

CITY OF RIVERSIDE FISCAL UPDATE

Monitoring City of Riverside Finances and the Potential Fiscal Impacts of COVID-19



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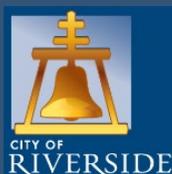
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EXECUTIVE SUMMARY

In March 2020, the City was confronted with a pandemic that presented significant unknowns to the economy of the City, its businesses, and its constituents. Rising unemployment, increases in homelessness and housing costs, temporary or permanent business closures, continuity of certain City operations and many more potential impacts of the pandemic needed to be considered for the well-being of the City at large and for the narrower question of City finances.

In Southern California, numerous cities immediately slashed revenue estimates and employed severe austerity measures to address the potential fiscal impact of the pandemic on local finances. However, a careful study of the City of Riverside's revenue demographics did not support such drastic measures. Unlike California's coastal cities, Riverside's economy is not dependent on tourism and entertainment. Riverside is a major hub that provides critical economic, employment, and educational support to surrounding regions. Ultimately, City staff proposed a 10% contingency revenue reduction and other balancing measures to address the potential impacts of the pandemic on City finances. As of the second quarter, those contingency measures are proving to be sufficient to offset the fiscal impacts of the pandemic. Simultaneously, federal assistance through the CARES Act enabled the City to respond to the needs of local businesses and constituents with grants, housing and homeless assistance, utility assistance, food assistance, and much more. As of March 2021, the City is transitioning to the recovery stage of the pandemic with a robust testing and vaccination program, and continuing support for economic recovery.

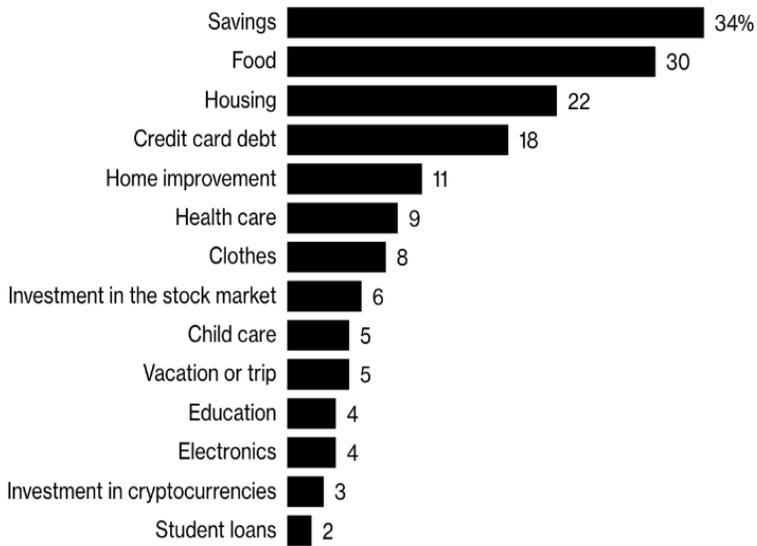
ECONOMIC INDICATORS

The continued stress to the economy is not just relegated to the United States. Global impacts from continued lock downs, multiple, new variants of COVID, and continued stress to consumers' pocketbook are all impacting people's day-to-day lives. In the U.S., federal economic stimulus initiatives in the form of direct payments to consumers seek to ease the burden and inject the economy with some much-needed consumer spending, specifically in retail sales. The latest \$1.9 trillion stimulus package, the American Rescue Plan Act (ARPA) signed into law on March 18, 2021, provides taxpayers up to \$1,400 in direct payments and an additional \$1,400 for dependents. Overall, this should provide a boost to the City's economy as well as the General Fund, which funds many essential City services. Below are some key elements that illustrate the historical impact of direct stimulus payments to consumer spending.

How Will Third Stimulus Check Be Spent?

Third Stimulus Check

How respondents in a Bloomberg/Morning Consult survey said they would mostly spend it



Survey of 2,191 adults, Feb. 3-6, 2021. Respondents were asked to select all that apply. Results have a margin of error of plus or minus 2 percentage points.
Data: Bloomberg/Morning Consult

Stimulus Check Spending

Consumer data during the pandemic has been unusual and at times defies what might be considered normal during a pandemic recession. Much of the behavior however, is driven by the various stimulus efforts of the federal and state governments. Both consumer savings and spending have increased even while unemployment rose, likely affected by the unemployment subsidy. Meanwhile, consumers also paid down outstanding debts.

According to a Bloomberg survey conducted in February 2021, recipients plan use of their ARPA stimulus check on savings (34%), followed by food (30%), housing (22%), and paying down debt (18%). Comparatively, according to Forbes, recipients spent the first stimulus check on savings (36%); debt repayment (35%); and consumption (29%) which includes essential spending on necessary living expenses (18%), non-essential spending (8%), and charity (3%).

Retail sales and overall sales tax receipts have held up well despite spiking unemployment in March & April 2020. Direct stimulus payments from the Federal government and supplemental unemployment benefits have aided the consumer spending aspect of the economy.

Historical Change in Retail Sales



According to the latest data from the National Retail Federation, the projected increase in retail sales for calendar year 2021 is between 6.5% - 8.2% as compared to 6.7% in 2020.

While the direct impact of the stimulus checks on City sales taxes is unknown, sales tax receipts are up 4.4% over the prior year for the period of July - December 2020. Spending has shifted among the major categories compared to the prior year, with building and construction (including spending on personal home improvement) up 21.8%, and spending at restaurants and hotels down 18.7%.

ECONOMIC INDICATORS

City Sales Tax Trends

Sales tax revenue was expected to plummet due to the recurring stay-at-home Orders and business restrictions, but a significant amount of spending has shifted to online sales and increased the amount going to the State and County pools. Sales taxes from the Riverside county pool have increased 44.7% for the City. Additionally, the City's share of the online pool has increased from 15% in calendar year 2019 to 20% in calendar year 2020. Part of this can be attributed to the implementation of the Wayfair Act – the collection of sales taxes from out of state retailers.

The sector sales tax graphs show the trends of the City's major sales tax categories for the period of September 2018 through December 2020. As demonstrated in the respective charts, every sector experienced an immediate and sudden impact in response to the pandemic in the first quarter (January – March) of 2020. The shift of spending can also be observed as the pandemic progressed. Overall, City sales tax is up 4.3% at the end of the second quarter (September – December) in 2020 as compared to the same period in 2019.



Auto & Transportation

This category has bounced back from an initial decline, ending 2020 with a 9.6% increase over the prior year.



Building & Construction

This category has been propped up by personal home improvement spending and is 21.8% higher than the prior year.



Fuel and Service Stations

This sector continues to suffer despite a rebound in gas prices and posted a 27.8% decrease from 2019 levels.



General Consumer Goods

Core retail sales were sharply impacted by mandated business shutdowns but recovered faster than anticipated.



Business & Industry

The trend demonstrates initial supply chain issues offset by point-of-sale fulfillment and logistics operations.



Food & Drugs

Initially the only sector reacting positively to the pandemic, this sector has normalized, posting a 2.7% growth over 2019.



Restaurants and Hotels

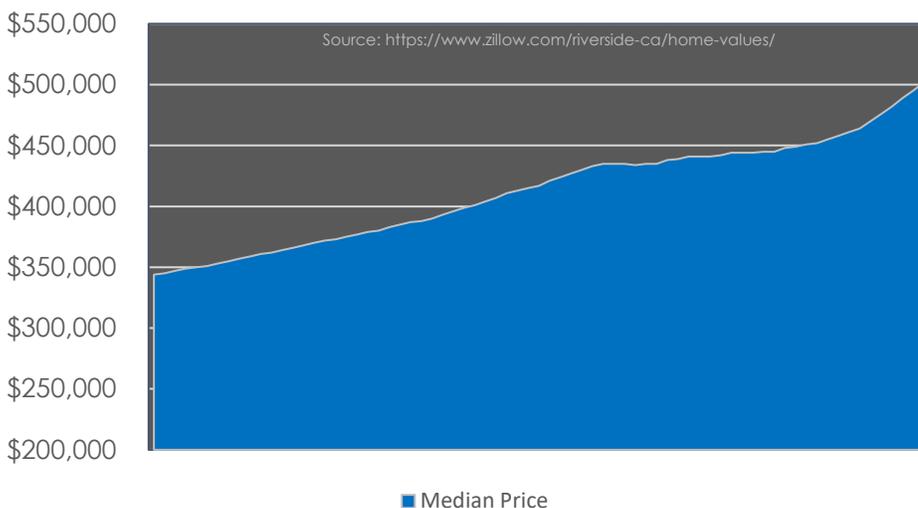
This sector continues to be significantly impacted by mandated restrictions, with 2020 sales ending 18.7% lower than 2019.



State and County Pools

The shift to online shopping and the new out-of-state taxes contributed to a 44.7% increase in the County pool.

City of Riverside Housing Prices



Housing Prices & Property Taxes

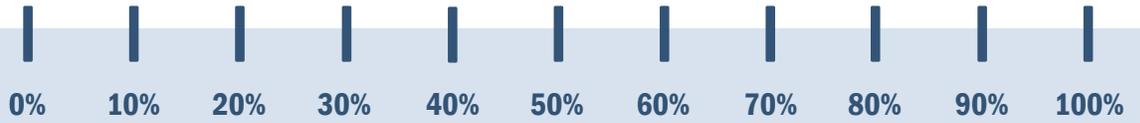
The initial reaction to the COVID lockdown was one of consumer caution, reflected in both the economy and the housing market. After the initial shock had worn off, the housing price trend continued its move upward in the county, including the City of Riverside. According to Zillow, from January 2020 through January 2021, the year over year increase in housing equaled 11.8% and another double-digit growth year is forecasted for calendar year 2021. This directly affects the City's property tax revenue, which is 26% of total General Fund revenue; a healthy property tax base is vital for the City's financial health.

GENERAL FUND REVENUE

The General Fund was expected to bear the brunt of COVID-19 impacts due to its dependence on sales tax, transient occupancy tax, charges for services, and licenses and permit revenues. These revenues are directly impacted by the recurring stay-at-home orders which prompted the closure of City buildings to the public, local business shut-downs, and high unemployment. To offset the potential impacts, a contingency revenue reduction of 10% (about \$28 million) was recorded in the adopted emergency budget. However, the FY 2020/21 second quarter analysis reveals that total General Fund revenues may exceed emergency budget estimates by \$10 million or more. Additionally, \$5.8 million of CARES Act funding will be recorded as revenue in the next quarter, offsetting reimbursable Public Safety personnel costs. The revenues deemed most at risk to pandemic impacts are discussed below.

COLLECTED

as of December 31, 2020



SALES TAX

Sales tax accounts for 22% of projected General Fund revenues. This revenue category was expected to be significantly impacted by the pandemic, but that has not been the case. Consumers appear to have shifted spending to online purchases and to new areas (home improvement). Sales Tax revenue is 4.3% higher than at the same point in the prior fiscal year; however, collected revenues lag due to the timing of remittance from the State to the City.

TRANSIENT OCCUPANCY TAX (TOT)

Travel and entertainment continue to be impacted by the pandemic, but less than expected. In FY 2018/19, approximately \$7.2 million in TOT revenues were received. FY 2019/20 revenues came in at 85% of the prior year. FY 2020/21 revenues were expected to continue to decline to about 38% of FY 2018/19 actuals and were budgeted at \$2.8 million. As of the second quarter, it appears that TOT revenues may reach close to \$4 million for the fiscal year.

CHARGES FOR SERVICES

Charges for Services are impacted by the temporary cessation of City activities, most notably those of Parks & Recreation. The closure of the City's One Stop Shop has also impacted Planning revenues. Additionally, building and fire inspections activity has been greatly reduced. As a result, this revenue category is \$2.3 million less than that collected at the same point in the prior fiscal year.

LICENSES & PERMITS

Business License revenue was expected to decline as businesses closed under the pressure of the pandemic and was projected to come in \$1.6 million less than FY 2019/20 actuals. However, the stimulus funding prompted many businesses that had not previously registered with the City to obtain a business license. Overall, business license revenue is on pace to exceed FY 2019/20 revenues. Other declines in this category, such as building permits, will be offset by outperforming business license revenue.

Revenue	Budget	Received	Balance
Property Tax	\$70.9 M	\$9.8 M	\$61.1 M
Sales Tax	\$59.6 M	\$24.4 M	\$35.2 M
Utility Users Tax	\$30.1 M	\$14.9 M	\$15.2 M
Charges for Services	\$15.5 M	\$5.3 M	\$10.2 M
Licenses & Permits	\$8.7 M	\$4.9 M	\$3.8 M
Other Revenues	\$7.4 M	\$6.7 M	\$0.7 M
Transfers In	\$79.1 M	\$36.5 M	\$42.6 M
Total	\$271.3 M	\$102.5 M	\$168.8 M

CARES Act for Public Safety

CARES Act funding of approximately \$28 million was granted to the City, with the requirement that the funds be encumbered no later than September 1, 2020 or expended no later than December 31, 2020. The CARES Act Funding was required to be expended on activities that promoted public health and safety in response to the COVID-19 public health emergency. The City Council approved a spending plan for CARES Act funding on August 4, 2020. The City had approximately \$5.8 million of CARES Act funding remaining nearing the expenditure deadline. Rather than forfeiting the funds, the City allocated the remaining funds to reimbursable Public Safety personnel costs.

GENERAL FUND EXPENDITURES

Overview

FY 2020/21 expenditure projections are largely dependent upon the progression of the pandemic, vaccination rates, and the resumption of City activities, such as parks and recreation activities and the reopening of City libraries. While these activities are suspended, the City will realize savings in part-time and temporary personnel, supplies, and materials. If personnel activity remains constant through the fiscal year – i.e. comparable to the first six months of the year – the City may see savings of \$5 million or more in personnel. However, the savings would be offset by other items impacted by the pandemic, including charge to capital projects and fund subsidies.

Charges to Other Funds

The General Fund budget includes expenditure offsets in the form of Charges to Other Funds for interfund services provided to other funds. These include the transfer of qualifying expenditures including materials and staff time to individual capital project accounts in Special Revenue and Capital Project funds (e.g. Special Gas Tax). Capital project activity has been reduced from normal levels due to the pandemic as well as personnel vacancies. Second quarter analysis reveals that the charges to projects may fall short of expectations by as much as \$1.3 million.

Fund Subsidies

The General Fund subsidizes the costs of several funds, some of which are impacted by the pandemic. The Special Capital Fund is dependent upon development impact fees to pay debt obligations incurred for park projects during the City's Renaissance initiative in 2008. Development impact revenues are about \$996,000 lower than the same point in time in the prior year and may result in an increase of about \$450,000 in the budgeted subsidy.

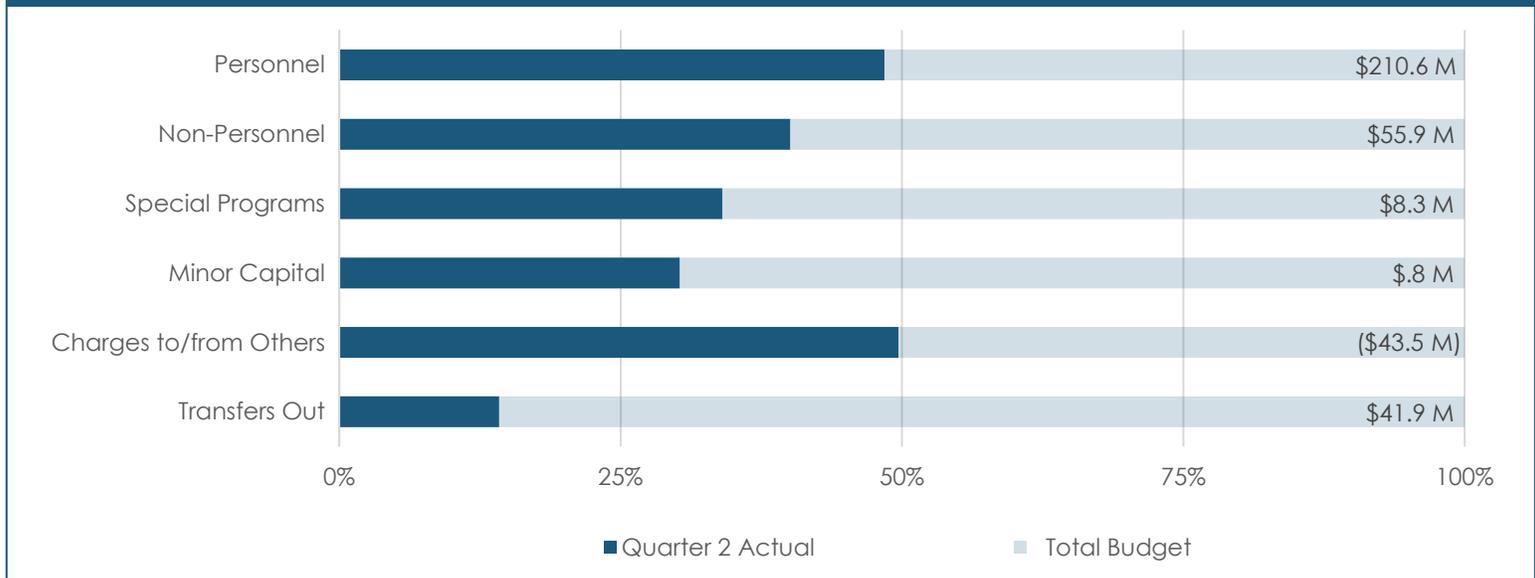
A fund subsidy of \$5.2 million is budgeted to pay for Convention Center debt obligations as well as revenue shortfalls of the Riverside Visitor's Bureau and the Sports Commission. With the venues closed since the onset of the pandemic, and some operating expenses continuing, such as the required management fee, the additional subsidy requirement could reach \$730,000 over the budgeted amount.

The General Fund also pays the debt obligations of the Entertainment Fund as well as operational shortfalls. The FY 2020/21 budget included a projected subsidy of \$2.8 million for this fund. The Entertainment Fund includes the Fox Theater, the Box, and the Municipal Auditorium, all of which have been closed since the onset of the pandemic. The operator agreed to a reduction in the management fee during the venue closure. However, the subsidy requirement may increase by \$400,000 over the amount budgeted due to other ongoing expenses.

Vacancy Savings Balancing Measure

The FY 2020/21 emergency budget included budgeted vacancy savings targets totaling approximately \$15.65 million to offset the General Fund structural deficit. Due to the pandemic and urgent need to shift budget strategy, the vacancy savings targets were based on vacancies at a point in time and commensurate with the managed hiring prompted by the pandemic. The impact of both the pandemic and the vacancy savings targets will continue to impact City operations and the ability of departments to maintain ongoing alignment with the City's strategic priorities.

EXPENDITURES

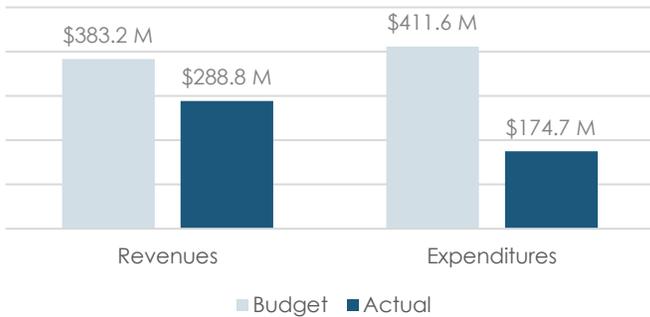


ENTERPRISE FUNDS

Electric Fund

At the end of the second quarter, retail sales are 2.4% higher than expected due to higher than anticipated consumption. Current year actual retail sales are \$11.9 million (7.0%) higher than the prior year. On March 23, 2021, the City Council voted to delay the implementation and refer it back to the RPU Board for an implementation plan. The estimated impact of the action is a \$4.4 million reduction in electric revenues through fiscal year end. Expenditures are trending under budget due to personnel vacancies, lower than expected power supply costs, and the timing of operating expenses.

Budget to Actual



Water Fund

The pandemic has led to an increase in residential water usage and a decrease in commercial/industrial water usage. Overall, water fund revenues are 4.3% higher than expected due to higher than anticipated consumption. Current year retail sales are \$4.2 million (11.6%) higher than the prior year. Expenditures are trending under budget due to personnel vacancies and the timing of operating expenses. Budgeted operating gains of \$7.1 million are anticipated to be used to fund capital projects in FY 2020/21, supplemented by a \$1.1 million draw on reserves and \$22.4 million of bond proceeds.

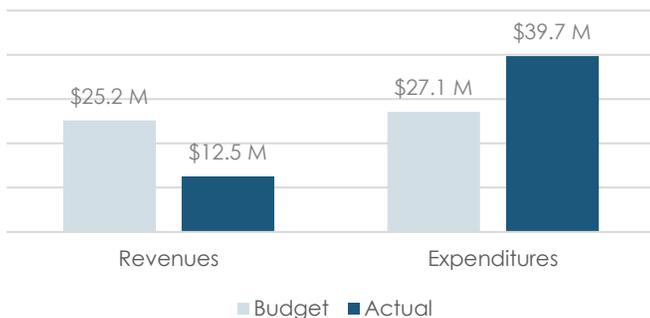
Budget to Actual



Refuse Fund

The Refuse Fund adopted budget does not include the rate increases approved by the City Council in September 2020 and effective January 2021. The rate increases are expected to improve the overall health of the fund, which had been operating at a deficit for some time. However, new pressures on the recycling market have resulted in a \$2.5 million increase in City contracts for recycling. Staff will request a supplemental appropriation to increase the Refuse budget to accommodate the higher costs. Overall, the Refuse fund is expected to end the fiscal year near break-even due to these developments.

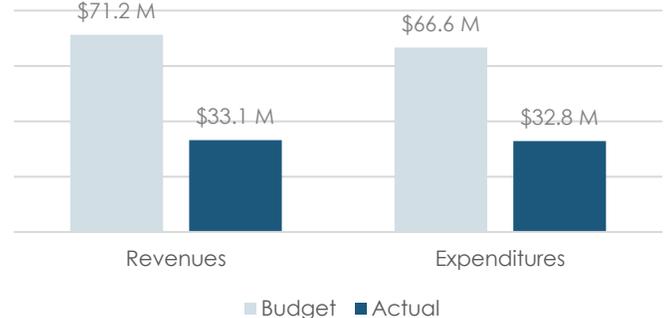
Budget to Actual



Sewer Fund

The Sewer Fund is operating in line with the Sewer Fund Reserve Policy objectives. Revenues are currently lagging due to delayed billing for service contracts. Revenue shortfalls in excess of \$1 million are expected in service contract revenue due to business shutdowns and related surcharges. Sewer connection fees dependent on development are also trending lower than anticipated. Expenditures are trending as expected. The FY 2020/21 adopted budget projects a net operating gain of \$7.6 million, which will help to fund \$14 million of planned capital projects, supplemented by reserves.

Budget to Actual



Measure Z

Contingency measures were employed for Measure Z in response to the pandemic. Prior to the pandemic, Measure Z revenues were projected to remain flat; with the onset of the pandemic, revenue projections were lowered by 10% as a contingency for the unknown impacts of the pandemic. Two capital projects, the Museum renovation and new police headquarters were delayed one year, to FY 2022/23. Since then, consumer spending trends have far exceeded expectations and HdL, the City's sales tax consultant, now projects that Measure Z revenue could reach \$65 million, \$6 million higher than emergency budget projections. Actual revenue is 4.5% higher at second quarter end versus the same period in the prior fiscal year.

Programmed spending in the table below includes a \$28.2 million carryover of prior year unexpended funds. These are funds committed for multi-year projects where the spending occurs unevenly over a period of time. As of December 31, 2020, \$21.5 million has been expended as compared to \$22.6 million revenue received. Projected fiscal year end unallocated reserves are \$13.5 million, without considering the potential increase in revenues. If the revised revenue estimate of \$65 million is achieved, unallocated reserves would reach \$19.5 million at fiscal year end.

	Budget	Actual	Balance
Revenue	\$56.2 M	\$22.6 M	\$33.6 M
Programmed Spending	95.8 M	21.5 M	74.3 M
Change in Reserves	\$(39.6) M	\$1.1 M	

Unemployment Fund

The City of Riverside has a self-insured fund for unemployment. The unprecedented wave of unemployment claims filed during the pandemic has put a strain on the resources of the fund. Citywide unemployment payments submitted July 2020 through December 2020 are \$357,000 higher than the three-year average of \$78,000. The impact to the General Fund is approximately \$250,000. The payments made during this period cover the most impacted months of the pandemic: April 2020 through August 2020. The subsequent payment posting in the third quarter is 200% higher than normal. The American Rescue Plan includes payroll tax credits that are available to local governments. Staff is exploring the ability of the tax credits to help offset the increased unemployment costs.

Public Parking Fund

Parking revenues have declined during the initial stay-at-home order, have remained lower than projected during the slow reopening process, and will likely continue to underperform in the near future. The Public Parking Fund is currently operating at a deficit and capital projects have been put on hold in order to keep the fund in balance and not request a General Fund subsidy. Current operations remain a challenge, as forecasts for revenue remain low and additional overcapacity

and maintenance require additional capital for which the Public Parking Fund cannot provide.

Convention Center

The Convention Center remains closed due to the governor's stay-at-home order and will most likely remain so through the end of the fiscal year. Even though the Convention Center is closed due to the pandemic, there are expenses being incurred from the management fee and operations resulting from minimal staff that are still working in the facility. The General Fund will likely exceed budgeted expenditures and have to increase its subsidy to the Convention Center due to the operational losses that are being incurred, projected at \$1.6 million for FY 2020/21. Operational losses are also expected for the Riverside Visitor's Bureau and the Sports Commission and are also likely to require an increase in the General Fund subsidy.

Entertainment Fund

The Entertainment Fund's three venues, the Fox and Box Theaters and the Municipal Auditorium, have been closed since the beginning of the pandemic in March 2020. The General Fund subsidizes the entire cost of the debt service (~\$3.2 million) and supports any operational losses that occur from daily operations. The venue operator has agreed to forgo approximately 50% of the management fee that the City pays them to operate the venues; however, there are still minimal staff operating from the venues which will impact the subsidy from the General Fund. Due to the lack of revenue and ongoing expenditures, an increase in the General Fund subsidy is likely. There is no current timeframe set for reopening the venues; the expectation is that the earliest reopening would be in the next fiscal year.

Special Capital Improvement Fund

This fund carries debt obligations incurred during the City's Renaissance initiative which included numerous park projects. The debt obligations were intended to be repaid from development impact fees; however, when this revenue source proves insufficient to make the debt payments, the General Fund covers the difference. In FY 2019/20, a debt obligation was paid in full which was anticipated to fully relieve the General Fund from subsidy payments. However, revenue is trending 20% lower this year due to the pandemic and a General Fund subsidy of approximately \$425,000 may be required if this trend continues through fiscal year end.

Special Gas Tax

The majority of the City's street projects are funded by State gas tax funds and vehicle registration fees. In May 2020, the State reduced projected revenues for FY 2020/21 by \$1 million. However subsequent rebounds in both gasoline consumption and wholesale gasoline prices have improved the outlook. The State now estimates that revenues will decline a nominal \$240,000 in FY 2020/21. This slight reduction is not expected to have a major impact on planned capital projects or other project billing costs that the General Fund charges out to the Gas Tax.

OTHER FINANCIAL NEWS

FY 2021/22 Budget Development

The City is currently developing the FY 2021/22 annual budget. Public engagement is encouraged at the numerous meetings during which budget presentations and discussion will be conducted and feedback will be received. As of the date of this publication, some meetings have already taken place, but there are additional opportunities for participation. The meetings conducted or coming up include:

Date	Time	Meeting Body	Subject Matter
March 15	5:00 PM	Parks & Recreation Commission	Parks, Recreation & Community Services Dept preliminary budget
March 22	6:30 PM	Board of Public Utilities	Riverside Public Utilities preliminary budget
March 24	3:00 PM	Museum of Riverside Board	Museum Department preliminary budget
March 31	5:00 PM	Budget Engagement Commission	Department Presentations - Library; Museum; Parks, Recreation & Community Services; General Services; and Riverside Public Utilities departments
April 8	5:00 PM	Budget Engagement Commission	Department Presentations - Community & Economic Development; Public Works; Fire; and Police departments
April 12	5:00 PM	Board of Library Trustees	Library Department preliminary budget
April 15	5:00 PM	Budget Engagement Commission	Department Presentations - Mayor's Office, City Clerk's Office, City Attorney's Office, City Manager's Office, Finance, Human Resources, and Innovation & Technology departments
April 19	8:00 AM	City Council Budget Workshop	General Fund Overview and Department Presentations (all departments)
May 13	5:00 PM	Budget Engagement Commission	FY 2021-2022 Proposed Budget
May 18	1:00 PM	City Council – Afternoon Session	FY 2021-2022 Proposed Budget
June 10	5:00 PM	Budget Engagement Commission	FY 2021-2022 Final Budget
June 22	6:15 PM	City Council – Evening Session	Public Hearing and Adoption of the FY 2021-2022 Annual Budget

American Rescue Plan ACT

On March 11, 2021, President Biden signed the third stimulus bill which provided additional relief to both individuals and businesses suffering from the impact of the pandemic. Some of the most noteworthy items in the new law are:

- Extended \$300 per week jobless benefits through September 6, 2021
- Sends \$1,400 direct payments to most Americans and their dependents:
 - Income phaseouts of the direct payments begin at \$75,000 for individuals and \$150,000 for married couples and is capped at \$80,000 and \$160,000 respectively.
- \$2 billion in California small business grants (up to \$25,000 per business)
- Expands child tax credit for one year
- \$25 billion in rental and utility assistance; \$10 billion for mortgage aid
- \$30 billion in aid to restaurants
- \$350 billion in relief to state, local, and tribal governments
 - For costs incurred to respond to the public health emergency with respect to COVID-19 or its negative economic impacts
 - To respond to workers performing essential work during the pandemic by providing premium pay to eligible workers
 - For the provision of government services to the extent of the reduction in revenue due to COVID-19 relative to revenues collected in the most recent full fiscal year. (FY 2018/19 will be the baseline year for the City.)
 - To make necessary investments in water, sewer, or broadband infrastructure

The City of Riverside is expected to receive approximately \$79 million in relief payments, subject to audit and validation that the funds are used for approved purposes under the American Rescue Plan. In conjunction with the City Council, staff will identify opportunities to alleviate some of the fiscal impacts of the pandemic that have occurred to date and continue to impact City finances and present those findings to the City Council at a future date. Staff will also work with the community and City Council to provide assistance to external parties eligible under the provisions of the American Rescue Plan Act.