

City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: DECEMBER 8, 2015
FROM: FINANCE DEPARTMENT WARD: All
SUBJECT: IMPLEMENTATION OF A TWO-YEAR BUDGET PROCESS IN THE CONTEXT OF FIVE-YEAR FINANCIAL PLANNING

ISSUE:

The issue for City Council consideration is to approve transition from an annual to a Two-Year budget process beginning in fiscal year 2016/17.

RECOMMENDATION:

That the City Council approve the implementation of a Two-Year budget process commencing with fiscal year 2016/17, including enhancements to long-term planning and public budget review, as outlined in this report.

BACKGROUND:

Historically the City of Riverside has adopted an annual budget since at least 1968. The City adopted a Two-Year budget for the first time for fiscal years 2005/06 and 2006/07. During that biennium, former City Manager Brad Hudson joined the City and directed that the City migrate back to an annual budget beginning in fiscal year 2007/08. Since that time, the City Council has adopted an annual budget each fiscal year.

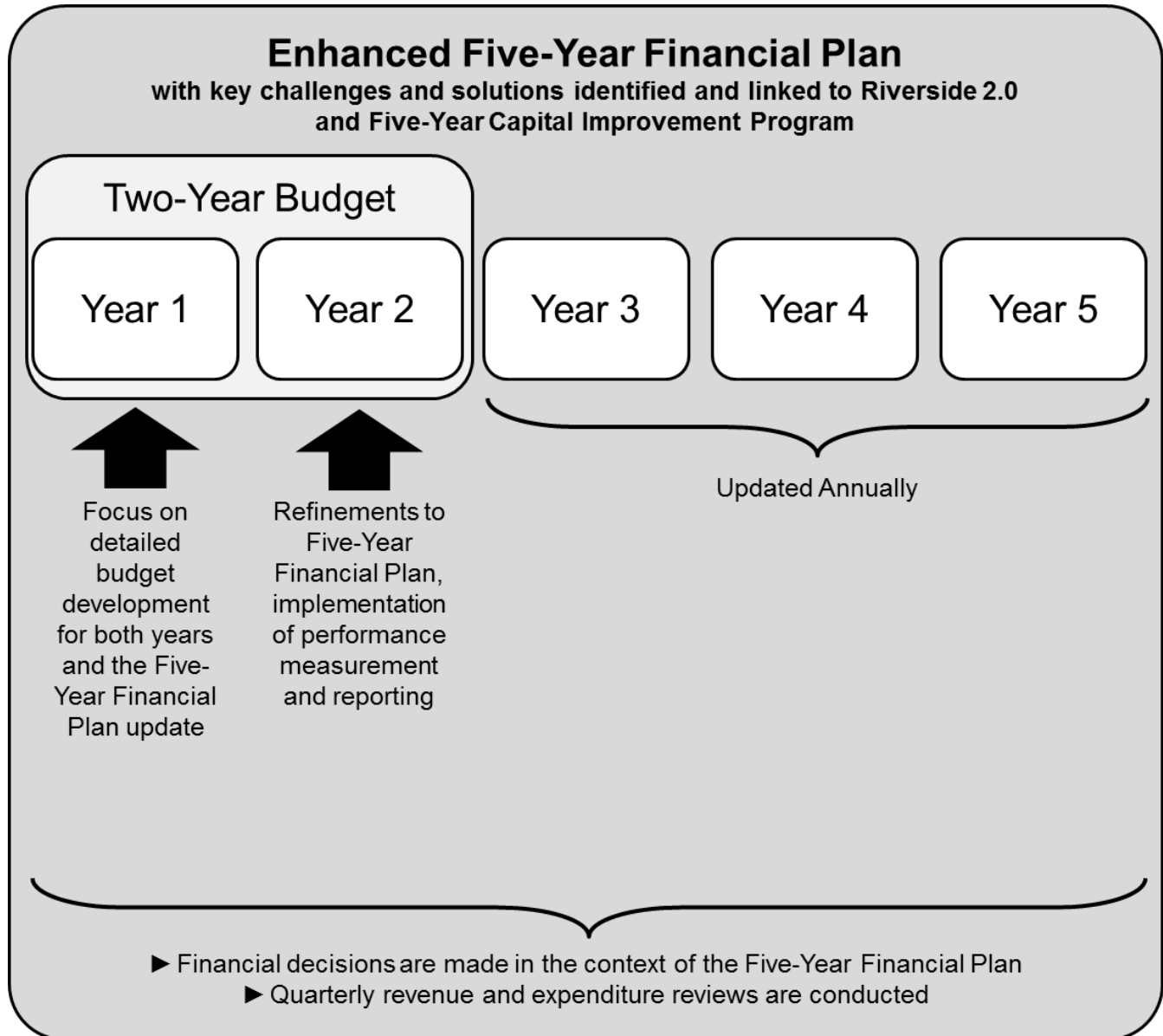
Rationale for Transitioning to a Two-Year Budget

Multi-year financial planning, ongoing financial monitoring, frequent financial reporting, and prompt corrective actions when necessary are central elements of sound financial management. The Finance Department currently prepares a five-year financial forecast for the City's General Fund and updates it quarterly, as well as produces monthly financial reports that monitor actual expenditures and revenues in comparison to the adopted budget. Similarly, the City's enterprise funds maintain multi-year financial forecasts, and monthly financial reports are prepared for the Electric and Water Funds. As a logical next step in furtherance of sound financial management, staff is now recommending that the City migrate to a Two-Year budget with enhanced long-term financial planning.

Moving to a Two-Year budget will provide the City Council, departments and the public with greater certainty regarding ongoing funding and staffing for programs and services. It will eliminate the time required to produce, review, and approve the budget document in one of every two years. At the conclusion of the first year, the City Council will receive a mid-cycle review of year-end financials. The mid-cycle review process will provide the mechanism to 1)

ensure that revenue and expenses forecasted at the beginning of the first year remain accurate and 2) amend the budget to address any significant revenue shortages and/or unknown and unforeseeable expenses.

Instead of developing a full budget for the second year, the focus will be on performance measurement and reporting. The following graphic illustrates the planned enhancements to the City's financial management and planning:



Key Elements of a Two-Year Budget

There are two types of Two-Year budgets that can be implemented – a one-year budget with a second-year forecast and a true Two-Year budget. Staff is recommending that a true Two-Year budget be implemented in Riverside. This differs from the Two-Year budget adopted in fiscal years 2005/06 and 2006/07, which included a second year forecast with a new budget adopted by the City Council in the second year.

Under the proposed model, incentives will be created for City departments to plan ahead well, and operate more effectively and efficiently.

- At the end of the first year of the Two-Year budget, departments with savings will automatically carry over the unspent funds to the second year, barring any significant unforeseen revenue shortfalls. Similarly, departments that overspend in the first year will not be given higher budget allocation in the second year.
- At the end of the second year, departments with savings will be able to retain 50% of the unused funds for capital or other one-time needs. (This is barring any significant unforeseen revenue shortfalls.) The other 50% will be used to balance the General Fund, or returned to the General Fund reserves.

In the event that General Fund revenues fall and/or unknown and unforeseeable expenses outside the City's control grow by more than 3%, the mid-cycle review will be used as a "reopener" to provide the City Council the opportunity to make necessary changes to the second year of the Two-Year budget.

In addition, staff will work on enhancements to the City's current five-year financial forecasting for the General, Electric, and Water Funds, to include a review of all City funds and strategic solutions for key ones. For example, a five-year plan for the General Fund will incorporate key cost drivers such as staffing, pensions and debt, facility and equipment needs, and capital project requirements, but also propose solutions to meet the City's growing obligations. **The Two-Year budget will be prepared and future financial decisions will be made in the context of this five-year planning.** This will help avoid decisions made today that may result in fiscal challenges in the future.

The City's five-year revenue and expenditure projections have not historically been shared with the City Council on a regular basis. Under the proposed model, the City Council and the public would be provided with these forecasts as a matter of routine during the budget process, and as a framework for future decisions with fiscal impact. This process would complement the Two-Year budget by providing three years of additional planning data at a high level for review and discussion. This will facilitate identifying areas of concern in the projections, bringing those concerns to the attention of the City Council, and reaching consensus regarding solutions to bring revenues in line with expenditures.

Survey of Peer Cities

Staff conducted a survey of the largest cities in California, which indicated that the majority currently operate under an annual budget. The Cities of San Francisco, Oakland, and Moreno Valley have true Two-Year budgets as staff is proposing for Riverside, and the City of Oxnard adopts an annual budget with a complete forecast for the second year included.

City	Population	General Fund Budget	Budget Type
Los Angeles	3,957,022	\$4,836 Million	Annual
San Diego	1,368,061	\$1,288 Million	Annual
San Jose	1,016,479	\$994 Million	Annual
San Francisco	845,602	\$3,850 Million	True Two-Year
Fresno	520,159	\$270 Million	Annual
Sacramento	480,105	\$394 Million	Annual
Long Beach	472,779	\$428 Million	Annual
Oakland	410,603	\$525 Million	True Two-Year

City	Population	General Fund Budget	Budget Type
Bakersfield	369,505	\$203 Million	Annual
Anaheim	351,433	\$286 Million	Annual
Santa Ana	335,264	\$226 Million	Annual
Riverside	317,307	\$257 Million	Annual
Stockton	306,999	\$200 Million	Annual
Chula Vista	257,989	\$140 Million	Annual
Irvine	250,384	\$173 Million	Annual
Fremont	226,551	\$173 Million	Annual
San Bernardino	213,933	\$123 Million	Annual
Santa Clarita	213,231	\$78 Million	Annual
Modesto	209,186	\$113 Million	Annual
Oxnard	206,148	\$115 Million	2 nd Year Forecast
Fontana	204,312	\$79 Million	Annual
Moreno Valley	200,670	\$92 Million	True Two-Year

Staff also conducted a survey of all California Society of Municipal Finance Officers member agencies to solicit specific feedback on implementation of a Two-Year budget. Seventeen agencies responded that currently they operate under a Two-Year budget, with six of those agencies having a true Two-Year budget and eleven having a budget with a second year forecast. None of the agencies responding reported any significant concerns regarding migration to a two year budget structure. In fact, most reported positive results, with some having operated under a Two-Year budget for decades.

Changes to the Budget Review and Adoption Process

In addition to the migration to a Two-Year budget proposed in this report, staff recommends an enhanced financial planning process that will bring greater transparency to the City's financial realities, future projected challenges and opportunities, and plans to address them. The proposed financial planning and review process would entail the following public meetings and discussions:

1. February 2016 – Staff would present to the City Council an overview of City finances and budget in general (i.e. Budget 101), along with the mid-year review for fiscal year 2015/16.
2. March 2016 – Presented publicly will be the five-year financial plan and preliminary Two-Year budget for fiscal year 2016/17-2017/18 in the context of the five-year plan.

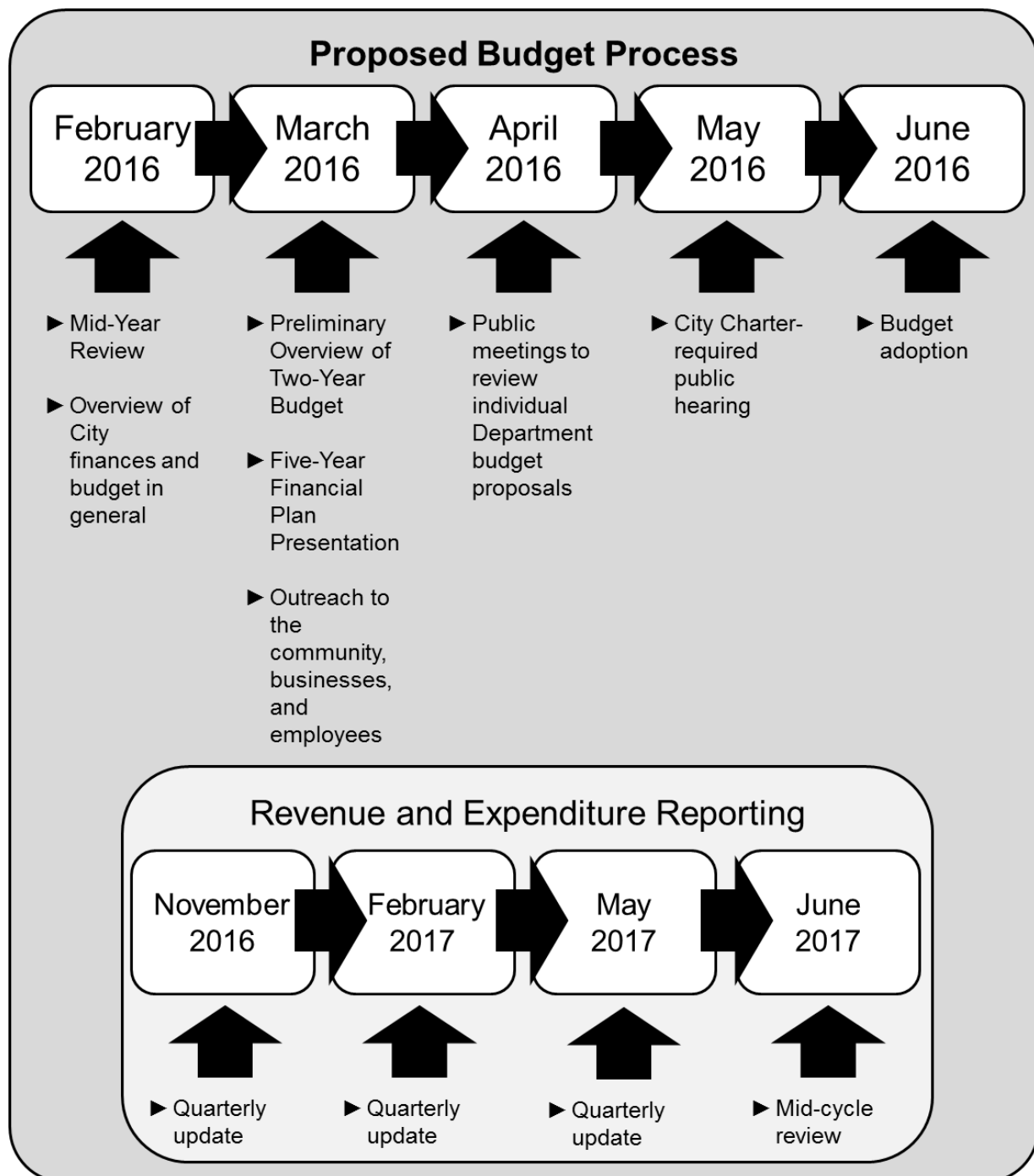
Additional meetings will be held with the public in various City neighborhoods, and with the business community through the Chamber of Commerce. Staff anticipates providing information regarding the budget on the City's GTV television channel that can be replayed during the time leading up to the budget hearings. Presentations are also planned to City employees in order to gain their insights into budgetary issues and to hear their concerns or ideas regarding the future.

3. April 2016 – Public meetings would be held before the City Council to review in detail fiscal year 2016/17-2017/18 Two-Year budgets for the individual City departments (e.g., Police, Fire, Community & Economic Development, Riverside Public Utilities, etc.)
4. May 2016 – A public hearing required by the City Charter will be held in the evening to

again review the budget with any comments received in April incorporated into the proposed budget.

5. June 2016 – The budget will be adopted at the evening session of the City Council.
6. Fall 2016 – Summer 2017 – The City Council and public will receive quarterly updates on the City's financial performance in comparison to the budget.
7. June 2017 – Recommended mid-cycle changes to the second year of the adopted Two-Year budget will be presented to the City Council for consideration.

The following graphic illustrates the revised budget process as proposed:



The above process will encourage greater public involvement in the budget and financial planning process, and provide for greater understanding and transparency of the City's financial challenges, opportunities and solutions.

Performance Measurement and Reporting

Riverside has not had a performance measurement program in place since fiscal year 2005/06. The City has maintained a robust and well-defined strategic planning process, and departments continue to establish department goals and objectives that are clearly linked to the City's strategic plan.

Towards the end of fiscal year 2016/17, in lieu of preparing a new annual budget for fiscal year 2017/18, staff will engage the City Council and the public in the development of a concise number of performance indicators – no more than 75 in total. When meaningful performance measures are selected through this public process, they will be linked to Riverside 2.0 goals and priorities. Data collection on the selected measures will commence in fiscal year 2017/18, and reporting of historical results may be possible in fiscal year 2020/21 with two years' worth of data. Once implemented, performance measurement and reporting will help assess the effectiveness of the City's programs and highlight where 1) additional resources should be directed, and/or 2) attention should be focused to improve performance.

FISCAL IMPACT:

There is no immediate fiscal impact associated with the implementation of a Two-Year budget. The City's existing budget management software is designed to accommodate multi-year budgeting and the cost associated with minor modifications to required reports can be absorbed within the existing Finance Department budget. The implementation may require realignment of staff resources and training.

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