



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 16, 2020**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: PUBLIC HEARING; RESOLUTION - PROPOSED FISCAL YEAR 2020/21 ANNUAL BUDGET; UPDATED MASTER FEES AND CHARGES SCHEDULE; DELEGATION OF INVESTMENT AUTHORITY

ISSUES:

Conduct a public hearing on the proposed Fiscal Year 2020/21 Annual Budget and proposed Fiscal Year 2020/21 Capital Improvement Plan; adopt a resolution approving the proposed Fiscal Year 2020/21 Annual Budget and proposed Fiscal Year 2020/21 Capital Improvement Plan totaling \$1,199,692,476; receive and file the updated Master Fees and Charges Schedule; and delegate investment authority to the Chief Financial Officer/Treasurer for a period of one year beginning July 1, 2020 and ending June 30, 2021.

RECOMMENDATIONS:

That the City Council:

1. Conduct a public hearing on the proposed Fiscal Year 2020/21 Annual Budget and proposed Fiscal Year 2020/21 Capital Improvement Plan;
2. Adopt a resolution approving the proposed Fiscal Year 2020/21 Annual Budget and proposed Fiscal Year 2020/21 Capital Improvement Plan totaling \$1,199,692,476;
3. Receive and file the updated Master Fees and Charges Schedule; and
4. Delegate investment authority to the City's Chief Financial Officer/Treasurer for a period of one year beginning July 1, 2020 and ending June 30, 2021.

LEGISLATIVE HISTORY:

Several City Charter sections provide the procedural requirements for adoption of the budget by the City Council:

- **Article IV, Section 601(a-c)** requires the City Manager to keep the City Council advised of the financial condition of the City and annually prepare the City's budget and capital improvement plan (CIP) for review and adoption by the City Council.

- **Article XI, Section 1101** requires that the City Manager shall provide the City Council with a proposed budget at least thirty-five calendar days prior to the beginning of each fiscal year. After review, the City Council shall determine the time for the holding of a public hearing for the budget adoption; the public notice of the budget hearing published no less than twenty days prior to said hearing. Additionally, copies of the proposed budget shall be available for inspection by the public in the office of the City Clerk and on the City's website at least twenty days prior to the public hearing.
- **Article XI, Section 1102 and 1103** requires the City Council to hold the public hearing for the proposed budget adoption, seek public input, and make any revisions to the budget it deems necessary. The City Council may adopt the budget after the public hearing or postpone the date of adoption no later than July 1st.
- **Article VIII, Sec. 806(c)** requires that the Planning Commission make recommendations concerning proposed infrastructure improvements and redevelopment activities in support of planned land uses.
- **Article VIII, Section 808(c)** requires the Board of Library Trustees to consider the annual budget for library purposes during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.
- **Article VIII, Section 809(b)** requires the Park and Recreation Commission to consider the annual budget for parks, recreation, parkways and street tree purposes during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.
- **Article XII, Section 1202(a)** requires the Board of Public Utilities to consider the annual budget for the Department of Public Utilities during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager.

BACKGROUND:

The City adopted a biennial budget and five-year planning process in 2016 to provide a more informative, long-term outlook on City finances. Due to the unprecedented economic environment prompted by COVID-19 and the ongoing shelter-in-place order, a one-year emergency budget is proposed for adoption because the fiscal impact of COVID-19 cannot be reasonably estimated at this time: the shelter-in-place order is the primary driver of current economic conditions and until this order is lifted, the timing and nature of an economic recovery remains unknown. Even after the stay at home order is lifted the toll it has taken on the local economy and psyche of citizens will still be highly unpredictable. Time alone will provide us a better barometer of the impacts, but not until the order is lifted and a 'new normal' emerges.

In a normal budget development environment, staff seeks feedback from advisory boards, commissions, and committees; community groups; and City Council on departmental budgets and General Fund balancing measures to incorporate into the proposed budget. Due to the impact of COVID-19 on public and community meetings, the City has streamlined the current budget process to adopt an emergency fiscal year (FY) 2020/21 budget while remaining compliant with Charter requirements, as follows:



Normal Budget

- **Budget development**
 - 2-year budget, 5-year plans
 - Program/service impacts
- **Public body & community feedback**
 - Department presentations
 - Boards/Commissions per Charter requirements
 - Other public bodies
 - Ward meetings/workshops
 - Community group meetings
- **Council Budget Workshop**
- **Incorporate feedback**
 - Balancing measures



Emergency Budget

- **FY 2019/20 Rollover Budget**
 - Incorporate known and unavoidable items (e.g. MOU impacts; CalPERS UAL payment; debt obligations, election costs for Charter update)
 - Discretionary spending flat
 - Approved personnel changes; reorganizations
- **Council presentation only** of proposed budget
 - Balancing measures
- **Council adoption**
- **Intra-cycle budget updates** with public body feedback



Reason for Change

- **Essential meetings mandate:** Governor's Stay at Home Order limits public meetings
- **Incorporate recent feedback on FY 2019/20 budget**
 - The 'roll over' allows the City the opportunity to use the budget details, as recently presented and discussed to be duplicated for the FY 2021/21 Emergency Budget
 - Budget Engagement Commission
 - Council
 - Other public bodies

On May 19, 2020, the City Council received and provided input on the proposed FY 2020/21 emergency budget, inclusive of the FY 2020/21 emergency Capital Improvement Plan. The City Council conceptually approved the General Fund balancing measures and Measure Z spending plan revisions, and voted unanimously to set the public hearing for June 16, 2020.

DISCUSSION:

Budget Overview – Citywide

Due to the inability to predict the fiscal impact of COVID-19 at this early date, only the General Fund and Measure Z have been adjusted for potential COVID-19 impacts in the FY 2020/21 emergency budget, except for vacancy savings targets proposed in most funds. All City funds will be monitored closely during the fiscal year, and intracycle adjustments proposed on a quarterly basis during FY 2020/21 will be presented to the respective board or commission for recommendation to the City Council as more information and data becomes available.

The proposed FY 2020/21 emergency budget totals approximately \$1.2 billion, comprised of \$1.1 billion in operating expenses and \$110 million in planned capital projects. The Proposed FY 2020/21 Budget presented for adoption incorporates the General Fund balancing measures and Measure Z spending plan revisions conceptually approved by the City Council on May 19, 2020, as summarized in the following table. Transfers Out on the expenditure side increased by \$14,950,150, equally offset by Transfers In on the revenue side. Expenditure reductions totaling \$9,116,019 were also recorded, for a net expenditure increase of \$5,834,131 over the May 19, 2020 proposed emergency budget.

In the following table, the adjustments in the Debt Service Fund and Public Parking Fund reflect the elimination of Transfers In from Measure Z and payment of related debt obligations. Refer to Attachment 2C for the updated 2018-2023 Measure Z Spending Plan.

PROPOSED BALANCING MEASURES AND MEASURE Z SPENDING PLAN REVISIONS		
Description	FY 2020/21 Revenue Revision	FY 2020/21 Expenditure Revision
General Fund		
Pension Obligation Bond (POB) Projected Savings		\$(7,000,000)
Maintain Measure Z FY 2019/20 Support Level	\$6,531,749	
Allocate Unspent Measure Z Contingency (2019-2021)	6,000,000	
Section 115 Trust (\$9.1 million current value)	6,165,501	
General Fund Totals	\$18,697,250	\$(7,000,000)
Section 115 Pension Trust Fund		
Section 115 Pension Trust (\$9.1 million current value)		\$6,165,501
Measure Z Fund Spending Items		
4 Allocate Unspent Measure Z Contingency (2019-2021)		\$6,000,000
18 General Fund Support - Maintain Programs & Services		6,531,749
25 New Police Headquarters – Defer to FY 2023		(2,132,000)
26 Museum Expansion & Rehabilitation – Defer to FY 2023		(807,550)
27 Downtown Parking Garage – Eliminate		(807,550)
39 Public Safety & Engagement Team – Non-personnel		1,631,081
Measure Z Fund Totals	\$-	\$10,415,730
Debt Service Fund (Debt Obligations)		
New Police Headquarters – Defer to FY 2023	\$(2,132,000)	\$(2,132,000)
Museum Expansion & Rehabilitation – Defer to FY 2023	(807,550)	(807,550)
Debt Service Fund Totals	\$(2,939,550)	\$(2,939,550)
Public Parking Fund (Debt Obligation)		
Downtown Parking Garage – Eliminate	(807,550)	(807,550)
Total Proposed Budget Revisions	\$14,950,150	\$5,834,131

The result of the incorporation of the General Fund balancing measures and Measure Z spending plan revisions on the Citywide budget is summarized in the following table. Refer to Attachment 2 for the Proposed FY 2020/21 Annual Budget, inclusive of capital project spending.

CITYWIDE BUDGET SUMMARY - OPERATING Proposed FY 2020/21 Annual Budget			
	May 19, 2020 Proposed	Incorporated Changes	June 16, 2020 Proposed
Revenues & Transfers In			
Taxes	\$239,609,327	-	\$239,609,327
Licenses & Permits	12,922,118	-	12,922,118
Intergovernmental	34,657,946	-	34,657,946
Charges for Services	630,085,449	-	630,085,449
Fines & Forfeits	5,359,390	-	5,359,390
Special Assessments	11,881,391	-	11,881,391
Miscellaneous	28,973,728	-	28,973,728
Rents	2,337,083	-	2,337,083
Other Financing Sources	586,000	-	586,000
Operating Transfers In	112,752,853	14,950,150	127,703,003
COVID-19 Contingency Revenue Reduction – General Fund	(7,754,870)	-	(7,754,870)
Total Revenues & Transfers In	\$1,071,410,415	\$14,950,150	\$1,086,360,565
Expenditures & Transfers Out			
Personnel Services	\$382,832,570	-	\$382,832,570
Non-personnel Expenses	402,151,536	1,631,081	403,782,617
Special Projects	53,949,047	-	53,949,047
Equipment Outlay	5,410,195	-	5,410,195
Debt Service	154,410,466	(3,747,100)	150,663,366
Capital Outlay	571,067	-	571,067
Charges from Others	96,986,053	-	96,986,053
Charges to Others	(125,268,857)	-	(125,268,857)
Operating Transfers Out	112,752,853	14,950,150	127,703,003
Projected POB Savings	-	(7,000,000)	(7,000,000)
Total Expenditures & Transfers Out	\$1,083,794,930	\$5,834,131	\$1,089,629,061

The FY 2020/21 Capital Improvement Plan presented for adoption has not changed from the May 19, 2020 proposed budget. On May 14, 2020, the Planning Commission reviewed the projects included in the proposed FY 2020/21 Capital Improvement Program budget and unanimously determined that the projects are consistent with the General Plan 2025 pursuant to California Government Code Section 65401 (Attachment 4). Refer to Attachment 2E for the Proposed FY 2020/21 Capital Improvement Plan, including a schedule of capital projects by City Ward.

**CITYWIDE BUDGET SUMMARY - CAPITAL
FY 2020/21 Proposed Capital Budget**

Funding Sources

Electric Utility	\$41,663,797
Water Utility	30,616,405
Transportation Funds	14,969,492
Measure Z Capital	7,237,955
Sewer (Bond Proceeds)	14,000,000
Other	1,575,766
Total Funding Sources	\$110,063,415

Funding Uses

Airport	\$104,225
Electric	41,663,797
Innovation and Technology	2,909,496
Municipal Buildings and Facilities	1,000,000
Parks, Recreation, and Community Services	325,000
Railroad	772,700
Sewer	14,000,000
Storm Drain	650,000
Transportation	18,021,792
Water	30,616,405
Total Funding Uses	\$110,063,415

Budget Overview – General Fund

The proposed FY 2020/21 General Fund budget totals \$271.4 million, a decrease of \$7.7 million as compared to the FY 2019/20 amended budget adopted by the City Council on June 18, 2019. The proposed budget is \$7 million less than the May 19, 2020 presentation due to the incorporation of the Pension Obligation Bond balancing measure. The \$18.7 million increase in Transfers In represents additional balancing measures as described after the table.

GENERAL FUND Proposed FY 2020/21 Annual Budget			
	May 19, 2020 Proposed	Incorporated Changes	June 16, 2020 Proposed
Revenues & Transfers In			
Property Tax	\$70,854,729	\$-	\$70,854,729
Sales & Use Tax	59,644,285	-	59,644,285
Utility Users Tax	30,071,801	-	30,071,801
Transient Occupancy Tax	2,709,840	-	2,709,840
Franchise Fees	5,262,475	-	5,262,475
Licenses & Permits	8,678,998	-	8,678,998
Intergovernmental	1,144,668	-	1,144,668
Charges for Services	15,380,916	-	15,380,916
Fines & Forfeits	1,659,390	-	1,659,390
Special Assessments	512,980	-	512,980
Miscellaneous	4,117,838	-	4,117,838
Operating Transfers In	60,419,977	18,697,250	79,117,227
Uncategorized COVID-19 Revenue Reduction	(7,754,870)	-	(7,754,870)
Total Revenues & Transfers In	\$252,703,027	\$18,697,250	\$271,400,277
Expenditures & Transfers Out			
Personnel Services	\$229,961,706	\$-	\$229,961,706
Non-personnel Expenses	54,327,783	-	54,327,783
Special Projects	6,478,058	-	6,478,058
Equipment Outlay	280,687	-	280,687
Capital Outlay	173,360	-	173,360
Charges from Others	39,044,733	-	39,044,733
Charges to Others	(82,221,111)	-	(82,221,111)
Operating Transfers Out	30,355,061	-	30,355,061
Projected POB Savings	-	(7,000,000)	(7,000,000)
Total Expenditures & Transfers Out	\$278,400,277	(\$7,000,000)	\$271,400,277

Revenue: Revenue assumptions made prior to COVID-19 and totaling \$280.8 million were based upon information provided by the City's sales and property tax consultant HdL, trend analysis, and consideration of economic factors. The most notable impact to General Fund resources aside from COVID-19 was a programmed \$6.5 million reduction in Measure Z support to the General Fund via the Measure Z funding gap line item in the 2016-2021 five-year spending plan prepared in Spring 2017. That plan projected that strong, sustained revenue growth and one-time revenues in the General Fund would offset rising operating costs. Following best budgeting practices, the City no longer balances operating costs on unpredictable and unreliable one-time revenues, such as sales of City property. Additionally, one-time revenues are now subject to the Pension Funding Policy, which ensures that the City allocates a portion of unanticipated one-time revenues toward the long-term management of rising pension costs.

On May 19, 2020, the City Council conceptually approved maintaining the General Fund support from Measure Z (Spending Item #18) at the FY 2019/20 level of \$18.3 million and allocating the 2019 through 2021 unexpended Measure Z contingency of \$6 million (Spending Item #4) to offset potential General Fund revenue shortfalls resulting from COVID-19. A \$6.2 million transfer in of Section 115 Pension Trust funds is also budgeted in the event that General Fund revenues are insufficient to fully fund the FY 2020/21 CalPERS UAL obligation.

Expenditures: The proposed expenditure budget includes known and unavoidable cost increases, including estimated personnel cost increases consistent with employee agreements (\$7.1 million excluding vacancy savings targets); an increase of \$3.5 million in the annual CalPERS unfunded accrued liability payment; and an increase of \$1.4 million in estimated election costs related to the City Charter review. On May 19, 2020, the City Council voted to place six charter amendments on the ballot at an estimated cost of \$695,000. Following the full accounting of all charter amendment costs, staff will return to the City Council during the fiscal year for direction on the reallocation of unexpended election funds.

City departments were required to maintain a flat budget in discretionary spending categories, forcing them to absorb contractual, mandated, and other unavoidable cost increases by reducing discretionary line items such as equipment replacement, training, and supplies. As a result of COVID-19, staff has incorporated a vacancy savings target of \$15.7 million into the proposed budget, representative of positions that are currently vacant.

Following discussion of the proposed FY 2020/21 emergency budget at the May 19, 2020 City Council meeting, an expenditure reduction of \$7 million was incorporated into the proposed budget for estimated savings from the issuance of a Pension Obligation Bond. Following the issuance of the bond, staff will report to the City Council the actual savings resulting from the FY 2020/21 POB debt obligation as compared to the CalPERS UAL payment obligation, and record an intracycle adjustment equal to the amount of the actual savings.

General Fund Balancing Measures

On May 19, 2020, the City Council received the proposed FY 2020/21 emergency budget and discussed General Fund balancing measure options. As a result of the discussion, the following balancing measures have been incorporated into the FY 2020/21 annual budget proposed for adoption:

- **POB Issuance (\$7 million):** On May 5, 2020, the City Council approved the issuance of a Pension Obligation Bond (POB) in FY 2019/20 which if successfully issued will generate a minimum savings of \$7 million in FY 2020/21. If the POB is not issued by June 30, 2020, no savings will be realized in FY 2020/21 and additional balancing measures will need to be considered.
- **Maintain Measure Z FY 2019/20 Support Level (\$6.5 million):** Preserving the Measure Z contribution to the General Fund at the same level as FY 2019/20 (\$18.3 million) will offset \$6.5 million of the deficit resulting from the COVID-19 revenue reduction.
- **Allocate Unspent Measure Z Contingency (2019-2021) (\$6 million):** A total of \$6 million was programmed in the 2018-2023 Measure Z spending plan's Spending Contingency (#4) line item over three years from FY 2018/19 through FY 2020/21. The amount has not been expended and is recommended to be leveraged as a balancing measure for the FY 2020/21 General Fund budget. The unexpended FY 2018/19 amount was moved to unallocated fund reserves at fiscal year-end in the amount of \$2 million. If the City Council

adopts the proposed FY 2020/21 emergency budget inclusive of this balancing measure, contingency funds of \$2 million will be unappropriated in FY 2019/20 and re-appropriated in FY 2020/21 with the adoption of the FY 2020/21 annual budget.

- **Section 115 Trust (\$6.2 million):** In 2019, the City Council approved the establishment of a Section 115 Pension Trust for the long-term management of pension costs. The current value of \$9.1 million is available for withdrawal to pay a portion of the City's required CalPERS UAL payment in FY 2020/21.

Potential COVID-19 Impacts on the General Fund Budget

Although the FY 2020/21 preliminary budget was successfully balanced using vacancy savings, it would be irresponsible to ignore certain COVID-19 impacts on the General Fund. While the fiscal impact cannot be reasonably estimated at this time, staff incorporated a 10% revenue reduction totaling \$28.1 million and the aforementioned balancing measures that leave General Fund reserves intact. The estimated 10% reduction is based on revenue declines experienced immediately following previous economic recessions such as the 2008 Great Recession as well as limited data available during the current pandemic.

It should be noted that the revenue demographic of California cities is diverse, requiring analysis, identification, and consideration of potential COVID-19 effects on individual revenue sources in each agency. For example, much of the revenue generated in California's coastal and destination cities comes from tourism and entertainment which will impact sales tax and transient occupancy tax to a higher degree than will likely be experienced in inland cities. In Riverside, sales tax is primarily generated from the sale of core goods and services, and transient occupancy tax is more often a result of necessary travel rather than leisure (e.g. business travel). Property and sales tax account for more than 50% of the City's General Fund revenues. Based on staff's discussion with HdL (the city's sales and property tax consultant), research and observation of actions taken by other cities, and feedback from City departments, staff believes a 10% revenue reduction in the City's General Fund combined with diligent monitoring of the City's finances and cost control measures (limiting spending to essential and emergency needs, and suspension of recruitment) is a prudent course of action at this time to mitigate the potential fiscal impact of COVID-19. The 10% (\$28.1 million) revenue reduction included in the proposed FY 2020/21 emergency budget is comprised of:

- **Property Tax:** Contingency reduction of 2% (\$1.45 million). Property tax accounts for 25.7% of projected General Fund revenues. COVID-19 has resulted in a slow-down of home sales and new construction, so the original projected 3% growth in this category may not be achieved. Due to the delayed impact of COVID-19 on the housing market, a modest 2% contingency revenue reduction is included in the proposed budget, reducing the projected 3% growth to 1%.
- **Sales Tax:** Contingency reduction of 14.1% (\$9.8 million) based on HdL projections in conjunction with staff discussion. Sales tax accounts for 24.7% of projected General Fund revenues. With business activity limited to essential services and human movement minimized, consumer spending has plummeted. HdL projects a 14.6% total revenue loss for the remainder of FY 2019/20, with moderate recovery beginning in mid FY 2020/21.
- **Transient Occupancy Tax (TOT):** Contingency reduction of 65% (\$5 million). TOT accounts for 2.8% of projected General Fund revenues. With travel and entertainment at a near standstill, hotel occupancy is expected to drop 90% in FY 2019/20 followed by a

protracted rebound: consumers are unlikely to quickly resume pre COVID-19 travel and spending behaviors.

- **Licenses and Non-Developer Permits:** Contingency reduction of 30% (\$2.9 million). This revenue accounts for 3.5% of projected General Fund revenues and includes animal licenses, business licenses, and other miscellaneous permits. Business licenses in particular (86% of this category) are expected to decline as a result of the financial hardships and potential permanent business closures prompted by COVID-19.
- **Non-Development Charges for Services:** Contingency reduction of 10% (\$1.1 million). This revenue accounts for 3.9% of projected General Fund revenues; 33% (\$3.7 million) of this category is comprised of Parks and Recreation fees, which are expected to experience a gradual recovery as customers resume pre COVID-19 activity levels.
- **Other Revenues:** A total of \$7.8 million of additional revenue reduction contingencies is incorporated into the proposed budget, allowing a buffer for the unknown impacts of COVID-19 on other revenue sources such as franchise fees, building and other permits, and the general fund transfer, or for larger impacts than expected on revenues already reduced.

Other risk factors exist for the General Fund that may need to be addressed in the future. Given the turmoil in the financial market, uncertainty exists on how CalPERS investments will be impacted at year end, which could result in significant increases in unfunded liability payments beginning July 2022. Additionally, the City consistently receives legal challenges to the general fund transfer from the Electric and Water funds. Any unsuccessful attempt to defend the legality of the transfers could have a detrimental impact to the General Fund. The combined transfer represents approximately \$49 million or 17.9% of FY 2020/21 estimated General Fund revenue.

Budget Overview – Measure Z

Measure Z revenues will be impacted by COVID-19 by an unpredictable amount. FY 2019/20 revenue projections were revised in the second quarter to \$62.3 million (5% increase) based on strong revenue performance. Due to COVID-19, that projection has been reduced by 10% based on information provided by the City's sales tax consultant HdL, in conjunction with staff discussion, and is estimated at approximately \$56 million. FY 2020/21 revenue projections have been reduced by 10% as a cautionary measure and are estimated at \$56.2 million down from initial budgetary projections of approximately \$63 million.

The current Measure Z spending plan extends through FY 2022/23. The Budget Engagement Commission (BEC) routinely receives agenda items related to Measure Z and provides feedback and recommendations on spending initiatives. Recent discussions considering the Measure Z spending plan in its entirety include:

- **September 12, 2019:** Review Measure Z Five Year Spending Plan Commitments and Expenditures in the context of the CalPERS Challenge
 - The BEC unanimously recommended to further discuss specific spending items at a future meeting. (Attachment 3)
- **October 10, 2019:** Update on the General Fund Five Year Plan and the Measure Z Contributions to the General Fund
 - The BEC voted to further discuss the Public Safety Non-Sworn Positions &

Recruitment Costs (#6) spending items at a future meeting with a vote of 14 Ayes, 1 Noes, and 0 Abstentions. (Attachment 3)

- **January 16, 2020:** Discussion and Consideration of the current Measure Z Five Year Spending Plan
 - The BEC made recommendations on specific individual spending items as noted later in this report; refer to Attachment 3 for details.

Changes incorporated into the proposed Measure Z spending plan (pre COVID-19) include:

- **Spending Contingency (#4):** Eliminate. Allocation of the spending contingency would require City Council action, as would the use of Measure Z unallocated reserves. For this reason, this item was no longer recommended to be budgeted. Following discussion of the FY 2020/21 proposed emergency budget at the May 19, 2020 City Council meeting, this spending item was re-programmed in the FY 2020/21 budget proposed for adoption, with the funds designated to be used as a General Fund balancing measure.
- **Police Officer Lateral Hire Incentives and Recruitment Costs (Item #7):** Reduce to \$200,000 annually, maintaining funding only for recruitment costs. The Police Department does not anticipate a need to offer hiring incentives.
 - **BEC recommendation:** On January 16, 2020, the BEC discussed the 2018-2023 Measure Z Spending Plan and recommended that all funding for this spending item be removed, with a vote of 10 Ayes, 1 Noes, and 0 Abstentions. (Attachment 3)
- **Ward Action Team - City Manager's Office Item (#32):** Eliminate the City Manager's Office Ward Action Team position; related activities have been absorbed by existing General Fund staff.
 - **BEC recommendation:** On January 16, 2020, the BEC discussed the 2018-2023 Measure Z Spending Plan and unanimously voted that this spending item be removed. (Attachment 3)

Additional Measure Z funding will likely be required to provide financial assistance to the General Fund if COVID-19 fiscal impacts are too great for the General Fund to absorb through other mitigating actions. Therefore, re-prioritization or deferment of one-time Measure Z spending items is recommended to 1) offset Measure Z revenue declines and 2) set aside funding to preserve General Fund operations, if needed. As a result of the May 19, 2020 discussion of the proposed FY 2020/21 emergency budget with the City Council, the following adjustments have been incorporated into the proposed FY 2020/21 annual budget for adoption:

- **General Fund Support - Maintain Programs & Services (#18):** The FY 2016-2021 Measure Z plan adopted in May 2017 included a reduction of \$6.5 million in General Fund support predicated on a General Fund five-year plan that projected strong, continued revenue growth and significant one-time revenues such as the sale of City property to offset increasing operating costs. However, as a result of COVID-19 staff recommends the funding level be restored to the current FY 2019/20 level (\$18.3 million) for the near term.
- **New Police Headquarters (#25):** Because debt was not issued in FY 2019/20 as planned, the initial proposed FY 2020/21 Measure Z plan included the mid-year debt issuance at \$2.1 million. Given the unknown impact of COVID-19 on City finances, this project is

recommended to be deferred to FY 2022/23. The reduction of the FY 2019/20 spending item to zero is reflected in the updated 2018-2023 Measure Z Spending Plan (Attachment 2C).

- **Museum Expansion & Rehabilitation (#26):** The proposed budget includes an anticipated debt issuance in mid FY 2020/21. Due to the potential impacts of COVID-19 on available resources, this project is recommended to be deferred to FY 2022/23. Although the debt repayment period is shorter, updated debt payment estimates are lower than those currently included in the proposed updated FY 2018-2023 spending plan; however, financial market conditions are extremely unpredictable.
 - **BEC recommendation:** On January 16, 2020, the BEC discussed the 2018-2023 Measure Z Spending Plan and requested a follow-up presentation by the Museum regarding architectural plans, options, and its associated costs. On March 12, 2020, the BEC received the follow-up presentation and recommended that the project remain in the Measure Z plan with a vote of 9 Ayes, 4 Noes and 0 abstentions; draft minutes for the March 12 meeting have not yet been approved by the BEC.
- **Downtown Parking Garage (#27):** Due to the uncertainty of COVID-19 on parking fund revenues and continuing discussion regarding City-owned parking and related operating and funding strategies, staff recommends removing this item from the Measure Z spending plan to free up funding for other critical operating needs.
 - **BEC recommendation:** On January 16, 2020, the BEC discussed the 2018-2023 Measure Z Spending Plan and recommended that the City Council eliminate this item from the Measure Z five-year spending plan.
- **Public Safety & Engagement Team Program (PSET) (#39):** Personnel costs for this spending item were incorporated into the proposed FY 2020/21 emergency budget presented to the City Council on May 19, 2020. This spending item includes seventeen (17) personnel; however, consistent with other City funds, positions vacant as of March 13, 2020 were unfunded in the amount of \$308,000: three (3) park maintenance workers and one (1) park supervisor. If Measure Z funding is discontinued, the filled positions will need to be transferred to the General Fund and additional balancing measures of \$1,168,919 will be required for the FY 2020/21 proposed budget, or the positions would need to be vacated by June 30, 2020. Staff recommends continuing the PSET program through the FY 2018-2023 spending plan at \$2.8 million annually (the FY 2019/20 funding level is \$3.4 million); thus, an additional \$1,631,081 in non-personnel funding has been incorporated into the proposed FY 2020/21 budget for adoption under the City Manager's Office. If the City Council approves the budget as proposed, the funds will be reallocated to the appropriate departments after a plan for the use of funds is developed.

The following table summarizes the revisions to the Measure Z spending plan in the FY 2020/21 proposed budget for adoption. If the revisions are approved, the FY 2019/20 appropriation for the Measure Z Contingency (Item # 4) and the Police Headquarters will be unappropriated, as indicated in the updated Measure Z spending plan (Attachment 2C).

PROPOSED MEASURE Z SPENDING PLAN REVISIONS				
Measure Z Fund Spending Item		May 19, 2020 Proposed	Incorporated Changes	June 16, 2020 Proposed
4	Allocate Unspent Measure Z Contingency (2019-2021)	\$-	\$6,000,000	\$6,000,000
18	General Fund Support - Maintain Programs & Services	11,734,277	6,531,749	18,266,026
25	New Police Headquarters – Defer to FY 2023	2,132,000	(2,132,000)	-
26	Museum Expansion & Rehabilitation – Defer to FY 2023	807,550	(807,550)	-
27	Downtown Parking Garage – Eliminate	807,550	(807,550)	-
39	Public Safety & Engagement Team – Add Non-personnel	1,168,919	1,631,081	2,800,000
Total Spending Plan Revisions		\$16,650,296	\$10,415,730	\$27,066,026

Refer to Attachment 2C for the fully updated 2018-2023 spending plan which incorporates the above revisions through 2023. While the spending plan reflects these revisions through 2023 for long-term planning purposes, the City Council's adoption of the FY 2020/21 annual budget does not constitute adoption of fiscal years 2022 and 2023 Measure Z programming. Measure Z programming is formally adopted by City Council action only for the fiscal year(s) stated in the budget resolution accompanying a proposed budget.

Potential COVID-19 Impacts on Other City Funds

Other City funds expected to be impacted by COVID-19 will be addressed during intracycle updates as more information is gathered, but are not limited to:

- **Special Gas Tax:** The majority of the City's street projects are funded by State gas tax funds and vehicle registration fees. The dramatic decline in fuel and auto sales may require deferment of planned capital projects for the City's streets. The General Fund proposed FY 2020/21 budget includes expenditure reimbursements from the Special Gas Tax fund of approximately \$1.3 million for qualifying General Fund expenditures on planned capital projects, including personnel costs. To the extent financially practical these projects should be considered a priority which will help alleviate the General Fund having to absorb these costs.
- **Measure A:** Measure A funds come from a County of Riverside half-cent sales tax passed in 1988. The funds passed through to the City are required to be spent on local streets and roads. This funding source is impacted by sales tax performance, which is expected to underperform due to COVID-19 and may result in the deferral of planned capital projects.
- **Public Parking Fund:** Parking revenues have declined sharply due to the shelter-in-place order, compounding existing fiscal challenges in the Public Parking fund. The fund operates on a very narrow margin in most years, and partial use of fund reserves has been needed for critical capital projects, maintenance, and repairs. The deferral of planned capital projects should be assessed as revenue declines materialize.

- **Convention Center:** The Convention Center is temporarily closed due to the shelter-in-place order. The General Fund subsidizes 100% of debt obligations (\$3.45 million in FY 2020/21) for the Convention Center Fund and operating losses. In FY 2018/19, the Convention Center posted a nominal profit, but the Riverside Convention & Visitor's Bureau and the Sports Commission required an operating subsidy totaling \$1.6 million. The FY 2020/21 proposed budget includes an operating subsidy of \$1.75 million for this fund.
- **Entertainment Fund:** The Entertainment Fund encompasses the Fox and Box theaters and the Municipal Auditorium. The General Fund pays 100% of debt obligations (\$3.29 million in FY 2020/21) and backfills operating losses. In FY 2018/19, the General Fund subsidized \$444,000 in operating costs; \$547,600 is included in the FY 2020/21 proposed budget.

Personnel

The FY 2020/21 proposed personnel budget developed prior to the onset of the COVID-19 emergency includes a citywide increase of 19.38 full-time equivalent (FTE) positions over the FY 2019/20 budget. Refer to Attachment 2D for comprehensive personnel schedules and explanations of changes from FY 2019/20. The following summarizes increases and decreases in total FTE by fund:

- **General Fund: 6.0 increase in FTE (Zero cost)**
 - *Add 4.0 FTE funded by Riverside Public Utilities (RPU):* Transfer 3.0 FTE from RPU to the General Fund to reflect the existing employee reporting structure and Inter-Departmental Service Level Agreements; add 1.0 FTE Construction Inspector. There is no cost to the General Fund; these positions are fully funded by RPU.
 - *Grant positions (2.0 FTE):* Clean-up action confined to updating the personnel schedule (Attachment 2D) to include grant positions partially funded by the General Fund. These positions were previously approved by the City Council upon acceptance of the respective grant funding but had not been listed in prior publications of the personnel schedule.
- **Measure Z: 13.53 increase in FTE**
 - *Additional Sworn Police Positions (#5):* 13.0 FTE to be added in Year 5 (FY 2020/21) per the adoption of the original spending plan in May 2017.
 - *Additional Dispatchers (#8):* 2.0 FTE to be added in Year 5 (FY 2020/21) per the adoption of the original spending plan in May 2017. These positions are vacant and therefore unfunded in FY 2020/21 of the proposed spending plan (Attachment 2C), consistent with the citywide COVID-19 contingent vacancy savings target for all City funds.
 - *Ward Action Team - City Manager's Office (#32):* 1.0 FTE vacant position removed; this position was never filled. Related activities have been absorbed by existing General Fund staff.
 - *Recreation - Summer Pools (#37):* 1.47 FTE vacant positions removed; funding for this item expires in FY 2019/20.

- *Public Safety and Engagement Team Program (#39):* 1.0 FTE added in the Parks Division as a result of a staff reorganization with a net zero monetary impact.
- **Grants & Restricted Programs Fund: 2.0 increase in FTE**
 - *Certified Unified Program Agency (CUPA):* 2.0 FTE added to reflect City Council approval in FY 2019/20 of positions funded by the CUPA program.
- **Public Utilities: 3.15 decrease in FTE**
 - *Transfer 3.0 FTE:* From Riverside Public Utilities (RPU) to the General Fund to reflect the existing employee reporting structure and Inter-Departmental Service Level Agreements. These positions are fully funded by RPU.
 - *Decrease 0.15 FTE:* The net effect of a multitude of reorganizational changes described in Attachment 2D.
- **Refuse: 3.0 increase in FTE**
 - *Add 3.0 FTE:* As recommended in the Solid Waste and Recycling Program Strategy and Economic Study Report presented to the City Council in January 2020 to expand the hauling program and add two routes per day for solid waste pick-ups.
- **Sewer: 2.0 decrease in FTE**
 - *Delete 2.0 FTE:* The net effect of reorganizational changes described in Attachment 2D.

Unfunded Positions

With the onset of COVID-19 and designation of recruitment as a non-essential function, staff identified vacancy savings as a potential balancing measure for the General Fund. Positions listed in the active personnel schedule and vacant as of March 13, 2020 were identified and vacancy savings targets for the corresponding position budgets were incorporated in the FY 2020/21 proposed budget for most City funds.

The unfunding of City positions does not result in a temporary or permanent removal of the positions. When the recruitment suspension is lifted, and if sufficient funds are available, the positions may be filled. As a result, the budget reductions listed in the following tables should be considered *vacancy savings targets*. A vacancy savings target provides departments with flexibility to fill critical positions: although a specific position is unfunded, another newly vacant and less critical position may be swapped with the currently unfunded position, provided the vacancy savings target can still be achieved.

Some vacant positions are not included in the vacancy savings targets of the FY 2020/21 proposed budget. Budgeted amounts corresponding to positions added with the adoption of the FY 2020/21 budget are not included because those positions and corresponding budgets will not exist unless and until approved by the City Council with adoption of the FY 2020/21 proposed budget. In the Measure Z fund, six vacant sworn police positions funded by Measure Z (Spending Item #5 - Additional Sworn Police Positions) were not unfunded in the proposed budget. Vacancies for the Electric and Water funds are not unfunded; due to an extensive internal study

and reorganization of the utility workforce during the last 18 months, the vacancies identified as of March 13, 2020 will not correspond to positions available to be held vacant. The Electric Fund expects to realize a 5% vacancy savings during FY 2020/21 based on historical trends; the Water Fund positions are critical positions that will be filled when possible.

The following table summarizes total FTE by fund, total vacancies as of March 13, 2020, the number and budget value of vacancies unfunded in the proposed budget, and the percentage of total FTE unfunded.

CITYWIDE VACANCY SAVINGS TARGETS BY FUND Incorporated into the Proposed FY 2020/21 Annual Budget					
Fund	FY 2020/21 Proposed Workforce	March 13, 2020 Vacancies	# Positions Unfunded	% Positions Unfunded	Budget Reduction
101 - General Fund					
Non-Sworn	971.65	110.50	110.50	11.4%	\$11,230,728
Sworn (Police and Fire)	505.00	29.00	29.00	5.7%	4,423,770
Total General Fund	1,476.65	139.50	139.50	9.4%	\$15,654,498
110 - Measure Z					
Non-Sworn	40.00	9.00	9.00	22.5%	\$646,976
Sworn (Police and Fire)	77.00	6.00	-	-	-
Total Measure Z Fund	117.00	15.00	9.00	7.7%	\$646,976
170 - Development	3.00	1.00	1.00	33.3%	105,787
215 - Grants and Restricted	2.00	-	-	-	-
220 - CDBG	4.00	1.00	1.00	25.0%	58,500
260 - NPDES Storm Drain	2.00	-	-	-	-
280 - Housing Authority	8.00	-	-	-	-
510 - Electric	466.25	88.75	-	-	-
511 - Electric - Public Benefit	-	4.00	-	-	-
520 - Water	164.50	7.00	-	-	-
521 - Water Conservation	-	1.00	-	-	-
530 - Airport	7.00	1.00	1.00	14.3%	64,975
540 - Refuse	62.00	9.00	9.00	14.5%	723,673
550 - Sewer	116.00	17.00	17.00	14.7%	1,704,286
560 - Special Transit	48.25	7.00	-	-	-
570 - Public Parking	18.00	6.00	6.00	33.3%	372,167
610 - Workers' Compensation	5.00	-	-	-	-
630 - Liability Insurance Trust	5.00	-	-	-	-
640 - Central Stores	8.00	1.00	1.00	12.5%	90,186
650 - Central Garage	39.00	8.00	8.00	20.5%	733,654
Totals	2,551.65	306.25	192.50	7.5%	\$20,154,702

The following table summarizes General Fund proposed workforce by FTE, total vacancies as of March 13, 2020, the budget value of vacancies unfunded in the proposed budget, and the

percentage of a department's total FTE unfunded in the proposed FY 2020/21 budget.

GENERAL FUND VACANCY SAVINGS TARGETS BY DEPARTMENT Incorporated into the Proposed FY 2020/21 Annual Budget				
Department	FY 2020/21 Proposed Workforce	March 13, 2020 Vacancies	% Unfunded	Budget Reduction
Mayor	7.25	1.00	13.8%	\$105,864
City Council	14.00	-	-	-
City Manager	30.55	5.00	16.4%	646,414
City Clerk	10.00	-	-	-
Office of the City Attorney	34.00	2.50	7.4%	302,349
Human Resources	30.00	2.00	6.7%	158,331
General Services	30.00	3.00	10.0%	222,649
Finance	55.00	12.00	21.8%	1,184,789
Innovation and Technology	59.25	8.00	13.5%	1,094,486
Community Development	106.25	21.00	19.8%	2,272,556
Police	506.00	35.00	6.9%	4,260,438
Fire	234.00	14.00	6.0%	1,928,713
Public Works	134.00	16.00	11.9%	1,559,811
Library	60.00	8.00	13.3%	757,995
Parks, Recreation & Community Services	152.85	9.00	5.9%	857,662
Riverside Metropolitan Museum	13.50	3.00	22.2%	302,441
Totals	1,476.65	139.50	9.4%	\$15,654,498

The Executive Leadership Team under the guidance of the City Manager will continue to monitor vacancies and personnel needs throughout the fiscal year to minimize the impact to City programs and to ensure that city operations continue in an effective and efficient manner.

Fees and Charges

Riverside Municipal Code Chapter 3.30.040 establishes the requirements for the annual Master Fees and Charges Schedule:

“The City Council shall, at least annually in conjunction with the City annual budget process, receive at a regularly scheduled meeting oral and written presentations concerning fees and charges proposed to be decreased, increased or deleted. At least ten days prior to such public meeting, the City Manager shall make available to the public appropriate data indicating the cost, or estimated cost, required to support the fees and charge for which changes are proposed to be made or fees or charges imposed. The City Manager also shall provide a summary of the present fee and charge schedules and those proposed at such annual public meeting.”

No fees or charges are recommended to be decreased, increased or deleted in this report. The following summarizes the changes to fees and charges approved by the City Council action since the last compilation of the Master Fees and Charges Schedule, through June 4, 2020. For ease of review, the updates are highlighted in the attached Master Fees and Charges publication

(Attachment 5).

SUMMARY OF CHANGES TO THE MASTER FEES AND CHARGES SCHEDULE			
Council Approval Date	Summary Description	Action Summary	Schedule Page #
09/17/2019	Public Works – Bicycle and Facility Rentals	Changes in ride times, discontinuations, and increases	45
10/22/2019	Riverside Police Department – Entertainment Permit	New fees	37
10/22/2019	Community and Economic Development – Building and Safety	New fees	6
11/05/2019	Parks, Recreation, and Community Services – Boathouse Rentals Fairmount Golf Course Field Usage Pool Rentals Open Space Facility Rentals Membership Fees	Increases and new fees	27 - 36

The annual Master Fees and Charges publications are available to the public at the Finance department website (<https://riversideca.gov/finance/fees.asp>). Changes approved by the City Council during the fiscal year are listed on the website and incorporated into the next annual publication.

Investment Authority

The authority to manage the City's investment program is provided by California Government Code Sections 53600 et seq. Pursuant to the Government Code, the City Council may delegate to the Treasurer/Chief Financial Officer (CFO) for a one-year period the authority to invest or to reinvest all funds of the City. The City Charter delegates investment authority to the Chief Financial Officer.

Next Steps

It is likely that the proposed budget does not fully predict or encompass the full potential impacts of the COVID-19 emergency. However, at this point in time, the proposed budget reasonably projects potential General Fund revenue impacts and incorporates mitigating actions that will allow the City to proceed with budget adoption. Staff to follow up with quarterly or as-directed fiscal updates to the City Council and recommend intracycle adjustments as more information becomes available. Spending will continue to be limited to essential and emergency purposes for the foreseeable future, and recruitment suspension will continue. As more time passes, the fiscal impacts of COVID-19 will become evident, at which time data-driven – as opposed to speculative – projections and intracycle adjustments can be made.

The City will also begin preparations for a more nimble budget process founded in Priority Based Budgeting (PBB). Under PBB, City programs and services will be inventoried, prioritized in alignment to the City's strategic plan, and personnel and monetary resources estimated. PBB will allow the City to objectively contract or expand programs and services in response to its fiscal

health based on their priority.

FISCAL IMPACT:

The proposed Fiscal Year 2020/21 Annual Budget totals \$1.2 billion, comprised of \$1.1 billion in operating expenses and \$110 million in planned capital projects.

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

Attachments:

1. Budget Resolution Adopting the Annual Budget for Fiscal Year 2020-2021
2. Proposed Annual Budget for Fiscal Year 2020-2021
 - A. Revenue and Expenditure Details by Fund
 - B. Department Expenditure Details
 - C. Measure Z Spending Plan
 - D. Citywide Personnel
 - E. One-Year Capital Improvement Plan for Fiscal Year 2020-2021
3. BEC Meeting Minutes
4. Planning Commission Minutes
5. Master Fees and Charges Schedule
6. Presentation
7. Notice of Public Hearing