



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MAY 16, 2017
FROM: CITY MANAGER'S OFFICE WARDS: ALL
SUBJECT: UPDATED MEASURE Z SPENDING PRIORITIES

ISSUE:

Receive and provide input on staff's revised Measure Z spending priorities (presented in this report), in conjunction with separately presented Measure Z spending recommendations from the Budget Engagement Commission (BEC), in preparation for City Council deliberation and direction to staff on Measure Z five-year spending at the May 16, 2016 City Council meeting.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on staff's revised Measure Z spending priorities over a five-year period (presented in this report), in conjunction with separately presented Measure Z spending recommendations from the Budget Engagement Commission (BEC); and
2. Continue this item to the May 16, 2017 City Council meeting, in order for the City Council to provide direction to staff on Measure Z spending over the next five years, which will be incorporated into the City's Mid-Cycle budget update on June 13, 2017.

BACKGROUND:

During the FY 2016-2018 Budget Process in February-June 2016, staff presented to the community, City employees and labor unions, and the City Council a listing of the City's critical unfunded operational and capital needs. The operational needs alone (excluding new facilities) totaled more than \$225 million over five years (approximately \$45 million per year). The City's unfunded capital needs, included in the five-year Capital Improvement Plan (CIP) approved by the City Council, are over \$1 billion. In addition to the unfunded needs analysis, the City Council approved approximately \$11 million in annual General Fund reductions to balance the FY 2016-2018 Budget. The reductions have affected essential City services to residents and businesses and hampered public safety response times.

To help address the service cuts as well as a portion of the City's critical unfunded needs, at staff's recommendation, the Mayor and the City Council placed Measure Z on the November 8, 2016, ballot. The measure authorized a one-cent increase in the City's sales tax rate and was approved by over 60% of Riverside voters. On April 1, 2017, the City's sales tax rate increased

from 7.75% to 8.75%. Measure Z is estimated to generate approximately \$10 million in revenues in Fiscal Year (FY) 2016-17 and over \$50 million annually beginning in FY 2017-18.

On December 20, 2016, the City Council authorized Measure Z revenues and expenditures to be tracked in a separate fund for accountability and transparency, and appropriated funding for the restoration of a Fire Squad, eliminated during the budget. The restored cost of the Fire Squad is \$450,000 in FY 2016-17 and \$800,000 in FY 2017-18. On February 21, 2017, the City Council approved the appropriation of Measure Z funds for one position in the City Attorney’s Office (Deputy City Attorney II) to support the newly established Ward Action Teams.

At a January 31, 2017, City Council Special Meeting, staff presented the Proposed Measure Z Spending Priorities to the City Council for comment and direction (Attachment 1). A copy of the staff report and related materials are in Attachments 2 and 3. The City Council provided comments (documented in Attachment 4) and directed staff to work with the Budget Engagement Commission (BEC) to refine the five-year spending plan for Measure Z in time for the May 9, 2016 City Council meeting.

The BEC met five times between February 23, 2017 and April 19, 2017 to develop their own recommendations on Measure Z spending. On May 4, 2017, after the posting of this agenda, the BEC will finalize their recommendations to the City Council. Either the BEC Chair or another representative will present the BEC’s Measure Z recommendations to the City Council on May 9, 2017. BEC’s report will be distributed to the Mayor and City Council, and made available to the public, on May 5, 2017.

DISCUSSION:

Based on City Council input at the January 31, 2017 meeting (see Attachment 4), meetings with City Departments to refine needs, and meetings with the Budget Engagement Commission, staff has developed Revised Measure Z Spending Priorities (see Attachment 5). Changes from the Original Measure Z Spending Priorities (as reflected in Attachment 1) are summarized below, followed by a narrative discussion.

Proposed Measure Z Spending Priorities (Years 1-5)					
<i>Major Category</i>	<i>Original</i>		<i>Revised</i>		<i>Difference</i>
Fiscal Discipline/Responsibility	\$47,774,507	21.8%	\$43,344,207	19.8%	\$(4,430,300)
Critical Operating Needs	\$48,129,948	21.9%	\$56,034,250	25.6%	\$7,904,302
Public Safety	\$55,911,629	25.5%	\$68,497,813	31.2%	\$12,586,184
Quality of Life	\$15,539,556	7.1%	\$3,837,199	1.7%	\$(11,702,357)
Facility Capital Needs	\$48,200,000	22.0%	\$42,833,882	19.5%	\$(5,366,118)
Technology	\$3,750,000	1.7%	\$4,750,000	2.2%	\$1,000,000
TOTALS	\$219,305,640	100%	\$219,297,352	100%	\$(8,288)

Fiscal Discipline/Responsibility: It is imperative for the City to continue strengthening its financial position, increasing reserves and paying off debt / liabilities. Not only is this good business practice, but importantly: 1) fiscal discipline measures were promised to voters during the Measure Z campaign; and 2) bond rating agencies and investors, who spoke with City leadership in personal meetings in late April, insist on strengthening the City’s reserves, paying

off debt and properly funding liabilities. Consequently, staff continues to recommend strongly Fiscal Discipline / Responsibility measures, with the following adjustments:

- General Fund Reserve: The amount needed to maintain a 20% General Fund Reserve has been adjusted based on the Second Quarter Financial Report (Attachment 6). Total costs over five years have increased from \$29.2 million to \$32.3 million.
- Pension Obligation Bond (POB): Based on discussion at the April 25, 2017 City Council meeting, amounts reflect the General Fund portion of a fully amortized 10-year pension bond. Total costs over five years have decreased from \$9.5 million to \$7.6 million.
- Worker's Compensation and General Liability Funding: The original requested funding of \$8 million was reduced to \$3.5 million to accommodate increased public safety spending priorities.
- Vacation Liability: The request to fund \$1 million in excess vacation liability (mostly related to retirements) has been removed to allow for increased public safety spending priorities.

Critical Operating Needs (Non-Safety): These items represent critical, non-public safety related items that are necessary to avoid reducing services to the public. Key changes from the original proposal include:

- General Fund Operating Shortfall: The amount needed for the General Fund shortfall has increased minimally based on the Second Quarter Financial Report (Attachment 6). Total costs over five years have increased from \$45.3 million to \$48.2 million.
- General Plan Update: To continue investing in the future of Riverside, funding is needed for a General Plan Update, including updates to the zoning code. The total five-year cost is \$5 million.

Critical Public Safety Needs:

- Recruitment of Police Officers and Dispatchers: Both the Original and Revised Measure Z Spending Priority plans call for the addition of many police department employees, both sworn and non-sworn. In order to hire a significant number of additional officers, a new Senior Analyst position will be required in the Human Resources Department. In addition, hiring incentives are recommended for officers and dispatchers. The total increased cost over the next five years is \$1.8 million.
- Replacement of Police and Fire Vehicles: After meeting with the Fire and Police Departments along with fleet management, staff have revised the plan for vehicle replacement. The revised plans provide for an immediate replacement of vehicles that are at or near the end of life, followed by an annual replacement based on the estimated useful life per industry standards. Total costs over five years have increased from \$14.4 million to \$22.2 million.
- Crown Victoria Pilot Program: At the City Council's request, \$50,000 has been added for a refurbishment pilot program for two Crown Victoria vehicles in the Police Department. If successful, the program could save \$25,000 per vehicle until the available pool of Crown Victoria vehicles is exhausted.
- Police and Fire Vehicle Maintenance: Proactive maintenance is essential to the longevity and safety of City vehicles. In order to provide proper maintenance for first responder vehicles, four additional mechanics will be needed, along with one-time fleet facility modifications. The total cost over the next five years is \$1.7 million.

Quality of Life Needs: The Proposed Measure Z Spending Plan included funding for streets, tree trimming and personnel to address quality of life needs in the community. As a result of the recently passed State transportation funding bill (SB 1, Road Repair and Accountability Act of 2017), the City estimates to receive \$7.4 million in additional annual revenue from the State for road projects. Consequently, staff has reallocated Measure Z funding previously recommended for street maintenance and repair (\$11.5 million over the first five years) to critical public safety priorities.

Facility/Capital Needs: The Riverside Renaissance capital improvement project successfully revitalized the City. However, it has been over 10 years since that significant capital investment, and the facilities built during the Renaissance require proper maintenance. Changes from the original recommendations include:

- The total bonded amount for capital projects has been revised from \$165 million to \$105 million, over the 20-year period.
- One parking facility and expansion of the Convention Center have been removed from the recommended projects. In their place, \$20 million of 20-year bonding capacity has been added for Citywide projects that will be determined on subsequent needs analysis and direction from the City Council.
- The recommended funding remained unchanged for a new Downtown Main Library, new Police Headquarters, expansion/enhancement of the Museum, and one new a parking facility.
- Total costs over five years have decreased from \$36 million to \$25.6 million.

Technology: A quick review of the national news in the past several months provides ample evidence of the need to improve technology, especially in the field of cybersecurity. Changes to Technology needs include:

- Enterprise Resource Planning (ERP) System: The City's financial system dates back to 1999. While upgrades to the system have been made over the past 18 years, the City needs to determine if a new ERP system is necessary to alleviate many of the current system shortcomings. Total costs over five years have increased from \$2 million to \$3 million.

FISCAL IMPACT:

Measure Z will generate over \$50 million in annual revenue for the City. While the City's unfunded needs will continue to exceed available resources, Measure Z will provide the funding to address many of them. Further, Measure Z allows the City to fund and enhance many critical public safety and quality of life items that may have been eliminated if Measure Z revenues were not available. Once approved, staff will incorporate the five-year Revised Measure Z Spending Priorities with the City's FY 2016-2018 Two-Year Budget during the Mid-Cycle Update on June 13, 2017.

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Attachments:

1. Original Proposed Measure Z Spending Priorities (five years)
2. January 31, 2017 – City Council Special Meeting Measure Z Item
3. BEC Measure Z Revenue Estimates Presentation (April 19, 2017)
4. City Council Information Requests
5. Revised Measure Z Spending Priorities
6. FY 2016/17 Second Quarter Financial Update
7. Presentation