



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 18, 2019**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: FISCAL YEAR 2018/19 THIRD QUARTER FINANCIAL REPORT, MEASURE Z UPDATE, AND RELATED INTERFUND TRANSFERS AND SUPPLEMENTAL APPROPRIATIONS

ISSUE:

That the City Council receive and provide input on the attached Fiscal Year 2018/19 Third Quarter Financial Report and Measure Z update, and approve interfund transfers and supplemental appropriations.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on the attached Fiscal Year 2018/19 Third Quarter Financial Report and Measure Z Update; and
2. Approve interfund and interdepartmental transfers of \$4,746,759 as detailed in Attachment 2, and related supplemental appropriations in the same amount required to effectuate the interdepartmental transfers, and a net budget reduction of \$9,713 across city funds; and
3. Approve a \$2.5 million supplemental appropriation in Sewer Fund account 4125200-425900 to reimburse Community Service Districts (CSDs) for overpayments made during fiscal years 2016/17 and 2017/18.

BACKGROUND:

On June 12, 2018, the City Council adopted Resolution No. 23316 approving the Fiscal Year (FY) 2018-2020 Two-Year Budget.

On January 22, 2019, the City Council received the FY 2018/19 First Quarter Financial Report for the General Fund and Measure Z.

On March 26, 2019, the City Council received the FY 2018/19 Second Quarter Financial Report for the General Fund, Measure Z, and major Enterprise Funds (Electric, Water, Sewer, and Refuse).

DISCUSSION:

FINANCIAL REPORT

Throughout the fiscal year, City departments and the Budget Office monitor and analyze all City funds for potential issues that require attention and mitigating action. For the third quarter report, City departments analyzed financial status for all funds and appropriations under their purview and reported no areas of immediate concern.

Revenue & Expenditure Analysis

Revenue and expenditure activity may be impacted by timing or unique characteristics that cause reported activity to appear to be either lagging or exceeding budget at any given point in time. For example, revenue accruals may cause revenues to appear to lag throughout the fiscal year until closing entries and revenue accruals are posted at fiscal year-end. In expenditures, debt payments and other expenditures may not occur at a frequency that coincides with quarterly reporting, causing expenditures to appear to be either exceeding budget or coming in under budgeted appropriations. Therefore, revenue and expenditure analysis incorporates two perspectives:

1. Comparison of budget-to-actual to determine whether budgeted revenue forecasts are expected to be achieved or expenditure budgets are expected to be exceeded; and
2. Comparison of current year revenues and expenditures to the same period for the prior fiscal year to determine whether the observed deviations in budget-to-actual are typical of timing trends in the revenue and expenditure categories.

Significant deviations within those two views are addressed in this report.

Capital Projects

Capital projects are typically multi-year projects that are budgeted in advance, or “front-loaded”, to ensure that funds will be available through project completion. As a result, it is common that capital expenditures appear to lag significantly as compared to budget. Departments routinely review project status as a better measurement of performance related to capital projects. Within this quarterly financial report, recently completed and newly started capital projects are highlighted.

Update: Potential Fiscal Impacts Resulting from Federal or State Legislative/Judicial Actions

Legislative or judicial items are monitored for financial impacts; recent developments or pending items are described below.

- **Wayfair Ruling:** In June 2018, the United States Supreme Court ruled in *South Dakota v. Wayfair, Inc.* that a company’s physical presence in a state is not necessary to assess tax on the sale of goods. Following this ruling, the State of California stated that the California use tax will apply to retailers whose prior calendar year sales in California exceed \$200,000 or the number of separate transactions is 200 or more. Subsequently, AB147 was passed which makes the following essential changes to the Wayfair implementation:
 - Sales threshold increased to \$500,000; no transaction threshold.
 - Ensures that retailers will also collect local transaction and use taxes.

No revenue forecasts related to this tax are available at this time due to the unknown demographics of the out-of-state retailers.

- **State Funding for Homeless Issues:** Governor Newsom released a revised FY 2019/20 budget proposal for the State of California in May 2019, which included \$1 billion in spending on homeless issues. The revised budget proposes a one-time infusion of \$650 million in grants to support local governments and regional homelessness agencies. \$275 million of the \$650 million in grants would go directly to the thirteen largest cities in California, which includes the City of Riverside. Also in May 2019, Governor Newsom announced the formation of a Homeless and Supportive Housing Advisory Task Force to “guide the creation of joint regional plans to address homelessness, including highlighting best practices and model programs at the local level.”

General Fund

The General Fund’s FY 2018-2020 adopted budget is balanced over two years, with a projected \$1.2 million savings in FY 2018/19 intended to offset a projected shortfall of \$1.2 million in FY 2019/20. The General Fund Five-Year Financial Plan included in the published budget document projected deficits of \$15 to \$18 million in each of the following three years, largely attributable to rising pension costs.

As of June 30, 2018, the General Fund carries a 19% reserve balance.

On December 11, 2018, the City Council approved the General Fund carryforward of \$2.0 million unexpended FY 2017/18 appropriations to FY 2018/19 to fund the Citywide Geographical Information System (GIS) project, and a set-aside of \$4.5 million for the long-term management of CalPERS costs.

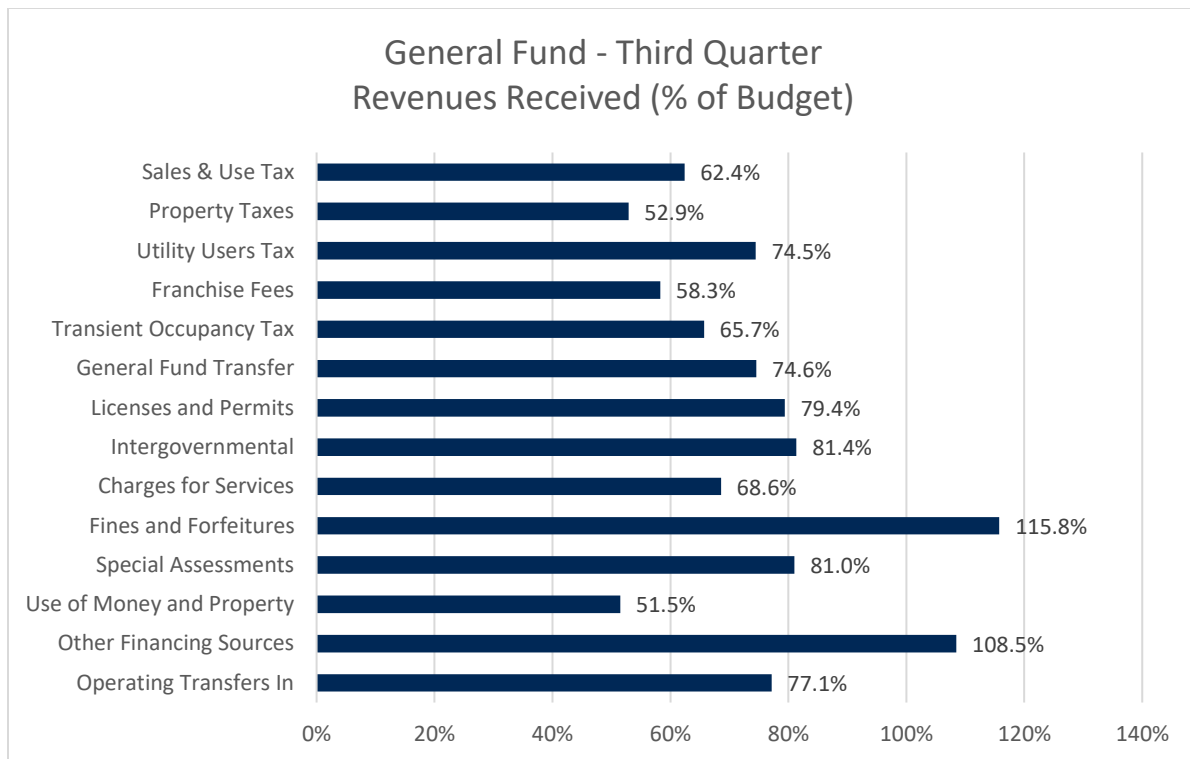
On May 21, 2019, the City Council approved the establishment of a Section 115 Pension Trust Fund for the long-term fiscal management of pension costs. The trust will be established with the \$4.5 million of savings set aside from the prior fiscal year.

The FY 2018/19 Third Quarter analysis projects total General Fund revenues to come in as estimated and expenditures to remain within their approved appropriation limits. Proposed adjustments to revenue and expenditure forecasts are identified in the following analysis and result in no net impact to the General Fund.

Revenue Analysis

The Third Quarter analysis reveals that General Fund revenues in total are expected to meet projections. Revenue adjustments are recommended for revenues categories that are likely to deviate from revenue forecasts by fiscal year-end based on performance to date; total revenue adjustments for the General Fund net to zero.

The chart below shows General Fund revenues received as a percentage of the budget for each major revenue category. At third quarter end, General Fund operating revenues are 65.4% of total budgeted revenues. Actual revenues at third quarter end are approximately \$500,000 higher than the same period last fiscal year.



For each revenue category, budget-to-actual results that are lower than normally experienced at third quarter end, projected not to meet revenue forecasts, or are recommended to be adjusted are described below.

- Sales Tax:** Sales Tax is performing strongly, but the exact impact of the reporting changes at the State level on current year performance is unknown. Retroactive sales tax payments were received in the third quarter, following a second quarter estimate which projected a shortfall of \$850,000 as compared to budget. As of the third quarter, actual sales tax receipts are 10% higher than prior year for the same period, although the current economy does not support this degree of growth. Autos & transportation and building construction vendors performed better than anticipated, while general consumer goods showed weak holiday returns. Incorporating third quarter returns, HdL, the City's sales tax consultant, now projects potential \$3 million over budget. However, given the volatility of current year performance, City staff recommends a conservative adjustment in the revenue forecast of \$1.5 million.
- Intergovernmental:** Revenues in this category are often a product of unpredictable but reimbursable events, such as Mutual Aid provided by the Fire Department to other agencies. As of the third quarter, the Fire Department has incurred reimbursable Mutual Aid costs of \$1.9 million. Staff recommends increasing Mutual Aid revenue by \$1.1 million to align estimated revenues with reimbursable expenditures already incurred.

Crossing Guard Services with Alvord and Riverside School Districts was estimated to bring in \$200,000 in FY 2018/19; however, representatives from the City and school districts are still in discussions and an agreement has not been met. If an agreement is reached before year-end, revenue will only be received for the remaining months of the fiscal year. Therefore, a reduction of \$150,000 is recommended for this item, for a net revenue increase of \$950,000 in the revenue category as a whole.

- Charges for Services:** Charges for Services continue to trend lower than forecasted and

as compared to the prior year; staff recommends a reduction in the forecast of \$350,000. The largest underperforming revenues include Fire Prevention, due to the reclassification of restricted revenues to the new fund *Grants and Restricted Funds*, and Fire Inspection Fees, due to a system upgrade and delayed billing.

- **Use of Money and Property:** Use of Money and Property was forecasted based on historical trends; however, this revenue category includes many one-time revenues that are not certain to repeat each fiscal year, including the receipt and transfer of revenue deposits, donations, grants, and Asset Forfeiture funds into the General Fund. Based on current year activity and revised projections, this revenue forecast will be reduced by \$1 million.

A summary of third quarter adjustments to revenue forecasts is as follows:

Summary of Third Quarter Revenue Adjustments				
Revenue Category	Amended Budget ¹	Recommended Adjustments	Revised Budget	% Revised
Sales Taxes	\$ 65,504,489	\$ 1,500,000	\$ 67,004,489	2.3%
Intergovernmental	1,856,184	950,000	2,806,184	51.2%
Charges for Services	17,395,143	(350,000)	17,045,143	(2.0%)
Use of Money and Property	5,195,734	(1,000,000)	4,195,734	(19.2%)
Total	\$ 89,951,550	\$ 1,100,000²	\$ 91,051,550	1.2%

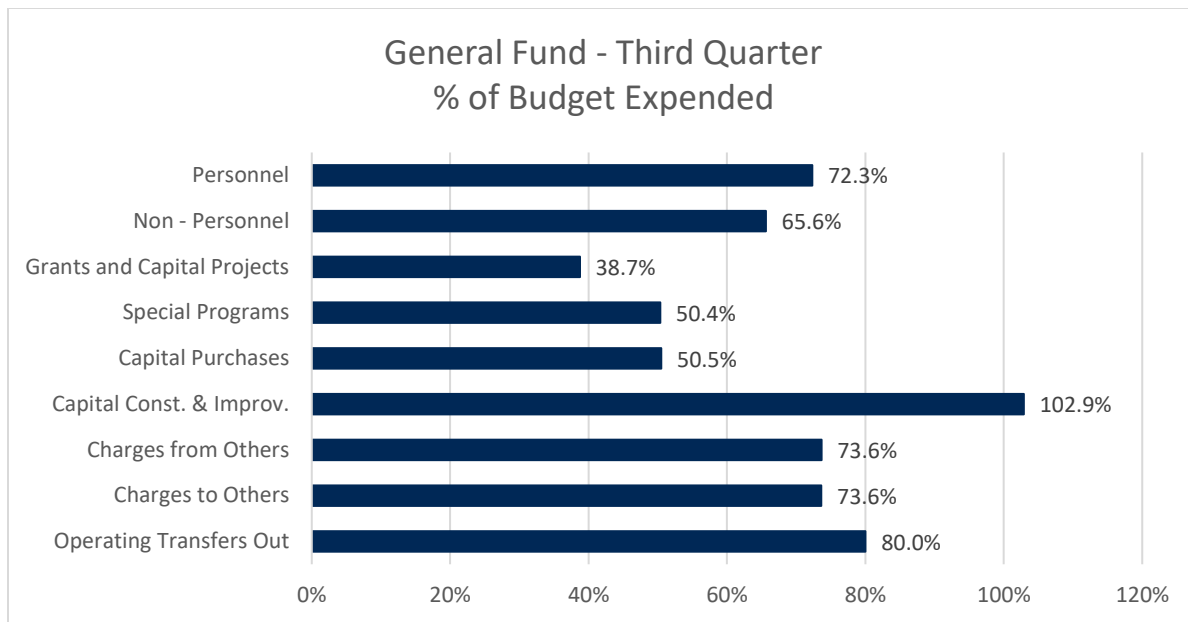
¹ Includes the adopted budget and budget adjustments to date.

² Fully offset by supplemental appropriations in reimbursable expenditures.

Expenditure Analysis

Each quarter, departments perform an internal analysis of budget-to-actuals and report areas of concern and mitigating actions to the Budget Office. The Budget Office also performs an independent analysis that focuses on anomalies or deviations from historical trends. Currently, no areas of concern have been reported or identified that require intervention.

At the end of the third quarter, spending in the General Fund is less than 75% of the total budget. The following chart presents total expenditures to date as a percentage of Total Budget, excluding capital projects and grants. "Total Budget" includes the adopted budget, open FY 2017/18 purchase orders carried forward to FY 2018/19, the approved carry-over of unexpended FY 2018/19 funds, budget transfers, and Council-approved supplemental appropriations. All supplemental appropriations approved to date are listed in Attachment 2.



For each expenditure category, budget-to-actual results that are higher than normally experienced at third quarter end, projected to exceed appropriations, or are recommended to be adjusted are described below.

- Personnel:** As a part of the Statewide Mutual Aid System, the Fire Department incurs reimbursable costs for the deployment of firefighters to emergency incidents. While a nominal budget is included in the adopted budget to provide for related costs, actual costs are unpredictable. For FY 2018/19, the department exceeded its initial Mutual Aid budget by \$1.1 million due to high fire activity statewide. Staff recommends a supplemental appropriation of \$1.1 million in the Mutual Aid budget, fully offset by an increase to estimated revenues and resulting in a zero net impact to the General Fund.
- Capital Construction and Improvements:** There are no concerns in this category. The expenditures of this category are interchangeable with the Grants and Capital Projects and the Capital Purchases categories. Individual line item budgets within these three categories may end over or under budget, depending on the nature of items purchased and their required accounting methodology. Across all three categories, 46% of budgeted expenditures have been spent as of the end of the third quarter.
- Operating Transfers Out:** In the third quarter, the operating transfer from the General Fund (Fund 101) to the General Capital Fund (Fund 401) for the Citywide Geographical Information System (GIS) project was recorded in full, causing this category to be 80% spent at third quarter end. There are no concerns with this expenditure category.

Summary of Third Quarter Expenditure Adjustments				
Expenditure Category	Amended Budget ¹	Recommended Adjustment	Revised Budget	% Revised
Personnel	\$ 217,743,582	\$ 1,100,000	\$ 218,843,582	0.5%
Total	\$ 217,743,582	\$ 1,100,000²	\$ 218,843,582	0.5%

¹ Includes the adopted budget and budget adjustments to date.

² Fully offset by revenue reimbursement.

Measure Z

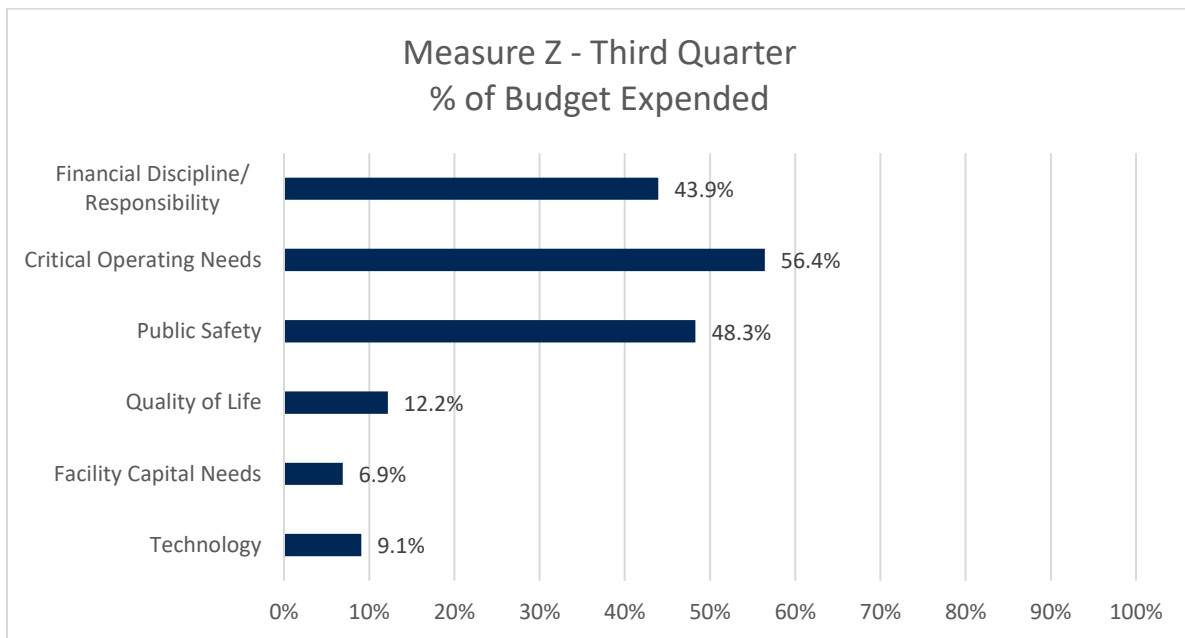
The FY 2018-2023 Measure Z Spending Plan was approved by the City Council on June 12, 2018, with the adoption of the FY 2018-2020 Two-Year Budget. The spending plan continued the tenets and spending items of the original spending plan adopted in May 2017 and added funding for Fire personnel and equipment; furnishing, fixtures and equipment for the Arlington Youth Innovation Center (AYIC); and funding for the City's recreational swimming pools. The Spending Plan was updated in November 2018 to reflect actual FY 2017/18 tax revenues recorded and resulted in an increase in future revenue forecasts, including a revised revenue projection of \$56.6 million for FY 2018/19.

Since November 2018, Measure Z revenues have continued to outperform initial projections. Staff recommends increasing the FY 2018/19 revenue projection to \$58 million based on continued performance and updated projections from HdL, the City's sales tax consultant.

Summary of Third Quarter Revenue Adjustments				
Revenue Category	Amended Budget ¹	Recommended Adjustment	Revised Budget	% Revised
Sales Taxes	\$ 56,560,000	\$ 1,440,000	\$ 58,000,000	2.5%
Total	\$ 56,560,000	\$ 1,440,000	\$ 58,000,000	2.5%

¹ Represents the November 2018 updated revenue projection.

Measure Z spending is inconsistent due to the nature of the items funded. Accomplishments reported in the Quarterly Performance Report published by the City Manager's Office provide an informative picture of the use of Measure Z funds and progress of the spending items (Attachment 1-C). A chart of actual spending by major spending category as compared to total budget is presented below.



Measure Z is funding some spending items through debt; payment of debt obligations are provided for in the Measure Z Spending Plan, while the use of debt proceeds is tracked separately. The chart above does not include the use of debt proceeds.

On May 21, 2019, the City Council authorized the issuance of Series 2019B Tax Exempt Lease Revenue Bonds in an aggregate principal amount not to exceed \$43,000,000 to finance construction of the new Main Library Project. Debt payments are expected to begin in FY 2019/20; upon issuance of the debt and receipt of the debt payment schedule, the Measure Z Spending Plan will be updated to reflect the actual annual debt obligations. Currently, the Measure Z Spending Plan includes approximately \$3.8 million in annual debt payments; actual debt payments are expected to be approximately \$3.1 million.

Capital Projects

Projects funded by Measure Z completed in the third quarter include:

- **City Buildings Deferred Maintenance (Spending Item #28):** The projects listed below were completed as part of the larger *City Buildings Deferred Maintenance* project listed in the 2018-23 Capital Improvement Program.
 - Urban Search and Rescue Warehouse – Lights upgraded throughout.
 - Fire Stations 6, 13, 14 – Exterior lighting upgraded.
 - Fire Station 8 – Replaced windows; replaced heating, ventilation, and air conditioning (HVAC) system.
 - Fire Station 10 – Replaced windows; painted exterior; installed new carpet.
 - Lincoln Police Station – Replaced carpet in front office; painted roll call room/hallways; installed new countertops in roll call room; painted outside trim/gates.
 - Police Department Aviation – Replaced two HVAC systems.
 - City Hall – Upgraded security controls; added video access to the parking structure.

Projects funded by Measure Z started in the third quarter:

- **Downtown Main Library (Spending Item #23):** On February 5, 2019, the City Council approved a bid award for approximately \$38 million to construct the new Main Library. Construction began in March 2019, with completion scheduled for summer 2020. Mobilization, permitting process, demolition and grading activities started the week of March 14, 2019. Utilities installation, concrete foundation and structural steel will follow in the next six months.

Subsequent Council Actions

As of the submission date of this report, the City Council has taken the following actions related to Measure Z:

- On April 2, 2019, the City Council approved a Measure Z Reserve policy to retain a minimum of \$5 million in fund reserves. The reserve has been added to the updated Measure Z Spending Plan (Attachment 1A).
- On April 2, 2019, a one-time allocation of approximately \$3.5 million in FY 2018/19 for the Public Safety and Engagement Team Program. (Spending Item # 39)
- On April 23, 2019, a one-time allocation of \$99,220 for phase 1 design services for the Museum renovation. (Spending Item # 26)
- On April 23, an annual allocation of \$1.5 million for street projects for FY 2017/18 through 2022/23. (Spending Item # 29)
- On May 14, 2019, a one-time allocation of \$3.5 million for street projects for FY 2018/19. (Spending Item # 29)

Updated Measure Z Spending Plan

An updated Measure Z Spending Plan, inclusive of the revised revenue forecast and Council actions listed above is provided in Attachment 1A. A table of FY 2018/19 Measure Z spending to date is included in Attachment 1B. Completed accomplishments and progress on spending items are included in the Third Quarter Performance Report (Attachment 1C).

The following summary of the Measure Z Spending Plan includes:

- FY 2016/17 and FY 2017/18: Actual revenues; allocations of those revenues (inclusive of actual spending, open FY 2017/18 purchase orders carried forward to FY 2018/19, and the approved carry-over of unexpended FY 2017/18 funds); and fund balance at the respective fiscal year end.
- FY 2018/19: Projected revenues; allocations of those revenues by Council action, as of May 24, 2019; and projected fund balance at June 30, 2019. It is critical to note that the projected fund balance is entirely dependent upon revenues coming in as projected, at \$58 million.

Category	FY 2016/17 Allocations	FY 2017/18 Allocations	FY 2018/19 Allocations
Revenue	\$12,606,428	\$56,222,806	\$58,000,000
Spending Allocations	9,973,447	46,624,826	57,653,903
Net Change in Fund Balance	2,632,981	9,597,980	346,097
Fund Balance Reserve	-	-	5,000,000
Fund Balance	\$2,632,981	\$12,230,961	\$7,577,058

Sewer Fund

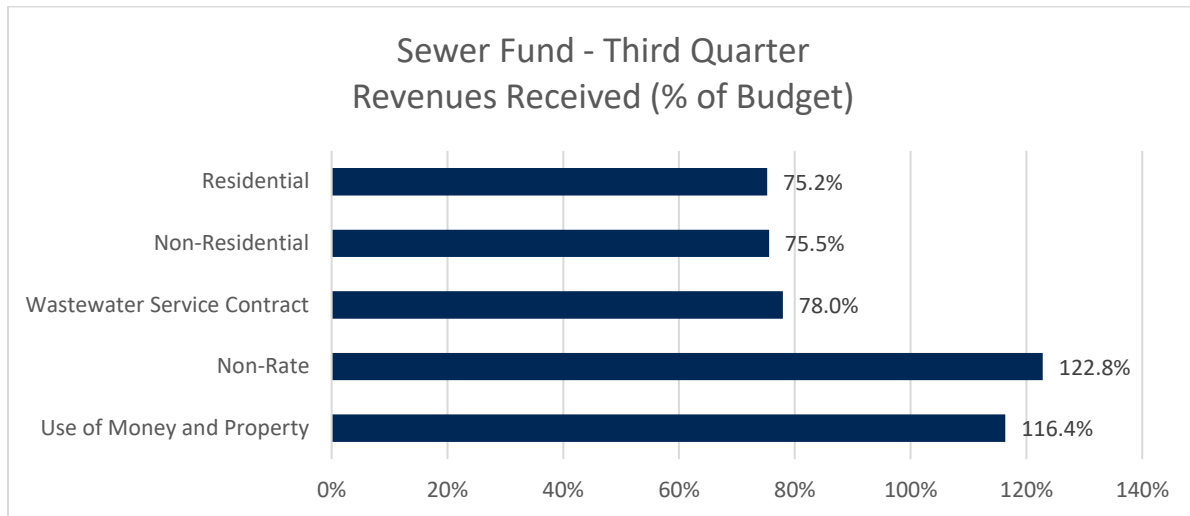
The overall financial position of the Sewer Enterprise fund is good and is operating in accordance with the 2016 Sewer Fund Reserve Policy objectives. Revenue and expenditures are tracking in line with the Sewer Fund financial model and 5-year plan projections. Although the revenue outlook is positive, it should be noted the Wastewater Division is requesting a \$2.5 million supplemental appropriation from the Sewer Enterprise Fund Balance in order to process a refund owed to the Jurupa, Rubidoux, Edgemont Community Services Districts (CSDs).

Recent refinancing of the 2009A Sewer Revenue Bonds and aggressive management of expenditures have bolstered the Sewer Fund's stable financial position in the current fiscal year. In addition, the Public Works Wastewater Division is in the process of completing the Wastewater Treatment and Collection Master Plan Update project, which includes a comprehensive financial and cost of service analysis and evaluation of various rate structure alternatives for consideration. The outcome of this study will inform future rate discussions.

Revenue Analysis

The Third Quarter revenue analysis reveals that overall revenues are slightly above the projected budget and tracking at 77.96%. Projected revenues overall are trending 2.4% above revenue forecasts. This includes a 0.5% increase in wastewater rate revenue and a 1.9% increase in non-rate categories, such as connection fees and/or fines for violations. We are projecting total

revenues will exceed expenditures by the end of FY 2018/19 by approximately \$1.4 million.

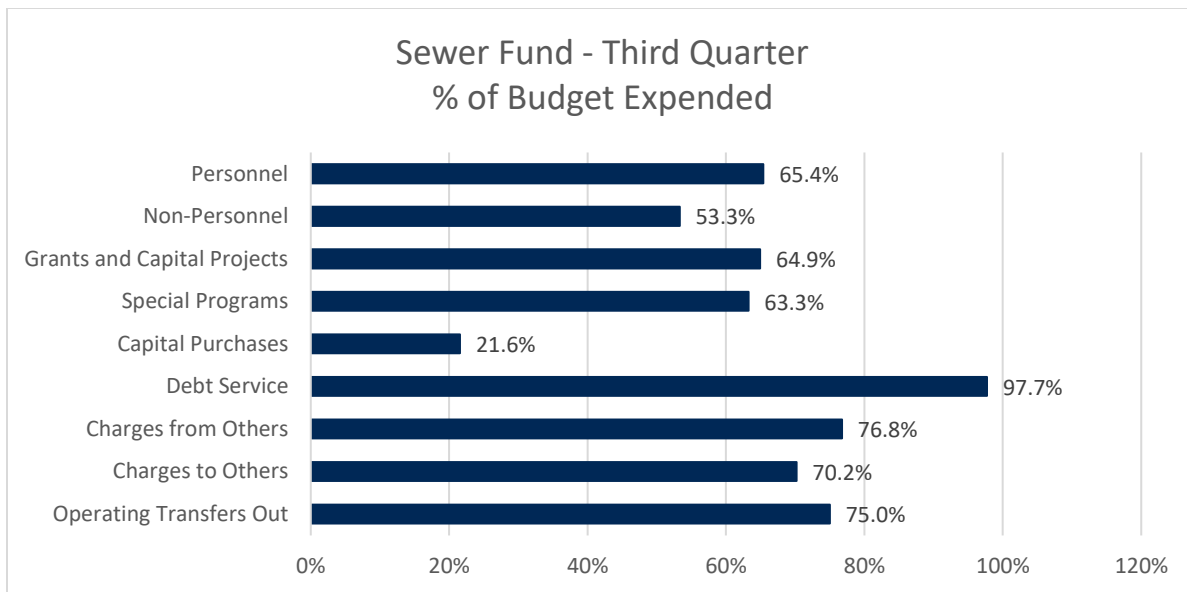


For each revenue category, budget-to-actual results that are lower than normally experienced at third quarter end, projected not to meet revenue forecasts, or are recommended to be adjusted are described below.

- **Wastewater Service Contracts:** Although the wastewater contracts appear to exceed projections, they will be reconciled and any potential reimbursements will be accrued at the end of FY 2018/19.
- **Use of Money and Property:** Interest returns are expected to exceed projections by 16% for FY 2018/19 due to a rebalancing of the investment portfolio. Cash with fiscal agent was redirected to investment vehicles that produce a higher rate of return.

Expenditure Analysis

Overall expenditures are tracking at 84.05% of total budget but that is mostly due to Debt Service payments that were paid early in the fiscal year. Based on current projections, 94% of expenditures are expected to be spent by the end of FY 2018/19.



For each expenditure category, budget-to-actual results that are higher than normally experienced at third quarter end, projected to exceed appropriations, or are recommended to be adjusted are described below.

- **Debt Service:** Currently at 97.7% of budget due mainly to large payments made in the 1st quarter of the fiscal year. Expected to be on target by the end of the fiscal year.
- **Charges to Others:** On February 19, 2019, the City Council approved a Memorandum of Understanding (MOU) between the Sewer Fund and Water Fund. The Water Fund will make five annual payments of \$750,000 to the Sewer Fund for recycled water system improvements at the Riverside Regional Water Quality Control Plant, which will benefit the Water Fund. Expenditures are currently at 70.2% of budget since the current fiscal year's \$750,000 charge to RPU under the Recycled Water MOU has not been realized.

Supplemental Appropriation Request: \$2.5 million

The Wastewater Division is requesting a \$2.5 million supplemental appropriation from the Sewer Enterprise Fund Balance in order to process a refund owed to the Jurupa, Rubidoux, Edgemont Community Services Districts (CSDs). Wastewater from the City of Riverside and the communities of Jurupa, Rubidoux, Edgemont, and Highgrove is treated at the Regional Water Quality Control Plant (RWQCP). There are existing Wastewater Service Agreements and billing methods in place between the City of Riverside and the CSDs. Specifically, the CSDs are billed based on estimated operation and maintenance expenses to treat wastewater. At the end of each fiscal year, the estimated and actual charges are reconciled and as a result, refunds for overpayments or debits for shortfalls are issued to each of the CSDs.

The requested \$2.5 million supplemental appropriation is needed to reimburse the CSDs, as specified in our Wastewater Service Agreements, for overpayments made during fiscal years 2016/17 and 2017/18. Ongoing litigation with the Rubidoux Community Services District has complicated the CSD reconciliation process and has held up reimbursement. Recently on April 3, 2019, the CSD Regional Advisory Committee (RAC) approved a temporary billing method to move forward with the reimbursements for FY 2016/17 and 2017/18. Consequently, Sewer Fund revenue was overstated by \$2.5 million spanning the previous two fiscal years due to the reimbursements that were being held until the RAC was given the opportunity to vote on the reimbursement amounts.

Capital Projects

Projects completed in the third quarter:

- **Water Quality Control Plant (WQCP) - Exterior Painting:** The WQCP completed a major modernization project which included the construction of several new buildings and the installation of new equipment. Many existing buildings and structures that were not included in the Phase I Plant Expansion Project, were in need of a fresh protective exterior coat of paint. The Exterior Painting Project was completed on time and within budget.
- **WQCP-Design/Build Services for the Rehabilitation/Replacement of Blower No.2:** Blower No. 2 supplied up to 12,000 cubic feet per second of air to the WQCP's aeration basins and replaced the 700 horsepower turbocharged blower with a new high efficiency 600 horsepower turbocharged blower. Installation of the blower is part of the mandated National Pollutant Discharge Elimination System (NPDES) Permit.
- **WQCP-Administration Building HVAC System Phase I:** The 150-ton Absorption/Condenser and Water Cooled Chiller Unit was at the end of its 20-year useful life and needed to be replaced as parts were no longer being manufactured. A new 250-ton air-cooled unit was installed by a Design/Build procurement process. The unit supplies cold condition air for the Administration Building offices and a state certified testing laboratory.

Projects started in the third quarter:

- **WQCP-HVAC System for the 12kV Electrical Switchgear Building:** This project will install a 5-ton air conditioning unit for the main 12kV switchgear building for the plant. Temperatures in the summer can reach up to 130 degrees inside the building, which deteriorates the high voltage components and can lead to a potential power outage. This project will be completed by Fall 2019.
- **WQCP-Activated Sludge Treatment Rehabilitation 19 12-inch Plug Valves:** This project will replace nineteen 12-inch plug valves that are more than 20 years old. This project will be completed by Fall 2019.
- **Fairmount Park Sewer Rehabilitation:** This project consists of the installation of a CIPP liner in an existing 18-inch VCP sewer main and rehabilitation of manholes on the same pipeline.
- **Miscellaneous:** Replacement of existing sewer mains on Bergamont Drive, Via Vista Drive, California Avenue, and Canterbury Road are currently under construction and will be completed by Fall 2019. Installation of sewer laterals are under construction at 6160 and 6162 Bluffwood Drive and rehabilitation an existing 8-inch sewer main.

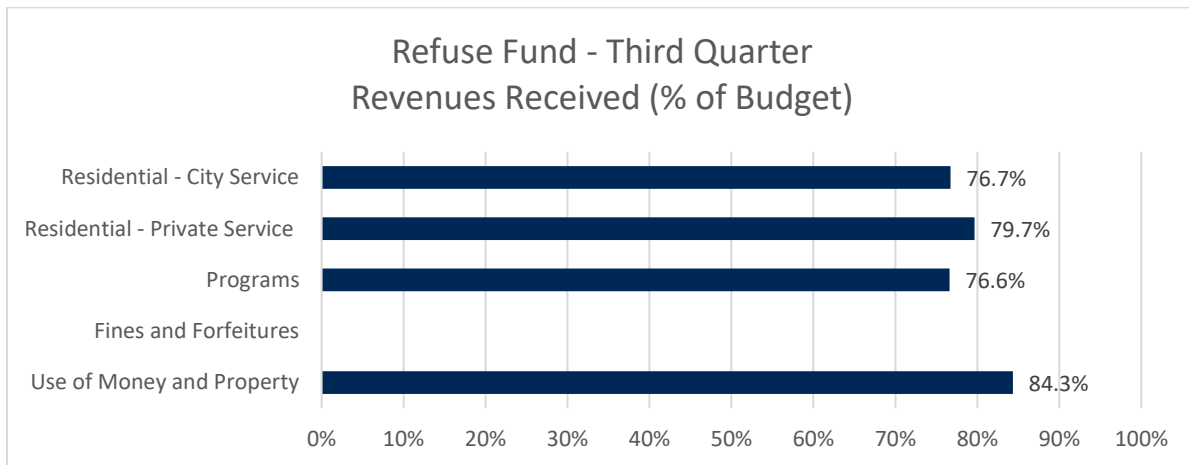
Refuse Fund

On December 18, 2018, the City Council approved a mid-year rate adjustment effective January 1, 2019, and an amendment to the existing waste processing agreement. Service revenue forecasts have been updated based on third quarter performance, and sufficient expenditure savings exist to cover the increase waste processing costs. The increase in revenue will offset the loss of revenue from Street Sweeping Fines as described below. As a result of these

adjustments, there is a slight improvement in projected FY 2018/19 performance in the Refuse Fund: the adopted budget projected a \$2.2 million draw on cash reserves for FY 2018/19; the revised projections produce a \$1.7 million draw on cash reserves. In addition, Public Works has retained a consultant to perform a comprehensive review of refuse operations to optimize services and cash flow.

Revenue Analysis

The chart below shows Refuse Fund revenues received as a percentage of the budget for each major revenue category. At third quarter end, 72% of total budgeted revenues have been received as of the end of the third quarter. Actual revenues at third quarter end are approximately \$839,000 lower than the same period last fiscal year.



For each revenue category, budget-to-actual results that are lower than normally experienced at third quarter end, projected not to meet revenue forecasts, or are recommended to be adjusted are described below.

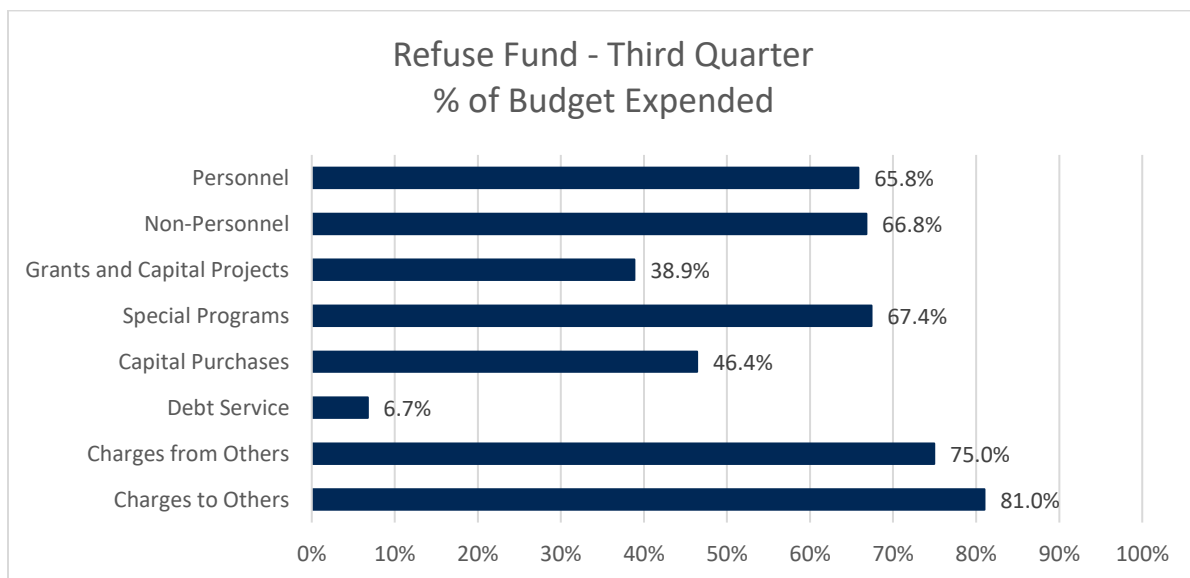
- **Residential – City Service:** As a result of the rate increase effective January 1, 2019, and recent revenue performance, the revenue forecast for this category will be increased by \$498,000.
- **Residential – City Service:** As a result of the rate increase effective January 1, 2019, and recent revenue performance, the revenue forecast for this category will be increased by \$315,000.
- **Programs (Administrative Fees):** As a result of the rate increase effective January 1, 2019, and recent revenue performance, the revenue forecast for this category will be increased by \$699,000.
- **Fines & Forfeitures:** The revenue forecast of \$1.2 million, consistent with historical activity, will not be achieved as a result of an unplanned Street Sweeping Sign replacement project which began in August 2018 and is ongoing. The revised forecast projects \$285,000 total revenue from Street Sweeping fines in FY 2018/19. Therefore, the revenue budget for this category will be reduced by \$1,014,000 for FY 2018/19. As the signs are replaced within the service routes, parking enforcement citations will resume. Revenue increases in other categories will offset this revenue loss.

Summary of Third Quarter Revenue Adjustments				
Revenue Category	Amended Budget ¹	Recommended Adjustments	Revised Budget	% Revised
Residential – City Service	\$ 11,787,873	\$ 498,000	\$ 12,285,873	4.2%
Residential – Private Service	4,276,036	315,000	4,591,036	7.4%
Programs	5,385,406	699,000	6,084,406	13.0%
Fines and Forfeitures	1,207,200	(1,014,000)	193,200	-84.0%
Use of Money and Property	397,120	-	397,120	0.0%
Total	\$ 23,053,635	\$ 498,000	\$ 23,551,635	2.2%

¹ Includes the adopted budget and budget adjustments to date.

Expenditure Analysis

The chart below shows Refuse Fund expenditures as a percentage of the budget for each major expenditure category. At third quarter end, actual expenditures are 64.5% of total budgeted expenditures. Overall, projected expenditures are tracking at 97.3% of total budget and demonstrate the Refuse Fund is on track to meet budgeted expenditure targets.



For each expenditure category, budget-to-actual results that are higher than normally experienced at third quarter end, projected to exceed appropriations, or are recommended to be adjusted are described below.

- **Charges to Others:** Third quarter actuals are currently at 81.0% of budget. The overage is mainly due to Refuse staff assisting with Street Sweeping staff in operating the Roll-off truck to place and remove street sweeping bins throughout the City.

Riverside Public Utilities (RPU)

For the Electric and Water Funds, capital projects are budgeted on a program basis with many active projects in progress at the same time, ranging from less than \$50,000 in size to multi-million dollars in major projects that require Board of Public Utilities (Board) approval. Major capital projects require several months, and in certain cases cross fiscal years or span multiple fiscal years to complete. The total budget will not be fully spent for any given year due to the timing of

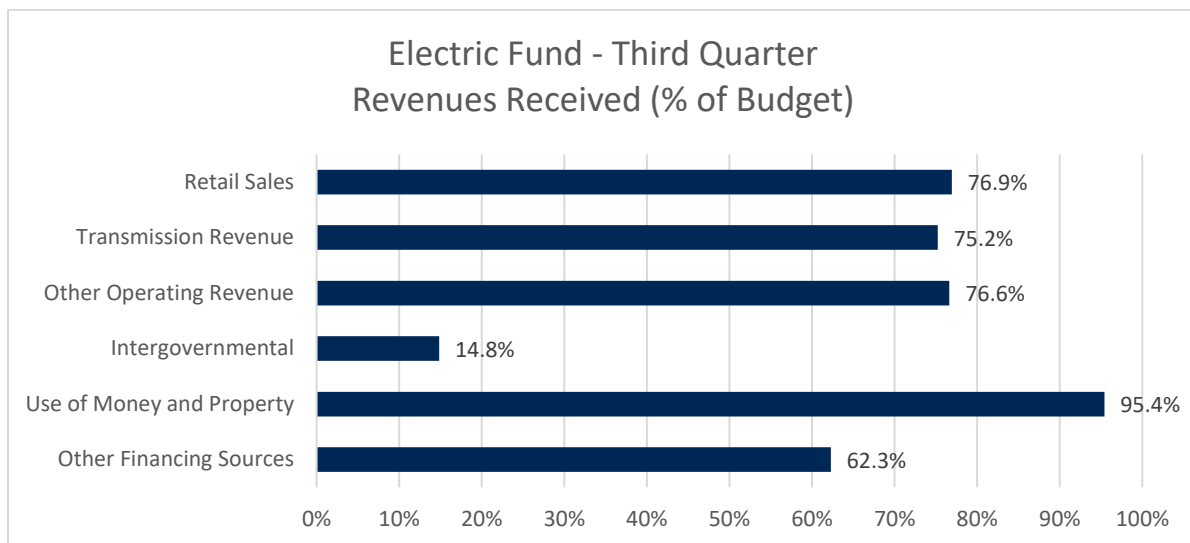
projects and extenuating circumstances that may cause a project to be delayed.

Electric Fund

The third quarter analysis of the Electric Fund shows actual revenues and expenses are trending on target as amended. A supplemental appropriation for power supply budget was presented to the Board on April 22, 2019 and approved by City Council on May 7, 2019 due to unanticipated increase in power supply costs. Capital projects are progressing consistently with the Capital Improvement Program (CIP).

Revenue Analysis

Overall, Electric revenues are trending at 77% of total budget at March 31, 2019 due to higher retail sales in the first quarter of the fiscal year for the summer season. Weather can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2018/19.



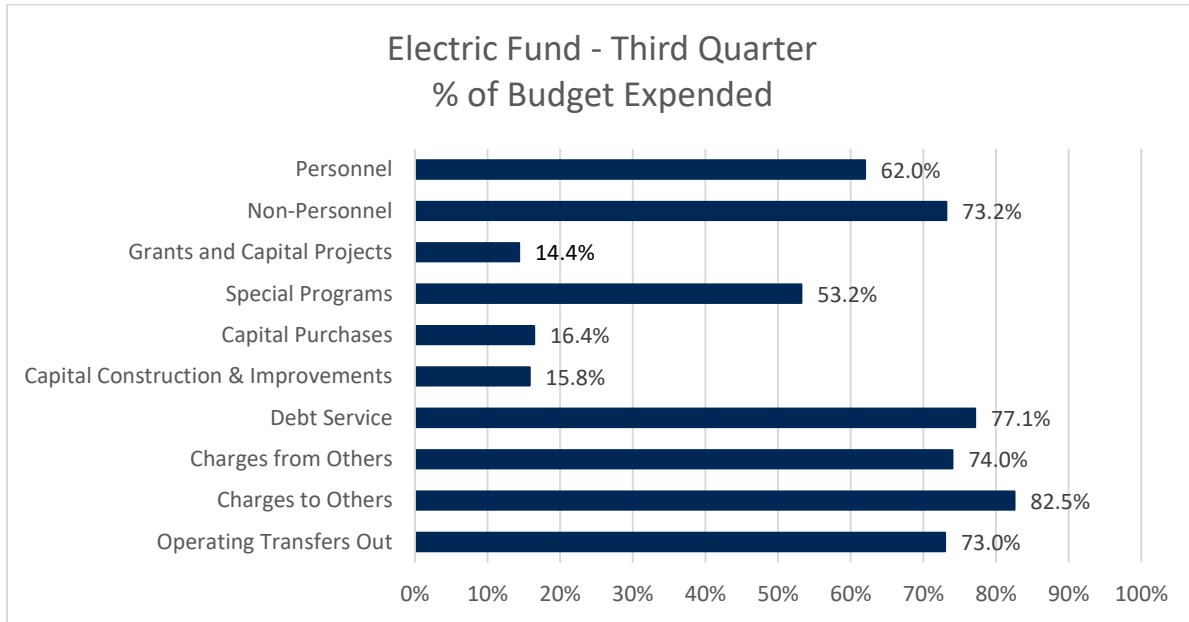
For each revenue category, budget-to-actual results that are lower than normally experienced at third quarter end, projected not to meet revenue forecasts, or are recommended to be adjusted are described below.

- **Intergovernmental:** Grant funded projects have been delayed due to the current transition of the sustainability work efforts from RPU to a citywide sustainability program.
- **Use of Money and Property:** This revenue category represents non-operating revenues such as interest income, rental income, and miscellaneous one-time receipts that are not received evenly throughout the year. Actuals through March 2019 are at 95.4% of total budget, primarily due to higher than anticipated interest earnings on investments and a settlement recovery of \$715,000 from San Onofre Nuclear Generating Station.
- **Other Financing Sources:** This revenue category is primarily comprised of proceeds from sale of salvage materials and damage claim recoveries, which are unpredictable and not received evenly throughout the fiscal year.

Expenditure Analysis

At March 31, 2019, Electric Fund expenditures, excluding capital projects, are trending slightly

lower than 75% of the total budget. Power supply costs within non-personnel are expected to trend higher than the adopted budget for power supply through the remainder of FY 2018/19.



For each expenditure category, budget-to-actual results that are higher than normally experienced at third quarter end, projected to exceed appropriations, or are recommended to be adjusted are described below.

- Non-Personnel:** Due to higher than expected power supply costs as a result of higher than anticipated consumption, market energy prices, and natural gas prices, power supply expenditures are projected to be higher than the power supply adopted budget by the end of the fiscal year. A supplemental appropriation of \$7 million for power supply budget was presented to the Board on April 22, 2019 and approved by City Council on May 7, 2019. The increase in power supply costs is expected to be offset by savings in other operating budget line items with any difference to be covered by Electric Unrestricted, Undesignated Cash Reserve.
- Capital Construction & Improvements:** Actual capital expenditures of 15.8% through March 31, 2019 are on track with the CIP plan. Consistent with the Utility 2.0 initiatives, areas of focus have been on electric system reliability and aging infrastructure replacement. The Electric Fund spent 15.8% (\$24 million) of its total CIP budget for the first nine months of the fiscal year, comprising of the various CIP categories. The Electric Fund currently projects to spend an additional 10% (approximately \$15 million) for the balance of FY 2018/19 based on the various stages of its capital projects.
- Debt Service:** Debt service is higher than 75% at March 31, 2019 primarily due to the annual principal payments made on bonds in October 2018. Total debt service is expected to be within total budget at year-end.
- Charges to Others:** Charges to Others primarily represent the charge out of internal labor and overhead costs to capital projects. This category is trending higher than expected due to an increase in capital project work. This trend is expected to continue for the remainder of the fiscal year.

Capital Projects

The Electric Fund completed capital improvements during the first nine months of FY 2018/19 that focused on the three major infrastructure replacement categories of Overhead, Underground and Substation which are part of Utility 2.0 initiatives. Completed projects in these categories benefit system reliability and mitigate the potential for widespread, prolonged customer outages.

Projects completed during Third Quarter of FY 2018/19:

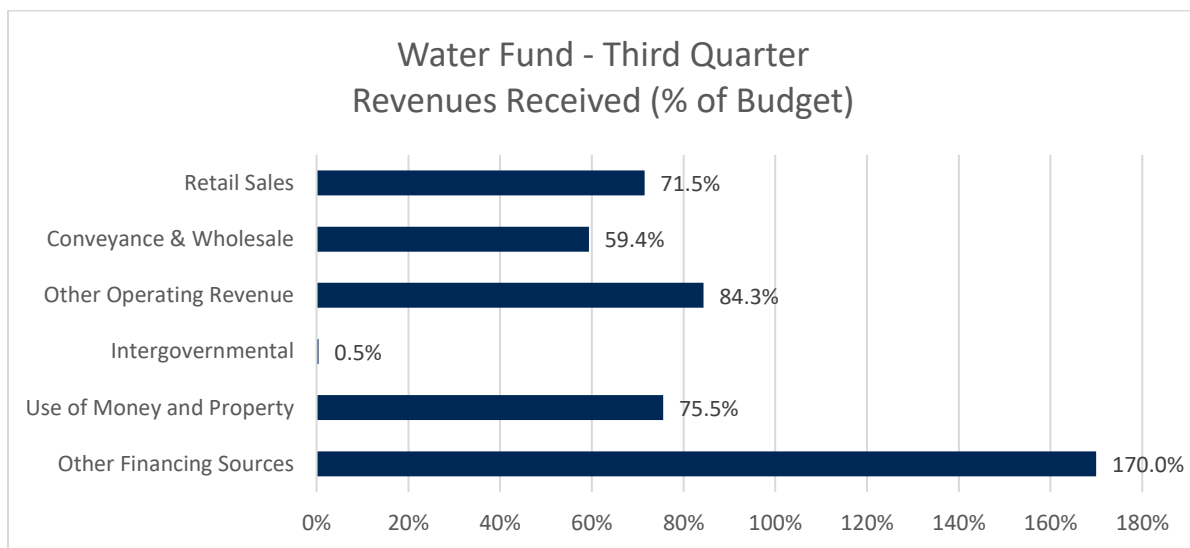
- Control Power Improvements for RERC Control House
- Multiple Substation Safety Signage
- La Colina Substation Battery and Battery Charger Upgrades
- La Colina Substation Line Relay Replacement Project
- University Substation Switchgear 3-4 Air Conditioning Upgrade
- SPCC (Spill Prevention, Control, and Countermeasure) Plan Update
- Magnolia Circuit 46, Plaza Circuit 450 4-12kV Conversion

Water Fund

The third quarter analysis of the Water Fund shows actual revenues and expenses are trending lower than anticipated. Capital projects are progressing consistently with the CIP.

Revenue Analysis

Overall, Water revenues are trending at 65% of total budget at March 31, 2019, which is less than anticipated primarily due to lower than expected retail sales resulting from higher than anticipated precipitation. Weather, including precipitation, can significantly impact retail revenues, which will be monitored throughout the remainder of FY 2018/19.



For each revenue category, budget-to-actual results that are lower than normally experienced at third quarter end, projected not to meet revenue forecasts, or are recommended to be adjusted are described below.

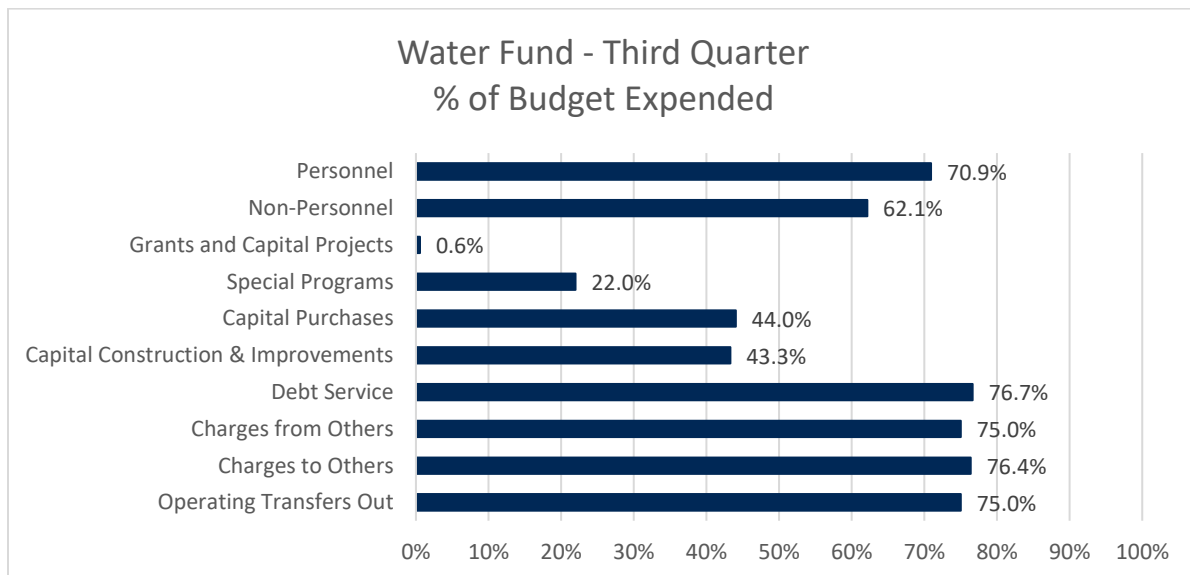
- **Retail Sales:** Projected retail sales were expected to be at 75.5% of total budget through March 2019. Actuals are lower at 71.5% of total budget due to higher than anticipated precipitation from October through March. Retail revenues can be significantly impacted

by weather, including precipitation, and will be monitored throughout the remainder of FY 2018/19.

- **Conveyance and Wholesale:** Sales and deliveries to Western Municipal Water District (WMWD) have been reduced due to infrastructure repairs, upgrades by WMWD and less demand from WMWD resulting in lower revenues at 59.4% of Annual Budget.
- **Intergovernmental:** The annual budget includes grant funded projects that are either completed with no further revenue being recovered or have not yet begun.
- **Other Financing Sources:** This revenue category primarily comprises of proceeds from sale of salvage materials and damage claim recoveries, which are unpredictable and not received evenly throughout the fiscal year.

Expenditure Analysis

At March 31, 2019, Water Fund expenditures, excluding capital projects, are less than 75% of the total budget. This trend is expected to continue for the remainder of FY 2018/19.



For each expenditure category, budget-to-actual results that are higher than normally experienced at third quarter end, projected to exceed appropriations, or are recommended to be adjusted are described below.

- **Capital Construction & Improvements:** Actual capital expenditures of 43% through March 31, 2019 are on track with the CIP plan. Consistent with the Utility 2.0 initiatives, areas of focus have been on water system reliability and aging infrastructure replacement. The Water Fund spent 43% (\$15.7 million) of its total CIP budget for the first nine months of the fiscal year, comprising of the various CIP categories. The Water Fund currently projects to spend an additional 18% (approximately \$6.3 million) for the balance of FY 2018/19 based on the various stages of its capital projects.
- **Debt Service:** Debt service is higher than 75% at March 31, 2019 primarily due to the annual principal payments made on bonds in October 2018. Total debt service is expected to be within total budget at year-end.

Capital Projects

Installation of recycled water infrastructure benefits all of RPU customers by freeing up water supply through making recycled water available for landscaping and irrigation needs. Installation of new mains provide water to new customers and support the City's development and growth. Pipeline and distribution facilities replacements along with well rehabilitations help address aging infrastructure and improve system reliability to maintain RPU's high level of service to its customers.

Projects completed during Third Quarter of FY 2018/19:

- Completion of the Jackson Street Recycled Water Pipeline Project – Phase I
- Completion of the Magnolia Techite Pipeline Replacement Project (Pipeline only; pressure reducing station is still under construction)
- Completed 212 service lateral replacements
- Completed 20 fire hydrant replacements
- Completed 1 valve replacements
- Replaced 3 booster pumps/motors and rebuilt 4 booster pumps/motors
- Replaced 523 small meters, 8 large meters, and performed 86 large meter calibrations.

Other Funds

Although other funds are not routinely reported in quarterly financial reports, all City funds are reviewed and notable items or issues are reported. In the third quarter analysis, the following was noted:

Public Parking Fund: At the end of the third quarter, revenues are at 62.6% of budget. Parking fines are 29.4% of budget due to an unplanned Street Sweeping Sign replacement project that began in August 2018 and is ongoing. The revenue budget for Parking Fines will be reduced by a net \$762,000 for FY 2018/19: Parking Fines revenue reduction of \$1,471,000, partially offset by a reduction in revenue transfers to the Refuse Fund for Street Sweeping Parking Fines of \$709,000. Refuse revenues are also reduced, as previously described in this report. As the signs are replaced within the service routes, parking enforcement citations will resume. Garage 7 (Fox) revenues and metered parking revenues are also expected to fall short, but revenues in other areas are expected to offset those shortfalls. The adopted budget projected a use of cash reserves of approximately \$340,000; with projected expenditures savings of \$653,000 offsetting some revenue reductions, the fund appears to be in line with the projection.

Interfund and Interdepartmental Transfers; Supplemental Appropriation Requests

Riverside Municipal Code Sec. 1104 requires the affirmative vote of at least five City Council members to authorize the transfer of appropriations between City funds and to authorize supplemental appropriations. Certain interfund or interdepartmental transfers are required to effectuate the intent of previous actions of the City Council, the impacts of which may not be known at the time the action is taken. Other transfers are requested by departments for operational purposes.

Although interfund transfers usually have a net-zero impact on the Citywide budget, a Transfer In is a revenue account and a Transfer Out is an expenditure account that requires an accompanying supplemental appropriation. The transfers and supplemental appropriations recommended for Council approval are summarized below; the fund and department-level details are provided in Attachment 2.

- **General Fund \$3.1 Million Interfund Transfer to Grants and Restricted Programs Fund, fully offset by revenues:** As part of the General Fund restructuring outlined in the First Quarter Report, grants and restricted funds are being transferred out of the General Fund and into new or existing funds. A listing of all activity to date is provided in Attachment 2.
- **General Fund \$1.1 Million Supplemental Appropriation, fully offset by revenues:** The Fire Department incurs costs when Riverside fire fighters are deployed to assist other agencies. A supplemental appropriation will align the Fire Department's Mutual Aid budget with related costs incurred to date. Since all Mutual Aid expenses are fully reimbursable, an offsetting increase to Mutual Aid estimated revenues will result in a net zero impact to the General Fund.
- **Measure Z Operating Fund \$99,220 Interfund Transfer and corresponding Supplemental Appropriation:** On April 23, 2019, City Council approved a supplemental appropriation for design services for the Riverside Metropolitan Museum (Museum) using Measure Z Capital funds. However, the Measure Z Capital Fund does not earn revenues; capital projects are funded via a transfer of resources from the Measure Z Operating Fund. A transfer and corresponding supplemental appropriation of \$99,220 from the Measure Z Operating Fund to the Measure Z Capital Fund is required to effectuate the capital appropriation previously approved by Council.
- **Debt Service Fund \$2,000 Supplemental Appropriation:** A budgeting error was noted in which the debt service fund charged Community Service Districts for activities no longer provided. Because Charges to Others is an expenditure reimbursement account, the removal of the charge will result in an increase in appropriations for the Debt Service Fund.
- **Debt Service Fund \$3.6 million Interfund Transfer and corresponding Supplemental Appropriation; General Fund \$104,892 supplemental appropriation fully offset by a Transfer In; an expenditure reduction of \$11,713 in the Measure Z Operating Fund:** In September 2017, the City received capital lease proceeds intended primarily for the purchase of Fire vehicles under the Measure Z Spending Plan. At June 30, 2018, a residual \$3,459,823 remained in the Debt Service Fund. On April 10, 2018, Council approved the use of \$104,892 of capital lease proceeds for the purchase of an aerial man-lift in the amount of \$104,892, with related debt payments to be paid by the General Fund. A supplemental appropriation is required to transfer the capital lease proceeds from the Debt Service Fund to the General Fund and Measure Z Fund, and to appropriate capital lease proceeds in the General Fund for the purchase of the aerial man-lift. Measure Z debt service is reduced by the amount related to the purchase of the aerial lift.
- **Sewer Fund \$2.5 Million Supplemental Appropriation:** The Wastewater Division is responsible for the collection and treatment of wastewater flows generated within the City and the communities of Jurupa, Rubidoux, Edgemont, and Highgrove. The appropriation is needed to reimburse the CSDs, as specified in our Wastewater Service Agreements, for overpayments made during fiscal years 2016/17 and 2017/18.
- **General Fund Interdepartmental Transfer:** During a cleanup and closure of project accounts, \$133,000 of unexpended funds were relieved from General Fund projects and moved to a fiscal management account. Council approval of the interdepartmental transfer

of unexpended capital project funds is requested.

Summary of transfers and supplemental requests recommended for Council approval:

Fund	Revenue	Expense	Net Increase/ (Decrease)
101 - General Fund	\$ (1,917,018)	\$ (1,903,944)	\$ (13,074)
110 - Measure Z Operating	3,459,823	(17,385)	3,477,208
215 - Grants and Restricted Programs	3,114,447	3,101,373	13,074
390 - Debt Service Fund	-	3,566,715	(3,566,715)
420 - Measure Z Capital	99,220	-	99,220
550 - Sewer Fund	-	2,500,000	(2,500,000)
Total Budget Adjustments	\$ 4,756,472	\$ 7,246,759	\$ (2,490,287)

FISCAL IMPACT:

The City's General Fund is currently operating under an adopted FY 2018/19 Two-Year Budget, balanced over two fiscal years. Operating shortfalls of \$15 million to \$18 million are projected in FY 2020/21 through FY 2021/23, with the expectation that shortfalls will continue in future years if no mitigating actions are taken. City staff continues to meet regularly to address the impending deficit by focusing on the following items:

- strategize and identify opportunities to enhance non-tax revenues;
- improve business processes to become more efficient;
- identify and implement cost-saving measures;
- strategize the long-term management of the CalPERS Unfunded Accrued Liability (UAL); and
- discuss any and all ideas related to ensuring fiscal stability for the City of Riverside.

The Measure Z Fund is operating within the framework of the Council-approved Measure Z Spending Plan, and is fulfilling the promises made to City residents. Quarterly performance updates reported by the City Manager's Office provide residents with meaningful measures of the impact of Measure Z funding upon City services, operations, and infrastructure. It is important to note that no Measure Z funds are currently being used, nor are they planned to be used, for the long-term management of the CalPERS UAL.

The Enterprise Funds (Electric, Water, Refuse and Sewer) are all expected to remain within their amended appropriation limits. Planned operational analyses for both Refuse and Sewer will incorporate long-term financial outlooks for the respective funds. The Water and Electric funds have benefitted from rate increases implemented during the current fiscal year which have allowed RPU to move forward on major infrastructure projects. All four Enterprise Funds included in this report are expected to end the fiscal year in a positive position.

Prepared by: Kristie Thomas, Budget and Revenue Manager
 Certified as to
 availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
 Approved by: Carlie Myers, Deputy City Manager
 Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Measure Spending and Quarterly Performance Status
2. Budget Transfers, Adjustments, and Supplemental Appropriations
3. Previously Approved Supplemental Appropriations as of the Third Quarter End
4. Presentation