



# GOVERNMENTAL AFFAIRS COMMITTEE

*City of Arts & Innovation*

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**TO: GOVERNMENTAL AFFAIRS COMMITTEE**

**DATE: MAY 4, 2016**

**FROM: CITY MANAGER'S OFFICE**

**WARDS: ALL**

**SUBJECT: SPONSORSHIP PROGRAMS**

**ISSUE:**

Receive information and provide direction for the City's Sponsorship Programs.

**RECOMMENDATION:**

That the Governmental Affairs Committee receive an update and provide direction for any changes desired to the City's Sponsorship Program

**COMMITTEE RECOMMENDATION:**

On March 2, 2016, the Governmental Affairs Committee with Chair Melendrez, Member Davis and Councilmember Soubirous substituting for Vice Chair Gardner received a presentation and discussed the City's Sponsorship Policy (Attached).

Following discussion of the City Sponsorship Policy, the Committee unanimously concurred on the following points:

1. Amend the proposed Conflict of Interest rule to clarify that staff members that volunteer or have an immediate family member with an organization requesting sponsorship are precluded from participating in the application process only; not the event itself,
2. There shall be no dollar amount maximum cap on sponsorships;
3. The Development Committee recommended that sponsorship awards shall be forwarded to the City Council on the Consent Calendar for confirmation;
4. Recipients shall file after-event reports on a simplified form provided by staff within 120 days of the event to be forwarded with the subsequent year's application to the Development Committee;
5. Sponsorships from \$2,500 to \$10,000 shall be approved by the Department Director and the City Manager;
6. Appropriateness of the current policy purposes for marketing activities shall be reviewed for legal compliance with respect to Riverside Public Utilities (RPU) funding;
7. With each biannual funding cycle, funding recommendations should be forwarded to the Finance Committee for review;
8. The Conflict of Interest rule shall be effective immediately upon adoption by the City Council; and

9. Implementation of all other policy changes shall begin with the following funding cycle, the second cycle of fiscal year 2016/17.

The Committee requested staff to return with a revised policy at the May 4, 2016, Governmental Affairs Committee meeting.

## POLICY REVISIONS:

### Conflict of Interest Rule:

City staff members that volunteer with, or have an immediate family member who is part of an organization that requests sponsorship from the City shall not be allowed to participate in any way during the application process related to the request and shall be recused from said process. If this staff member is authorized to recommend or approve any dollar amount in the application process, the Conflict of Interest rule would provide that the request must be moved up a level, i.e. to the department head, the City Manager's Office, or Board of Public Utilities or City Council as appropriate.

### Maximum Cap on Sponsorships:

There were no previous dollar amount caps on sponsorships. The policy remains the same as current with a maximum percentage limit on the request:

1st request is to be no more than 50% of program/event budget.

2nd request is to be no more than 35% of program/event budget.

3rd request is to be no more than 20% of program/event budget.

### Award Approvals:

The Development Committee shall continue to receive the twice a year recommendations for sponsorship awards. The Development Committee would forward recommendations to the City Council on the Consent Calendar for approval.

### After-Event Reports:

Sponsorship recipients shall submit an After-Event Summary form to staff within 120 days after the event. The summary forms, to be developed by staff, will include details such as attendance, other fundraising, participation, etc. The After-Event Summaries would be included with future sponsorship requests.

### Sponsorship Approval Levels:

The sponsorships approval authority was refined and updated after the meeting to recommend removing the authority of a Division Manager and list the amount up to \$10,000 be approved by the City Manager or designee. The revisions to the approval levels are reflected below:

Amount	Approval Levels
Up to \$2,500	<del>Approved by Division Manager</del>
\$2,500 Up to \$10,000	Approved by the <del>Director</del> <b>City Manager or Designee</b>
<b>Greater than</b> \$10,000 to \$25,000	Approved by the Board, Committee, and City Manager
Greater than \$25,000 <del>and Above</del>	Approved by the Board, Committee, City Manager and City Council

Legal Compliance with Respect to Public Utilities Funding:

A question was raised by a member of the public as to whether or not Proposition (Prop.) 218 or Prop. 26 precluded the expenditure of funds by RPU for sponsorships. Prop. 26, which added subdivision (e) to article XIII C, section 1 of the California Constitution, provides that all local government charges are taxes subject to voter approval, with seven exceptions. Charges subject to Prop. 218 (like water rates) are exempt under the seventh exception. (Cal. Const., art. XIII C, § 1, subd. (e)(7).) Prop. 218, in turn, limits such charges to the cost of service. (Cal. Const., art. XIII D, § 6, subd. (b)(1) & (3).) Electric charges that do not exceed the cost of service fall within the following exception: “A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.” (Cal Const., art. XIII C, § 1, subd. (e)(2).)

Thus, both water and electric utility charges are limited by the cost of service, which means that revenue transferred out of either fund must accomplish a utility purposes. Here, the sponsorship policy and the bottled water policy limits such financial support to sponsorships that “promote our products and services to the public” and “advance the corporate purpose of RPU”, respectively. Further noted in this report, RPU expends revenues on community outreach sponsorships to promote utility purposes such as water conservation and energy efficiency rebate programs. As described, such sponsorships would violate neither Prop. 26 or Prop. 218 and are appropriate.

Finance Committee Review:

The request to forward the Development Committee Sponsorship Recommendations to the Finance Committee to review the expenditures and financial impact would violate City Charter as one item may not be sent to two committees. It can instead go to the full City Council after the Development Committee.

Conflict of Interest Effective Date:

Effective immediately upon adoption by the City Council.

Effective Date for all other Policy Changes:

The implementation of all other policy changes shall begin with the following funding cycle. The funding cycle for the first round of sponsorship funding for fiscal year (FY) 2016/17 started in March 2016, any policy changes other than the Conflict of Interest, are to be enforced as of the second round for FY 2016/17.

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**DISCUSSION:**

Sponsorship Budget Increase:

It was requested to increase sponsorship funding annual at the Consumer Price Index (CPI) for an annual increase not to exceed 3%. This request will have to be addressed through the budget process vs. a policy update.

In Kind Values:

The sponsorship application to include the dollar value of the in kind (any non-cash) services or goods requested. This value is to be included in the Sponsorship Recommendation report to the Development Committee for recommendation for approval by the City Council.

Annual Policy Review:

A request was made for the Governmental Affairs Committee to receive an annual review of the City Sponsorship Policy. If approved, staff recommends the review be presented at the December meeting to allow for any updates to be made in time for the following fiscal year funding cycles.

Table Sponsorships:

Departments that choose to support events relevant to their work, including the purchase of tables at various events, shall include those events and number of seats available at the tables on an event calendar that shall be updated quarterly and made available to City Council. Councilmembers would have the option to attend these events as it meets with the demands of their schedules.

City Marketing/Advertisements:

The City must maintain the ability to initiate sponsorship activities for strategic marketing purposes to promote business attraction, expansion, retention, and branding recognition to meet the City Council's objective for business and job creation, opportunities that promote the City as a desirable place to start or re-locate a business; a desirable place to live, work, play and do business; and as a visitor destination and/or bring tourism-associated revenue to the City.

City initiated strategic marketing costs continue to be included in the budget process.

RPU Marketing/Advertisements:

It is an important and sound business practice for a customer-owned utility like RPU to advertise and support the community through sponsorships. Although RPU is a government entity, it faces many of the same issues and business stressors as investor-owned organizations like Southern California Edison (SCE). Both are obligated to uphold regulatory compliance, conservation mandates, and safety awareness and have customers that expect attention.

Some may think that public utilities do not face competition so there would be no need to raise brand awareness. In fact, RPU's primary competition is played out on an economic development stage that is vital to Riverside's quality of life. Owning a local utility is a compelling economic development incentive for the City. RPU can attract companies to Riverside because they have the ability to offer lower rates and more reliable and personal service than SCE, whose service territory surrounds the City.

RPU also competes with other utilities nationally and internationally. For instance, UTC Aerostructures, which provides 1,100 local jobs, regularly competes with other locations for expanded product lines. Much of what they will put in a bid package includes utility relationships, pricing, and stability. When justifying why their site should remain in Riverside, the personal relationship they have with a local utility is considered a distinct advantage. In another case, the parent company of Riverside Community Hospital chose to expand in Riverside after competitively examining several of their other locations. They are currently in the process of investing over \$350 million in the community through the construction of a significant expansions, which will, in turn, create more jobs. These companies help drive the local economy, feeding more employment and tax revenue to the City as a whole. It would be difficult to attract businesses like these if there was no marketing mechanism to raise awareness that Riverside has its own utility. Therefore, we would not be able to compete effectively for these economic benefits to our City.

While no one wants to deal with a crisis, the nature of RPU's business and the fact that they are a government organization, compels them to continually build relationships and trust over a long period of time. This cannot be done effectively or economically after a crisis occurs, whether real (i.e. failing equipment or an accident) or manufactured, which can occur at a moment's notice in a social media driven world. A crisis is not the time for any organization to begin a customer relations program. As evidenced locally in 2011, an out of state lobbying firm incorrectly published data that represented RPU's ground water as tap water. Because of a positive relationship with the community, and the presence of an internal communications group, the utility was quickly able to refute the story and a potential crisis of confidence over consumer's drinking water was averted. To outsource this after a crisis had already begun, could have been extremely cost prohibitive.

As evident with both drought mandates and renewable energy goals brought on by Governor's Executive Order B-36-15, Assembly Bill (AB) 32 and Senate Bill (SB) 350 respectively, regulatory compliance pressures drive our power and water supply plans. A key component of both plans is water and energy conservation, as RPU recognizes that conserving resources is the most cost effective strategy in managing supply. By procuring or producing fewer resources through conservation, it helps lower costs.

RPU uses two strategies to make conservation a reality for RPU customers, and both require customer communication via advertising and community participation. As a result of AB 1890, there is a funding mechanism that allows utilities to collect charges from their customers to incentivize conservation efforts. RPU is then challenged to communicate the customer's eligibility to receive their contribution back in the form of cash rebates for buying efficient appliances, or installing solar panels. In addition, the same surcharges exist for water conservation that drives rebates for efficient washers, toilets, or water-wise landscaping. Customers must be made aware of what rebate programs are offered to help them conserve, and RPU does this through advertising and sponsorships. The rebate programs are strategically managed in order for RPU to meet mandated kilowatt hour savings targets and remain compliant with reporting conservation both mandated by SB 1037 as well as SB 1 which mandates solar rebates driven by the California Solar Initiative.

RPU recognizes that conservation requires behavioral changes for customers and to foster those changes education is needed. Advertising, event participation, or driving traffic to a website for more information helps RPU engender a culture of conservation. There are several other legislative mandates that impact customers and the list is expected to grow as climate change further impacts our area. As these changes impact the industry, RPU expects the need for more frequent customer communication to grow as well. Last year alone, RPU was present, through sponsorship at more than 266 events, reaching more than 340,000 people while utilizing a budget that has not been increased since 2010.

Unlike SCE that can take advantage of the large Los Angeles media market, RPU has a unique circumstance when reaching customers; the target market is tight, so they need to utilize strategic methods to reach them. The key components to RPU's targeted marketing strategy is the use of outdoor advertising (billboards), print publications, social media, and local event sponsorships.

Sponsorships play an important role in building relationships with the top 300 business customers who provide more than 65% of our annual revenue. For example, the Greater Riverside Chambers of Commerce holds events that RPU sponsors. RPU can receive targeted

access and crucial interaction with these customers that they may need to rely upon in a crisis. Many of these customers are Power Partners on the hottest days when electric demand may exceed the available supply. They help RPU remain reliable and will curtail their usage for the sake of all customers. They do this because of relationships, not because they are paid to help as other utilities do.

RPU knows the marketing efforts work well because they have measured the efficiency through independent marketing surveys conducted in conjunction with the California Municipal Utilities Association. They tackle emerging subjects of growing importance and provide indicators to help RPU better understand customer's needs as they change. In addition to performance metrics, feedback on important issues like community solar, smart meters, distributed resources, and the local utility advantage are the core of the survey. These surveys also provide a roadmap to what customers will expect from RPU in the future as they prepare to embark on the Utility 2.0 plan. Customers own a complex system and trust RPU to run it safely and efficiently. Using an annual advertising and sponsorship budget of \$450,000 from RPU's more than \$400 million annual budget is a prudent way to contribute to the livability of the City of Riverside.

#### **NEW ITEM:**

Councilmember Davis recommends requiring applying organizations to demonstrate that they have raised at least 10%, 20% or 30% of the program budget, based on a range of budgets of:

Program Budget	Donations Raised
\$1 - \$9,999	30% of program budget
\$10,000 - \$39,999	20% of program budget
\$40,000 and more	10% of program budget

In essence, an organization requesting City sponsorship would need to have also raised a minimum amount of donations. For example, an organization with a \$1,000 program budget would need to raise \$300 in addition to the amount of City sponsorship requested.

#### **FISCAL IMPACT:**

There is no fiscal impact associated with this report.

Prepared by: Alexander T. Nguyen, Assistant City Manager  
 Approved as to form: Gary G. Geuss, City Attorney

Attachment: March 2, 2016 Governmental Affairs Report