



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JUNE 19, 2018

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: FISCAL YEAR 2017-18 THIRD QUARTER FINANCIAL REPORT, ANALYSIS OF MEASURE Z, CASH AND INVESTMENT REPORTS, AND DEBT REPORT

ISSUE:

Receive and provide input on the Fiscal Year 2017-18 Third Quarter Financial Report for the General Fund, analysis of Measure Z, cash and investment reports, and debt report for all funds.

RECOMMENDATION:

That the City Council receive and provide input on the attached Fiscal Year 2017-18 Third Quarter Financial Report for the General Fund, analysis of Measure Z, cash and investment reports, and debt report for all funds.

BACKGROUND:

On December 12, 2017, the City Council received the Fiscal Year (FY) 2017-18 First Quarter Financial Report for the General Fund and Measure Z; the FY 2017-18 Second Quarter Financial Report was presented on the City Council on March 27, 2018. The year-end projections for the First and Second Quarter were similar to the FY 2017-18 Mid-Cycle Amended Budget. The FY 2017-18 Third Quarter Financial Report, based on actual revenues and expenditures for July 1, 2017 through March 31, 2018, presents similar expectations with no adjustments in General Fund revenue and slight adjustments to expenditure projections based on the most current available data. The FY 2017-18 ending General Fund Reserve is currently projected to be approximately \$59.1 million or 23.2%. At the end of the fiscal year, the estimated \$5 million above the 20% reserve requirement will be recommended for seed funding to help address growing CalPERS expenses.

DISCUSSION:

General Fund Financial Analysis

This Third Quarter Financial Report for FY 2017-18 provides an update on the revenues and expenditures based on actuals from July 1, 2017 through March 31, 2018 (Attachment A). **The**

FY 2017-18 Third Quarter analysis projects the City to be in a surplus position by year-end of approximately \$2.4 million. The surplus of \$2.4 million is primarily attributable to cost sharing on the 2017A pension obligation bond (POB) with Measure Z and departmental expenditure savings.

General Fund Revenues

An analysis of revenues through the third quarter ending March 31, 2018 shows a continuation of first and second quarter trends. Compared to the Mid-Cycle budget, a decrease in estimated revenue from sales tax (\$1.56 million), franchise fees (\$600,000), and license/permits (\$400,000) are offset by higher than anticipated revenue from property tax (\$750,000), fines/forfeitures (\$630,000), and recovery of sewer fund related claim expenditures (\$900,000). In total, General Fund revenues are expected to be approximately \$100,000 less than budgeted (Attachment A-3).

General Fund Expenditures

Compared to the FY 2017-18 Second Quarter Financial projections, General Fund expenditures for the Third Quarter are \$201,000 higher (Attachment A-4). The City Manager's Office is projecting a shortfall of \$201,000 as a result of recent personnel changes in the City Manager's Office. Analysis of current expenditure trends in other City departments remain consistent with those projected in the Second Quarter. Compared to the Mid-Cycle budget, savings in the Office of the City Attorney (\$400,000), Community and Economic Development (\$250,000), General Services (\$275,000), and Public Works (\$500,000) are partially offset by expected deficits in Fire (-\$750,000) and the City Manager's Office (-\$201,000). Additional savings of \$2 million are projected for debt service payments originally budgeted for Pension Obligation Bond debt, now paid for by Measure Z. Total savings in the General Fund are projected to be \$2,474,000.

Measure Z

The collection of the additional one-cent sales tax authorized by voters through Measure Z began on April 1, 2017. The City began receiving these revenues in May-June 2017, with the anticipated collection of \$51.6 million in FY 2017-2018. After hearing recommended Measure Z spending options from City staff and the Budget Engagement Commission (BEC), on May 16, 2017, the City Council approved the Measure Z Spending Plan, which appropriated \$47.2 million in FY 2017-18 for 33 initiatives covering public safety, financial discipline/responsibility, critical operating needs, facility capital needs, quality of life, and technology.

As compared to the second quarter report, Measure Z revenue projections have been increased from \$51.5 million to \$54 million based on the performance of the first three quarters and analysis provided by HdL, the City's sales tax consultant. Expenditure trends for Measure Z are consistent with the second quarter projections. To date, staff projects savings of approximately \$2.4 million (Attachment A-5). Attachment B includes a detailed update on the implementation status of the Measure Z initiatives.

Quarterly Investment and Cash Report

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 March 31, 2018, the City's pooled investment portfolio's market value was \$608 million, with the market value of investments held by fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$212 million. The weighted average yield of

the pooled investment portfolio is 1.530%. 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 presented to City Council at the start of each fiscal year.

The Investment Report, including a listing of cash balances by fund, 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. Measure Z (\$3,214,516), which is fully offset by pending tax receipts.
2. Entertainment (\$1,281,214), which is fully offset by a General Fund subsidy.
3. Urban Areas Security Initiative (\$371,095), which is fully offset by outstanding grant receivables.
4. Housing Opportunities for Persons with AIDS (\$389,653), which is fully offset by outstanding grant receivables.
5. NPDES Storm Drain (\$314,276), which is fully offset by outstanding grant receivables.
6. Special Districts (\$990,570), which is partially offset by assessment fees remitted to the City and partially offset by a General Fund subsidy.
7. Certificates of Participation Projects (\$494,052), Capital Outlay (\$3.6 million), Transportation Projects (\$71,246) and Transportation Uniform Mitigation Fees (\$1.85 million) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.
8. Debt Service – General Fund (\$7,289,580) which is fully offset by bond reimbursement drawdowns that were in process at the end of the quarter.
9. Central Stores (\$595,796) which is fully offset by inventory assets that will be recouped when charged out for usage to various departments.

Quarterly Debt Report

The Finance Department is responsible for 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. As of the second quarter, the City's outstanding principal balance is projected to decrease by \$57,248,326 if no new debt is issued.

FY 2018-2020 Two-Year Budget and Five-Year Plans

Staff is committed to preserving services and finding additional efficiencies to ensure the City's continued financial success and achievement of its Riverside 2.1 strategic initiatives. While the City has made great financial strides in FY 2016-17 and through the second quarter of FY 2017-18, a changing economy and increasing CalPERS costs will pose challenges in future years.

Following extensive community outreach through more than 20 public meetings, the City's development of the FY 2018-20 Biennial Budget will conclude with City Council's adoption of the final budget, scheduled for June 12, 2018. The proposed FY 2018-20 Two-Year budget is balanced and maintains a strong financial foundation for the City of Riverside, with a projected General Fund reserve of more than 20% through FY 2019/20. Five-year financial plans included in the budget for the General Fund, Measure Z, and major enterprise funds, will serve as essential planning and decision-making tools for City leadership as strategies are developed to address future financial challenges. The FY 2018-2020 Biennial Budget, information on future fiscal challenges, and other budget-related documents are accessible to the public at the City's budget website (www.RiversideCA.gov/Budget).

FISCAL IMPACT:

The City of Riverside continues to make tremendous fiscal progress. The new financial foundation for the City has resulted in estimated FY 2017-18 financial results that leave the City with a General Fund Reserve of \$59.1 million (23.2%). Further, Measure Z revenue and expenditure projections are on target with the Five-Year Spending Plan adopted by the City Council in May 2017, with a projected savings of approximately \$560,000. The projections and initiatives funded through Measure Z are making an impact on the safety and quality of life for the Riverside community.

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Attachments:

- A. FY 2017-18 Third Quarter General Fund and Measure Z Financial Report
- B. FY 2017-18 Third Quarter Cash and Investment Report
- C. FY 2017-18 Third Quarter Debt Report
- D. Riverside 2.1 Strategic Plan – Measure Z Update
- E. Presentation