



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JULY 28, 2015**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: MONTHLY FINANCIAL, INVESTMENT, AND DEBT REPORTS AND DELEGATION OF INVESTMENT RESPONSIBILITY – MAY 2015

ISSUES:

The items for City Council consideration are to: 1) receive the monthly financial, investment and debt reports; and 2) delegate authority to the Chief Financial Officer/Treasurer of the City to invest and reinvest funds or to sell or exchange purchased securities.

RECOMMENDATIONS:

That the City Council:

1. Receive the attached monthly financial, investment, and debt reports; and
2. Delegate investment responsibility to the City's Chief Financial Officer/Treasurer for a period of up to one year.

BACKGROUND:

Throughout the year, the Finance Department undertakes a comprehensive analysis of revenue and expenditures for the City's major funds in order to monitor budget versus actual data and identify any positive or negative trends. The attached Monthly Financial Report (Attachment A) summarizes the results of that analysis, which is an essential component of the City's sound fiscal management practices. This information is presented each month from September through May, and is superseded in June by the annual audit and then suspended until the first quarter of the following fiscal year is complete in September. Additionally, this report includes the Monthly Investment Report (Attachment B) and the Monthly Debt Report (Attachment C), which highlights the City's portfolio of investments and its outstanding debts, respectively.

Monthly Financial Report Status

For the month of March, a complete quarterly analysis of expenditures in each General Fund Department was completed along with a detailed review of year-to-date and projected revenues. Several minor revenue and expenditure variances have been identified since the publication of the March report on June 2nd, as well as one material revenue variance related to unfunded mandate reimbursements from the State as outlined below.

It should be noted that an accounting adjustment related to the incorporation of the Riverside

Convention Center into the General Fund budget has resulted in an increase in both revenue and expenditures in the budget of \$4.0 million as reported at mid-year. This adjustment was required because the new management contract for the Convention Center, necessitated by the financing of the Center's renovation and expansion using tax-exempt bonds, places the risk associated with the profitability of the Center on the General Fund rather than the operator. Accounting standards require the resulting change in presentation in the City's budget and financial statements.

Revenues continue to outperform the original revenue forecast included in the adopted budget. Chief among these variances are: 1) approximately \$2 million of additional sales tax revenues, which is an indicator that the Riverside economy continues its strong recovery; and 2) approximately \$800,000 of additional one-time revenues. In last month's report, one-time revenues were projected to fall short of the forecast by approximately \$1 million. This month's report reflects a swing of approximately \$1.8 million related to unfunded mandate reimbursements from the State totaling approximately \$2.8 million. While staff has been anticipating this additional revenue for a while now and previously reflected \$1.0 million as projected one-time revenue, a more conservative number had been included in previous reports because: 1) the full reimbursement was not certain until the release of the May Revise by the Governor; 2) the amount actually to be reimbursed to each local agency was not then known; and 3) the final reimbursement amounts included interest that had not been assumed to be paid in the projection.

Additional material tax revenue variances include higher transient occupancy tax revenues (+\$560,000) and higher franchise fee revenues (\$395,000). Material positive non-tax revenue variances include higher than anticipated mutual aid and state mandate reimbursements (+\$627,000 in intergovernmental revenue). Additionally, a negative non-tax revenue variance is projected to offset a portion of the additional revenues due to lower than anticipated fines and forfeits revenues related to the termination of the Photo Enforcement Program and lower than anticipated administrative civil penalties revenues (-\$1,702,000). Lastly, \$765,000 of prior year revenue was carried forward into the current fiscal year related to a minor excess of actual sales tax revenues versus the accrual included in the year-end financial statements. On the whole, revenues are approximately \$3.9 million above budget when adjusting for the \$4.0 million Convention Center accounting adjustment.

Supplemental appropriations from the General Fund Reserve during fiscal year 2014/15 totaled approximately \$1.1 million, excluding the \$4.0 million Convention Center accounting adjustment. Additionally, departments are projected to miss the managed savings target included in the adopted budget by approximately \$2.1 million, for a total negative expenditure variance of \$3.2 million. This variance is primarily the result of higher than anticipated backfill costs in the Fire Department due to mutual aid responses, several structural issues in the Fire Department budget that are addressed in the fiscal year 2015/16 budget, and lower than anticipated park fee revenues that are used to offset certain Riverside Renaissance-related debt service costs. While expenditures from the base budget are forecasted to be approximately \$2.1 million above budget, the approximately \$3.9 million of higher than anticipated revenues offset this over budget amount entirely as well as the aforementioned mid-year appropriations.

In summary, the draw on reserves that had been projected in recent months' financial reports of approximately \$1.0 million has been replaced by a projected surplus of approximately \$700,000. Mid-year appropriations by the City Council through June 30, 2015 totaled approximately \$1.1 million, which serve to decrease what would have otherwise been a \$1.8 million projected surplus. Sufficient funds were included in the adopted fiscal year 2015/16 budget to increase the General Fund Reserve balance by \$1.0 million to approximately \$38.4 million, which is a level consistent

with the City's policy of setting aside a reserve equal to 15% of the adopted expenditure budget. The additional projected revenue outlined in this report, if sustained following the close of the City's books in the weeks ahead, would result in an additional \$1.8 million increase in the June 30, 2015 projected reserve balance from \$37.4 million to \$39.2 million. When accounting for the \$1.0 million allocation to reserves included in the fiscal year 2015/16 budget, the projected reserve balance as of June 30, 2016 would therefore increase to \$40.2 million. This amount may be negatively or positively impacted by: 1) the final fiscal year 2014/15 revenue and expenditure results; 2) the final fiscal year 2015/16 revenue and expenditure results; and/or 3) any mid-year appropriations from the Reserve approved during fiscal year 2015/16.

Monthly Investment Report Status

Sound investment practices are also essential to the City's 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 month. As of May 31, 2015 the City's pooled investment portfolio's market value was \$446.9 million, with the market value of investments held by fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$236.2 million. The weighted average yield of the pooled investment portfolio is currently 0.798%. Lastly, this report requests approval of the routine authorization for the Chief Financial Officer/Treasurer to be delegated authority to invest and reinvest the City's funds or to sell or exchange purchased securities, as required by State law.

Monthly Debt Report Status

The Finance Department is also charged with managing the City's debt portfolio, issuing new debt and monitoring opportunities to refinance existing debt to minimize the City's cost of borrowing. The attached Monthly Debt Report 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 due in the current fiscal year by Fund.

In May the only change to the debt report is the refunding of the City's 2014 Pension Obligation Notes. The Notes were replaced with 2015 Notes, in the same total amount, which mature in one year. The 2015 Notes are the successor to the City's Series 2005B Pension Obligation Bonds, which were refunded several years ago and converted to a one year note mode. These Notes represent the final five years of the amortization of the City's Series 2005A and 2005B Pension Obligation Bonds, which were issued with both fixed rate (2005A) and variable rate (2005B) components. The City has chosen to maintain these Notes in a one year mode due to the very cost-effective interest rates currently available for this mode versus a long-term variable or fixed-rate bond issuance. Regardless of the mode, when the 2005A Bonds mature in 2020, the successor debt to the 2015 Notes will begin to amortize and will be paid in full in 2025 which mirrors the original 20 year amortization contemplated when the debt was issued in 2005.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

Prepared by: Scott Catlett, Assistant Finance Director
for Brent A. Mason, Finance Director/Treasurer

Certified as to
availability of funds: Brent A. Mason, Finance Director/Treasurer

Approved by: Deanna Lorson, Assistant City Manager

Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Attachment A: Monthly Financial Report
2. Attachment B; Monthly Investment Report
3. Attachment C: Monthly Debt Report