

Introduction to Baseline FY 2018-2020 Two-Year Budget and FY 2018-2023 Five-Year Plan

Finance Department

Budget Engagement Commission Meeting

January 24, 2018

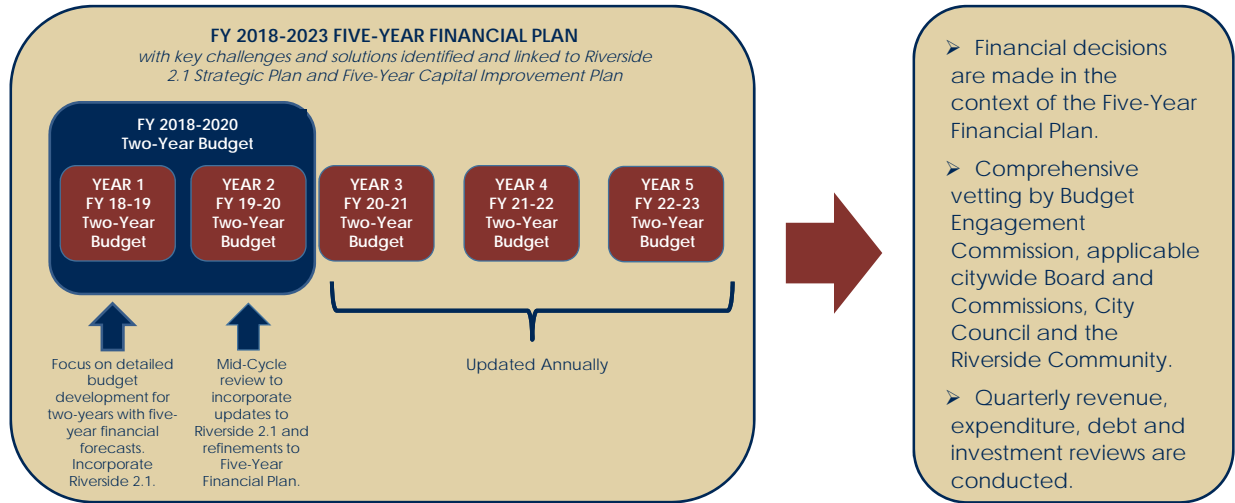
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BACKGROUND

- December 2015: City Council approved the move to a two-year budget in the context of a five-year plan
- September 2017: Staff began planning for the FY 2018-20 Two-Year Budget and FY 2018-23 Five-Year Plan
- June 2018: Adoption of the City-wide FY 2018-20 Two-Year Budget and General Fund FY 2018-23 Five-Year Plan are anticipated



PLANNING PROCESS

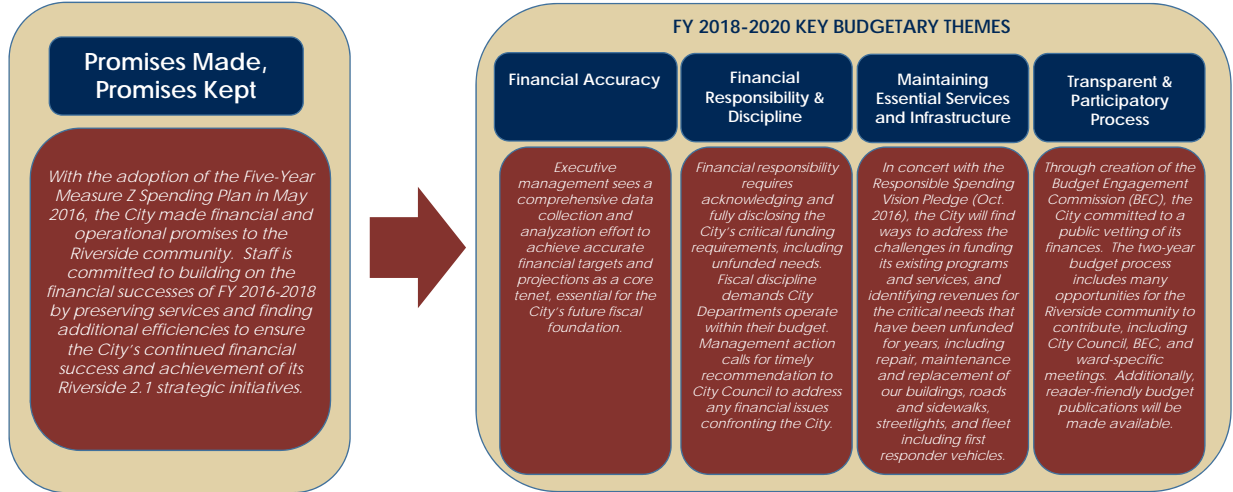


BETTER BUDGETING

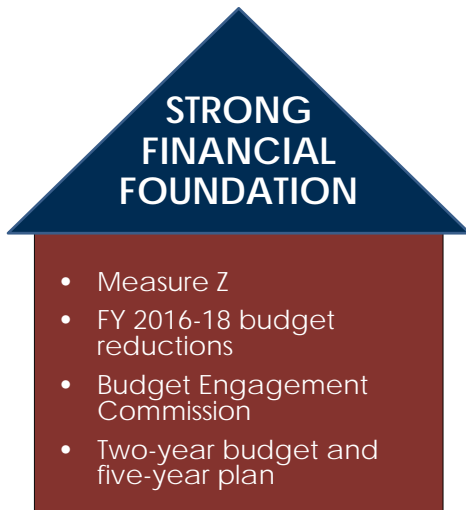
- Enhanced Position Control
 - Allows the City to track personnel and budget and monitor personnel costs more effectively
 - Increases the ability to identify and analyze costs by category such as bargaining unit and job classification
- Updated Budget system
 - Reduced vendor costs and introduced efficiencies in the budgeting process
 - Accommodate five-year financial plans
 - CIP budgeting efficiencies
- Cost Allocation Plan brought in-house and implemented early
 - Eliminated third-party costs
 - Thorough review of allocation bases
 - Greater transparency



FY 18-20 BUDGET THEMES



STRONG FOUNDATION



- General obligation bond rating increased from A+ to AA- by S&P
- FYE 2017-18 projected General Fund reserve of more than 20%



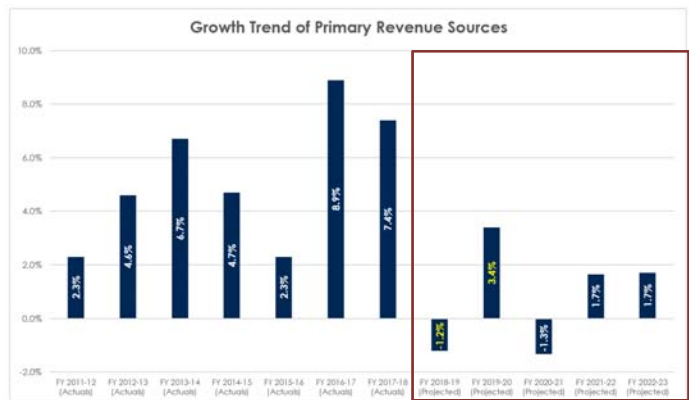
BOTTOM LINE

- Flattening of revenues
 - Annualized growth rate in core revenue sources continuing to slow ; 1.5% - 2% as compared to 7% in fiscal years 2013-15
- Measure Z Contribution
 - In FY 2017-18, \$20.5M to General Fund. Staff anticipates contributions of \$13.2M in FY 2018-19 and \$18.3M in FY 2019-20
- Personnel Costs
 - More than 80% of total expenditures, consistent with other full-service cities
 - Increasing CalPERS costs – Statewide issue
- Managed Savings
 - Instead of vague and temporary budget measures, permanent balancing measures will now be required
- Contracts and Subsidies
 - In-depth review to understand and minimize impact on direct services
- Projected Shortfalls
 - Preliminary baseline budget projects shortfalls of \$3 million in FY 2018-19; \$6 million in FY 2019-20



BASELINE ASSUMPTIONS - REVENUES

- Sales Tax
 - Slowing; 2% FY 2018-19, 1.5% FY 2019-20
- Property Tax
 - Growing; 3.7% per year projected for FY 2018-20
- Utility User Tax
 - Flat since FY 2012-13
- General Fund Transfer
 - Measure Z
 - Electric & Water
- Other Revenues
 - Mostly flat



The above chart represents the year-over-year increase or decrease in General Fund revenues. The drop in FY 2018-19 revenues is primarily due to a 35% decrease in the Measure Z fund transfer, from \$20.5 million in 2017-18 to \$13.2 million in FY 2018-19.



SALES TAX REVENUE

- Sources
 - HdL Consultant monitors and provides analysis of sales tax activity in Riverside
 - Local business community (auto center and major shopping malls)
 - Economic data (UCR Economic Forecasting and Development Center, etc.)
- Assumption: Marginal Growth
 - Slowing economy
 - Changes in how people shop (e.g., e-commerce)
 - Growth of neighboring cities (Temecula, Murrieta, Corona)
 - See chart for assumed growth rates

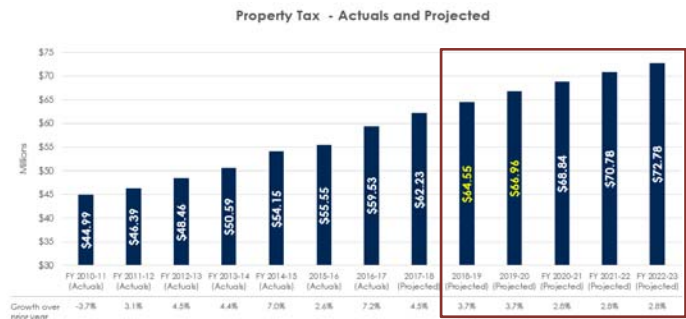


Sales tax growth has been steadily declining since FY 2015-16, from an average annual growth of 8% in the 5-year period of FY 2010-2015 to less than 2.5% average annual growth for the 5-year period of FY 2015-20.



PROPERTY TAX REVENUE

- Sources
 - County of Riverside
 - Real estate professionals (Inland Empire Realtors Association)
 - Economic data (housing costs, UCR Economic Forecasting and Development Center, etc.)
- Assumption: Steady Growth
 - Median housing prices have not yet reached pre-recession peaks
 - Affordable housing as compared to Orange and Los Angeles counties
 - Housing shortage
 - Low interest rates
 - See chart for assumed growth rates

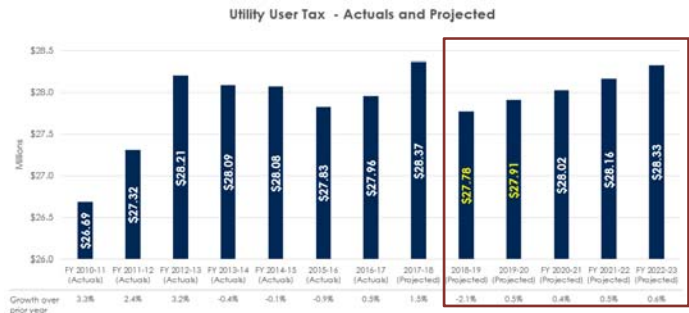


Property tax growth has been rising steadily and is expected to continue. Staff is projecting conservative growth rates of 3.7% in FYs 2018-20 and 2.8% in FYs 2020-23.



UTILITY USER TAX REVENUE

- Sources
 - Revenue trends of individual UUT categories (cable, telephone, etc.)
 - Legislative and technological changes
- Assumption: Flat, very little growth
 - UUT ordinance does not capture today's technology (internet, satellite, on-line subscriptions)
 - Telephone declining 3%;
 - Variations are mainly due to fluctuations in water and electric usage.
 - See chart for assumed growth rates

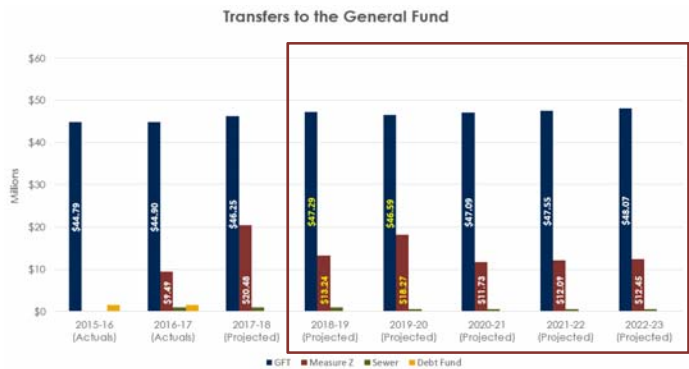


Year-over-year growth in Utility User Tax (UUT) has remained mostly flat since FY 2012-13. Decreases in some categories, such as telephone, have been offset by minor growth in other categories, such as cable TV, electric and water. Larger increases, such as that seen in FY 2017-18, are a result of higher electric and water use due to unusually warm weather.



GENERAL FUND TRANSFERS

- Sources
 - Riverside Public Utilities (RPU) projections based on long-term weather patterns and consumer trends
 - Measure Z 2018-23 Baseline 5-Year Spending Plan
 - Cost recovery analysis (Sewer)
- Assumptions:
 - Measure Z contributions will occur as adopted in 2016-21 Five-Year spending plan, with 3% CPI increases in FY 2021-22 and FY 2022-23
 - Electric and Water transfers based upon RPU revenue projections of the prior fiscal year.
 - Sewer: Average claims, increased annually by 3% CPI

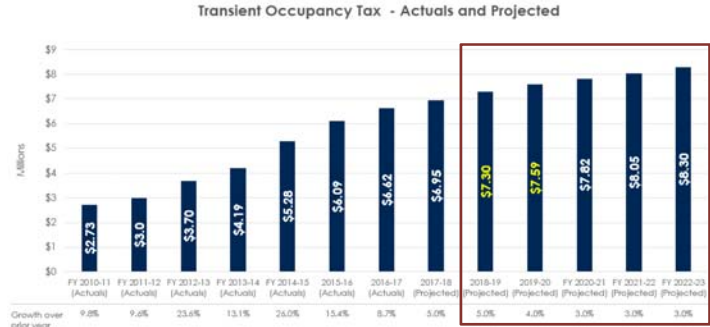


The General Fund Transfer from Electric and Water is based upon prior year audited revenues.



TRANSIENT OCCUPANCY TAX

- Sources
 - City's hoteliers
 - Economic data (UCR Center for Economic Forecasting)
 - Revenue trends
- Assumption: Holding steady
 - Initial growth of 5% in FY 2018-19 and 4% in FY 2019-20 due to planned hotel development in the City
 - Leveling off at 3% growth in subsequent years due to an expected slowdown in the economy
 - See chart for assumed growth rates

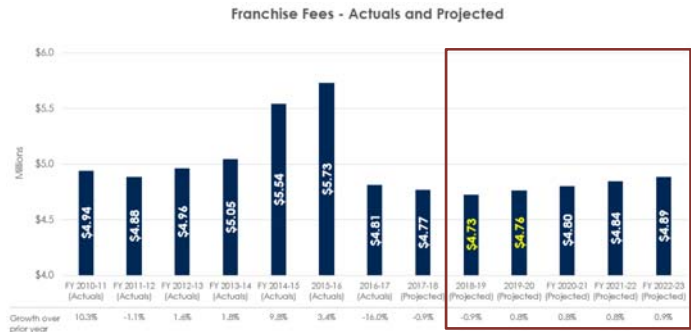


Anticipated hotel development in the City is expected to bring a steady increase in Transient Occupancy Tax revenues for the next several years.



FRANCHISE FEES

- Sources
 - Franchisee validation
 - Revenue trends
- Assumption: Flat
 - Revenues will remain relatively flat, with increases projected at a mere 0.8% for most years
 - See chart for assumed growth rates

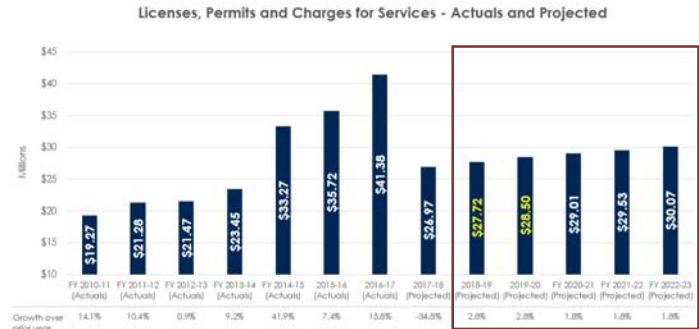


A slight adjustment in FY 2018-19 of -0.9% is expected due to a change in Southern California Gas Company's calculation methodology, which was a result of litigation. Subsequent years are expected to experience very minor increases; slight increases in fees from general Cable TV are expected to be offset by a decline in AT&T fees as AT&T pushes subscribers toward satellite (DirecTV), which is not subject to a franchise fee charge.



LICENSES, PERMITS AND CHARGES FOR SERVICES

- Sources
 - Economic data (UCR Center for Economic Forecasting)
 - Activity within the City's Community and Economic Development Department (CEDD)
 - Business Tax Action Plan
 - Revenue trends
- Assumption: Minimal growth
 - Modest gains of 2.5% expected based on activity within the City's CEDD and Business Tax functions
 - See chart for assumed growth rates

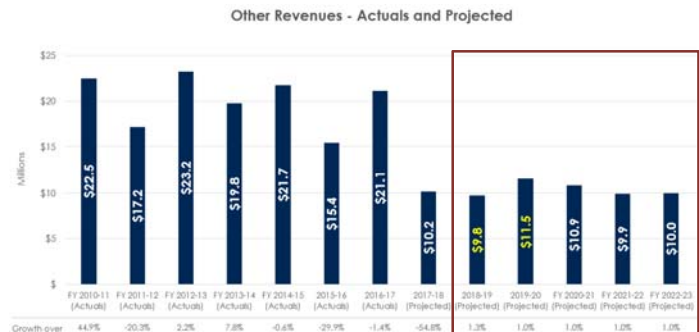


The significant increases in FYs 2014-15 through 2016-17 and the subsequent correction in FY 2017-18 is due to a temporary shift of revenues from entertainment venues (Fox, municipal auditorium, convention center, etc.) into the General Fund. In FY 2017-18, these revenues were moved out of the General Fund to provide for greater transparency in true General Fund revenues.



OTHER REVENUES

- Sources
 - Revenue trends
 - Legislative and technological changes
 - Contractual requirements
 - Anticipated sales of property per the City's Real Property Division
- Assumption: Flat
 - Sales of City property in FY 2019-20 (\$1.7 million) and FY 2020-21 (\$1 million)
 - See chart for assumed growth rates

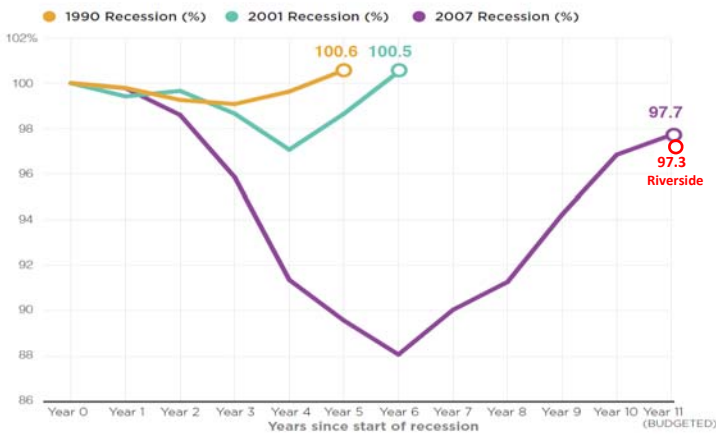


Other revenues include intergovernmental, fines and forfeitures, special assessments, sales of city property, and other miscellaneous revenues. Variations in these revenues are primarily attributable to the sale of City property. In FY 2017-18, Special District revenue was removed from the General Fund to provide greater transparency to special district activity, including General Fund subsidies of certain districts.



HOW DOES RIVERSIDE COMPARE?

Figure 6 General Fund Revenue Recovery During Recent Recessions



- Riverside revenue recovery is at just 97.3% of pre-recession levels, in line with other cities
- Continued economic uncertainty
- Slowing revenues in post-recession period

"The drastic economic and technological changes occurring in the most recent recovery period, as well over the past 30 years, point to the imperative to re-examine the field's conventional thinking about the ability of city finances to buffer against economic downturns and to capture revenue growth during periods of economic expansion."

- National League of Cities 2017 "City Fiscal Conditions"

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BASELINE ASSUMPTIONS - EXPENDITURES

- Personnel
 - Partnership Compensation Model
 - CalPERS
- Non-Personnel
 - Increases based on historical CPI
- Charges and Transfers
 - New Cost Allocation Plan
- Subsidies

General Fund Expenditures by Major Category

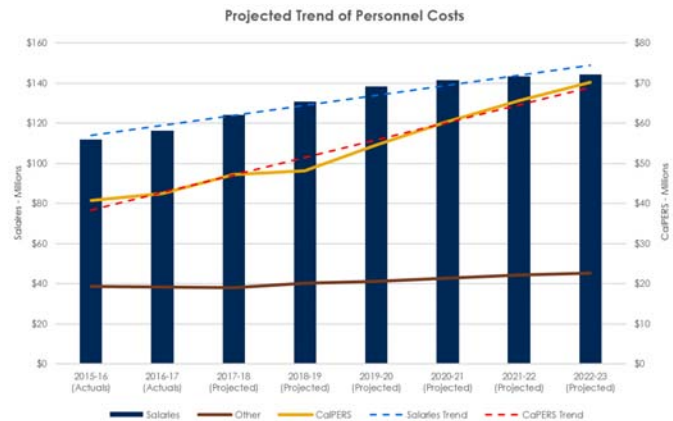
Expenditure Category	FY 2018-19	% of Total	FY 2019-20	% of Total
Personnel	\$219.10	80.5%	\$233.88	82.0%
Non-Personnel	\$50.56	18.6%	\$50.76	17.8%
Special Projects	\$8.02	2.9%	\$8.14	2.9%
Equipment	\$.40	0.1%	\$.40	0.1%
Minor Capital	\$1.89	0.7%	\$2.10	0.7%
Debt Service	\$24.42	9.0%	\$23.17	8.1%
Charges and Transfers	-\$32.29	-11.9%	-\$33.18	-11.6%
Totals	\$272.09	100%	\$285.27	100%

(Amounts expressed in millions)



PERSONNEL COSTS - OVERVIEW

- Represent more than 80% of the total General Fund Budget
- Partnership Compensation Model ties pay raises for most represented employees to core revenue sources
- CalPERS is the largest cost driver, outpacing salaries



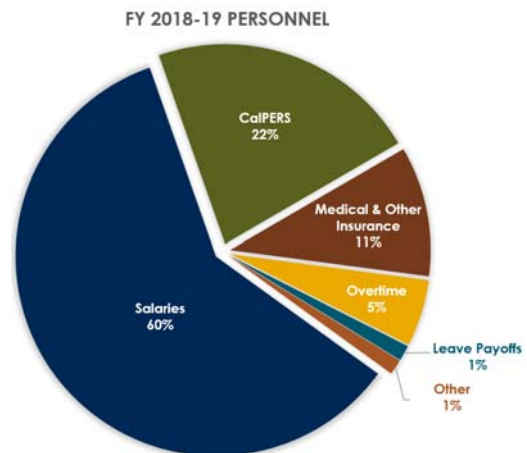
The ratio of CalPERS costs to Salaries will continue to narrow as salary increases tied to revenues level off. Some continued salary increases are projected in the form of merit pay, within the position salary range.

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PERSONNEL COSTS SALARIES, HEALTH INSURANCE, and PAID LEAVE

- Salary Increases
 - Partnership Compensation Model: Pay increases tied to revenues (Balanced Revenue Index)
 - Increases per MOUs
 - Annual merit increases within position pay scales
- Medical & Dental increases
 - 10% cost increases per year, shared equally by the City and employees
- Leave Payoffs
 - Minimal budgeted; ideally payoffs would be funded by a vacancy factor during the recruiting period
 - Staff recommends setting aside excess General Fund Reserves to fund payoff liabilities.



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PERSONNEL COSTS PARTNERSHIP COMPENSATION MODEL

BARGAINING UNIT	FY 2017-18		FY 2018-19		FY 2019-20		FY 2020-21		TOTALS	
	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK
Police	0% - 6%	0% - 1.5%	0% - 6%	0% - 1.5%	0% - 6%	0% - 1.5%	0% - 6%	0% - 1.5%	0% - 24%	0% - 6%
Police Supervisory	0% - 6%	0% - 1.5%	0% - 6%	0% - 1.5%	0% - 6%	0% - 1.5%	0% - 6%	0% - 1.5%	0% - 24%	0% - 6%
Police Management	0% - 6%	0% - 1.5%	0% - 6%	0% - 1.5%	0% - 6%	0% - 1.5%	0% - 6%	0% - 1.5%	0% - 24%	0% - 6%
Fire	2% - 4%	0%	3% - 5% (+1.5%)	2.5%	3% - 5% (+1.5%)	2.5%	2% - 4%	2%	10% - 18% (+3%)	7%
Fire Management	2% - 4%	0%	3% - 5% (+1.25%)	2.5%	3% - 5% (+1.25%)	2.5%	2% - 4%	2%	10% - 18% (+2%)	7%
SEIU-General	2% - 4%	0%	3% - 6%	1%	3% - 5%	1%	n/a	n/a	8% - 15%	2%
SEIU-Refuse	2% - 4%	0%	3% - 6%	1%	3% - 5%	1%	n/a	n/a	8% - 15%	2%
IBEW	4%	2%	4%	2%	4%	2%	3.50%	2%	15.5% (+CCS)	8%
IBEW Supervisory	4%	2%	4%	2%	4%	2%	3.50%	2%	15.5% (+CCS)	8%
Unrepresented	2% - 4%	2%	3% - 5%	2%	3% - 5%	2%	2 - 4%	2%	10% - 18%	8%

- Pay rate increases are based on estimated Balanced Revenue Index Performance (BRI); minimum and maximum rate increases are shown in the table.
- The PERS Giveback impacts only Tier 1 employees, and represents the shift of City costs to the employee.



PERSONNEL COSTS - CALPERS INCREASES

Why are CalPERS costs increasing?

- Underfunded by 36% - Safety, 38% - Miscellaneous
- Investment losses by CalPERS during Great Recession
- Retroactive retirement benefits 2001-2006
- Long-Term investment returns below expectations (6.6% over the last 20 years)
- CalPERS discount rate adjustment from 8.25% (2002) to 7% (2020)
- CalPERS retirees' longer life expectancy

How are increases addressed?

- **Every Year** – Operational efficiencies to minimize impact
- **2011-12** – New employees pay full share of CalPERS
- **2013** – New employees receive lower pension benefits
- **2016** – Existing employees not currently paying for CalPERS retirement costs began doing so.
- **2017** – Refinanced \$30M BAN using Measure Z funds.



PERSONNEL COSTS - CALPERS RATES

Normal Cost						
Group	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Misc	12.136%	12.314%	12.900%	14.100%	14.100%	14.100%
Safety	19.867%	20.436%	21.400%	23.200%	23.200%	23.200%
UAL (in millions)						
Group	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Misc	\$15.68	\$19.42	\$23.78	\$26.92	\$31.12	\$34.78
Safety	\$12.35	\$15.61	\$19.34	\$22.12	\$25.68	\$28.84

Budget Assumptions

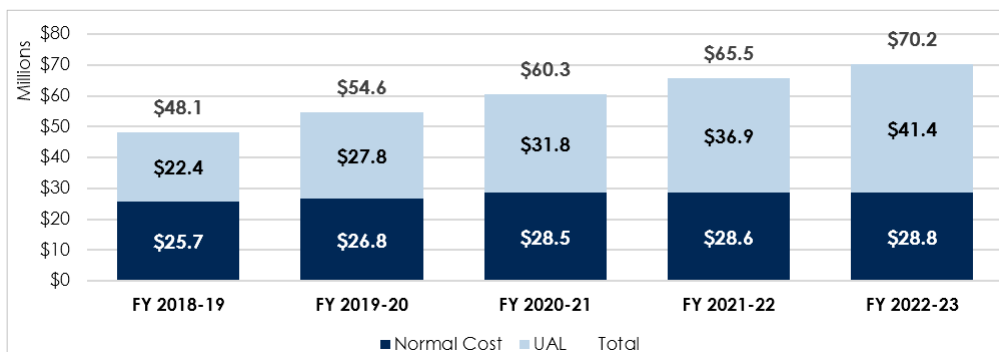
BARGAINING UNIT	FY 2017-18		FY 2018-19		FY 2019-20		FY 2020-21	
	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK	RAISE	PERS GIVEBACK
Police	6.00%	1.50%	6.00%	1.50%	0.91%	0.00%	0.99%	0.00%
Police Supervisory	6.00%	1.50%	6.00%	1.50%	0.91%	0.00%	0.99%	0.00%
Police Management	6.00%	1.50%	6.00%	1.50%	0.91%	0.00%	0.99%	0.00%
Fire	4.00%	0.00%	6.50%	2.50%	4.50%	2.50%	2.00%	2.00%
Fire Management	4.00%	0.00%	6.25%	2.50%	4.25%	2.50%	2.00%	2.00%
SEIU-General	4.00%	0.00%	6.00%	1.00%	3.00%	1.00%	0.00%	0.00%
SEIU-Refuse	4.00%	0.00%	6.00%	1.00%	3.00%	1.00%	0.00%	0.00%
IBEW	4.00%	2.00%	4.00%	2.00%	4.00%	2.00%	3.50%	2.00%
IBEW Supervisory	4.00%	2.00%	4.00%	2.00%	4.00%	2.00%	3.50%	2.00%
Unrepresented	4.00%	2.00%	5.00%	2.00%	3.00%	2.00%	2.00%	2.00%

There are no assumed pay rates or PERS Giveback assumed for FY 2021-22 or FY 2022-23.



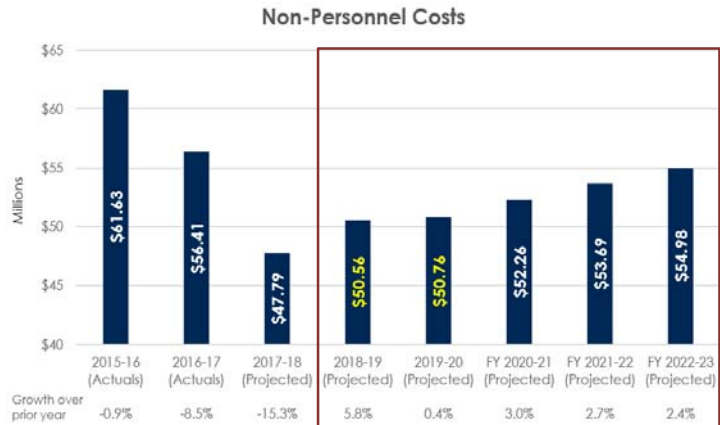
PERSONNEL COSTS - CALPERS INCREASES

General Fund CalPERS costs are expected to increase more than \$22 million or 46%.



NON-PERSONNEL COSTS - OVERVIEW

- Represent approximately 18% of the total General Fund Budget
- Lower than prior years
 - Cost savings efforts
 - No more “managed savings”
 - Increase from FY 2017-18 projection largely due to contributions to Self-Insurance Fund
- Assumptions:
 - Baseline budgets include increases based on CPI (2%) and historical trends



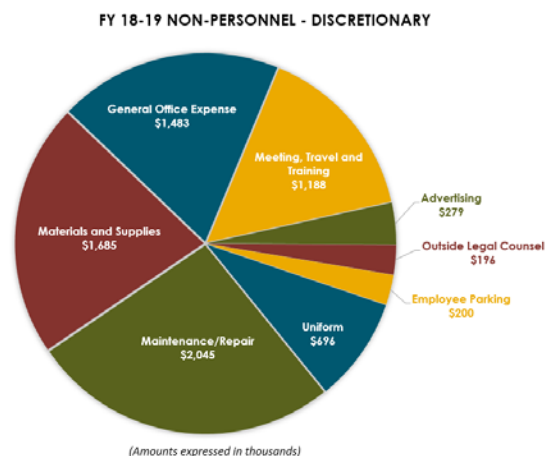
Non-Personnel costs have decreased significantly over the last few years due to cost-savings efforts and sound fiscal management. Heavy scrutiny of non-personnel costs will continue in the current budget cycle as we look for opportunities to reduce spending.



NON-PERSONNEL COSTS - DISCRETIONARY

- Not essential to core business functions
- May indirectly result in service impacts, particularly quality

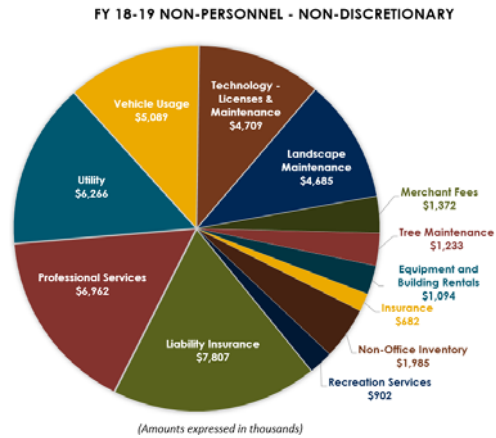
Some costs in the chart to the right are arguably non-discretionary, or may become non-discretionary in the future. For example, although maintenance may be deferred for a time, equipment failures may result in loss of services or ability to perform core business functions.



NON-PERSONNEL COSTS – NON-DISCRETIONARY

- Mandated by law, local policies, contractual agreements, or are critical to the operations of the City
- Includes debt obligations, property insurance, utilities, technology licensing and maintenance agreements, other contracted professional services, merchant fees, etc.
- Will most certainly result in service impacts

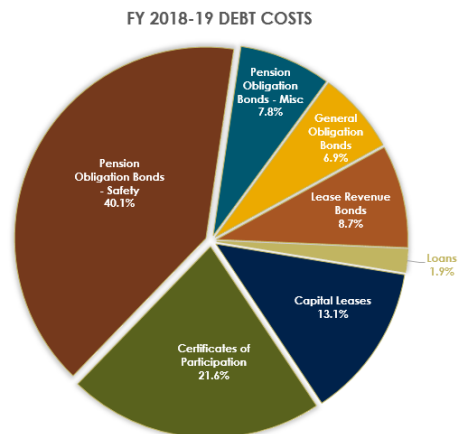
Some categories in the chart to the right may include discretionary costs. For example, although vehicle usage is necessary for some City services, this category currently includes vehicle usage for discretionary purposes, such as City employees attending conferences or training. During budget development, City departments will work to make such distinctions within the major expenditure categories.



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GENERAL FUND DEBT

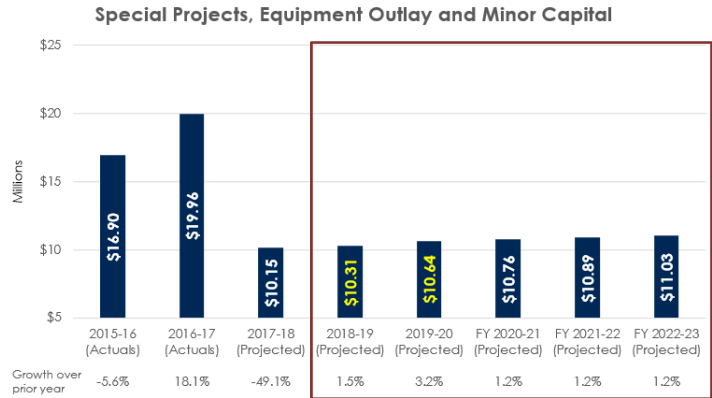
- General Fund debt accounts for 8% to 9% of total General Fund expenditures
 - FY 2018-19: \$24.4 million
 - FY 2019-20: \$23.2 million
- Refinancing of 2015 Pension Obligation Bonds will be paid by Measure Z
- The City continues to look for opportunities to refinance debt



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OTHER EXPENDITURES

- Special Projects
 - 3% / approximately \$8 million per year
 - Includes General Fund subsidies for outside organizations, special districts, and entertainment venues
- Minor Capital
 - <1% / approximately \$2 million per year
- Equipment
 - <1% / \$400,000 per year



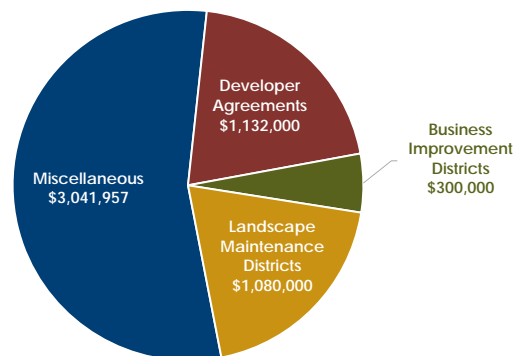
FYs 2015-16 and 2016-17 included expenditures for special districts and entertainment (Fox, municipal auditorium, convention center, etc.). In FY 2017-18, these items were moved to other funds to allow more transparency into the expenditures and General Fund subsidies of those items.



CONTRACTS AND SUBSIDIES

- Contractual Agreements
 - Crossing guards for school districts
 - RCC Pool Maintenance
- Economic Development
 - Developer Agreements
- Charter Requirement
 - Commission support
- Special Assessment Districts
 - Business Improvement, Landscape
- Community Support
 - Art Organizations
 - Janet Goekse Center
- Special Events
 - Festival of Lights

General Fund subsidies total more than \$5 million annually



BALANCING MEASURES

Department Guidelines

- Focus on Non-personnel
 - Allocate prior year savings (implement Managed Savings)
 - Discretionary vs. non-discretionary
 - Contract renegotiations
 - Lease/rent renegotiations
 - Subsidies
- Revenue enhancement
- Retain ability to meet Riverside 2.1 Goals
- Minimize service impacts

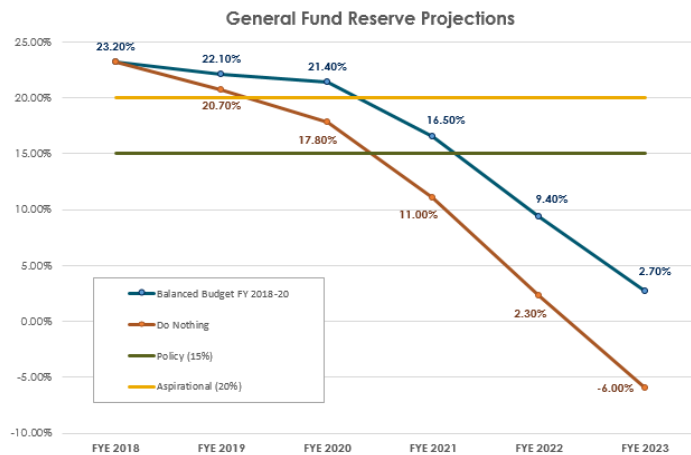
4% Reductions

- Reduction targets computed on baseline budgets comprised of Personnel, Non-personnel, Special Projects, Equipment and Maintenance, and Minor Capital
- **Review contracts, subsidies, and discretionary expenses first**
- Avoid service-level impacts where possible
- Identify service-level impacts, if any



GENERAL FUND RESERVE

- September 6, 2016 adoption of General Fund Reserve Policy
 - 15% minimum reserve level
 - 20% aspirational goal
- **Staff recommends balanced FY 2018-20 Two-Year Budget, designed to maintain the 20% reserve for both FY 2018-19 and FY 2019-20**
- If we do nothing
 - FY 2018-19 & 2019-20 will maintain reserve levels above the policy requirement of 15%
 - Reserves will be depleted in FY 2022-23



MEASURE Z BASELINE

- May 16, 2017 - City Council approval of Five-Year Spending Plan
 - Estimated Revenues of \$51.5 million
 - Estimated Expenditures of \$47.2 million
- Updated Plan incorporates Council Action taken since initial adoption
- Revenue projection remains unchanged
- Funding for existing spending items extended through FY 2022-23, pending input from the Budget Engagement Commission and Council direction throughout the budget preparation period.
 - Staffing levels remain unchanged
 - Personnel increases (Partnership Compensation Model, CalPERS) are included
- Projected reserves of \$14.3M FY 2018-19 and \$11.2M FY 2019-20



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MEASURE Z BASELINE

Measure Z Updated 5-Year Spending Plan - Baseline Budget

Spending Category	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	5-Year Projection
Financial Discipline/Responsibility	5,173,554	2,674,489	2,674,489	2,674,478	2,673,062	12,870,072
Public Safety	14,369,254	18,473,489	21,449,855	22,676,696	23,240,317	100,209,612
Critical Operating Needs	15,438,873	20,474,939	12,452,285	12,814,864	13,187,480	74,368,441
Facility Capital Needs	3,954,500	7,751,500	9,583,925	11,034,438	11,034,440	43,358,803
Quality of Life	4,284,500	4,304,975	4,326,474	4,349,047	4,372,750	21,637,746
Technology	2,000,000	2,000,000	2,000,000	1,000,000	1,000,000	8,000,000
Totals	45,220,681	55,679,392	52,487,028	54,549,523	55,508,049	263,444,673
Projected Revenue	52,072,570	52,593,296	53,119,229	53,650,421	54,186,925	265,622,441
Net Revenue/Expenditures	6,851,889	(3,086,096)	632,201	(899,102)	(1,321,124)	2,177,768
Projected Reserves¹	14,334,296	11,248,200	11,880,401	10,981,299	9,660,175	9,660,175

¹ Includes June 30, 2018 Projected Reserves of \$7,482,407

- Financial Discipline
 - No Measure Z support requested for General Fund reserves
 - Staff recommends including a \$1 million Contingency annually through FY 22-23
- Public Safety
 - Debt service updated to actual
- Critical Operating Needs
 - Funding GAP per General Fund Five-Year Financial Plan
- Facility Capital Needs
 - Incorporated Council action related to New Main Library, Police Headquarters, and Museum Refurbishment projects
- Quality of Life – no change
- Technology
 - Extended through FY 2022-23



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BUDGET TIMELINE

- **January:** Baseline budget projections presented to City Council and the Budget Engagement Commission
- **February:** Community Budget Workshops
- **March:** Five-Year Plans for Electric, Water & Sewer presented to City Council and the Budget Engagement Commission
- **May:** Proposed FY 2018-2020 Biennial Budget presented to City Council in May
- **June:** Final budget, submitted for City Council adoption

