



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: DECEMBER 6, 2016**

**FROM: FINANCE DEPARTMENT      WARDS: ALL**

**SUBJECT: FISCAL YEAR 2015/16 FINAL FINANCIAL RESULTS, INCLUDING ENCUMBRANCE AND PROJECT CARRYOVERS TO FISCAL YEAR 2016/17, CASH AND INVESTMENT REPORTS AND DEBT REPORTS**

## **ISSUES:**

The issue for City Council consideration is receipt of and input on the fiscal year 2015/16 Final Financial Results, including carry-over of unspent purchasing and project balances (encumbrance and project carryovers), cash and investment reports and debt reports.

## **RECOMMENDATIONS:**

That the City Council:

1. Receive and provide input on the attached fiscal year (FY) 2015/16 Final General Fund Financial Results with accompanying carryovers, as well as cash, investment and debt reports for all funds; and
2. Approve for carryover into fiscal year 2016/17 the balance of previously appropriated and unspent funds totaling \$6,897,385.47 across all funds, including \$2,927,981.66 in the General Fund (See Attachment D).

## **BACKGROUND:**

The attached FY 2015/16 Final Financial Results Report for the General Fund (Attachment A) summarizes actual revenue and expenditure results for the period from July 1, 2015 through June 30, 2016.

Also included are the Quarterly Investment Report (Attachment B) and the Quarterly Debt Report (Attachment C), which highlight the City's portfolio of investments (including cash) and its outstanding debts, respectively, across all funding sources. Audited financial results for all City funds will be provided at the December 14, 2016 Finance Committee meeting, where staff will present the City's Comprehensive Annual Financial Report (CAFR).

## **DISCUSSION:**

### **FY 2015/16 Final Financial Results Report –General Fund**

#### *The Bottom Line*

In the **Third Quarter Report** to the City Council (presented on May 24, 2016 and based on February 2016 actuals), staff anticipated an operational General Fund deficit of \$7.2 million. Unrealistically high budgeted estimates for utility and miscellaneous revenues and omission from the budget of critical and real expenditures related to public safety largely drove the deficit.

To alleviate the deficit to the extent possible, the City Manager, effective May 13, 2016, instituted a *freeze on all General Fund hiring and non-essential purchases*, to the extent permitted by existing contractual obligations, including labor agreements. In addition to the freeze, the Finance Department implemented a FY 2015/16 financial year-end closing process, whereby all *encumbered expenditures and requested carryovers were scrutinized and vetted* for their applicability to essential City services, existing contractual/legal obligations, and consistency with City Council approved policy initiatives.

The **Final Financial Results Report** for the General Fund, as described below, reflects a slightly smaller operational deficit of \$6.9 million, down approximately \$300,000 from the Third Quarter projections. The hiring and spending freeze was successful – however, the savings achieved were largely offset by: a) a \$1.4 million one-time unanticipated administrative fee from the State related to the Triple Flip sales tax implementation, and b) \$600,000 in unbudgeted debt from Parks Renaissance projects.

The \$6.9 million deficit will reduce the General Fund reserve to approximately \$33.2 million or 12.7% of FY 2015-16 General Fund operational expenditures. This amount is consistent with the five-year forecast projections presented in February-May 2016 during the budget process.

#### *A. General Fund Revenues*

Compared to the Third Quarter Report, final FY 2015/16 General Fund revenues are \$1.5 million lower. The difference is largely due to the \$1.4 million State fee referenced above, which was previously unknown.

In the **Taxes** category, the final FY 2015/16 revenue is projected to be approximately \$3.2 million below the Third Quarter estimates. Differences of \$0.2 million or higher are explained below.

- *Sales tax* is projected to be approximately \$1.97 million below the Third Quarter estimate. The State of California's 2004 initiative to issue economic recovery bonds known as Sales Tax Triple Flip, ended in FY 2015/16. The City incurred approximately \$1.4 million in administrative fees from the State for the Triple Flip initiative, which represents the cumulative program close-out cost to the City from the State over the 12-years of the program. This previously unknown fee largely drives the difference from the previous projection.
- *Property taxes* are projected to miss the Third Quarter estimate by approximately \$0.75 million. Property tax generated from the disposition of Successor Agency properties (\$0.5 million) are the main driver of the lower than anticipated revenues.

- *Utility users tax* (UUT) revenues are projected to be approximately \$0.31 million lower than anticipated in the Third Quarter, mainly because of higher electric and water conservation measures by City customers.
- Actual *Franchise* revenues are \$0.23 million higher than previously projected, mainly due to increases in tonnage processed by the City's refuse haulers.
- *Property Transfer Tax* revenues are below Third Quarter projections by approximately \$0.23 million due to decreases over the last half of the year. Staff reached out to Inland Valley Association of Realtors (IVAR) to determine if the decrease in Property Transfer Tax was a sign of the housing market or could be attributed to the normal volatility of this revenue source. According to the IVAR, the housing market continues to see increased sales with slightly higher selling values. As such, the decrease is likely attributed to the larger swings of high value property sales in the commercial and multi-family housing sectors, where minor swings in number of sales can have a larger impact on revenues.

The **Charges, Licenses and Permits** revenues are above Third Quarter estimates by \$1.05 million. The positive difference is primarily due to an increase in activity and estimated revenue associated with the Convention Center operations. As noted below, a portion of the increased revenue is offset by expenditures. Overall, the Convention Center performed approximately \$400,000 better than expected.

Contract Category	Budget			Actuals		
	Revenue	Expense	Net Revenue / (Expense)	Revenue	Expense	Net Revenue / (Expense)
Operations	\$4,500,000	\$(4,420,000)	\$ 80,000	\$5,918,801	\$(5,429,105)	\$ 489,696
Mgt. Fee	\$ -	\$ (480,000)	\$ (480,000)	\$ -	\$ (487,274)	\$ (487,274)
<b>TOTALS</b>	<b>\$4,500,000</b>	<b>\$(4,900,000)</b>	<b>\$ (400,000)</b>	<b>\$5,918,801</b>	<b>\$(5,916,379)</b>	<b>\$ 2,422</b>

**Other Revenues** are overall above Third Quarter estimates by \$0.64 million, mainly due to: a) increase in Mutual Aid revenues for the Fire Department in the Intergovernmental category (offset by additional expenditures), and b) additional civil penalty revenues under Fines and Forfeits.

#### *B. General Fund Expenditures*

General Fund expenditures are below Third Quarter estimates by \$1.79 million. Differences of \$200,000 and above are explained below.

- *Community & Economic Development* is \$0.26 million higher than Third Quarter estimates as a result of a year-end correction to accurately state allowable Successor Agency administrative expenses. Without the correction, the department would have saved approximately \$0.33 million due to the spending and hiring freeze instituted by the City Manager in May 2016.
- *Innovation and Technology* has increased savings of \$0.70 million attributed to the spending and hiring freeze instituted by the City Manager in May 2016.
- *Parks, Recreation and Community Services* would have saved approximately \$500,000

as compared to the Third Quarter; however, the revenue needed to cover Renaissance Parks Projects (2008 COPS), did not materialize in the development impact fee accounts. As such, the General Fund had to pick up an unbudgeted debt expense of approximately \$600,000. This resulted in an overage as compared to the Third Quarter of \$0.13 million

- *Police* has increased savings of \$1.1 million attributed to the spending and hiring freeze instituted by the City Manager in May 2016.

### *C. General Fund Reserves*

The impact of the variances in General Fund revenues and expenditures amount to a projected draw on the General Fund reserve of approximately \$6.8 million. **This effectively decreases the reserve balance to \$33.2 million, representing only 12.7% and, therefore, falling below the City's 15% General Fund Reserve Policy.**

Per the City's General Fund Reserve Policy, adopted by the City Council on September 6, 2016, the General Fund reserve should be 15%, which is comprised of an "Emergency Reserve" of 10% and a "Contingency Reserve" of 5%.

The Contingency Reserve is established for the purpose of providing a "bridge" to facilitate a measured and thoughtful reduction in expenditures during times of economic downturn, rather than making immediate and drastic budget cuts without the time for proper evaluation. Utilization of the economic contingency reserve, including specification of the maximum dollar amount to be used, requires approval by a two-thirds majority of the City Council. With the adoption of the FY 2016-2018 Two-Year Budget, the City Council approved the General Fund Five-Year Plan, which provided a methodology on how to return to the 15% required reserve levels.

The City Council set an aspiration goal of the General Fund Reserve at 20%; this goal was recently reaffirmed through adoption of the "Responsible Spending Vision Pledge" on October 4, 2016.

### **Quarterly Investment Report Status**

Sound investment practices are an essential component of the City's strong 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 quarter. As of June 30, 2016, the City's pooled investment portfolio's market value was \$570 million, with the market value of investments held by fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$246 million. The weighted average yield of the pooled investment portfolio continues to hold steady at 0.92%. Through prior City Council approval, the Chief Financial Officer/Treasurer has the authority to invest/reinvest funds and to sell or exchange purchased securities, consistent with the City's adopted investment policy. This approval is a requirement of State law and is received at the start of each fiscal year.

Beginning with the FY 2015/16 First Quarter, staff began including with the Investment Report a listing of cash balances by fund. This list is included in Attachment B. These 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 Finance Director/Treasurer's authorization to move loan receivables to other funds as needed.

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

1. The Community Development Block Grant (\$8,804) and Housing Opportunities for Persons with AIDS (\$431,000), which are fully offset by outstanding grant receivables.
2. Certificates of Participation Projects (\$637,000), Capital Outlay (\$3.23 million), and Transportation Uniform Mitigation Fees (\$3.45 million) have negative cash balances due to the timing of year-end expenditures; however, the negative balances are fully offset by grant receivables.
3. The Liability Insurance Trust Fund has a negative cash balance of approximately \$3 million, but is consolidated with the positive cash balances of the Workers Compensation Insurance Trust Fund (\$15.7 million) and Unemployment Insurance Trust Fund (\$435,000) for financial reporting purposes. Staff is implementing a strategy to return the Liability Insurance Trust Fund to an improved financial condition (cash and fund balance levels) over the next five years. In the current year, the cash position was budgeted to improve by \$1 million, however, due to increased claim expenditures the total cash balance increased by only \$500,000.

### **Quarterly Debt Report Status**

The Finance Department is also charged with managing the City's debt portfolio, which includes issuing new debt and monitoring opportunities to refinance existing debt as opportunities to reduce interest costs arise. The Quarterly Debt Report (Attachment C) 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. There are no changes to the Quarterly Debt Report for this quarter.

### **Fund Financial Status Report (All Funds)**

The City's independent auditor, Macias, Gini & O'Connell L.L.P. ("MGO"), has completed the annual audit of the City's financial statements and other financial reports subject to audit, as follows:

1. Comprehensive Annual Financial Report (CAFR)
2. Successor Agency to the Redevelopment Agency of the City of Riverside Financial  
1. Report
2. Riverside Public Financing Authority Financial and Compliance Report
3. Air Quality Management District Report
4. Riverside Public Utilities Annual Financial Report
5. Appropriations Limit (Gann) Calculation Compliance Opinion
6. Single Audit Report on Federal Awards

At the December 14, 2016 Finance Committee meeting, staff will present these reports and the City's Management Letter from MGO, which attests to the accuracy of the financial statements. The report will provide a complete analysis of the health of the organization and highlight the City's major funds (e.g. General Fund, Electric Fund, Water Fund and Sewer Fund).

In addition to the December 14, 2016 Finance Committee meeting, Riverside Public Utilities presented their Preliminary FY 2015/16 Year-End Financial Report to the Board of Public Utilities

on October 24, 2016. As noted in the report comparative financial ratios for the Electric Fund and Water Fund are good and liquidity levels remain strong.

All listed funds in the CAFR will have a positive projected year-end fund balance with the exception of the Liability Insurance and Workers Compensation Insurance Trust Funds, Transportation Fund, and Successor Agency Fund.

The combined fund balance in the insurance funds is negative, but reflects, 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. As noted at the City Council report on October 4, 2016, staff is assessing options to better fund the Liability Insurance and Workers Compensation Insurance Trust Funds. Despite the negative fund balance of the Insurance Trust Funds, cash on hand plus current year receipts are anticipated to be sufficient to pay all claims as required.

The Transportation Fund has a negative fund balance (\$0.47 million), which is greatly attributed to the net pension liability recorded in the prior fiscal year as part of the implementation of GASB 68. GASB 68, which require employers to recognize a net pension liability (unfunded accrued liability) in their statement of net position (balance sheet).

The Successor Agency funds have a combined negative fund balance of \$178 million, which is mostly attributed to bonds payable. While the City has an approved Recognized Obligation Payments Schedule (ROPS) through the State to pay for all of the bond payments, AB X1 26 and AB 1484 only allow property taxes to be recognized as revenue in the fiscal year those funds were levied. As such, no receivable for future ROPS can be recorded on the City's financial statements offset the liability.

### **Carryovers**

Per the City Charter, all appropriations lapse at fiscal year-end except for capital projects. Therefore, City Council action is required to carryover the balance of appropriations for all ongoing special programs, grants, and other restricted balances. As such, included with the Budget Resolution 23012 adopting the FY 2016-2018 Budget, Section 6 authorized the carryover of contractual obligations (e.g. Purchase Orders) and "...budgeted funds for certain items or projects in various states of acquisition or development that have been previously approved or will be approved by the City Council."

As of June 30, 2016, the balance of previously appropriated and unspent funds that were not approved by the Budget Resolution, but recommend to be carried over, is \$6,897,385.47 across all funds. The City Manager's Office has reviewed and concurs with all items (Attachment D). The total General Fund portion of these requested carryovers are \$2,927,981.66, which is consistent with prior years (FY 13/14 - \$1,833,761 and FY 14/15 - \$3,356,951).

### **FISCAL IMPACT:**

The Final Financial Results Report projects a \$6.9 million operational shortfall in the General Fund for FY 2015/16, which will reduce the City's General Fund Reserve to \$33.2 million or 12.7% of General Fund operational expenditures. The \$6.9 million operational shortfall represents a \$300,000 decrease from the projected Third Quarter Report deficit of \$7.2 million. The net savings is largely attributed to the spending and hiring freeze, which saved approximately \$2 million. The savings, unfortunately, were largely offset by the unanticipated \$1.4 million Triple Flip sales tax administration charge from the State.

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Attachments:

- A. Final Quarterly General Fund Financial Report
- B. Final Quarterly Investment Report
- C. Final Quarterly Fund Financial Status Report
- D. Carryovers
- E. Presentation