City of Arts & Innovation

City Council Memorandum

TO: **HONORABLE MAYOR AND CITY COUNCIL** **DATE: JULY 16, 2024**

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

SUBJECT: **FISCAL YEAR 2023/24 THIRD QUARTER CASH, INVESTMENTS, AND DEBT REPORT**

ISSUE:

That the City Council receive for consideration the attached Fiscal Year 2023/24 Third Quarter Cash, Investments, and Debt Report.

RECOMMENDATION:

That the City Council receive for consideration the attached Fiscal Year 2023/24 Third Quarter Cash, Investments, and Debt Report.

BACKGROUND:

On April 16, 2024, the City Council received for consideration the Fiscal Year 2023/24 Second Quarter Cash and Investments and Debt report.

DISCUSSION:

It is staff's intention to provide the Cash, Investments and Debt Report at the same City Council meeting as the Quarterly Financial Report for the General Fund and other City funds, in order to provide a comprehensive review of all City Finance activities.

QUARTERLY CASH AND INVESTMENT REPORT

Sound investment practices are an essential component of the City's strong fiscal management. The Finance Department is responsible for managing the City's investment portfolio, focusing first on the safety of investments, and then on liquidity and an appropriate rate of return. The investment results and portfolio composition are summarized and reported to the City Council each quarter. As of March 31, 2024, the City's pooled investment portfolio's market value was $1.005 billion. The market value of investments held for the Section 115 Pension Trust Fund, fiscal agents (bond proceeds and reserve funds primarily), and other miscellaneous cash amounts to an additional $362 million. The weighted average yield of the pooled investment portfolio is 2.83% as of March 31, 2024.

The authority to manage the City's investment program is provided by the California Government Code Sections 53600-53610 which allows the City Council to delegate to the Treasurer/CFO for a one-year period the authority to invest or to reinvest all funds of the City. In accordance with the City Charter and under authority granted by the City Council, the Chief Financial Officer is designated the responsibilities of the Treasurer and is responsible for investing the unexpended cash in the City Treasury consistent with the City's adopted investment policy.

The Cash and Investment Report, including a listing of cash balances by fund, is included in Attachment 1. These cash balances reflect each fund's share of the City's pooled investment portfolio. Also shown are interfund loan receivables, which are treated as available cash due to the Chief Financial Officer/Treasurer's authorization to move loan receivables to other funds as needed.

All listed funds have a positive cash balance except for the following funds as of March 31, 2024:

1. Civic Entertainment - Convention Center, Visitors Bureau, Sports Commission ($1,126,950) has a negative cash balance in the pooled investment portfolio; however, the negative cash balance is offset by a positive $2,828,750 in miscellaneous cash. The overall cash balance for Civic Entertainment is a positive $1,701,800.

2. Civic Entertainment – Cheech Marin Center ($48,097) has a negative cash balance due to a pending submittal of a grant reimbursement and receivables to offset expenses and negative cash.

3. Urban Areas Security Initiative ($821,644), Community Development Block Grant ($1,299,992), Housing Opportunities for Persons with AIDS ($3,947,913), Neighborhood Stabilization Program ($85,314), NPDES Storm Drain ($310,712), Housing Authority ($586,499), Transportation Projects ($30,355), and Transportation Uniform Mitigation Fees ($2,184,797) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by receivables.

4. Debt Service Fund – General ($11,387,860) which is fully offset by outstanding cash transfers from all funds related to their share of the Pension Obligation Bond (POBs) payments made by the Debt Service Fund ($23.5 million) and other debt service payments.

5. Special Deposits ($249,708) has a negative cash balance from decreases in market value of investments primarily due to increased interest rates and related drop in market prices. The accounting adjustments to market value throughout the year are booked to the Special Deposits fund; however, at year-end, this adjustment will be proportionately booked through all related funds and the Special Deposits fund will return to positive by fiscal year-end. Securities acquired by the City are typically held until maturity; as a result, at maturity, there should not be a realized gain or loss as the maturity value will equal the carrying amount on the balance sheet.

6. Central Stores ($1,021,052) has a negative cash balance stemming from the impact of inflation on inventory purchases. Inventory is charged out (sold) at an average cost. While over time the total cost of inventory is recovered with this pricing methodology, the cash balance is temporarily negative as inventory is sold at a lower price than the current cost of replenishment.

QUARTERLY DEBT REPORT

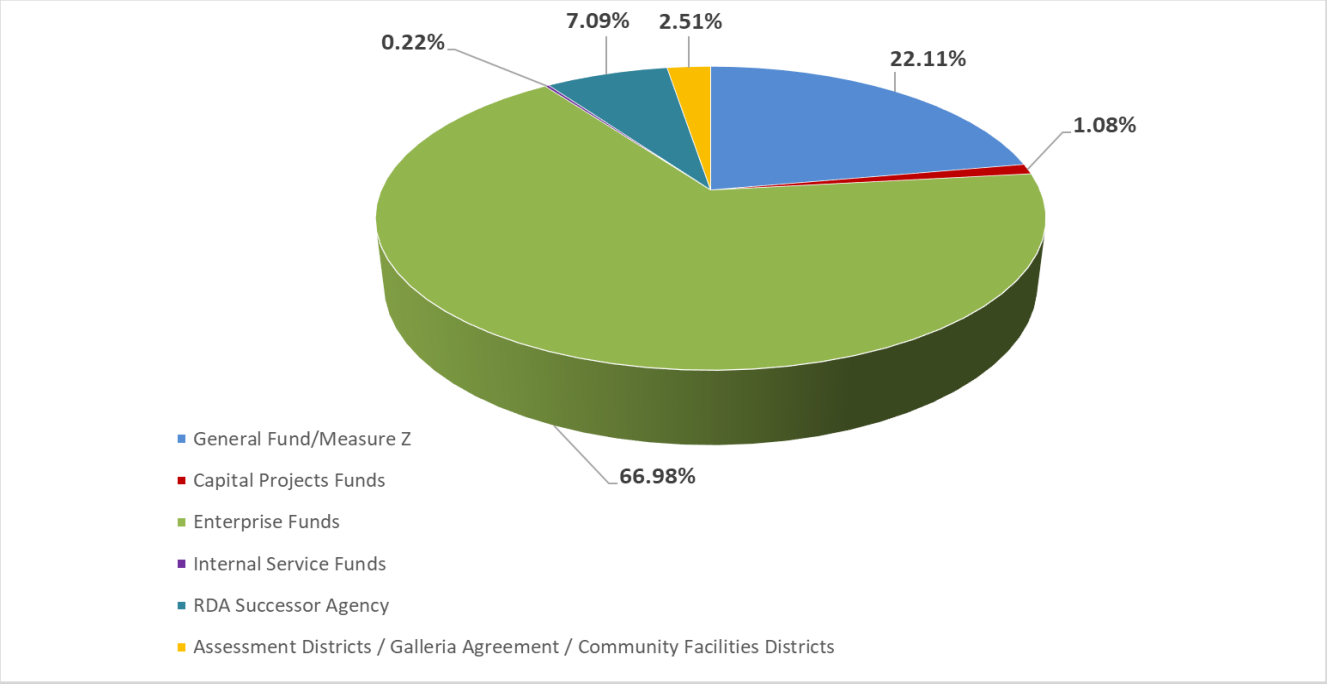
The Finance Department is responsible for managing the City's debt portfolio, which includes issuing new debt and monitoring opportunities to refinance existing debt. The Quarterly Debt Report (Attachment 2) summarizes the composition of the City's debt portfolio, details the revenue sources utilized to pay the debt service associated with each outstanding debt, and provides detailed information regarding the total principal and interest payments made in the third quarter of Fiscal Year 2024 by debt classification and fund.

Debt Summary Analysis

The City's outstanding principal varies as a result of debt service payments, bond calls, new debt issuances, and refunding and defeasance activity. At the end of the third quarter of fiscal year 2024, the City's outstanding principal balance increased $107,268,617 from the end of the second quarter of fiscal year 2024 due to the issuance of new Riverside Public Utility Debt and the refinancing of old debt. Additionally, debt service principal payments were made on the following bonds:

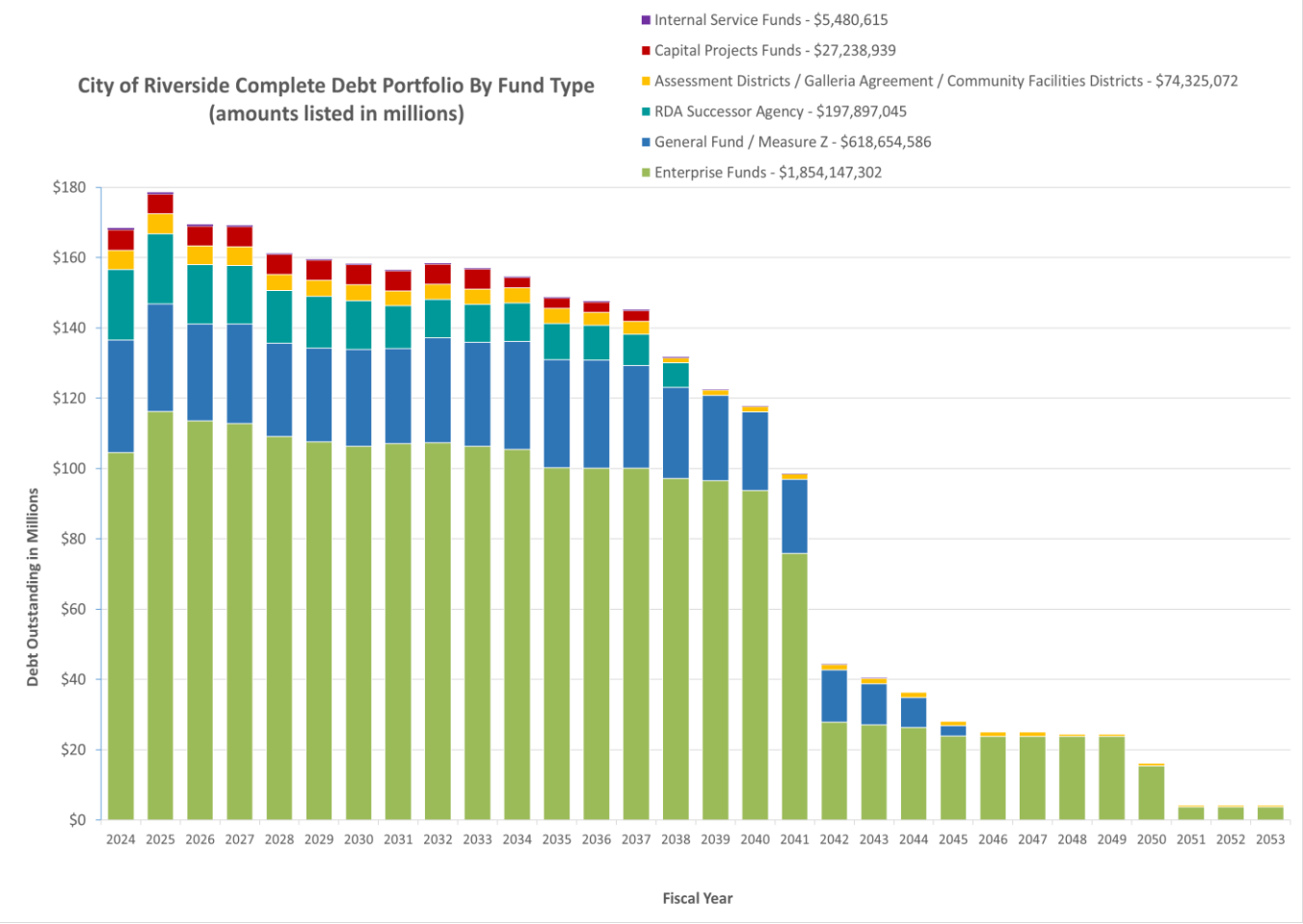
- Riverside Renaissance Projects Refunding COPs Series 2008A
- Bank of America Capital Lease #2 (Water Vehicles, Hardware and Software)
- Bank of America Capital Lease #3 (Fire, Public Works, Refuse Vehicles and Equipment)
- Convention Center Expansion Loan
- Refinancing of RPU Electric Revenue Bonds 2008A, 2008C and 2011A with the Issuance of Electric Revenue Bonds 2024A

The following chart depicts the composition of the City's debt portfolio at the end of the third quarter. Most of the City's debt is held by the Enterprise funds, which is primarily issued for capital project financing offset by the revenues generated by the newly financed facilities. The General Fund and Measure Z have the next largest percentage of debt, providing financing for projects and equipment related to public safety, downtown revitalization, and public facility and infrastructure improvements. Payment of debt service for the City's Pension Obligation Bonds is allocated among many of the funds, distributing debt service in alignment with departmental staffing costs.



For the purposes of this report, the Sewer, Water, Electric, Refuse, Special Transit, Civic Entertainment, Convention Center, and Parking funds are consolidated under the classification of Enterprise Funds. Measure Z and the General Fund are grouped together. Measure A is classified under Capital Projects Funds. While the Assessment Districts, Galleria Agreement, and Community Facilities Districts are part of the City debt portfolio, they are not classified as City obligations. They are offset by individual Assessment and Community Facilities Districts which are separate legal entities from the City, formed to issue debt and levy assessments and/or special tax to finance improvements related to development in those districts.

The following chart provides the City's debt service obligations at the beginning of fiscal year 2023-2024 using the same classification methodology, depicting aggregate principal and interest payments on all City debt by fund. As illustrated below, the City has a stable debt service curve that results in steadily diminishing annual debt service payments, minimizing large upward spikes in payments that could negatively impact the City's ability to pay debt service in any one fiscal year.



Debt Related Activities in Third Quarter

Finance staff regularly monitor the market to identify opportunities to maximize debt service savings through refunding and to issue debt when rates are most advantageous. Within the third quarter, staff finalized the Refunding of the 2008A, 2008C and 2011A RPU Electric Revenue Bonds with the Issuance of 2024A Electric Revenue Bonds. This financing plan successfully restructured the remaining variable debt into fixed-rate debt and allowed the city to terminate the

associated interest rate swap agreements. This debt restructuring will allow the City to accurately budget their debt services costs for future fiscal years which aligns with the City's Strategic Plan initiatives of Fiscal Responsibility and High Performing Government.

Other debt related activities conducted within the third quarter include:

- Coordination of the Auto Center, Arlington, and Downtown Business Improvement District annual reporting requirements
- Coordination of the Assessment District Annual Levy Process
- Began the process for a plan to finance the Community Facility District 2013-1 Kunny Ranch which closed on April 18th, 2024
- Began the process for a plan to finance the procurement of 15 vehicles for Riverside Public Utility
- Began the process for a plan to finance the Capital Improvement Plan for the Riverside Municipal Airport
- Began the process for a plan to finance the Museum Reconstruction Project

STRATEGIC PLAN ALIGNMENT:

This item contributes to Strategic Priority No. 5 High Performing Government Goal No. 5.3 – Enhance communication and collaboration with community members, to improve transparency, build public trust, and encourage shared decision-making.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The debt and investment quarterly report enhances financial transparency and demonstrates compliance with City Debt and Investment Policies.

2. **Equity** – The debt and investment portfolios detailed in this report are used to share and offset the long-term cost of growth, development, and expansion among Riverside businesses and residents.

3. **Fiscal Responsibility** – The Quarterly Report demonstrates fiscal responsibility and accountability in the management of the City's debt and investment portfolios.

4. **Innovation** – Innovative stewardship of investments and municipal debt is an effective way to track, fund, and finance, repair and improvements while ensuring sufficient cash to meet obligations.

5. **Sustainability & Resiliency** – Quarterly accounting and reporting helps to ensure City funds are used in a sustainable way without compromising future needs.

FISCAL IMPACT:

There is no direct fiscal impact associated with this report.

Prepared by: Meline Carranza, Debt and Treasury Manager
Approved by: Kristie Thomas, Finance Director/Assistant Chief Financial Officer

Certified as to availability of funds:	Kristie Thomas, Assistant Chief Financial Officer/Finance Director
Approved by:	Edward Enriquez, Assistant City Manager/Chief Financial Officer/City Treasurer
Approved as to form:	Phaedra A. Norton, City Attorney

Attachments:

1. Cash and Investment Report – Q3
2. Quarterly Debt Report – Q3