total appropriations limit with personnel savings offsetting increased power supply costs.

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 are lagging through the third quarter but are expected to be largely offset by personnel savings.

Revenues: Total operating revenues for the Water Fund are 74% of budgeted projections as of third quarter end. Retail sales were projected to be at 75.9% of the total budget through March 2023 but are trending 5% (\$2.9 million) below budgeted expectations. Actual retail sales are at 72.1% of the total budget. Residential consumption is 6.8% lower than projected; consumption in the other categories combined is 5.7% lower than anticipated. Water Wholesale and Conveyance Revenue is projected to be less than anticipated due to drought conservation and increased precipitation causing reduced demand from other utilities. The revised revenue projection of \$4.4 million, is \$1.3 million or 23% less than the original projection of \$5.7 million.

Expenditures: Water Fund operating expenditures are 64% of budget at the end of the third quarter. Personnel savings of approximately \$3.5 million are anticipated due to a 10% vacancy rate, which is unchanged as compared to the second quarter. 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.

Sewer Fund

The FY 2022/23 adopted budget projects a net operating gain of \$2.3 million. Third quarter analysis projects this target will be met, with higher than anticipated revenues offsetting higher operating costs.

Revenues: At the end of the third quarter, 82% of projected revenues have been recorded. Based on an analysis of performance to date, the Public Works Departments projects that the Sewer Fund is on track to exceed revenue projections by \$6.7 million, primarily attributable to higher than anticipated sewer connection fees from two large housing developments.

Expenditures: Operating expenditures are 72% of total budget at the end of the third quarter. Personnel savings of approximately \$3 million are anticipated due to a vacancy rate of nearly 21%, 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 \$1.7 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 as of the end of the third quarter present a net operating loss of \$2.4 million with the addition of the fiscal impact of MOUs. On February 7, 2023, the City Council approved an allocation of \$2 million in American Rescue Plan Act (ARPA) revenue replacement funds, which will partially 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 third quarter, service revenues are 76% of projections and total revenues are 75% of projections. Street sweeping fines are 61% of budget due to vacancies; however, the revenue shortfall has been offset by slightly higher revenues in other categories. Total revenues for the fund are expected to meet budgeted projections.

Expenditures: Operating expenditures are 75% of total budget at third quarter end. With a vacancy rate exceeding 17%, the Refuse Fund continues to experience high turnover and staffing shortages despite enhanced recruitment and hiring efforts; Street Sweeping staff are assisting with routes. Capital purchases for vehicle replacement for the Refuse Fund have been initiated utilizing \$4 million in ARPA funding and \$5 million from the General Fund's Infrastructure Reserve to purchase refuse and street sweeping vehicles.

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 third quarter, the combined delinquent accounts receivable for the four utilities is \$22 million, which is \$6.4 million less than at the close of the second quarter. Of the current \$22 million delinquent accounts receivable, \$2.3 million will be paid under the RESTART program and \$8.8 million will be repaid under the standard installment program. The balance of \$10.9 million is delinquent without an installment plan.

Public Parking Fund

Parking Fund reserves at the beginning of FY 2022/23 total \$3.1 million. Third quarter analysis presents a net loss for the fiscal year of nearly \$500,000. On February 7, 2023, the City Council approved an allocation of \$1.5 million in ARPA revenue replacement funds. On April 18, 2023,

the City Council approved a new Parking Rate and Hour Schedule effective July 1, 2023 which is expected to begin generating a net gain for the fund in FY 2024/25.

Revenues: Parking revenues were adopted with the new rates and were subsequently reduced by \$2.6 million to account for the rescinded rate increase. Third quarter projections reveal a potential shortfall of \$700,000 in projected revenues. Parking utilization is below normal for weeknights likely impact by a slowdown in discretionary spending; however, a slight pickup in pace is being noted as special events return to the downtown area. Daytime activity has increased as workers returned to job sites following the pandemic. Parking citation issuance has slowed as staffing levels have dropped; this revenue is on pace to hit 81% of budget.

Expenditures: As of the third quarter end, expenditures are 75% of total budget. Due to the financial status of the Public Parking Fund, some capital projects will be deferred to FY 2023/24 to help offset projected revenue shortfalls.

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 General Fund is expected to end the fiscal year in a positive position, which will help to buffer against a flattening in revenues during the mild recession expected to materialize next fiscal year. The recommended \$500,000 supplemental appropriation for demolition costs at 3480 Orange Street is fully offset by an insurance claim reimbursement.

The Measure Z Fund is expected to end the fiscal year with at least \$53 million in unallocated reserves, the majority of which is programmed for use over the five-year spending plan. There are sufficient unallocated reserves to accommodate the recommended \$178,155 supplemental appropriation for the Riverside Access Center Rehabilitation project.

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 is expected to end the fiscal year with a \$2.4 million loss which will be largely offset by ARPA revenue replacement funds.

The Public Parking Fund is expected to end the fiscal year with a \$500,000 loss which will be offset by ARPA revenue replacement funds.

Prepared by: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Certified as to
availability of funds: Edward Enriquez, Assistant City Manager/Chief Financial Officer/
City Treasurer
Approved by: Edward Enriquez, Assistant City Manager/Chief Financial Officer/
City Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Financial Update
2. Measure Z Spending Plan
3. Measure Z Accomplishments
4. Presentation