



Budget 101:

City Finances, Key Challenges and Opportunities

Finance Department

City Council
February 23, 2016

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BACKGROUND

- December 8, 2015 – City Council approves management's recommendation to:
 - Prepare a two-year budget for Fiscal Years 2016/17 and 2017/18
 - Develop budget in the context of a five-year financial plan
 - Roll out a transparent and participatory budget development process
- Today's meeting is first public meeting:
 - Overview of City's finances - Preview of fiscal challenges ahead and options to address them



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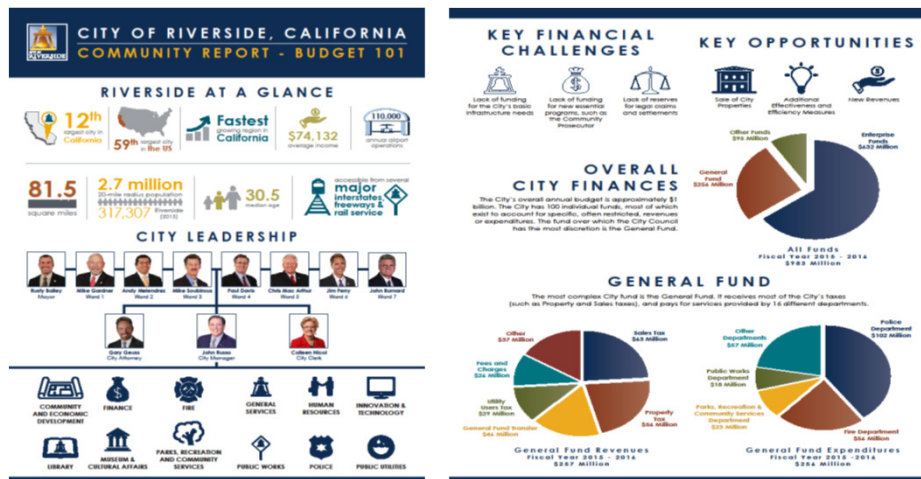
KEY CHANGES TO THE BUDGET

- Key theme : “Taking care of our infrastructure and basic needs”
- Five-year planning
 - Identify long-term fiscal challenges
 - Develop sustainable solutions
 - Guide future policy decisions
- A transparent and Participatory process designed to provide information/gather input:
 - Community Report
 - Video and EngageRiverside.com
 - Departmental Budget Presentations



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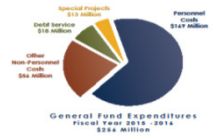
Community Report



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Community Report

PRIMARY COST CATEGORIES

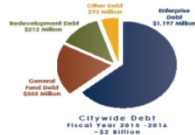


PERSONNEL COSTS

For the City's various operating funds, personnel costs are typically the greatest driver of expenditures. In the General Fund specifically, personnel expenses (comprised of salary and benefits) make up nearly 50% of total budgeted costs.

CITY DEBT PORTFOLIO

The City currently has an outstanding debt portfolio of approximately \$2 billion. This is considered by the bond rating agencies, which monitor and rate the City's creditworthiness, to be a moderate debt load for an organization of our size. Riverside has incurred a significant increase in its general debt load in the last ten years, but this has been primarily to address the necessary enhancements to the aging infrastructure systems (Sewer and Water) throughout the City. Additional significant debt paid for a multitude of improvements and new construction associated with the City's Redevelopment Initiative, as well as the former Redevelopment Agency.



INTERFUND LOANS

Interfund loans are internal borrowings approved by the City Council over the years to fund smaller, shorter term projects for which outside financing would have been significantly more costly. These loans consist of one fund making a loan to another fund using resources it does not immediately need. The interfund loans have always received City Council approval, been interest at the same rate the borrowing fund would have received if the funds were left in the City's invested cash pool, and have always been accounted for properly. The Sewer Fund has historically been most commonly tapped to fund these loans, and a special audit of that activity was accomplished about one year ago to confirm that the accounting and use of these funds was appropriate and properly handled.

IMPORTANT CHANGES IN THIS BUDGET



KEY THEME

The underlying theme for the upcoming two-year budget is "Taking Care of Essential Services and Infrastructure". With the City's new executive team on board, the time is particularly appropriate to take a fresh look at where we are, where we are headed, and how strategically about any adjustments to that path we believe need to be made as we proceed with budget development.



FIVE-YEAR PLANNING

The development of a five-year plan as the budget is being constructed has the advantage of helping identify the fiscal challenges facing the City, and naturally draws attention to the development of short and long term solutions that are sustainable to secure the City's fiscal strength.



TRANSPARENT AND PARTICIPATORY PROCESS

This year for the first time, the budget process is genuinely designed to both inform and solicit feedback from the public. The City's commitment to openness and transparency means many public meetings will be held to discuss Riverside's budget and future. Come to one of these meetings and let your opinion be known!

COMMUNITY MEETINGS

March 10, 2016

6:30 to 8:30 PM
Saff Elementary School
959 Mission Grove Parkway

March 16, 2016

6:00 to 7:30 PM
City Hall, Mayor's Conference Room, 7th Floor
3100 Main Street

March 23, 2016

6:00 to 7:30 PM
Cesar Chavez Community Center
2040 University Avenue, Auditorium

March 24, 2016

6:00 to 7:30 PM
Serra Elementary School
2257 Serra Street

March 28, 2016

6:00 to 7:30 PM
Renaissance Center at Hunt Park
4015 Jackson Street
Grand Ballroom Part A

March 29, 2016

6:00 to 7:30 PM
La Brea Community Center
5215 La Brea Avenue

Additional meetings will be held with City employees and labor unions.

WE INVITE YOUR INPUT

We encourage you to attend the above meetings and also provide input online at EngageRiverside.com.



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EngageRiverside.com Video

- At the City's EngageRiverside.com website is the opportunity to ask a question or to share input about the budget



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KEY CHANGES TO THE BUDGET

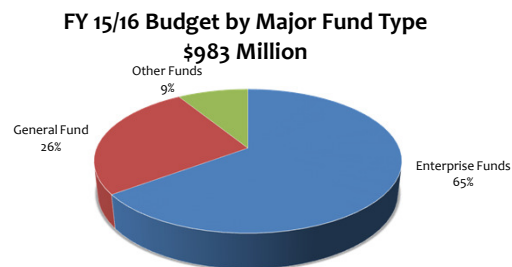
- Budget development process entails an extensive outreach effort, internally and externally
 - Multiple meetings with the City Council (7 meetings)
 - City employees and bargaining groups
 - Community groups
 - Business community



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FUND STRUCTURE OVERVIEW

- The City has approximately 100 funds, organized into various “fund types”
- Typically account for a single activity or funding source – except the General Fund



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FUND STRUCTURE OVERVIEW

- Key Fund types:
 - General Fund
 - Special Revenue
 - Capital Projects
 - Debt Service
 - Enterprise
 - Internal Service
 - Agency
- Examples include:
 - Gas Tax and Measure A (transportation funds)
 - Special Transportation
 - Parking Fund
 - Insurance Trust Liability Fund

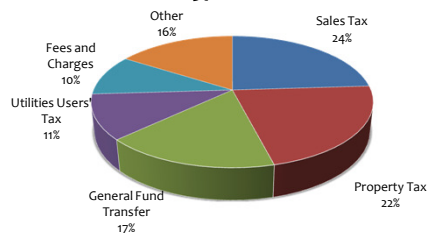


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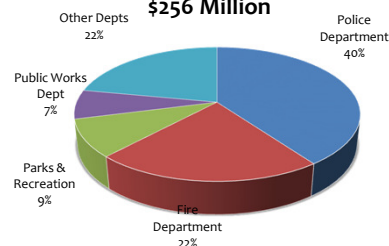
FUND STRUCTURE OVERVIEW

- General Fund – most complex fund; represents almost all City Departments (not RPU)

FY 15/16 General Fund Revenue Budget
\$257 Million



FY 15/16 General Fund Expenditures Budget
\$256 Million



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KEY REVENUES – FACTS AND PROJECTIONS

- Sales Tax
 - City collects 1% on taxable sales throughout the City
 - Five year projected increases from 4.4% to 5.7%
- Property Tax
 - City collects \$0.12 of every \$1 in property tax paid
 - Five year projected increases from 4.2% to 7.3%
- Utility Users Tax
 - City Charter; established at 6.5%
 - Applicable to most utilities (except for cell phones)
 - Five year projected increases from 2.0% to 3.0%



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KEY REVENUES

- General Fund Transfer
 - City Charter; currently set at 11.5%
 - Gross operating revenues of electric and water funds
 - Five year projections range from a slight decrease in FY 16/17 to 1% to 3% in years 17/18 through 20/21
- Electric, Water, Sewer and Refuse Funds:
 - Fees for Services
- Gas Tax Fund (pass-through)
- Measure A Fund
 - Sales Tax (portion of \$0.05 sales tax applied throughout the County)

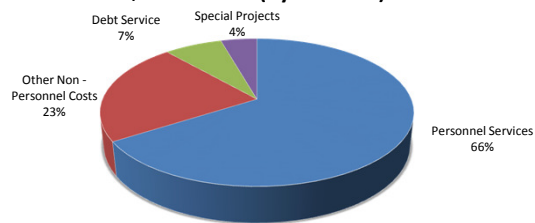


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KEY COST DRIVERS

- Personnel Costs are the largest portion of the General Fund budget at 66%
- Salaries is the greatest component of personnel costs

**FY 15/16 General Fund Budget Expenditures
\$256 Million (by function)**



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KEY COST DRIVERS

- Pension costs
 - City pension plans are 82% funded
 - Employer rates: 21% (non-safety) and 31% (safety)
 - Employee rates: 9% (non-safety) and 9% (safety)
- Other Post-Employment Benefits
 - Stipends to union-provided benefits (\$28M liability)
 - Rate subsidy (\$19M liability)



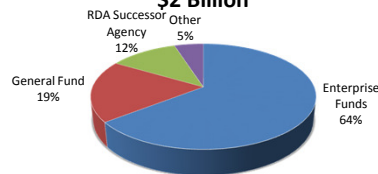
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KEY COST DRIVERS

- Debt Portfolio
 - Total debt: \$2 billion; moderate debt load
 - Last 10 years from \$850 million to \$2 billion
 - Primarily deferred improvements of infrastructure
 - All debt has identified and adequate repayment sources available

FY 15/16 Citywide Debt Obligations

\$2 Billion



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KEY COST DRIVERS

- Interfund Loans
 - All approved by City Council
 - Typically to fund smaller/short-term projects
 - Loans bear interest at the City's pooled cash rate
 - Independent audit successfully completed of interfund loans involving the Sewer Fund
 - Remaining interfund loans to be audited as part of City Manager's financial and performance audit program
 - Current outstanding balance is \$22 million - \$6.7 million paid down since July 1, 2015



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KEY FINANCIAL CHALLENGES

- Identified while developing the five-year financial plan, with solutions to address these challenges
- Lack of funding for core government facilities and infrastructure
- Operating budget challenges
- Liability Fund Reserves



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KEY OPPORTUNITIES

- Sale of City properties
- Efficiencies gained through financial and performance audits
- New Revenues
 - New/updated fees for services
 - Economic development initiatives
 - New or innovative revenue sources
 - Careful consideration of a tax increase



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BUDGET PROCESS

- Next Steps:
 - Mid-year review of Fiscal Year 2015/16 Budget (March 8)
 - Initial discussion/presentation of 2-year budget/5-year plan (March 15)
 - Public outreach (mid to late March)
 - Department-specific presentations to the City Council (April 12, 19 and 26)
 - Budget Public Hearing (May 2016)
 - Final consideration of FY 2016/18 budget (June 2016)



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RECOMMENDATION

That the City Council receive and provide input on the Budget 101 Presentation.



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