



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS

DATE: SEPTEMBER 9, 2021

FROM: FINANCE DEPARTMENT

WARDS: ALL

SUBJECT: MEASURE Z UPDATE

ISSUE:

That the Budget Engagement Commission receive an update on the current Measure Z Spending Plan and status of spending items.

RECOMMENDATION:

That the Budget Engagement Commission receive an update on the current Measure Z Spending Plan and status of spending items.

BACKGROUND:

Measure Z, a one-cent Transaction and Use Tax (TUT), was approved by Riverside voters in November 2016 for a period of 20 years. Tax collection began in April 2017 and will expire in March 2036. The stated intent of Measure Z is to restore critical General Fund services eliminated in June 2016 and address other critical unfunded needs, such as first responder staffing and vehicles, road and tree maintenance, and building repair and maintenance. The first Measure Z Five-Year Spending Plan was approved by City Council in May 2017.

On February 8, 2019, the Budget Engagement Commission received a report on a Proposed Fund Balance Reserve Policy for Measure Z and recommended the adoption of a 15% fund balance reserve. On March 13, 2019, the Finance Committee received the report and BEC recommendation and voted to recommend that City Council adopt a \$5 million contingency reserve policy for the Measure Z fund. On April 2, 2019, the City Council approved a Measure Z Reserve Policy that requires a \$5 million contingency reserve. (Attachment 2)

In an effort to be thoroughly transparent regarding the allocation of Measure Z resources, the City maintains a website listing all Measure Z reports to the BEC and City Council at <https://www.riversideca.gov/citymanager/measure-z/measure-z-5-year-spending-plan>. New spending allocations are routinely brought before the BEC for recommendation to the City Council. In addition to these spending allocations, the City Council routinely receives reports where their approval is required to award bids or make purchases related to previously approved spending items; these routine actions are not within the purview of the BEC.

DISCUSSION:

At this point in time, the closing of FY 2020/21 is in process; therefore, this report will focus on the adopted Measure Z budget and status of spending items as reported by City departments (Attachment 3). Measure Z will continue to be an integral part of the quarterly financial reports, which are prepared as financial data becomes available. The fourth quarter report of each fiscal year is reliant upon a comprehensive fiscal year end closing process spanning several months, followed by the generation of financial statements subject to an external audit. As such, a fourth quarter report is generally compiled in November for an early December meeting. If warranted, an interim financial update may be brought forth in October, reporting unaudited fourth quarter estimates of the prior fiscal year as well as financial status and budget adjustments for the first quarter of the current fiscal year.

Accounting and Reporting Methodology

While the accounting and activities of the Measure Z Fund are legally a part of the General Fund and combined for reporting purposes in the Annual Comprehensive Finance Report, the City tracks Measure Z financial activity in an operating fund and a capital fund. These two fund types are required for reporting financial activity in compliance with Generally Accepted Accounting Principles (GAAP).

The Measure Z operating fund tracks all non-capital activity, including transaction and tax revenue, debt proceeds and obligations, and operating expenditures. The activity of capital projects funded by Measure Z are tracked in the Measure Z capital fund, such as construction projects, streets and pavement, and major infrastructure maintenance. Interfund transfers from the Measure Z operating fund to the Measure Z capital fund transfer the resources (revenue) necessary to fund the capital projects.

The City Council has approved the use of Measure Z revenue on specific spending items, i.e., programs and capital projects. Some of the items are funded by debt, and Measure Z pays the debt obligations. To facilitate a clear and simplistic understanding of the allocation of Measure Z resources, the Measure Z Spending Plan reports allocations to and direct expenditures of the spending items, excluding interfund transfers and capital expenditures funded by debt proceeds. The following hypothetical example of capital expenditure accounting and reporting reveals the complex budgeting and accounting requirements excluded from the Spending Plan to provide a transparent and easy-to-understand view of how the City is allocating and spending annual Measure Z resources. The grey-highlighted rows in the following table, while required for budgeting and accounting purposes, are self-balancing and excluded from the Spending Plan because they do not represent the actual draw on annual resources.

Budget and Financial Reporting				
	Measure Z Operating Fund		Measure Z Capital Fund	
	Revenue	Expenditure	Revenue	Expenditure
Tax Revenue	\$60,000,000			
Debt Proceeds	10,000,000			
Interfund Transfer		\$10,000,000	\$10,000,000	
Construction Costs				\$10,000,000
Annual Debt Payment		\$1,000,000		
Budget/Financial Report Total	\$70,000,000	\$11,000,000	\$10,000,000	\$10,000,000

Measure Z Spending Plan		
	Revenue	Expenditure
Tax Revenue	\$60,000,000	
Construction Spending Item – Annual Debt Payment		\$1,000,000
Spending Plan Total	\$60,000,000	\$1,000,000

Measure Z Financial Status

A comprehensive life-to-date Spending Plan was included in the June 10, 2021, proposed FY 2021-2022 budget report to the BEC and is included as Attachment 1 to this report. Expenditures reported in FY 2020/21 represent the full, unexpended allocation to spending items through that fiscal year.

Measure Z Spending Plan 2017-2021					
	Actual FY 2016/17	Actual FY 2017/18	Actual FY 2018/19	Actual FY 2019/20	Projected FY 2020/21 ¹
Revenue	\$12,606,428	56,237,202	\$62,816,128	\$63,135,477	\$64,361,000
Expenditures	9,973,447	36,134,811	40,988,149	50,063,853	95,749,702
Surplus/(Deficit)	\$2,632,981	\$20,102,391	\$21,827,979	\$13,071,624	\$(31,388,702)
Unallocated Reserves	2,632,981	22,735,372	34,563,351	52,634,975	21,246,273
Policy Reserve ²			\$5,000,000		

¹ Unexpended amounts at each fiscal year end are reviewed for carryover into the next future year. Generally, annual operating allocations (e.g., personnel costs) are not carried over, while other allocations may be carried over. The Projected amount for FY 2020/21 represents the total budget and prior year carryovers through that fiscal year-end.

² Represents a one-time set-aside of reserves, which will remain intact as per the Measure Z Reserve Policy (Attachment 2).

Measure Z Spending Plan 2022-2026					
	Adopted FY 2021/22	Projected FY 2022/23	Projected FY 2023/24	Projected FY 2024/25	Projected FY 2025/26
Revenue	\$64,799,610	\$65,689,098	\$66,669,934	\$67,665,483	\$68,675,790
Expenditures	64,035,997	65,188,525	63,039,098	65,615,260	65,546,499
Surplus/(Deficit)	\$763,613	\$500,573	\$3,630,836	\$2,050,223	\$3,129,471
Unallocated Reserves	\$22,009,886	\$22,510,459	\$26,141,295	\$28,191,518	\$31,320,989

The amounts listed in fiscal years 2023-2026 are for planning purposes only and are subject to Council approval with the adoption of the annual or biennial budget. With Council adoption of the FY 2021/22 budget, the following spending items were added to the Measure Z Spending Plan, effective July 1, 2021. The BEC received information on these spending items with the presentation of the proposed budget on May 13, 2021, and June 10, 2021, and made no formal motion for a recommendation to the City Council.

1. Public Works (PW): Funding for vehicle replacement and equipment needs in the Streets Division, \$2 million in FY 2021/22; \$3,230,000 over the following three fiscal years.
2. Parks, Recreation, & Community Services Department (PRCSD): \$1,965,000 one-time funding in FY 2021/22 consisting of:
 - a. Mt. Rubidoux Trail Surface Rehabilitation: \$250,000
 - b. Purchase of Tractor: \$165,000
 - c. Fairmount Park Wier Dam and Storm Drain Project: \$800,000
 - d. Swimming Pool Maintenance: \$750,000
3. Park and Neighborhood Specialists (PANS) Program: Annual funding for a program designed to make parks, public spaces, and neighborhoods safer and more welcoming. Includes annual funding for 20 personnel, outfitting, and maintenance, plus one-time vehicle purchases. \$2,393,098 in FY 2021/22; approximately \$2 million annually thereafter.

Concurrent with the budget process, the City Council approved an annual allocation of \$45,000 for the removal and disposal of junk motorhomes. The BEC received this item on September 10, 2020 and recommended that the City Council approve this annual allocation of Measure Z funding.

The total effect of the new spending items is as follows:

Measure Z Spending Plan 2022-2026 New Spending Items					
	Adopted FY 2021/22	Projected FY 2022/23	Projected FY 2023/24	Projected FY 2024/25	Projected FY 2025/26
PW Streets Vehicle & Equipment Needs	\$2,000,000	\$1,000,000	\$1,050,000	\$1,180,000	\$-
PRCSD Infrastructure, Vehicles & Equipment	1,965,000	-	-	-	-
Motorhome Removal & Disposal	45,000	45,000	45,000	45,000	45,000
PANS Program	2,393,098	1,958,343	2,022,865	2,033,718	2,029,447
Total New Allocations	\$6,403,098	\$3,003,343	\$3,117,865	\$3,258,718	\$2,074,447

Measure Z Spending Items Status

Beginning in FY 2015/16, Measure Z funding has been used to make a significant difference in the City, increasing public safety effectiveness with additional personnel, new vehicles, new equipment, and the establishment of a Public Safety Engagement Team; enhancing the quality of life for residents with street improvements, funding for the operation of the Bourns Family Youth Innovation Center, and construction of a new Main Library; and providing the resources required to maintain critical services provided by the General Fund. These, and many other notable accomplishments, are shown in Attachment 3. These achievements are the result of thoughtful deliberation and ongoing consideration by the BEC and City Council, where community feedback is encouraged and incorporated into discussions.

STRATEGIC PLAN ALIGNMENT:

Each spending item funded by Measure Z aligns with one or more of the City Council's strategic priorities. This report, which seeks to educate and share information with the public, directly aligns with the High Performing Government strategic priority which seeks to provide world class public service that is efficient, accessible, and responsive to all.

The Measure Z Spending Plan and this report aligns with the five Cross-Cutting Threads as follows:

- **Community Trust** – The City's transparency and continued discussion of the Measure Z Spending Plan and funded items is provided for public benefit in a hybrid in-person/virtual BEC meeting accessible to all community members.
- **Equity** – The Measure Z Spending Plan and related discussions are accessible to all individuals via the City website and public participation in public meetings. Individual Measure Z Spending Items produce outcomes that benefit all members of the Riverside community.
- **Fiscal Responsibility** – The separate accounting and reporting of items funded by the Measure Z Spending Plan, as well as the process of discussion and public participation for new funding requests, demonstrate fiscal responsibility in the administration and use of Measure Z funds.

- **Innovation** – The unique reporting style exhibited in the Measure Z Spending Plan and as described in this report demonstrates an innovative method of sharing information in a transparent and easy-to-understand manner.
- **Sustainability & Resiliency** – The careful deliberation of Measure Z Spending Items, periodic review and discussion, and the Measure Z Reserve Policy demonstrate the City's commitment to the prudent use of funds to address current critical needs while balancing long-term investment in the construction and maintenance of capital assets.

FISCAL IMPACT:

There is no fiscal impact related to this report.

Prepared by: Kristie Thomas, Assistant Chief Financial Officer
Approved as to
availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Kris Martinez, Interim Assistant City Manager

Attachments:

1. Measure Z Spending Plan
2. Measure Z Reserve Policy
3. Status of Spending Items