

recommendations based on information presented at earlier BEC meetings. Additionally, to the extent possible, City Commission and Board representatives will have the opportunity to provide information regarding their respective priorities. City department representatives will also be available to answer questions during the meeting.

DISCUSSION:

Quality of Life

Street Maintenance

The Proposed Plan increases General Fund portion of street maintenance funding by more than 100%, from \$2 million to approximately \$4.3 million annually. This additional funding will be used to improve the City's streets, sidewalks, curbs, and gutters while extending the life of existing public infrastructure. The additional funding will also allow the City to leverage funds to compete for available federal and state grants as well as other resources. Public Works staff estimates that the additional funding will allow 15 additional miles of pavement repair, replacement, preservation, and rehabilitation year, increasing the annual cycle by 115% from 13 miles to 28 miles. On March 9, 2017, the BEC heard an alternative proposed to fund 80 miles of street maintenance per year, which would require a contribution of approximately \$12.2 million annually.

Ward Action Teams:

The Proposed Plan includes two positions to support the multi-functional Ward Action Teams, one in the City Attorney's Office and one in the City Manager's Office. These positions will be deployed throughout the City to find solutions to complex problems such as homelessness and vandalism. The City Attorney's Office position was approved by City Council on February 21, 2017. On March 28, 2017, the City Manager's Office provided an update on the formation of the Ward Actions Teams; additional information on the goals and objectives can be found at Attachment 11.

Quality of Life Survey

The Proposed Plan includes funding to continue a biennial Citywide Quality of Life survey.

Fiscal Responsibility:

General Fund Reserve

On September 6, 2016, the City Council adopted the General Fund Reserve Policy that set the minimum reserve level at 15% of the upcoming fiscal year's General Fund expenditure budget, with 10% in the Emergency Reserve and 5% in the Contingency Reserve (Attachment 5). The policy also set an "aspirational" goal of 20% total General Fund Reserves, with 15% in the Emergency Reserve and 5% in the Contingency Reserve in the future (Attachment 4).

Based on preliminary projections for the Second Quarter Financial Report, the City's General Fund Reserve is estimated at 10.9% or \$29.2 million for FY 2016/17 and 8.6% or \$23.7 million in FY 2017/18. Increasing the General Fund Reserve level to policy guidelines strengthens the fiscal health of the City by boosting the City's bond ratings, providing working capital for cash flow needs, and mitigating short and long-term economic contingencies. To meet the 20% aspiration goal, the City needs to add about \$24.3 million to General Fund Reserves in FY 2016/17. The City's Second Quarter Financial Report will be presented to the BEC on April 6, 2017; if necessary, any increases or decreases in the recommended amounts will be provided

in that report.

Pension Obligation Bonds:

In 2004, the City had approximately \$150 million in pension liability that accumulated in prior years but did not have funds set aside to pay (approximately \$90 million for public safety employees and \$60 million for miscellaneous employees). The City made the decision to issue Pension Obligation Bonds (POBs) to prefund its unfunded retirement liability as calculated by the State CalPERS system. For the safety employees, \$90 million in POBs were issued in 2004 and will be paid in full in 2023. For the miscellaneous employees, in 2005, \$30 million of the POBs were at a fixed rate (Series A) and \$30 million were at a variable rate with “balloon payments” in the final five years of its 20-year term for the debt principal (Series B). Series A will be paid in full in June 2020. In 2008, the variable rate POBs (Series B) were further restructured into a bond anticipation note (BAN) that requires remarketing every year. The restructuring resulted in the debt principal of \$31.1 million remaining unpaid indefinitely since only interest is paid annually. The Proposed Plan includes a proposal to pay off this principal debt over a 10-year term.

On February 8, 2017, the Finance Department Staff presented options to the Finance Committee on refinancing options for the BAN. The Finance Committee recommended that staff return to the City Council with a 10-year financing tool, utilizing Measure Z funding, to retire the BAN by 2027. Staff expects to return to the City Council in April/May 2017.

Funding of Liability Accounts

The City of Riverside’s Risk Management (general liability) and Worker’s Compensation liabilities are currently funded at 33%. The industry standard for self-insured agencies is 100%. The Proposed Plan aims to increase the funding for current liabilities from 33% to 50%.

Technology

The City has identified many critical technology needs, such as a new enterprise resource planning (ERP) system to effectively manage financial and personnel resources, cyber security tools to safeguard information, and hardware replacements and enhancements to efficiently store, retrieve, and share data and information.

Since the draft of the Proposed Plan, new information has become available on the technology issues of the City. For example, staff has reached out to other cities that have recently implemented or are in the process of implementing ERP systems and addressing cybersecurity concerns. As a result, staff updated the list of technology needs, initiatives, and/or major projects to include more detail (Attachment 6). The Proposed Plan funds \$3.75 million in technology needs over five years, the total technology needs in the City total more than \$10 million per year (\$51.15 million over five years).

Updates on the CalPERS Retirement Costs

At their December 21, 2016 meeting, the CalPERS Board of Administration approved lowering the CalPERS discount rate assumption (long-term rate of return) from 7.50 percent to 7.00 percent over the course of three years. Based on the approved implementation, public agency employer contribution costs will increase beginning in Fiscal Year 2018-19. Preliminary projections show the City’s current CalPERS cost of approximately \$64.4 million (\$43.5 million General Fund) doubling over the next eight years, with estimated General Fund impacts of \$16.1 million to \$26 million over the next five years:

- FY 2016-17: \$0 impact
- FY 2017-18: \$0 impact
- FY 2018-19: \$2.2 to \$3.4 million
- FY 2019-20: \$4.3 to \$7 million
- FY 2020-21: \$9.6 to \$15.6 million

Since these impacts will not be impacting the City's financials until FY 2018-19, they will be addressed in the next biennial budget (FY 2018-20), and may impact services funded by the General Fund.

Information Requests from March 9, 2017 BEC Meeting:

At the March 9, 2017 BEC meeting, the Commission requested staff to provide information on several items discussed during the meeting.

Capital Investment Projects

The Commission requested more in-depth information for bond-financed capital investments on the Main Library, Police Headquarters, and Convention Center.

Built in 1965, the Main Library has served the citizens of Riverside for more than 50 years. The City of Riverside's main library is no longer functional and effective to meet the needs of a progressive community. The concept of a 21st century community library is more than just lending books; it is a flexible space where citizens engage with each other, are in touch with their community literally and figuratively, and is a center to access technology as a gateway to the world. The future library is about creation, innovation, hands-on learning and discovery, collaboration, and community gathering. It is an adaptable place that must evolve with the community it serves. The estimated current market cost to build a new Main Library is \$30 million. The estimated annual maintenance cost of the new facility is in the range of \$78,750 to \$112,500. If built, these costs would need to be included in the annual budget as the existing Library Department maintenance budget is less than \$40,000 for all library branches. Alternatively, funding would need to be utilized from the maintenance funds requested in the Proposed Plan. See Attachment 7 for more information.

The City's Downtown Orange Street Police Headquarters was constructed in 1963. As referenced in the March 9, 2017 BEC report, the current lease is ending in August 2017 and there is a significant cost increase associated with the recent City Council approval to extend the lease for an additional 5 to 10 years from the County of Riverside at today's market rates of more than \$290,000. The estimated cost to build a new Downtown Police Headquarters, Holding Facility, and Parking Garage is \$50 million. The estimated annual maintenance cost of this new facility is in the range of \$130,000 to \$260,000. If built, these costs would be covered by the money currently set aside for the recent lease extension (\$292,000). See Attachment 8 for more information.

The Riverside Convention Center was built in 1972. In 2014, a \$45 million expansion included an additional 36,900 square feet of exhibit, meeting and public space and a state of the art kitchen for a total gross square footage of approximately 140,000. The annual debt service is \$3 million with an outstanding debt balance of \$39.8 million that is scheduled for pay-off in April 2034. The current facility has exceeded current market demand and the proposal is to expand the Convention Center's approximately 100,000 square foot for additional exhibit, ballroom and meeting space. The expansion would occupy the current City Parking Lot #33 (adjacent to the Convention Center) necessitating a new parking garage for approximately 1,200 spaces. The estimated current cost for the expansion is \$40 million. The estimated cost to maintain the new facility is approximately \$600,000 per year. See Attachment 9 more information.

Debt Per Capita

As of the June 30, 2016, the City of Riverside's general bonded debt per capita is \$909 (Source: FY 2015/16 Comprehensive Annual Financial Report (CAFR)). General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (the City has none of the latter). This is calculated using population data for the prior calendar year.

To provide more context on the structure of the City's debt, the debt per capita for all funds (General Fund and all non-general fund) is \$5,908. The City's General Fund debt service (includes budgeted principal, interest, and fees) to revenue ratio is approximately 13%, meaning for every General Fund dollar the City collects in revenue, 13 cents is applied to its debt service.

Bonded Debt per capita (Source: CAFR)	\$909
Gross Debt per capita (All Funds)	\$5,908
General Fund Debt per capita	\$1,031
Debt Service to General Fund Revenue Ratio	13%

The table below shows the general bonded debt per capita of various select cities as published in their respective Comprehensive Annual Financial Report ending June 30, 2016. General bonded debt is a standard measure for cities to present debt in relation to population.

City	General Bonded Debt Per Capita
Anaheim	\$1,463
Fontana	\$214
Moreno Valley	\$299
Ontario	\$407
Rancho Cucamonga	\$0
Riverside	\$909
Santa Ana	\$2,598

City Attorney Office Presence

As requested by the Commission, a representative from the City Attorney's Office will be present in the BEC meetings to provide legal guidance during the discussions.

Asset Forfeiture Funds for Police Vehicles

Federal and State legislation allows for funds seized by law enforcement during the investigation of specific narcotics law violations to be forfeited to the investigating law enforcement organizations. These funds are restricted in use to law enforcement and must be used to supplement, not supplant, the Police Department's annual budget. Both State and Federal expenditures are subject to audit and require annual reports.

Past expenditures have included equipment, supplies and services that helped support the City's law enforcement operations. As of March 1, 2017, the Riverside Police Department has approximately \$1.1 million in its asset forfeiture trust accounts; however, only \$214,965 has cleared the forfeiture process and can be appropriated for use. Forfeiture funds are never guaranteed and it can take several months or years to complete the clearing process.

The table below shows the summary of City Council authorized supplemental appropriation of asset forfeiture funds by fiscal year:

Fiscal Year	City Council Authorized Appropriations from Asset Forfeiture Trust Accounts
FY 2011/12	\$776,682
FY 2012/13	\$996,700
FY 2013/14	\$703,900
FY 2014/15	\$825,899
FY 2015/16	\$0
FY 2016/17	\$651,031

The table below is the summary of annual expenditures for police vehicles purchase using asset forfeiture funds:

Fiscal Year	Police Vehicle Purchase from Asset Forfeiture Funds	Number of Vehicles Purchased
FY 2003/04	\$0	0
FY 2004/05	\$0	0
FY 2005/06	\$0	0
FY 2006/07	\$0	0
FY 2007/08	\$0	0
FY 2008/09	\$321,576	14
FY 2009/10	\$272,264	12
FY 2010/11	\$388,641	21
FY 2011/12	\$246,673	27
FY 2012/13	\$665,835	28
FY 2013/14	\$545,799	22
FY 2014/15	\$51,501	2
FY 2015/16	\$0	0
FY 2016/17	\$0	0

These funds are not a fixed amount and can range from year to year. Although the City has used these funds to purchase police vehicles in the past, the City should not rely on asset forfeiture funds to bridge structural gaps in the budget.

General Services Fleet Maintenance vs. Outsourcing

The Fleet Services Division in the General Services Department is a full service operation responsible for maintaining the City fleet of nearly 1,400 sedans, light/heavy duty vehicles, equipment, and fire apparatus. The Division is also responsible for buying vehicles for the City at the most cost competitive price available in the current market. With the distinction as a Green Fleet, the City of Riverside's Fleet Services is a national leader in the use of alternative fuel technologies.

The Fleet Services Division does not currently provide services to the Police Department's fleet

of vehicles and equipment. In the revised Proposed Plan, the replacement and maintenance of the Police Department’s fleet will be transferred to the Fleet Services Division. To support the additional workload, revisions to the Proposed Plan included funding for two additional mechanics.

In the March 9, 2017 BEC meeting, the BEC requested information on the difference between providing replacement and maintenance services in-house vs. outsourcing. The table below shows the comparison between insourcing and outsourcing of the mechanic repair and maintenance services:

Service Description	Insource (City Staff)	Outsource (Private/Vendor/ Contractor)
Labor	<p>\$68 to \$91 per hour</p> <p><i>This is the fully burdened cost, including salary, benefits, and overhead.</i></p> <p><i>The range depends on the staff assigned (i.e., equipment service worker, mechanic, senior mechanic, metal shop worker).</i></p>	<p>\$90 to \$100 per hour, Light duty vehicles</p> <p>\$135 to \$150 per hour, Heavy duty vehicles</p> <p><i>Based on current vendor rates</i></p>
Parts	<p>Cost plus 42% Markup, with \$250 cap</p> <p><i>Based on current policy, process, and procedures</i></p>	<p>Cost plus 100% Markup, with no cap</p> <p><i>Based on Current vendor rates</i></p>

Measure Z Brochure

On the March 9, 2017 BEC meeting, the Commission requested copies of the Measure Z brochure and materials that were published and distributed to the public. Attachment 10 is a compilation of the Measure Z brochure and the frequently asked questions (FAQs) on the City’s Measure Z web page.

Timeline:

The timeline below reflects various related meetings and actions, by the City Council and the BEC, for planning purposes. As needed, the BEC may schedule additional meetings to discuss Measure Z spending priorities. As requested by the BEC on February 23, 2017, a listing of departments that will be available to answer questions at each meeting is also provided.

- March 30, 2017 – BEC Meeting: Measure with a focus on Quality of Life, Fiscal Discipline/Responsibility, Technology, CalPERS and, and prioritizing methodology of the BEC.

- *Departmental representatives from Finance, Police, Public Works, General Services, Library, Information and Technology, City Attorney’s Office, and City Manager’s Office will be present to answer departmental specific questions.*
- **April 6, 2017 – BEC Meeting:** Second Quarter Financial Report (FY 2016/17), Critical Operating Needs including updates on the CalPERS retirement costs, reports from City Commissions, and discussion of the BEC’s recommendations to City Council.
 - *Departmental representatives from Finance, Police, Fire, Public Works, General Services, Innovation and Technology, City Attorney’s Office, and City Manager’s Office will be present to answer departmental specific questions.*
 - *Additional departments will be asked to attend based on questions and inquiries from the March 30, 2017 BEC meeting.*
 - *To the extent possible, a representative from each City Board/Commission will be on hand to provide input and answer questions about their recommendations.*
- **April 11, 2017 – City Council Meeting:** Second Quarter Financial Report (FY 2016/17). The BEC Chair may present verbal remarks to the City Council as part of the Finance Department’s presentation of the Second Quarter Financial Report.
- **May 4, 2017 – BEC Meeting:** Riverside 2.0 Goals and Performance Measures, and BEC recommendations on the Measure Z Spending Plan.
 - *Questions and inquiries from the BEC on March 9, 30, and April 6, will determine the City departments that will attend to answer departmental specific questions.*
- **May 9, 2017 –City Council: Measure Z Recommendations**
 - *All City departments will be available for questions from the City Council and BEC.*
- **May 25, 2017 – BEC Meeting:** Optional regular meeting to discuss items within the purview of the BEC.
- **June 8, 2017 – BEC Meeting:** Third Quarter financial report (FY 2016/17), FY 2017/18 Mid-Cycle proposed adjustments, and updates to the five-year financial plan.
- **June 13, 2017 – City Council Meeting:** Third Quarter financial report (FY 2016/17), FY 2017/18 Mid-Cycle proposed adjustments, and updates to the five-year financial plan.

FISCAL IMPACT:

There is no fiscal impact associated with the discussion on the Proposed Measure Z Spending Plan.

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Approved by: Marianna Marysheva, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Measure Z Proposed Spending Plan (Original)
2. Measure Z City Council Direction and Additional Staff Recommendations
3. Measure Z Proposed Spending Plan (Revised)
4. Responsible Spending Pledge
5. General Fund Reserves Staff Report and Policy
6. Proposed Technology Needs Prioritized List
7. Proposed Capital Investment - Main Library
8. Proposed Capital Investment - Police Headquarters and Facilities
9. Proposed Capital Investment - Convention Center Expansion
10. Measure Z Brochure and FAQ
11. Ward Action Team Staff Report
12. Presentation