



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: DECEMBER 1, 2015
FROM: FINANCE DEPARTMENT WARDS: ALL
SUBJECT: FISCAL YEAR 2014/15 YEAR-END FINANCIAL RESULTS

ISSUE:

The item for City Council consideration is receipt of a report on the final year-end financial results for Fiscal Year 2014/15, and action to formally appropriate past expenditures in a variety of General Fund departments. These expenditures are fully supported by additional revenues.

RECOMMENDATIONS:

That the City Council:

1. Receive the year-end financial results for Fiscal Year 2014/15; and
2. Authorize supplemental appropriations totaling \$4,340,399 to various General Fund accounts to reflect final year-end variances versus the adopted budget as detailed in this report, which are fully offset by revenues.

BACKGROUND:

The fiscal year 2014/15 annual audit is well underway and staff has reached a point in the audit process where the June 30, 2015, year-end fund balances can be calculated. The last monthly financial report presented to the City Council was for May 2015. That report included a forecast for the General Fund reserve balance of \$39,151,626 as of June 30, 2015. For the reasons discussed below, the actual final reserve balance as of June 30, 2015, was \$40,085,510, a positive difference of \$933,884 versus the May projection and \$1,646,684 versus the reserve balance as of June 30, 2014.

General Fund Revenue Results

A comparison of the budgeted fiscal year 2014/15 revenues versus the actual fiscal year 2014/15 revenues shows an increase of \$11.1 million versus the adopted budget. However, \$6.0 million of this increase relates to the incorporation of revenues associated with the Convention Center into the General Fund and higher than anticipated revenues from the City's performing arts venues operated by Live Nation. Other General Fund revenues increased by \$5.1 million. The following material revenue variances accounted for the majority of this increase:

1. Sales tax revenues were \$2.0 million above budget as a result of higher than anticipated growth in receipts. The improving economy, and in particular revenues related to auto

dealers, the building and construction industry, and new retail outlets in the city, have continued to outpace projections. Additionally, \$0.8 million of additional unanticipated sales tax revenues from the prior fiscal year were carried forward and applied to the fiscal year 2014/15 revenue budget.

2. Property tax revenues were \$1.5 million above budget as a result of 1) approximately \$1 million of higher than anticipated year-end funds received from the former Redevelopment Agency as surplus tax increment funds were passed through to each taxing entity, including the City's General Fund, and 2) approximately \$0.5 million of higher than anticipated other property tax revenues.
3. Charges for services revenues were \$1.1 million above budget due to growth in various individual accounts, most related to improving development activity in the City. Additionally, facility-related charges for services revenues for the Convention Center and the City's contract with Live Nation for its performing arts venues were \$6.0 million above budget due to incorporation of the Convention Center into the General Fund budget mid-year and higher than anticipated revenues for all facilities, which were mostly offset by higher facility-related expenditures.
4. Intergovernmental revenues were \$0.9 million above budget due primarily to higher than anticipated mutual aid-related reimbursements to the Fire Department and higher than anticipated state mandate-related payments from the State of California.
5. Transient occupancy tax revenues were \$0.8 million above budget due primarily to additional hotel activity related to the renovation and expansion of the Riverside Convention Center.
6. Franchise-related revenues were \$0.7 million above budget primarily because of higher than anticipated franchise payments from natural gas providers, AT&T due to growth in the customer base, and Burrtec due to an increase in hauled tonnage.

These increases were partially offset by three revenue categories that were materially below budget:

1. Fines and forfeits revenues were \$1.0 million below budget primarily due to the termination of the City's red light photo enforcement program mid-year. These reduced revenues were mostly offset by reduced expenditures associated with the City's contract to manage the photo enforcement program, and the costs associated with staff reviewing the violations and issuing citations.
2. Other and one-time revenues were \$1.0 million below budget. A substantial one-time payment of approximately \$2.4 million fully reimbursing the City for pre-2004 state mandates as required by Proposition 1-A has been reflected as one-time revenue due to the nature of the payment. Additional miscellaneous revenues primarily attributable to interest, rent, and rebate revenues were also included in this category. Overall, the budgeted revenue amount in this category is potentially too aggressive, and will be revisited in the next budget cycle.
3. Property transfer tax revenues were \$0.5 million below budget due to lower than anticipated growth.

The table below details the variances by revenue category for fiscal year 2014/15:

| | Budgeted 2014/15 | Actual 2014/15 | Budget Variance |
|------------------------------------------------|-----------------------|-----------------------|----------------------|
| Taxes | | | |
| Sales & Use Taxes | \$ 57,455,000 | \$ 59,437,483 | \$ 1,982,483 |
| Property Taxes | 50,736,173 | 52,256,688 | 1,520,515 |
| Utility Users Tax | 28,153,000 | 28,076,304 | (76,696) |
| Franchises | 4,840,000 | 5,542,504 | 702,504 |
| Transient Occupancy Tax | 4,470,000 | 5,279,657 | 809,657 |
| Property Transfer Tax | 2,376,000 | 1,893,952 | (482,048) |
| SubTotal Taxes | 148,030,173 | 152,486,588 | 4,456,415 |
| Interfund Transfers | 45,412,500 | 45,276,800 | (135,700) |
| Other Revenues | | | |
| Charges for Services | 12,907,434 | 14,054,268 | 1,146,834 |
| Live Nation and Convention Center | 4,668,000 | 10,631,391 | 5,963,391 |
| Other / One-Time | 9,622,863 | 8,661,431 | (961,432) |
| Licenses & Permits | 8,421,200 | 8,489,825 | 68,625 |
| Fines & Forfeits | 5,005,800 | 3,956,795 | (1,049,005) |
| Special Assessments | 4,570,430 | 4,480,375 | (90,055) |
| Intergovernmental | 1,418,400 | 2,356,521 | 938,121 |
| SubTotal Other Revenues | 46,614,127 | 52,630,606 | 6,016,479 |
| Total | \$ 240,056,800 | \$ 250,393,994 | \$ 10,337,194 |
| Set-Aside Revenue from Prior Year ¹ | - | 764,510 | 764,510 |
| Adjusted Total | \$ 240,056,800 | \$ 251,158,504 | \$ 11,101,704 |

¹ Additional sales tax revenue from fiscal year 2013/14 that was not added to reserves.

General Fund Expenditure Results

A comparison of the budgeted fiscal year 2014/15 expenditures versus the actual fiscal year 2014/15 expenditures shows an increase of \$9.5 million versus the adopted budget. However, \$5.5 million of this increase relates to the incorporation of expenditures associated with the Convention Center into the General Fund and higher than anticipated expenditures related to the City's performing arts venues operated by Live Nation, which as previously discussed are offset by additional revenue. Other General Fund expenditures increased by \$4.0 million. The following expenditure variances accounted for this increase:

1. Mid-year appropriations from the General Fund reserve by the City Council during fiscal year 2014/15 (excluding the \$4.0 million Convention Center-related appropriation) totaled \$1.1 million. These funds were appropriated for a total of seven purposes, most significantly \$0.8 million for a continuation of the Community Livability Program. The Community Livability Program was included in the base budget for fiscal year 2015/16, so ongoing mid-year appropriations for this program will no longer be required.
2. The Fire Department received mutual aid-related reimbursements totaling \$0.3 million in excess of the amounts budgeted. This, plus an additional \$0.5 million associated with higher salary and benefits costs due to the contracts approved with the RCFA and RFMG bargaining units, necessitate a supplemental appropriation of \$826,839 to the Fire Department budget. The higher ongoing salary and benefits costs associated with the

RCFA and RFMG contracts have been included in the fiscal year 2015/16 budget.

3. As discussed during the budget adoption process, the General Fund received a transfer from the Local Park Impact Fees Fund to pay a portion of the debt service associated with the Riverside Renaissance Certificates of Participation issued in 2007. The availability of funds to transfer to the General Fund for this purpose is dictated by the amount of impact fee revenues received in any given year. In fiscal year 2014/15, an unanticipated drop in impact fee revenues occurred, resulting in a shortfall of \$0.7 million versus the \$2.3 million that was budgeted to be transferred. A supplemental appropriation of \$675,000 to the Finance Department budget is therefore necessary to fund the shortfall with General Fund dollars.
4. Because the City must now account for the revenue and expenditures associated with the Convention Center, Fox Performing Arts Center, and Municipal Auditorium operations in the General Fund, any variances in the revenue and expenditures of these facilities versus the adopted budget must be addressed through budget adjustments at year-end. Accordingly, a supplemental appropriation to Non-Departmental of \$1,470,148 is required to reconcile the budget for these facilities to actual expenditures. This increase is fully offset by additional revenue.
5. The managed savings target across all General Fund departments was set at \$6.3 million for fiscal year 2014/15. The final managed savings achieved by General Fund departments amounted to \$4.9 million, a variance of \$1.4 million or approximately 0.5% of the final budget. A supplemental appropriation to Non-Departmental of \$1,368,412 is therefore necessary to reduce budgeted managed savings to equal the actual savings achieved. In the context of upcoming enhancements to the City's budget and financial management practices, the concept of managed savings will be revisited as part of the budget process for fiscal years 2016/17 and 2017/18.

The total of the requested supplemental appropriations is \$4.3 million, bringing the final fiscal year 2014/15 expenditure budget to \$249.5 million. The table below summarizes the expenditure budget and budget adjustments for fiscal year 2014/15:

| Department | Adopted 2014/15 | Mid-Year 2014/15 | Year-End Adjustments | Total 2014/15 | Actual 2014/15 | Budget Variance |
|-----------------------------------|-----------------------|---------------------|-------------------------|-----------------------|-----------------------|--------------------|
| City Attorney | \$ 3,923,080 | \$ - | \$ - | \$ 3,923,080 | \$ 3,653,076 | \$ (270,004) |
| City Clerk | 945,802 | 75,000 | - | 1,020,802 | 1,052,538 | 31,736 |
| City Council | 1,142,728 | - | - | 1,142,728 | 1,045,301 | (97,427) |
| City Manager | 4,986,456 | - | - | 4,986,456 | 4,929,305 | (57,151) |
| Community Development | 9,535,123 | 35,000 | - | 9,570,123 | 9,465,472 | (104,651) |
| Finance | 7,462,538 | - | 675,000 | 8,137,538 | 7,630,025 | (507,513) |
| Fire | 44,482,241 | 87,435 | 826,839 | 45,396,515 | 47,064,485 | 1,667,970 |
| General Services | 4,546,653 | - | - | 4,546,653 | 4,195,996 | (350,657) |
| Human Resources | 2,500,699 | - | - | 2,500,699 | 2,367,426 | (133,273) |
| Innovation & Technology | 10,815,540 | - | - | 10,815,540 | 10,468,535 | (347,005) |
| Library | 5,877,233 | 50,000 | - | 5,927,233 | 5,653,567 | (273,666) |
| Mayor | 813,097 | 25,000 | - | 838,097 | 836,798 | (1,299) |
| Museum | 3,151,933 | - | - | 3,151,933 | 2,989,989 | (161,944) |
| Non-Departmental | 15,146,388 | 792,186 | - | 15,938,574 | 14,231,058 | (1,707,516) |
| Live Nation and Convention Center | 5,988,000 | 4,000,000 | 1,470,148 | 11,458,148 | 11,458,148 | - |
| Parks, Recreation & C.S. | 14,555,537 | 50,000 | - | 14,605,537 | 14,275,779 | (329,758) |
| Police | 86,606,288 | - | - | 86,606,288 | 86,114,875 | (491,413) |
| Public Works | 11,900,890 | - | - | 11,900,890 | 10,101,873 | (1,799,017) |
| SubTotal | 234,380,225 | 5,114,621 | 2,971,987 | 242,466,833 | 237,534,245 | (4,932,588) |
| Managed Savings | (6,301,000) | - | 1,368,412 | (4,932,588) | N/A | 4,932,588 |
| Net Cost Allocation | (18,103,303) | - | - | (18,103,303) | (18,103,303) | - |
| Net Debt Service Allocation | 30,080,878 | - | - | 30,080,878 | 30,080,878 | - |
| Total | \$ 240,056,800 | \$ 5,114,621 | \$ 4,340,399 | \$ 249,511,820 | \$ 249,511,820 | \$ - |

Two departments ended the year with expenditures in excess of budgeted amounts, though these amounts were offset by savings in other Departments. The City Clerk's Office had a minor variance of \$31,736 associated with higher than anticipated salary costs. The Fire Department had a variance of \$1.7 million, which was primarily due to 1) backfill costs in excess of amounts budgeted, 2) mutual aid overtime costs in excess of reimbursements yet received, and 3) unbudgeted leave pay-off costs. Staff recognizes that a structural budget shortfall exists in the Fire Department budget, and this is being addressed over a two year period as was done in recent years with the Police Department budget. The Police Department ended the year with a \$0.5 million surplus, which is an indication that the steps taken to make the Police Department budget structurally balanced have succeeded.

For the Fire Department, three steps have been taken in the fiscal year 2015/16 budget to address a portion of the structural budget issues:

1. \$250,000 was added to the budget to address a portion of the backfill budget shortfall;
2. Funds were provided to fully offset anticipated leave pay-off costs based on prior year actuals; and
3. A new process has been put in place where mutual aid-related reimbursements will be appropriated to the Fire Department's overtime budget as a matter of routine in a special account, which will prevent revenues from being received without the Fire Department receiving appropriations to offset the related overtime expenditures.

It is anticipated that these changes will address most of the structural problem, with additional adjustments to be made in the fiscal year 2016/17 budget to fully resolve any remaining issues. These adjustments will provide the Fire Department with sufficient resources to remain within their budget in future fiscal years.

General Fund Reserve Balance Change

As a result of the favorable revenue results during fiscal year 2014/15, which were partially offset

by the slightly higher than forecasted expenditures, the General Fund reserve balance stood at \$40,085,510 as of June 30, 2015. This is an increase of \$4.0 million versus the reserve balance anticipated with budget adoption due to 1) the reserve balance being \$2.4 million higher when the books were closed for fiscal year 2013/14 and 2) \$1.6 million higher due to the current year's positive operating results. The following table summarizes the revenue and expenditure performance of the General Fund and illustrates the resulting change in the reserve balance during fiscal year 2014/15:

| | Adopted 2014/15 | Actual 2014/15 | Budget Variance |
|-----------------------------------------------------------------|--------------------|---------------------|---------------------|
| Beginning Reserve Balance | \$ 36,036,272 | \$ 38,438,826 | \$ 2,402,554 |
| Add: Base Revenue Budget | 240,056,800 | 245,195,113 | 5,138,313 |
| Add: Live Nation and Convention Center Revenue Adjustments | - | 5,963,391 | 5,963,391 |
| Less: Base Expenditure Budget | (240,056,800) | (240,056,800) | - |
| Less: Live Nation and Convention Center Expenditure Adjustments | - | (5,470,148) | (5,470,148) |
| Less: Other Mid-Year Appropriations | - | (1,114,621) | (1,114,621) |
| Less: Other Year-End Adjustments | - | (2,870,251) | (2,870,251) |
| Ending Reserve Balance | 36,036,272 | 40,085,510 | 4,049,238 |
| Change in Reserve Balance | \$ - | \$ 1,646,684 | \$ 1,646,684 |

Of the \$40,085,510 General Fund reserve \$37,995,256 is in cash and the remaining \$2,090,254 is in expected repayments and receivables.

With the \$1.0 million of revenues in excess of budgeted expenditures allocated to the reserve in the fiscal year 2015/16 budget, the reserve balance could potentially grow to \$41,085,510 as of June 30, 2016. The 15% minimum General Fund reserve balance required by the City's current General Fund Reserve Policy results in a reserve requirements of \$38,489,058, which is \$2,596,452 less than the current reserve balance. However, with the approval of the contracts with the three Police bargaining units earlier this year at a current year cost of approximately \$3.9 million, including retroactivity, and several other appropriations from reserves, **it is anticipated that General Fund reserves will actually be reduced by several million dollars during fiscal year 2015-16.** To date, these appropriations and other anticipated draws on reserves include:

1. \$350,000 for work to improve the Museum's Dalton Road storage facility in anticipation of significant rains later this year, as approved by the City Council on November 3, 2015.
2. \$281,000 for higher building occupancy costs associated with the relocation of the City Attorney's Office to the Mission Square building, as approved by the City Council on November 10, 2015.
3. \$3,926,978 for retroactive negotiated increases for the three Police bargaining units, as stated above and approved by the City Council on September 22, 2015. These funds have not yet been appropriated, which will need to be addressed during the fiscal year 2015/16 mid-year review.
4. Approximately \$109,120 is anticipated to be required for internal audit work related to the Finance and Human Resources Departments.
5. The estimated reduced revenue impact associated with the approval of the City's user fee study approximately one month later in the year than assumed in the adopted budget as

well as the fee increases deferred by the City Council on November 3, 2015, totals \$550,000.

A detailed analysis of the impact of these costs and other existing and anticipated mid-year appropriations from the General Fund reserve will be presented to the City Council as part of the first quarter financial report to be discussed on December 15, 2015.

Separately, staff will soon be bringing before the City Council a General Fund reserve policy, to set parameters for the reserve use in the future.

Ending Fund Balances and Cash Balances for All City Funds

In an effort to bring further transparency to the City's financial situation, staff will be expanding presentation of financial results (actual and forecasted) to all City funds. Consequently, attached to this report is a listing of final fund balances and cash balances for all of the City's funds as of June 30, 2015. The fund balances reflect resources available for appropriation that are currently not committed to existing projects or programs. The 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 ability to move loan receivables to other funds as needed.

All listed funds have a positive fund balance with the exception of the City's Liability Insurance Trust Fund and Workers' Compensation Insurance Trust Fund. While the fund balances shown for these funds are negative, they reflect, in part, long-term liabilities that are not due for a number of years and claims that may ultimately be resolved for lower amounts than the amounts reserved.

Staff will be presenting a recommended reserve policy for these funds to the Finance Committee in January, to be followed by approval by the City Council in February. This policy will recommend that a set percentage of the liability recorded in each of these funds be maintained in cash reserves in order to plan for future payments. The specifics of this policy have not yet been finalized, however it is anticipated that the cash balance in these funds will be increased over time by several million dollars in order to be consistent with the policy recommendations. Currently, although the total negative fund balance of the two funds stands at \$27.2 million, cash on hand totals \$12.1 million and is sufficient to pay all anticipated claims in the near term.

All listed funds have a positive cash balance with the exception of the following funds:

1. The Public Parking Fund has a negative cash balance of \$0.6 million, which is offset by outstanding accounts receivable. The fund has a positive fund balance of \$0.3 million.
2. The Urban Areas Security Initiative, Home Investment Partnership Program, Housing Opportunities for Persons with Aids, Capital Outlay, Transportation Projects, and Transportation Uniform Mitigation Fees Funds all have a negative cash balance, which is fully offset by outstanding grant receivables.
3. The Liability Insurance Trust Fund has a negative cash balance of \$3.2 million, which is considered in concert with the positive cash balance in the Workers Compensation Insurance Trust Fund since the three insurance trust funds are consolidated for financial reporting purposes.

Additional Forthcoming Financial Reports

A number of additional financial reports will be coming before the City Council over the next several months.

1. On December 1, 2015, the fiscal year 2014/15 budget carryovers will be before the City

Council for approval.

2. On December 8, 2015, staff will present to the City Council recommendations for implementation of a biennial budget in the context of a five year financial plan.
3. On December 15, 2015, the first quarter financial report will be presented to the City Council. The report will include actual and projected results for the General Fund, as well as all other City funds.
4. The City's comprehensive annual financial report (CAFR) will be presented to the Finance Committee on December 9, 2015, to be followed by a presentation to the City Council in January 2016.
5. In January 2016 the Finance Committee will review proposed reserve policies for the General Fund and insurance trust funds to be followed by a presentation to the full City Council in February 2016.
6. In February 2016, basic City financial information will be presented to the City Council, followed in March by a review of the City's five-year financials. This will set a framework for the upcoming biennial budget, and 2016 labor negotiations. These discussions will be followed by department-specific budget presentations, additional public meetings and outreach, and culminate in adoption of a biennial budget and a five-year financial plan.

FISCAL IMPACT:

There is no direct 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: Marianna Marysheva-Martinez, Assistant City Manager

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

Attachment: Budgetary Fund Balances and Cash Balances by Fund as of June 30, 2015