



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL**      **DATE: AUGUST 19, 2025**

**FROM: FINANCE DEPARTMENT**      **WARDS: ALL**

**SUBJECT: FISCAL YEAR 2024/25 & 2025/26 FINANCIAL & ECONOMIC UPDATE AND BUDGET ADJUSTMENTS – \$2,159,389 SUPPLEMENTAL APPROPRIATIONS IN FY 2024/25 AND \$90,979 SUPPLEMENTAL APPROPRIATIONS IN FY 2025/26, \$164,525 INTERDEPARTMENTAL TRANSFERS IN FY 2025/26**

## **ISSUE:**

Receive and provide input on the Fiscal Year (FY) 2024/25 & 2025/26 Financial and Economic Update; approve proposed budget adjustments and FTE reductions and interfund transfers.

## **RECOMMENDATIONS:**

That the City Council:

1. Receive and provide input on the Fiscal Year 2024/25 & 2025/26 Financial & Economic Update;
2. With at least five affirmative votes, authorize the Chief Financial Officer, or designee, to record:
  - a. An increase of \$1,976,457 in revenue and appropriate an equal amount in expenditures in the General Fund, Fire Operations-Mutual Aid revenue and expenditure accounts for FY 2024/25;
  - b. A supplemental appropriation in the Parking Fund, Professional Services account in the amount of \$182,932 to pay for invoices for services provided in FY 2024/25;
  - c. An interdepartmental transfer of 1.0 FTE and related budget transfer of \$164,525 for the move of one Principal Management Analyst from Human Resources to the Community and Economic Development Department for FY 2025/26;
  - d. A supplemental appropriation of \$90,979 in the General Fund, Fire Administration Professional Services account and increase 1.0 FTE for a Fire Community Preparedness Instructor in the Fire Department for FY 2025/26.
3. Approve a reduction of 4.0 FTEs and related budget of \$602,009 in the General Fund, Housing & Human Services Department, and Community & Economic Development Department, for FY 2025/26.

## **BACKGROUND:**

On June 25, 2024, the City Council adopted Resolution No. 24131 approving the Fiscal Year (FY) 2024-2026 Biennial Budget.

On January 28, 2025, the City Council received the First Quarter Financial Update and approved citywide supplemental appropriations of \$7,482,207 for all City funds, including interfund transfers in the amount of \$578,544. The supplemental appropriations included a net fiscal impact to the General Fund totaling \$490,000, which represented an allocation of Infrastructure Reserves to fund emergency repairs to a stormwater facility on Iowa Avenue.

On April 8, 2025, the City Council received the Second Quarter Financial Update and approved mid-cycle budget adjustments, including supplemental appropriations, interfund transfers, and other budgetary entries totaling \$854,423 in expenditures and \$2,767,065 in revenue adjustments across various funds.

On June 17, 2025, the City Council adopted Resolution No. 24273 approving the amendment of Fiscal Year 2025/26 of the previously adopted Fiscal Year 2024-2026 Biennial Budget.

On July 15, 2025, the City Council received the Third Quarter Financial Update and approved \$500,000 in supplemental appropriations and a budget reduction of \$2,000 across various funds.

## **DISCUSSION:**

Throughout the fiscal year, City departments and the Budget Office actively monitor and analyze all City funds to identify and address potential issues. This update is intended to provide a financial and economic update using the latest data and information available, primarily focusing on economic factors that may impact the General Fund. This update also includes proposed adjustments for FY 2024/25 that are needed prior to closing year-end financials and includes several recommended FTE-related adjustments for FY 2025/26.

### ***Economic & Financial Outlook***

The City of Riverside maintains a cautious financial outlook due to ongoing economic uncertainties at the local, state, and federal levels. While the City's financial position remains strong, several factors could influence its revenue base and expenditures. This includes the impact of rapidly changing federal policies, inflation, state and federal budget allocations, and other factors that can result in fluctuations in local sales and property tax revenues. The Budget Office is closely monitoring these variables to ensure the City can adapt to potential positive or negative developments. This report will briefly examine the potential impacts of tariffs, inflation, interest rates, and overall economic conditions on the City's financial landscape.

#### **Tariffs**

Since the April 2025 federal tariff announcements, the tariff landscape has constantly fluctuated. Ongoing federal negotiations and policy statements continue to influence consumer and capital markets, potentially affecting local sales tax revenues. As of July 15<sup>th</sup>, tariffs include:

- 10 percent global baseline tariff on nearly all U.S. imports (Canada and Mexico excluded)

- 25 percent tariff on imports from Mexico and Canada that do not meet the United States-Mexico-Canada Agreement rules of origin
  - 10 percent tariff on Canadian energy products such as oil and natural gas
  - 10 percent tariff on potash (a popular fertilizer ingredient) imported from Canada or Mexico
- 25 percent tariff on vehicle imports and auto parts
- 30 percent tariff on most Chinese imports (some electronics, including smartphones, face a 20 percent tariff)
- 50 percent tariff on steel and aluminum imports

Although various levels of tariffs have already been imposed, the federal administration has delayed many reciprocal country-specific tariffs several times, most recently to August 1<sup>st</sup>. As of July 2025, major U.S. banks report mixed outlooks on tariffs, noting consumer and business resilience alongside risks from inflationary pressures and cautious spending.

Staff have been actively monitoring the impact of tariffs on the auto industry, which accounts for approximately 30 percent of General Fund sales tax revenue. At this point, it appears that car prices have not increased for consumers since the implementation of tariffs. Further, car sales in the City have continued to increase, possibly reflecting consumer efforts to purchase vehicles ahead of potential tariff-driven price increases. Through the end of June, Riverside Auto Center car sales were up 10.3 percent compared to this time last year. Recent reports indicate that car manufacturers are facing increased costs due to tariffs, which are impacting their profits; however, in many cases, they have not yet passed those costs on to consumers. It is unclear whether this pricing approach will continue or how sustained and higher tariffs might affect car sales, which may ultimately lead to increased prices for consumers.

Tariffs are driving up costs of various goods that both directly and indirectly impact the City. Research from the National League of Cities and recent federal policy changes confirm a sharp rise in municipal procurement costs linked to new import tariffs. Expected impacts include:

- 20 to 40 percent cost increases in infrastructure and facilities due to materials such as steel and concrete.
- 15 to 30 percent increases in technology and fleet acquisitions tied to electronics and auto parts.
- 10 to 20 percent increases in routine operating supplies such as cleaning products, paper, and food items.

The City is already beginning to see increased prices due to tariffs. If these cost increases continue, they will place added financial pressure on the City's budget and may lead to the need for supplemental appropriations to cover the cost of baseline goods and services. City staff are exploring risk mitigation strategies to address tariff-driven cost increases. The private sector is also likely to experience rising costs, which may ultimately reduce business and consumer spending and impact the City's revenue base.

## **Inflation**

Core inflation, which excludes food and energy, rose from 2.8 percent in May to 2.9 percent in June. Inflation accelerated for most goods and services in June, notably for transportation, fuel and utilities, household furnishings and operations, and apparel. Current inflation levels exceed the Federal Reserve's 2 percent target and continue to hinder consumer and business spending,

which impacts the City's revenue streams. Reports indicated that tariffs contributed modestly to the rise of inflation, and overall price increases are largely due to a rise in housing and food products. However, tariffs could further increase inflationary pressures and slow economic growth, particularly if implemented at the moderate to high levels currently proposed.

### **Interest Rates, Housing, & Property Taxes**

Since the federal tariff announcements in April 2025, the Federal Reserve has maintained the federal funds rate at 4.25 percent to 4.50 percent, unchanged for eight months. This cautious stance reflects uncertainties surrounding tariffs and their potential impact on inflation, which could affect short-term borrowing and mortgage rates.

In the housing market, major U.S. banks report a projected 2 percent to 3 percent growth in housing prices for 2025, tempered by below-average home sales. According to the Department of Finance, the statewide median sale price of existing single-family homes decreased by 0.1 percent in June 2025, from both May 2025 and June 2024. Sales of existing single-family homes in California were up 4 percent in June 2025 from May 2025 and down 0.3 percent from June 2024. According to Redfin, in June 2025, Riverside home prices were up 2.7 percent compared to last year, selling for a median price of \$647,000. There were 176 Riverside homes sold in June this year, up from 164 last year. Average rental prices in the City have slightly decreased compared to last year.

In Southern California, many homeowners with mortgage rates below 4 percent are opting to retain their properties, contributing to fewer existing home sales and potentially lower property transfer tax revenues. While property tax revenues currently do not face significant risks, City staff will continue to monitor these revenue streams for any adverse developments.

### **Federal Reserve's Beige Book – Overall Economic Health**

The Federal Reserve's Beige Book, most recently released in July 2025, gathers anecdotal information on current economic conditions in each District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts, and other sources. The Federal Reserve Bank of San Francisco, which includes Riverside, notes economic activity was stable to slightly improved, supported by modest consumer spending and steady employment. Tariff-related uncertainties have led to cautious business sentiment and moderate price increases, raising concerns about potential cost pressures. Community organizations noted challenges from reduced federal funding and higher costs for low-income households due to tariffs. These factors may influence the City's sales and property tax revenues.

### **Federal Immigration Policies**

The federal government has increased immigration enforcement efforts, including the deportation of undocumented individuals. In areas with large immigrant populations, these policies may contribute to local workforce and labor shortages, decreased local consumer spending, reduced population growth, and ultimately, a smaller tax base. While the fiscal impact is challenging to quantify, the cumulative effect of these changes may present a net negative economic impact on the local economy and local government revenue streams, especially in areas with large immigrant populations. City staff will continue to monitor for potential financial impacts to the City.

### **Other Indicators**

**Building Data** – In FY 2024/2025, the City's Building & Safety Division issued 6,067 permits and conducted 47,573 inspections, with a construction valuation of over \$295 million. When comparing FY 2023/2024 and FY 2024/2025, the Building & Safety Division experienced a modest overall

10.79 percent decrease in operational volume and revenue. However, FY 2023/2024 was a record year regarding the Building & Safety Divisions volume of work and revenue generation, and despite this contraction, the division has maintained a steady output in core service areas such as project completions, inspections, and customer engagement.

Gas Prices – Fuel and service station revenue accounts for approximately 6 percent of General Fund sales tax revenue and fluctuates based on gas prices and consumption. Gas prices across the state and in Riverside have continued to decline, which may result in continued revenue decreases in this category.

Unemployment – The unemployment rate in the Riverside-San Bernardino-Ontario metropolitan statistical area was 5.9 percent in June 2025, up from a revised 4.8 percent in May 2025, and above the year-ago estimate of 5.4 percent. This compares with an unadjusted unemployment rate of 5.7 percent for California and 4.4 percent for the nation during the same period. The unemployment rate was 6.0 percent in Riverside County, and 5.9 percent in San Bernardino County. Professional and business services saw the greatest reduction in jobs (down 2,400) over the month, while construction added the most jobs (up 1,700) over the month. Increased unemployment can result in reduced consumer spending, lower business investment and confidence, and slower economic growth, which may impact consumer-driven revenues such as sales tax and utility user tax, and place additional demand on City services.

**Budget Summary and Adjustments:** Throughout the fiscal year, staff assess the need for adjustments to the adopted budget. Finance is currently in the process of closing out FY 2024/25 and completing year-end financial analysis. Due to the extensive nature of fiscal year-end procedures, final figures will not be available until calendar year-end. While it is not typical to bring forward an interim update at this stage, the current economic volatility and the need to incorporate key budget adjustments make this report both necessary and timely.

While the final FY 2024/25 property tax and sales tax payments have not yet been received, preliminary analysis indicates that overall revenues are likely to align with mid-year adjusted revenue expectations. Although subsequent sales tax payments have trended slightly above mid-year estimates, this increase will likely be offset by underperforming revenue in other categories such as business tax and development-related fees and charges.

On the expenditure side, preliminary analysis indicates that the City will exceed budgeted personnel costs, particularly when factoring in the budgeted vacancy savings. The cost overrun is primarily associated with unanticipated vacation and sick leave payouts due to retirements, staff departures, and leave cash outs allowed under MOU agreements. It is also driven by higher than anticipated overtime in the Fire Department, which ended the year approximately \$930,000 over its adjusted overtime budget, largely due to mandated staffing requirements and emergency response to significant events. This cost overrun may be partially offset by underspending in non-personnel categories.

Additionally, an approximate year-end surplus of \$4.19 million is needed to maintain the City's 20% reserve policy level goal, which is calculated as a percentage of the FY 2025/26 expenditure budget adopted by the City Council on June 17, 2025. Depending on final year-end results, a rebalancing of various non-policy reserves may be necessary to ensure the 20% policy reserve goal is maintained.

The fourth quarter financial report will be presented to Council following the conclusion of the City's financial audit, ensuring that the financial results presented are materially accurate in advance of the compilation of the City's Annual Comprehensive Financial Report (ACFR).

The following budget adjustments are recommended for Council approval:

FY 2024/25

- **General Fund – Fire Mutual Aid (\$1,976,457):** Record an increase of \$1,976,457 in revenues and expenditures in the General Fund, Fire-Mutual Aid division to true up the budget for reimbursable mutual aid costs. This fiscally neutral adjustment is a cleanup item to reflect the fiscal year activity within this division.
- **Parking Fund – Parking Concepts Inc. (\$182,932):** Record a supplemental appropriation in the Parking Fund, Professional Services to cover increased services from the vendor for additional maintenance in the parking garages. These increased costs are fully offset by increased revenues generated by the vendor associated with the Parking Your Way program.

FY 2025/26

- **General Fund – Housing & Human Services (-3.0 FTEs & -\$382,728):** Decrease in 3.0 FTEs (Project Manager, Project Coordinator, and Project Assistant), and a budget reduction in total of \$382,728, to better align the department's staffing with their priorities; these positions were determined to be no longer necessary.
- **General Fund – Community & Economic Development (-1.0 FTE; -\$219,281):** Reduction of 1.0 FTE (Fiscal Manager), in the Community & Economic Development Department. Following the separation of Housing & Human Services into its own separate department, this position became redundant and was determined to no longer be necessary at this time.
- **General Fund – Human Resources/Community & Economic Development (Interdepartmental Transfer 1.0 FTE, \$164,525):** Transfer of 1.0 FTE (Principal Management Analyst), and associated personnel budget, from the Human Resources Department to the Community & Economic Development Department to better align with the needs and programs of the two departments.
- **General Fund – Fire Department (1.0 FTE; \$90,979):** Increase of 1.0 FTE and record a supplemental appropriation in the General Fund Fire Administration division for the addition of a Fire Community Preparedness Instructor to support community engagement related to the Fire Department's Wildland Defensible Space efforts.

An additional \$300,000 in General Fund support is needed for a contract with the Riverside Arts Council for the Festival of Lights. Details of the contract and the request for a supplemental appropriation are presented in a separate report scheduled for City Council consideration on August 19, 2025. This amount is proposed to be funded by savings from the elimination of the aforementioned vacancies.

**FISCAL IMPACT:**

The City's finances remain strong, and the City is well positioned to weather whatever economic headwinds may appear. However, the future remains uncertain and potential risks, including the effects of rapidly changing federal policies, continue to present challenges that could impact the

City's financial outlook in the current year and future years. Given these uncertainties, City staff continue to recommend exercising caution when considering any additional spending.

The tables below provide an overview of the fiscal impact of the recommended budget adjustments:

**Table 1. FY 2024/25 Adjustments**

<b>Fund</b>	<b>Account/Program</b>	<b>Account</b>	<b>Amount</b>
<i>Revenue</i>			
General Fund	Fire-Mutual Aid	3510200-339000	\$1,976,457
<i>Expenditures</i>			
General Fund	Fire-Mutual Aid	3510200-413120	\$1,976,457
Parking Fund	Professional Services	4150000-421002	\$182,932

**Table 2. FY 2025/26 Adjustments**

<b>Fund</b>	<b>Account/Program</b>	<b>Account</b>	<b>Amount</b>
<i>Expenditures (Personnel)</i>			
General Fund	HHS-Neighborhoods	2510000-41xxxx	(\$382,728)
	CEDD-Administration	2800000-41xxxx	(\$219,281)
	HR-Administration	2100000-41xxxx	(\$164,525)
	CEDD-Administration	2800000-41xxxx	\$164,525
	Fire-Administration	3500000-41xxxx	\$90,979

The overall net impact of the budget adjustments contained in this report are:

- FY 2024/25:
  - General Fund: Net Zero
  - Parking Fund: Increase of \$182,932 in expenditures, fully offset by outperforming revenues
- FY 2025/26:
  - General Fund: Net reduction of \$511,030 in expenditures. This may be partially offset by a subsequent \$300,000 General Fund increase to support a contract for the Festival of Lights, depending on Council approval of a supplemental appropriation in a separate report.

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Attachment:

1. Presentation