



# Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS DATE: JANUARY 16, 2020  
FROM: FINANCE DEPARTMENT WARDS: ALL  
SUBJECT: FISCAL YEAR 2018/19 FOURTH QUARTER FINANCIAL REPORT AND MEASURE Z UPDATE

## ISSUE:

That the Budget Engagement Commission receive and provide input on the attached Fiscal Year 2018/19 Fourth Quarter Financial Report and Measure Z update.

## RECOMMENDATIONS:

That the Budget Engagement Commission (BEC):

1. Receive and provide input on the Fiscal Year 2018/19 Fourth Quarter Financial Report and Measure Z Update; and
2. Formulate a recommendation to the City Council as to the use of the projected \$4.4 million surplus General Fund reserves.

## BACKGROUND:

On June 12, 2018, the City Council adopted Resolution No. 23316 approving the Fiscal Year (FY) 2018-2020 Two-Year Budget. The General Fund's FY 2018-2020 Two-Year Budget is balanced over two years with a budgeted \$1.2 million surplus in FY 2018/19 to be used in FY 2019/20.

## DISCUSSION:

Following the close of each fiscal year, the City's independent auditor performs an audit of the City's financial statements. The FY 2018/19 Fourth Quarter Financial Report precedes the audit report and therefore presents **unaudited financial projections**. The audit report is expected to be completed in December, followed by presentations to the Finance Committee and City Council.

## GENERAL FUND FINANCIAL ANALYSIS

### **Overview**

The General Fund's FY 2018/19 unaudited results present a net gain of \$3.7 million, with \$278.7 million in revenues outpacing expenditures and encumbrances of \$275 million.

GENERAL FUND SUMMARY					
	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
<b>Incoming Resources</b>	<b>\$270,070,218</b>	<b>\$272,836,077</b>	<b>\$278,668,535</b>	<b>\$5,832,458</b>	<b>2.1%</b>
Expenditures	\$268,834,151	\$267,691,913	\$271,380,616		
Carryovers		10,815,576			
Encumbrances		5,406,585	3,574,467		
<b>Total Outgoing Resources</b>	<b>\$268,834,151</b>	<b>\$283,914,074</b>	<b>\$274,955,083</b>	<b>\$(8,958,990)</b>	<b>-3.2%</b>
<b>Projected Net Gain / (Loss)</b>	<b>\$1,236,067</b>	<b>\$(11,077,997)</b>	<b>\$3,713,452</b>	<b>\$14,791,449</b>	

Revenues: During the development of the FY 2018-20 Budget, the approach was conservative with declining growth rates projected in the General Fund’s major revenue sources in anticipation of a slowing economy. However, increases in Redevelopment Property Tax Trust Fund (RPTTF) and higher than anticipated sales tax receipts helped exceed the adjusted budget by \$3.2 million.

Expenditures: The Adjusted Budget includes a carryover of \$16.2 million of FY 2017/18 unexpended funds in the form of carryovers and encumbrances. Of the \$9 million in FY 2018/19 expenditure savings, \$4.5 million is recommended for carryover to FY 2019/20. Overall, City staff made concerted efforts in responsible spending that resulted in significant savings. Moreover, personnel costs ended the year under budget by approximately \$2.2 million as a result of the City Manager’s Managed Hiring initiative.

**Revenues**

Of the City’s General Fund revenues, Sales and Use Tax, Property Tax, Utility Users Tax, Transient Occupancy Tax, and the General Fund Transfer comprise nearly 80% of all General Fund revenues. During the development of the FY 2018-2020 Budget, signs of a slowing economy led to the assumption that these major revenue sources were expected to continue the 1% decline in growth rate seen in FY 2017/18 as compared to FY 2016/17. The Adopted Budget projected a 2% growth in FY 2018/19 and 1% growth in FY 2019/20. In comparison, the General Fund’s major revenues are estimated to end FY 2018/19 with a 5% growth over FY 2017/18.

The following table provides a five-year historical view of the actual revenues generated by each of these sources by year.

GENERAL FUND MAJOR REVENUES FIVE-YEAR HISTORY (in millions)							
Fiscal Year	Property Tax	Sales Tax	Transient Occupancy Tax	Utility Users Tax	General Fund Transfer	Total	Growth over Prior Year
FY 2014/15	\$54.2 M	\$59.4 M	\$5.3 M	\$28.1 M	\$45.3 M	\$192.2 M	5%
FY 2015/16	55.5 M	61.0 M	6.1 M	27.8 M	44.8 M	195.2 M	2%
FY 2016/17	59.5 M	63.3 M	6.6 M	28.0 M	44.9 M	202.3 M	4%
FY 2017/18	63.5 M	64.1 M	6.8 M	27.5 M	46.2 M	208.2 M	3%
FY 2018/19	69.3 M	68.4 M	7.2 M	28.0 M	46.5 M	219.3 M	5%

In FY 2018/19, Sales Tax posted a 7% growth rate over FY 2017/18, as compared to a 1% growth rate in FY 2017/18 over the prior year. A change in sales tax reporting at the State level resulted in FY 2017/18 revenues being delayed and reported in FY 2018/19. However, the two-year increase (FY 2016-2018) constitutes an average 4% annual growth since FY 2016/17, which is 3% higher than the projected annual increase in sales tax at the time of budget adoption. When smoothing out the Sales Tax effect, the General Fund’s major revenue sources still present a strong 4% growth rate over FY 2017/18.

In June 2019, the City Council approved amendments to the FY 2019/20 Adopted Budget based on analysis performed as of December 31, 2018. Due to the uncertainty in Sales Tax trends and consultant projections of a decline in FY 2019/20, the Sales Tax revenue estimate was not adjusted. The \$2 million net adjustment to other FY 2019/20 major revenue sources resulted in a 0% increase over FY 2018/19 actuals; further adjustments based on FY 2018/19 actual results may be recommended in the FY 2019/20 quarterly financial reports.

FY 2019/20 BUDGET ADJUSTMENTS TO MAJOR REVENUE SOURCES		
Revenue Category	% Adjustment	Basis for Adjustment
Property Tax	3.9%	Based on strong trends in RPTTF receipts through the second quarter of FY 2018/19.
Transient Occupancy Tax	-6.1%	Based on known hotel renovations and building timeline of new hotels.
General Fund Transfer	-0.7%	Based on audited FY 2017/18 revenues.

City staff is currently preparing revenue and expenditure estimates for the FY 2020-2022 Two-Year Budget. These estimates will consider new trends in revenues through FY 2018/19, as well as trends to-date in FY 2019/20. Based on the strong growth of FY 2018/19 major revenue sources, preliminary analysis indicates a modest improvement in projected revenues for future fiscal years as compared to revenue estimates presented in June 2019 update of the General Fund Five-Year Plan.

GENERAL FUND REVENUES					
Revenue Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Property Tax	\$65,279,094	\$67,448,094	\$69,343,002	\$1,894,908	2.8%
Sales Tax	65,504,489	67,004,489	68,359,219	1,354,730	2.0%
General Fund Transfer	47,289,000	46,470,000	46,470,700	700	0.0%
Utility Users Tax	28,088,440	28,088,440	28,009,294	(79,146)	-0.3%
Charges for Services	17,395,143	16,530,256	16,290,662	(239,594)	-1.4%
Measure Z	13,238,623	13,238,623	13,238,623	(0)	0.0%
Licenses and Permits	10,188,247	10,188,247	10,357,495	169,248	1.7%
Transient Occupancy Tax	7,300,447	6,950,447	7,163,420	212,973	3.1%
Use of Money/Property	5,732,349	5,498,937	6,166,439	667,503	12.1%
Franchise Fees	4,726,826	4,726,826	5,256,478	529,652	11.2%
Intergovernmental	1,856,184	3,701,359	3,465,870	(235,489)	-6.4%
Fines and Forfeitures	1,808,500	1,208,500	2,077,376	868,876	71.9%
Other Transfers In	900,000	1,209,092	1,833,406	624,314	51.6%
Special Assessments	504,727	504,727	535,490	30,763	6.1%
Other Financing Sources	68,040	68,040	101,060	33,020	48.5%
<b>Total Revenues</b>	<b>\$269,880,109</b>	<b>\$272,836,077</b>	<b>\$278,668,535</b>	<b>\$5,832,458</b>	<b>2.1%</b>

FY 2018/19 ended with a 2.1% increase (\$5.8 million) in total General Fund revenues.

- Property Tax: Property Tax excluding the RPTTF grew 5.8% over the prior year in response to a healthy housing market; actual revenues are \$831,000 higher than projected. The RPTTF is \$2.5 million (38.9%) higher than prior year, consistent with the growth rates of the previous two years. RPTTF revenues are \$1.1 million higher than projected.

RPTTF revenues are comprised of:

- ▶ Tax increment – The amount of property tax generated from the current assessed value of the property as compared to the valuation when the property was under the Redevelopment Agency (RDA).
- ▶ City ROPS (Required Obligation Payment Schedule) – As the obligations of the City’s Successor Agency to the RDA are paid down, revenues that were previously needed to pay these obligations are released to the County pool and redistributed resulting in larger distributions of residual tax increment.

- Sales Tax: Sales tax projections were upgraded 2.3% during the fiscal year in response to strong revenue performance through the second quarter. By fiscal year end, actual sales revenue returned a more robust 7% growth rate over the previous fiscal year. Part of the unanticipated growth is attributable to “catch-up” payments resulting from the State’s prior year change in the reporting system, although the total impact of this issue is not readily identifiable.
- Franchise Fees: Franchise fees were projected to remain relatively flat based on historical trends and a decline in AT&T Cable; actual revenues are up 5.7% over the prior year, with an 8.2% increase in other Cable TV and refuse collections offsetting an 11% decrease in

AT&T Cable.

- **Fines & Forfeitures:** Customary revenue reductions related to citations and neglected property abatement were not recorded this year due to a lack of information available from the County. The write-offs may be deferred to FY 2019/20, reducing next year’s revenues by as much as \$500,000.
- **Use of Money/Property:** Interest revenue came in higher than projected due to rebalancing of the investment portfolio. This category also includes a \$427,000 accounting adjustment of investments to market value; this type of adjustment is not budgeted because the revenue is not realized until investments are sold.
- **Operating Transfers In:** Revenues are higher in this category due to the unbudgeted transfer in of capital lease proceeds to reimburse allowable expenditures.

**Expenditures**

General Fund operating expenditures are \$9 million less than the total budget; approximately \$4.5 million of unexpended funds will be requested to be carried forward to FY 2019/20. “Adjusted Budget” includes the adopted budget, prior year carryovers and encumbrances, budget transfers, and Council-approved supplemental appropriations. Supplemental appropriations approved during FY 2018/19 had no net effect to the General Fund; all supplemental appropriations were fully offset by increased revenues or transfers (Attachment 1). “Unaudited Actuals” includes encumbrances (open purchase orders).

GENERAL FUND EXPENDITURES					
Expenditure Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Personnel	\$217,743,582	\$218,798,756	\$216,641,695	(\$2,157,061)	-1.0%
Non-Personnel	49,472,435	54,441,304	51,313,267	(3,128,038)	-5.7%
Grants and Capital	1,402,000	3,713,884	1,859,144	(1,854,740)	-49.9%
Special Programs	6,878,627	8,827,476	7,261,073	(1,566,403)	-17.7%
Capital Purchases	231,042	2,945,094	2,495,929	(449,165)	-15.3%
Capital Constr & Improv	173,358	286,305	272,859	(13,446)	-4.7%
Charges to/from Others	(17,059,830)	(18,932,254)	(19,213,852)	(281,597)	1.5%
Operating Transfers Out	9,992,937	13,833,509	14,324,969	491,461	3.6%
<b>Total Expenditures</b>	<b>\$268,834,151</b>	<b>\$283,914,074</b>	<b>\$274,955,083</b>	<b>\$(8,958,990)</b>	<b>-3.2%</b>

- **Personnel:** The adopted personnel budget represents approximately 81% of the General Fund budget. Actual personnel costs for FY 2018/19 are 79% of total General Fund spending, with a total savings of \$2.2 million.

**GENERAL FUND PERSONNEL BY PERSONNEL CATEGORY**

Expenditure Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Salaries	\$128,349,520	\$128,302,157	\$122,229,742	\$(6,072,415)	-4.7%
Overtime	13,284,304	14,386,841	15,516,545	1,129,704	7.9%
Leave Payouts	3,643,365	3,643,365	5,511,099	1,867,734	51.3%
Insurances	22,587,995	22,587,995	20,608,155	(1,979,840)	-8.8%
Retirement	47,073,668	47,073,668	49,822,373	2,748,705	5.8%
Other	2,804,730	2,804,730	2,953,781	149,051	5.3%
<b>Total Personnel</b>	<b>\$217,743,582</b>	<b>\$218,798,756</b>	<b>\$216,641,695</b>	<b>\$(2,157,061)</b>	<b>-1.0%</b>

- Salaries savings resulted in \$6.1 million savings as a result of the City Manager’s managed hiring initiative and vacancies. All vacant non-sworn positions are subject to review and justification prior to recruitment.
- Leave payouts are a result of transition or retirements and are difficult to anticipate. Vacancy savings offset payout overages throughout the year.
- Retirement costs include a distribution of the CalPERS Unfunded Accrued Liability (UAL) across all budgeted City positions; actual UAL costs are distributed based on the actual Normal rate posted for filled positions. The General Fund had a lower vacancy ratio as compared to the Citywide budgeted position budget ratio, which caused the General Fund to be allocated higher UAL costs than budgeted.

**GENERAL FUND PERSONNEL BY DEPARTMENT CATEGORY**

Expenditure Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Internal Service	\$33,331,951	\$33,312,208	\$31,217,656	\$(2,094,552)	-6.3%
Public Service	44,880,764	44,859,144	40,933,847	(3,925,298)	-8.8%
Public Safety	139,530,867	140,627,404	144,490,192	3,862,789	2.7%
<b>Total Expenditures</b>	<b>\$217,743,582</b>	<b>\$218,798,756</b>	<b>\$216,641,695</b>	<b>\$(2,157,061)</b>	<b>-1.0%</b>

- Internal Service Departments saved \$2.1 million, including \$580,000 savings in the City Manager’s Office (13.2% of department’s Personnel budget) and \$916,000 savings in the Innovation and Technology department (11.4% of department’s Personnel budget) as a result of vacancy savings and lower negotiated salaries for new hires.
- Public Service Departments saved \$3.9 million, including \$1.8 million savings in Community & Economic Development (14.3% of department’s Personnel Budget) and \$1.4 million savings in Public Works (8.6% of the department’s Personnel budget) due to vacant positions and underfills (filling journey level positions at a lower classification in the journey series).

- Public Safety exceeded budget by \$3.9 million, including a \$1.2 million shortfall in the Police Department (1.3% of the department’s Personnel budget) due to leave payouts and a \$2.7 million shortfall in the Fire Department (5.5% of the department’s Personnel budget) due to overtime costs related to mandated staffing levels and higher than anticipated CalPERS costs.
- Non-Personnel: City departments saved \$3.5 million (5.7%) of the total non-personnel budget in FY 2018/19, primarily due to an intensive review and closure of outstanding purchase orders.
- Special Programs: The items in this category include Council or department initiatives, (e.g. Festival of Lights and ShopRiverside); support to external parties (e.g. art organizations); and restricted funds (e.g. donations). Funds that are not restricted are considered discretionary, and savings will roll to fund reserves. The largest sources of unrestricted savings in this category are listed below. The CalPERS fiscal contingency will be directed to the Pension Stability Fund.

Special Program Name	Savings
Community Livability Advocacy	\$225,116
Audit Program	185,000
Fiscal Management	133,538
Fiscal Contingency - CalPERS	132,853
Riverside County Animal Control	114,028
<b>Total</b>	<b>\$790,535</b>

- Operating Transfers Out: Subsidies to the Entertainment Funds were \$399,000 higher than budgeted. Although revenues came in higher than projected, actual spending outpaced the revenue growth, requiring a higher operating subsidy.

**Fund Balance and Reserves**

General Fund reserves are calculated as a percentage of the following year’s adopted budget. The FY 2019/20 adopted budget, as amended and approved by City Council on June 18, 2019, is \$280,372,427.

At fiscal year ending June 20, 2018, \$4.5 million in fund reserves was designated for the Pension Stabilization Fund for investment in a Section 115 Trust. Approximately \$416,000 has been contributed directly to Pension Stabilization Fund reserves during the fiscal year, bringing that reserve balance to \$4.9 million.

<b>GENERAL FUND BALANCE AND RESERVES</b>	
<b>Year-End Projection</b>	
<b>Beginning Fund Balance (Audited)</b>	<b>\$68,387,813</b>
<b>FY 2018/19 Activity:</b>	
Revenues	278,668,535
Expenditures	(271,380,616)
Encumbrances	(3,574,467)
Capital Project & Grant Carryovers	(394,609)
Increase in Other Required Reserves	(595,756)
<b>Projected Change in Fund Balance</b>	<b>\$2,723,087</b>
<b>Projected Ending Fund Balance</b>	<b>\$71,110,900</b>
<b>Fund Balance Reserves:</b>	
Policy Reserve Requirement (15%)	\$(42,055,864)
Aspirational Reserve (5%)	(14,018,621)
Pension Stabilization Reserve	(4,915,801)
FY 2019/20 Budgeted Use of Reserves	(1,236,012)
<b>Total Reserves</b>	<b>\$(62,226,298)</b>
<b>Available Fund Balance</b>	<b>\$8,884,602</b>
<b>Requested Carryovers:</b>	
Discretionary	\$(3,003,563)
Restricted Funds	(1,517,335)
<b>Total Carryovers</b>	<b>\$(4,520,898)</b>
<b>Projected Surplus Reserves</b>	<b>\$4,363,704</b>

Approximately \$4.5 million of unexpended funds is requested for carryover into fiscal year 2019/20, including \$3 million in discretionary funds and \$1.5 million in restricted funds. Of the \$3 million in requested discretionary funds, approximately

- \$662,000 is requested to correct projected budgeting shortfalls due to budget system errors at the time of budget development; and
- \$2.2 million is requested to fund salary increases that were not projected at the time of budget development. General Fund revenues came in higher than projected, increasing projected salary raises tied to revenue performance.

**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. During FY



2018/19, Council approved new allocations for street projects and a Public Safety Engagement Team to address homeless issues in the City.

Measure Z spending is inconsistent due to the nature of the items funded. \$6.5 million in open purchase orders and \$14.2 million in carryover funding is expected to be spent in future years, as the various projects and spending initiatives pick up pace. 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 3).

A chart of actual spending by major spending category as compared to total budget is presented. 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 following chart does not include the use of debt proceeds.

Measure Z ended FY 2018/19 with \$18.7 million in fund balance which is available to be allocated to current or new spending initiatives. The Budget Engagement Commission and City’s Executive Leadership are actively reviewing the current Spending Plan and will formulate recommendations for use of the available fund balance. The recommendations will be presented to the City Council with the FY 2020-2022 Proposed Budget.

<b>MEASURE Z ACTIVITY TO DATE</b>			
<b>Activity</b>	<b>FY 2016/17 Allocations</b>	<b>FY 2017/18 Allocations</b>	<b>FY 2018/19 Allocations</b>
Revenue	\$12,606,428	\$56,222,806	\$62,692,745
Expenditures	(9,973,447)	(36,134,811)	(40,988,149)
Encumbrances and Carryovers			(20,714,281)
<b>Net Change in Fund Balance</b>	<b>\$2,632,981</b>	<b>\$20,087,995</b>	<b>\$990,315</b>
Fund Balance Reserve			\$(5,000,000)
<b>Available Fund Balance</b>	<b>\$2,632,981</b>	<b>\$22,720,976</b>	<b>\$18,711,291</b>

SEWER FUND

The overall financial position of the Sewer Enterprise fund is healthy and the fund is operating in accordance with the 2016 Sewer Fund Reserve Policy objectives. Refinancing of the 2009A Sewer Revenue Bonds bolstered the Sewer Fund’s financial stability in FY 2018/19. The Public Works Wastewater Division is in the process of completing a 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.

The following analysis focuses on operations and does not include capital project expenditures of \$26.9 million.

**Revenues**

The Sewer Fund’s operating revenues are \$4.6 million higher than projected.

<b>SEWER FUND REVENUES</b>					
<b>Revenue Category</b>	<b>Adopted Budget</b>	<b>Adjusted Budget</b>	<b>Unaudited Actuals</b>	<b>\$ Variance</b>	<b>% Variance</b>
Residential	\$44,670,504	\$44,670,504	\$44,853,084	\$182,580	0.4%
Non-Residential	14,875,603	14,875,603	14,761,904	(113,699)	-0.8%
Wastewater Service	3,588,837	3,588,837	3,984,080	395,243	11.0%
Non-Rate Revenue	2,367,399	2,367,399	3,520,047	1,152,648	48.7%
Use of Money/Property	1,344,962	1,424,962	4,424,716	2,999,754	210.5%
Other Financing Sources	-	-	4,519	4,519	100.0%
<b>Total Revenues</b>	<b>\$66,847,305</b>	<b>\$66,927,305</b>	<b>\$71,548,350</b>	<b>\$4,621,045</b>	<b>6.9%</b>

- Non-Rate Revenue: This revenue category ended \$1.2 higher than projections; Sewer Connection Fees were \$974,000 higher than projected due to increased development activity.
- Use of Money and Property: This category is \$3 million higher due to outstanding performance of the rebalanced investment portfolio. Interest revenues are \$1 million higher than projections, and the year-end adjustment of investments to market value added \$1.3 million in revenue.

## Expenditures

Actual operating expenditures and encumbrances are approximately \$916,000 less than the total budget.

SEWER FUND EXPENDITURES					
Expenditure Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Personnel	\$14,307,146	\$14,307,146	\$12,616,452	\$(1,690,694)	-11.8%
Non-Personnel	15,502,841	19,540,526	18,195,272	(1,345,254)	-6.9%
Grants and Capital	190,000	190,000	288,000	98,000	51.6%
Special Programs	2,050,549	2,271,549	1,909,396	(362,153)	-15.9%
Capital Purchases	1,416,500	2,518,403	1,903,745	(614,658)	-24.4%
Debt Service	33,665,119	33,665,119	37,101,438	3,436,319	10.2%
Charges to/from Others	4,204,028	3,657,496	3,219,624	(437,872)	-12.0%
Operating Transfers Out	900,000	900,000	900,000	-	0.0%
<b>Total Expenditures</b>	<b>\$72,236,183</b>	<b>\$77,050,239</b>	<b>\$76,133,928</b>	<b>\$(916,312)</b>	<b>-1.2%</b>

- Personnel: \$1.7 million savings, primarily due to underfilled positions in career-growth classifications.
- Non-Personnel: This category shows \$1.3 million in savings; however, \$2.7 million in outstanding purchase orders will be carried forward, for a net over-spend in this category of \$1.3 million due to significant legal costs associated with the capital recovery effort for both the Phase I Plant Expansion Project and ongoing capital improvements at the Regional Water Quality Control Plant.
- Capital Purchases: This category includes budgets for facility repairs and improvements, machinery, equipment, and automotive replacements. Actual needs were less than budgeted.
- Debt Service: Interest costs are higher than budgeted due to the refinancing of the 2009A Sewer Revenue Bonds; activity includes the final interest payment on the defeased bond as well as interest payments on the new bonds.

## 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. Public Works has retained a consultant to perform a comprehensive review of refuse operations to optimize services and cash flow.

The adopted budget for the Refuse Fund projected a \$2.2 million draw on cash reserves for FY 2018/19. The Refuse Fund is projected to end the fiscal year with a draw on reserves of \$1.9 million, inclusive of \$333,000 in capital expenditures. The following analysis focuses on operations

and does not include capital project activity.

**Revenues**

The Refuse Fund’s operating revenues are \$10,000 less than projected.

REFUSE FUND REVENUES					
Revenue Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Residential - City Service	\$11,787,873	\$12,285,873	\$12,339,238	\$53,365	0.4%
Residential - Private Programs	4,276,036	4,591,036	4,610,470	19,434	0.4%
Fines and Forfeitures	5,385,406	6,084,406	6,160,455	76,049	1.2%
Use of Money/Property	1,207,200	193,200	(106,612)	(299,812)	-155.2%
Other Financing Sources	397,120	397,120	535,767	138,647	34.9%
	-	-	2,010	2,010	100.0%
<b>Total Revenues</b>	<b>\$23,053,635</b>	<b>\$23,551,635</b>	<b>\$23,541,328</b>	<b>\$(10,307)</b>	<b>0.0%</b>

- Fines & Forfeitures: The revenue forecast of \$1.2 million was downgraded to \$193,000 due to an unplanned Street Sweeping Sign replacement project which began in August 2018 and is ongoing. An accounting entry related to prior year revenue accruals resulted in negative revenues of \$107,000 for the fiscal year.

**Expenditures**

Actual operating expenditures and encumbrances are approximately \$1 million less than the total budget.

REFUSE FUND EXPENDITURES					
Expenditure Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Personnel	\$5,768,981	\$5,768,981	\$5,167,235	\$(601,746)	-10.4%
Non-Personnel	8,468,906	9,103,096	8,823,171	(279,925)	-3.1%
Grants and Capital	64,000	64,000	62,368	(1,632)	-2.6%
Special Programs	4,672,890	4,785,039	4,879,100	94,061	2.0%
Capital Purchases	1,434,000	2,009,879	1,826,919	(182,959)	-9.1%
Debt Service	198,931	198,931	198,930	(1)	0.0%
Charges to/from Others	4,587,772	4,614,507	4,584,527	(29,980)	-0.6%
<b>Total Expenditures</b>	<b>\$25,195,480</b>	<b>\$26,544,433</b>	<b>\$25,542,251</b>	<b>\$(1,002,182)</b>	<b>-3.8%</b>

- Personnel: A savings of \$602,000 in the personnel category is primarily attributable to vacant positions.

**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. Due to the long-term nature of capital projects and related grant funding, those items are excluded from the following analysis which focuses on operations.

**Electric Fund**

The Electric Fund is healthy and includes the first six months of five-year rate plan effective January 1, 2019. Fund reserves are compliant with policy objectives.

***Revenues***

FY 2018/19 revenues in the Electric Fund are \$7.2 million higher than projected.

<b>ELECTRIC FUND REVENUES</b>					
<b>Revenue Category</b>	<b>Adopted Budget</b>	<b>Adjusted Budget</b>	<b>Unaudited Actuals</b>	<b>\$ Variance</b>	<b>% Variance</b>
Retail Sales	\$310,197,00	\$310,197,00	\$305,083,259	<b>\$(5,113,74)</b>	-1.6%
Transmission Revenue	36,202,799	36,202,799	35,730,318	<b>(472,481)</b>	-1.3%
Other Operating Revenue	13,999,790	13,999,790	13,464,417	<b>(535,373)</b>	-3.8%
Use of Money/Property	10,413,343	10,413,343	23,737,457	13,324,114	128.0%
Other Financing Sources	417,000	417,000	368,724	<b>(48,276)</b>	-11.6%
<b>Total Revenues</b>	<b>\$371,229,932</b>	<b>\$371,229,932</b>	<b>\$378,384,175</b>	<b>\$7,154,243</b>	<b>1.9%</b>

- Retail Sales: Retail sales are 1.6% less than projected due to unexpected mild weather patterns which reduced electric consumption.
- Transmission Revenue: Transmission revenue fluctuates similar to energy load; revenues are 1.3% less than projected due to reduced usage.
- Other Operating Revenue: This category is \$535,000 under projections. The Intermountain Coal Power Plant produced more energy due to increased market energy prices requiring the Electric Fund to surrender more greenhouse gas (GHG) allowances, resulting in a reduction of GHG auction proceeds.
- Use of Money and Property: This revenue category includes non-operating revenues such as interest income, rental income, contribution in aid of construction, and miscellaneous one-time receipts. Actual revenues are 128% higher than projected, with \$5.4 million recorded for the increase in market value of investments. Interest revenue is significantly higher than projections due to a successful rebalancing of the investment portfolio. Contributions in Aid account for \$4.3 million higher revenues; these are donated land rights

and easements for general access to electrical system assets, new electric service charges and required distribution facilities installed by developers.

**Expenditures**

Operating expenditures and encumbrances are \$20.3 million less than budgeted.

<b>ELECTRIC FUND EXPENDITURES</b>					
<b>Expenditure Category</b>	<b>Adopted Budget</b>	<b>Adjusted Budget</b>	<b>Unaudited Actuals</b>	<b>\$ Variance</b>	<b>% Variance</b>
Personnel	\$68,140,701	\$68,140,701	\$57,490,791	\$(10,649,910)	-15.6%
Non-Personnel	233,154,249	245,899,763	233,556,854	(12,342,908)	-5.0%
Grants and Capital	1,977,237	1,977,237	2,181,216	203,979	10.3%
Special Programs	229,083	239,908	163,161	(76,747)	-32.0%
Capital Purchases	800,000	7,277,017	4,277,006	(3,000,011)	-41.2%
Debt Service	44,568,867	43,194,206	42,020,621	(1,173,585)	-2.7%
Charges to/from Others	(10,732,071)	(7,996,195)	(11,076,468)	(3,080,273)	38.5%
Operating Transfers Out	40,705,400	40,705,400	39,886,400	(819,000)	-2.0%
<b>Total Expenditures</b>	<b>\$310,702,765</b>	<b>\$331,297,336</b>	<b>\$311,008,790</b>	<b>\$(20,288,546)</b>	<b>-6.1%</b>

- Personnel: Savings of \$10.1 million (14.8% of total personnel budget) are primarily attributable to staffing turnovers and high vacancy rates. The Electric Department is in the process of filling vacant positions.
- Non-Personnel: Spending in this category is 5% less than budget. \$2.6 million in open purchase commitments will continue into the next fiscal year. Energy and capacity charges account for \$6.9 million in savings, due to lower than anticipated consumption.
- Capital Purchases: Planned upgrades to Mission Square are ongoing; \$2.7 million in unexpended funds will be recommended for carryover to complete the facility repairs and upgrades.
- Debt Service: Debt service is \$1.2 lower than projected due to fiscal year end accounting for the amortization of bond issuance costs.
- Charges to/from Others: Charges to Others primarily represent the charge out of internal labor and overhead costs to capital projects. This category is \$3 million higher than expected due to an increase in capital project work, resulting in higher reimbursements to the Electric Fund.
- Operating Transfers Out: The operating transfer to the General Fund is budgeted based on projected revenues of the prior fiscal year. Actual FY 2017/18 revenues came in lower than projected, reducing the amount of transfer to the General Fund.

**Water Fund**

The Water Fund is healthy and includes the first year of the five-year rate plan effective July 1, 2018. Fund reserves are compliant with policy objectives.

**Revenues**

FY 2018/19 operating revenues in the Water Fund are \$3.2 million lower than projected.

WATER FUND REVENUES					
Revenue Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Retail Sales	\$62,487,000	\$62,487,000	\$57,690,458	\$(4,796,542)	-7.7%
Conveyance & Wholesale	5,517,000	5,517,000	4,251,271	(1,265,730)	-22.9%
Other Operating	1,790,703	1,790,703	2,291,965	501,262	28.0%
Use of Money/Property	5,745,000	5,745,000	8,015,039	2,270,039	39.5%
Other Financing Sources	77,600	77,600	184,591	106,991	137.9%
<b>Total Revenues</b>	<b>\$75,617,303</b>	<b>\$75,617,303</b>	<b>\$72,433,323</b>	<b>\$(3,183,980)</b>	<b>-4.2%</b>

- Retail Sales: Retail sales are 7.7% lower than projected due to higher than anticipated precipitation from October through March.
- 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 revenues coming in \$1.3 million less than projected.
- Other Operating Revenue: This revenue category is \$501,000 higher than projected due to higher than anticipated settlement reimbursement revenue for water treatment costs.
- Use of Money and Property: This revenue category is \$2.3 million higher than projected, with \$875,000 as a result of the fiscal year end adjustment of investments to market value. Contributions in Aid account for another \$1 million in higher revenues; these are new water service charges and required distribution facilities installed by developers.

## Expenditures

Operating expenditures and encumbrances are \$2.2 million less than budgeted.

WATER FUND EXPENDITURES					
Expenditure Category	Adopted Budget	Adjusted Budget	Unaudited Actuals	\$ Variance	% Variance
Personnel	\$22,426,911	\$22,426,911	\$21,645,404	\$(781,507)	-3.5%
Non-Personnel	14,247,873	16,324,282	15,164,339	(1,159,944)	-7.1%
Grants and Capital	2,642,106	2,642,106	2,388,545	(253,561)	-9.6%
Special Programs	345,000	321,080	110,918	(210,162)	-65.5%
Capital Purchases	-	2,263,958	2,255,733	(8,225)	-0.4%
Debt Service	17,814,691	17,725,650	18,185,390	459,740	2.6%
Charges to/from Others	4,878,111	6,179,974	5,901,715	(278,259)	-4.5%
Operating Transfers Out	6,583,600	6,583,600	6,584,300	700	0.0%
<b>Total Expenditures</b>	<b>\$68,938,292</b>	<b>\$74,467,562</b>	<b>\$72,236,344</b>	<b>\$(2,231,218)</b>	<b>-3.0%</b>

- Personnel: Personnel savings of \$782,000 are due to staff turnover and a high number of vacancies during the fiscal year.
- Non-Personnel: Savings of \$1.2 million is offset by \$909,000 in open purchase order commitments that will be fulfilled in FY 2019/20, and carryover requests of \$606,000 to complete technology projects.
- Debt Service: Debt service is \$460,000 higher than projected due to unbudgeted fiscal year end accounting entries related to debt service activity. This activity caused total spending for the fund to exceed its operating budget after carryovers and open purchase orders, despite savings in other categories.

## CARRYOVER OF UNEXPENDED FY 2018/19 FUNDS

Unexpended FY 2018/19 funds are available for carryover and spending in FY 2019/20. Restricted funds designated for specific spending purposes are required to be carried over (e.g. such as donated, trust, and intergovernmental funds). Discretionary carryover requests include expenditures approved by City Council during FY 2018/19 where the funds were not encumbered prior to fiscal year end. Summary of carryover requests recommended for Council approval:



<b>CARRYOVER REQUESTS – ALL CITY FUNDS</b>			
<b>Fund Type</b>	<b>Discretionary</b>	<b>Restricted Purpose</b>	<b>Total</b>
101 - General Fund	\$3,003,563	\$ 1,517,335	\$4,520,898
110 - Measure Z Operating	14,249,562		14,249,562
2xx - Special Revenue Funds	842,631	8,189,661	9,032,292
4xx – Capital Project Funds	2,015,538	572,643	2,588,181
51x - Electric Funds	6,046,620		6,046,620
52x - Water Funds	1,022,380		1,022,380
540 – Refuse Fund	972,027		972,027
5xx – Other Enterprise Funds	3,444		3,444
6xx – Internal Service Funds	203,179		203,179
<b>Total Carryover Requests</b>	<b>\$ 28,358,944</b>	<b>\$10,279,639</b>	<b>\$38,638,583</b>

**BALANCE REVENUE INDEX (BRI) AND PARTNERSHIP COMPENSATION MODEL (PCM)**

The City's core revenues make up the BRI which serves as the basis for salary increases for all bargaining and employee groups subscribing to the PCM. Revenue estimates prepared in early 2017 for the FY 2018-2020 Two-Year Budget projected a flattening of these revenues in FY 2019/20, with an 1.82% growth in the BRI. PCM salary increases of 0.91% (50% of the BRI) were budgeted, in addition to any minimum salary increases provided for in the Memorandums of Understanding and Fringe Benefits and Salary Plan. The actual BRI produced a 7.68% growth over the prior year, with a resulting 3.84% PCM salary increase for participating bargaining and employee groups. With the exception of the Police bargaining units, all agreements specify a minimum salary increase: the salary increase is equal to the higher of the minimum negotiated increase or the 50% BRI result. The estimated unbudgeted impact for all City funds is approximately \$2.7 million; the estimated unbudgeted impact for the General Fund is \$2.2 million.

<b>CITYWIDE UNBUDGETED PCM IMPACT</b>				
<b>Employee Groups</b>	<b>Minimum Increase</b>	<b>Actual PCM Increase</b>	<b>Unbudgeted PCM Increase</b>	<b>Estimated Impact</b>
Police (RPOA, RPOA Supervisory, RPAA)	0%	3.84%	3.84%	\$1,692,000
Fire (RCFA, RFMG)	3%	3.84%	0.84%	251,000
SEIU (General & Refuse)	3%	3.84%	0.84%	358,000
Unrepresented	3%	3.84%	0.84%	404,000
<b>Citywide Unbudgeted Impact</b>				<b>\$2,705,000</b>

**FISCAL IMPACT:**

The General Fund ended FY 2018/19 in better condition than projected, with revenues outperforming projections, and savings in nearly all expenditure categories. As a result, the City is able to achieve the aspirational 20% General Fund reserve goal and end the year with \$4.4 million in surplus reserves.

The Enterprise Funds (Sewer, Refuse, Electric and Water) are operating either as expected, or better than expected as a result of debt refinancing and rate updates. The Sewer and Refuse funds are undergoing operational and financial reviews which will guide future discussions on the long-term strategy for these funds.

Prepared by:	Marie Ricci, Assistant Chief Financial Officer
Approved as to availability of funds:	Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by:	Carlie Myers, Deputy City Manager

Attachments:

1. Carryover of Unexpended Funds
2. Measure Z
3. Presentation