

DISCUSSION:

Following the close of each fiscal year, the City's independent auditor performs an audit of the City's financial statements. The FY 2023/24 Fourth Quarter Financial Report precedes the audit report and therefore presents **unaudited financial projections; however, we do not anticipate any material changes to the financial data.** The audit report is expected to be completed in December, followed by presentations to the Financial Performance and Budget Committee and City Council.

Refer to Attachment 1 for a comprehensive Financial Report of the City's major funds.

General Fund

The adopted FY 2023/24 budget for the General Fund totaled \$327.09M with a projected \$6.41M surplus. With the Second and Third Quarter Financial Reports, revenue projections were adjusted upward by a net \$8.40M based on FY 2022/23 actual results, year-to-date performance, and anticipated economic impacts through the end of the fiscal year. In the Second Quarter Report, due to a projected year-end surplus, the Council approved the allocation of \$5M to reserves, with \$3M directed to the General Fund Infrastructure Reserve and \$2M to the Technology Reserve.

The General Fund's unaudited actuals show a net gain of \$6.10M after accounting for encumbrances and recommended carryovers, driven by modest revenue growth and expenditure savings. Refer to Attachment 1 for an in-depth analysis of revenue and expenditure results.

Revenues: General Fund revenues are 0.9% (\$3.57M) higher than the total revenue estimate in the adjusted budget, excluding unbudgeted amounts of \$1.42M in Fire Mutual Aid and \$2.47M in sale of capital assets revenues which were anticipated to be received in the following fiscal year. Total revenues increased by just 1.6% over prior year, a slower pace compared to the previous two fiscal years. This gain was largely due to significant increases in property tax revenue, while sales tax revenue was negatively impacted by the broader economic slowdown resulting from the Federal Reserve's inflation control measures. Sales tax revenue for the fiscal year was 1.3% below the prior year, lower than the original adopted budget projection by 1.7%.

Expenditures: General Fund expenditures are 1.0% (\$3.83M) lower than the adjusted budget, inclusive of recommended carryovers. Encumbrances and project/grant appropriations totaling \$10.41M were carried forward to FY 2023/24 as allowed per the Riverside Municipal Code. An additional \$4.66M in the carryover of restricted and discretionary funds is recommended for Council approval (refer to Attachment 1, Appendix A).

General Fund Outlook: Although sales tax revenue was impacted by the economic slowdown resulting from the Federal Reserve's efforts to combat inflation, overall General Fund revenues grew, partly due to significant increases in property tax revenue. In the short term, the City must prepare for potential headwinds in both sales and property tax revenues as slower economic growth and rising unemployment, driven by industry weaknesses across the state, present challenges. While we took these factors into consideration in the FY 2024/25 revenue projections, the extent of their impact on City revenues remains uncertain.

Additionally, in the long term, the General Fund faces financial challenges that could pose risks to its fiscal health:

- **Water General Fund Transfer** – The Water General Fund Transfer (GFT) accounts for approximately 5% of ongoing General Fund revenues. On September 19, 2023, the City Council directed that all future Water GFT collections be placed in a reserve account pending the outcome of litigation. The potential revenue loss ranges from \$8.52M to \$11.26M annually over the next five years, or \$49.31M over the next five years.
- **Deferred Maintenance and Infrastructure** – Following several years of structural deficits in the General Fund, the City has struggled to allocate funding toward capital needs. Historically, capital investments have largely been funded through debt financing, such as the issuance of 2008 Certificates of Participation for street improvements, and Riverside Renaissance Tax Allocation Bonds for new facilities and capital improvements. However, debt financing does not provide a sustainable method to fund annual and ongoing needs for infrastructure repairs and maintenance and the added debt service reduces the amount of funding available for ongoing deferred maintenance.
- **Rising Pension Costs** – The financial markets influenced the CalPERS retirement fund, which yielded a 9.3% return for the fiscal year ended June 30, 2024, exceeding the 6.8% forecasted rate. While this marks a notable improvement over the past two fiscal years, it does not fully offset previous losses. Additionally, future returns below expectations could increase unfunded liabilities and required annual payments.
- **Labor Costs** – With most MOU contracts set to expire in June 2025, the outcome of future labor negotiations holds the potential to significantly impact personnel costs for the City. Balancing the need to provide competitive salary increases to recruit and retain highly qualified employees, while maintaining financial sustainability, will present a challenge.

In July 2023, the Federal Reserve ended its interest rate hikes and adopted a neutral stance to monitor the effects of its policies. The U.S. economy experienced below-trend growth in early 2024, which was expected to continue through the summer and fall. According to the UCLA Anderson Forecast, California’s economy, which grew at a 3.7% compound annual rate in 2023, slowed in 2024 due to national economic deceleration. This slowdown was driven by specific weaknesses in California industries, as reflected in the state’s high unemployment rate. Despite this, the UCLA Anderson Forecast does not predict a national recession.

General Fund Reserves: The General Fund ended FY 2023/24 with a projected net gain of \$6.10M, driven by outperforming revenues and expenditure savings. At each fiscal year end, a portion of the net gain must be allocated to maintain the 20% policy reserve requirement, along with any necessary adjustments to unavailable fund balances. For FY 2023/24, the required 20% policy reserve contribution is \$6.74M, with other adjustments to unavailable fund balances totaling \$0.90M. As a result, the available reserve shows a negative balance of \$1.54M. However, this negative balance is fully offset by other reserves that are currently in nonspendable form, such as an interfund loan receivable. This loan will transition back to spendable form as it is repaid, meaning that the negative unassigned balance reflects a temporary timing difference rather than a structural deficit.

Other reserves set aside by previous City Council action for specific purposes total \$60.30M (Committed Reserves). These reserves allow the City to exercise prudent financial planning for long-term challenges, including litigation related to the Water GFT and rising retirement costs. The Infrastructure Reserve has enabled the City to provide critical funding for infrastructure needs,

including providing grant matches for capital projects. The Technology Reserve will allow the City to plan for critical technology replacement projects as support for aging systems is discontinued.

Projected fiscal year end fund reserves are shown in the following table.

GENERAL FUND RESERVES (Unaudited)

(in millions)	Amount	Subtotal
Nonspendable		
Inventories, prepaids, deposits	\$ 1.80	
Parking Fund Loan Receivable	1.81	
Land & Improvements held for resale	0.17	\$ 3.78
Committed		
20% Policy Reserves	72.24	
Reserved for Section 115 Trust Contributions	35.00	
Infrastructure Reserve	12.19	
Technology Reserve	5.00	
Water GFT Escrow	8.11	
Other required reserves	0.52	133.06
Assigned		
Encumbrances/Projects/Grants	10.40	
Restricted Carryovers*	0.82	
Discretionary Carryovers*	3.84	15.06
Unassigned		
Available Reserves ⁽¹⁾	(1.54)	(1.54)
Total General Fund Reserves		\$ 150.36

*Subject to Council approval – refer to Appendix A

Section 115 Trust Reserves

Section 115 Trust assets are accounted for in a separate fund. This reserve will help the City to smooth fluctuations in the required annual CalPERS UAL payments and minimize the fiscal impact of significant increases that could disrupt the City’s ability to maintain service levels and fund ongoing operations. As of 6/30/2024, the unaudited reserve balance is \$58.29M.

Measure Z

To help address the service cuts as well as a portion of the City’s critical unfunded needs, The City placed a measure on the November 8, 2016, ballot for a one-percent increase in the City’s sales tax rate. The November 8, 2016, Measure Z ballot presented to voters asked them to consider a yes or no vote to:

“...prevent cutting police, firefighters, paramedics, 911 emergency response, antigang/drug programs, homelessness reduction and youth after-school/senior/disabled services; to repair local streets/potholes/infrastructure; and to provide other general services, shall a one-cent transaction and use tax (sales tax) be implemented providing \$48,000,000 annually through 2036 unless

extended by the voters, requiring independent audits with no funds to Sacramento, all funds remaining for Riverside?”

The residents of Riverside approved Measure Z with an almost 60% approval rate. The Measure Z tax became effective on April 1, 2017, increasing the City’s sales tax rate from 7.75% to 8.75%. Unless approved again by the voters, Measure Z will sunset in March 2036.

Revenues: The FY 2023/24 adopted amended budget projected revenues of \$84.46M. However, due to a decline in consumer spending from the Federal Reserve’s efforts to slow the economy, transaction and use tax revenue projections were reduced to \$80.54M in the second quarter report. Total revenues declined 2.5% to \$81.90M from the prior fiscal year, marking the first revenue drop since Measure Z’s inception.

Expenditures: Expenditures at fiscal year-end are \$86.10M before encumbrances and carryovers of \$47.20M. Encumbrances of \$27.38M and capital carryovers of \$13.43M have been carried forward to FY 2024/25 as provided for in the Riverside Municipal Code. Staff is requesting Council approval of an additional \$6.39M in discretionary carryovers. Refer to Attachment 1, Appendix B for inception-to-date revenue and expenditure reporting for Measure Z.

Reserves: Actual Measure Z revenues of \$84.20M and expenditures of \$86.10M produced a net decrease of fund reserves of \$1.91M. Projected unallocated fund reserves (unaudited) are anticipated to total \$58.52M net of encumbrances and recommended carryovers totaling \$47.20M. The FY 2024-2026 Biennial Budget includes a Five-Year Spending Plan with a programmed draw on reserves from FY 2024/25 through FY 2028/29 totaling \$47.79M. Staff recommends that unallocated reserves remain intact pending a FY 2024-2026 mid-cycle budget update.

Electric Fund

The FY 2023/24 adopted operating budget for the Electric Fund included a programmed \$9.12M operating deficit and draw on fund reserves. This is a financial strategy employed to draw reserves down to keep utility rates as low as possible. Unaudited fiscal year end results present an operating deficit of \$6.15M including outstanding encumbrances and carryovers of \$19.75M.

Revenues: Revenues surpassed projections by \$27.86M, driven mainly by \$11.21M in investment-related revenue. This increase was due to both higher-than-expected interest earnings and required year-end accounting adjustments to reflect investment market value. Additionally, Transmission Revenue Requirements (TRR) exceeded estimates by \$10.71M, reflecting an increase in the TRR rate due to rising SCE transmission costs associated with operating and maintaining the transmission system.

Expenditures: Operating expenditures, net of encumbrances and recommended carryovers, are \$6.94M (1.5%) over the total budget. This overage is mainly attributed to power supply costs, which exceeded the budget by \$15.53M (6.9%), driven by Intermountain Power Plant dispatch restrictions, persistently high power prices, and global market disruptions. However, debt service savings of \$9.71M, resulting from a delay in a bond issuance intended to restructure electric variable-rate debt, helped offset the overage in power supply costs.

Capital Expenditures: Capital expenditures totaling \$320.80M were recorded during the fiscal year; this amount includes \$77.00M of encumbrances and \$217.39M of unexpended capital project funds that have been carried forward to FY 2024/25 as provided for in the Riverside Municipal Code.

The Electric Fund's reserve level at fiscal year-end is expected to be within established policy levels; final results are pending the completion of the financial audit.

Carryovers of approximately \$11.13M are recommended for Council approval (refer to Attachment 1, Appendix A).

Water Fund

The adopted FY 2023/24 budget for the Water Fund projected a \$4.56M operating gain. Unaudited fiscal year end results present a budgetary operating gain of \$5.20M after outstanding encumbrances and carryovers of \$7.08M.

Revenues: Actual revenues exceeded projections by \$4.70M (5.1%), primarily due to higher-than-expected interest revenue, which surpassed projections by \$3.46M. This included \$2.51M in additional bond interest earned on cash held by the fiscal agent for the 2022 Water Revenue Bonds Series A issuance. Additionally, \$620,000 in excess land and building rental revenues stemmed from a one-time temporary construction easement, and \$3.24M was generated by increased developer activity, including construction and unbudgeted donated plant assets from developers, such as transmission mains, distribution services, and fire hydrants.

Expenditures: Operating expenditures, net of encumbrances and recommended carryovers, are \$2.81M (3.0%) below the total budget. This is primarily due to savings of \$1.87M in system operations professional services and software maintenance support, which were used on an "as needed" basis, as well as \$297,000 in personnel savings from a 13.68% average vacancy rate. Additionally, debt service savings of \$642,000 resulted from delays in vehicle lease financing and the amortization of debt issuance costs.

Capital Expenditures: Capital expenditures totaling \$75.98M were recorded during the fiscal year; this amount includes \$13.28M of encumbrances and \$32.65M of unexpended capital project funds that have been carried forward to FY 2024/25 as provided for in the Riverside Municipal Code.

Reserves: The Water Fund's reserve level at fiscal year-end is expected to be within established policy levels; final results are pending the completion of the financial audit.

Carryovers of \$880,510 are recommended for Council approval (refer to Attachment 1, Appendix A).

Refuse Fund

The adopted operating budget for the Refuse Fund projected a draw on fund reserves of \$1.16M driven by rising operations costs and ongoing personnel shortages, which were expected to cause excess overtime costs. Unaudited fiscal year end results present an operating loss of \$10.83M. This is primarily a timing loss attributable to the carryover of unspent funds for vehicle purchases, totaling \$9.50M, from FY 2023/24. The revenue to fund these purchases was recognized in FY 2022/23 and subsequently fell to fund reserves. The associated expenditures will be drawn from these reserves upon receipt of the vehicles, which has been delayed due to extended procurement timelines. Excluding the impact of this carryover, the Refuse Fund's adjusted operating loss aligns more closely with the budgeted reserve drawdown projection, at \$1.33M.

Revenues: Revenue at fiscal year-end exceeded projections by \$2.31M (7.2%). Contracted services were over budget by \$727,000 (11.6%) due to a billing adjustment. Waste collection services for a specific area within the City were mistakenly billed under a private waste hauler. This correction was required to accurately reflect the City as the service provider. Additionally, miscellaneous revenue included interest income that surpassed projections by approximately \$360,000, as well as refunds and reimbursements totaling \$316,000 for fuel rebates. Offsetting these increases, street sweeping fines were \$201,000 below projections, as fewer parking fines were issued than anticipated.

Expenditures: Operating expenditures, net of encumbrances, are \$930,000 (2.1%) above the total budget. This overage is primarily due to personnel costs, which exceeded the budget by \$570,000 (8.6%) due to personnel shortages and overtime expenses caused by breakdowns of older vehicles, which led to delays in waste pickups. Non-personnel expenditures were \$670,000 (4.2%) higher than budgeted, mainly due to the aging fleet, which resulted in increased vehicle repair costs and higher fuel consumption. Rising CNG fuel costs also contributed to overages in motor fuels and lubricants.

Reserves: The Refuse Fund is projected to end the fiscal year with \$6.00M in fund reserves, reflecting an operating loss of \$1.33M, excluding the \$9.50M carryover of unspent funds for vehicle purchases, which were recognized as revenue in a prior year.

Carryovers of \$83,000 are recommended for Council approval (refer to Attachment 1, Appendix A).

Sewer Fund

The adopted budget for the Sewer Fund projected a net operating gain of approximately \$1.84M which would be used to fund \$1.34M of planned capital projects included in the FY 2023/24 adopted budget and capital improvement plan. Unaudited fiscal year end results present a budgetary operating gain of \$10.24M after outstanding encumbrances.

Revenues: Operating revenues at fiscal year-end are \$11.17M (16.1%) higher than projected in the adopted budget. This increase is primarily due to higher-than-expected miscellaneous revenues, including \$6.37M in sewer connection fees driven by increased planned development. Additionally, interest revenue exceeded the budget by \$3.86M, fueled by higher-than-anticipated market interest rates and market value adjustments. Wastewater service contracts with the Rubidoux, Jurupa, and Edgemont Community Service areas also exceeded projections by \$2.02M due to higher surcharges from increased wastewater sent to the Regional Water Quality Control Plant.

Expenditures: Operating expenditures, net of encumbrances, are \$6.10M (8.0%) below the total budget. This savings is primarily due to debt service savings of \$2.17M, resulting from the amortization of debt issuance costs, including the premium on debt, which reflects the gradual allocation of these costs over the term of the debt. Personnel costs were \$879,000 (5.5%) below budget due to an average annual vacancy rate of 19.9% during the fiscal year. Additionally, minor capital and equipment savings of \$560,000 (60.9%) were realized in the budget for sewer equipment and construction, which are budgeted on an “as needed” basis. Finally, charges to/from others were \$670,000 below budget, as the amounts charged to capital projects vary depending on project activity.

Capital Expenditures: Capital expenditures totaling \$53.07M were recorded during the fiscal year; this amount includes \$23.63M of encumbrances and \$20.42M of unexpended capital project

funds that have been carried forward to FY 2024/25 as provided for in the Riverside Municipal Code.

Reserves: The Sewer Fund is expected to end the fiscal year with \$58.80M in fund reserves following an operating gain of \$10.24M.

Public Parking Fund

The FY 2023/24 adopted operating budget for the Public Parking Fund included a projected \$481,000 operating loss. Unaudited fiscal year end results present a budgetary operating gain of \$3.01M after outstanding encumbrances of \$211,000.

Revenues: Parking revenues at fiscal year-end are \$3.15M (37.4%) higher than projected. This significant increase is primarily driven by the new Council-approved Parking Rate and Hour Schedule, as well as higher demand as people returned to work and resumed pre-pandemic activities. The implementation of the "Parking Your Way" program, which includes more accessible free parking, new parking rates, expanded hours, new monthly parking programs, the Park Riverside app, and the installation of Parking Access Revenue Control Systems (PARCS) in garages, further contributed to the 40.5% increase in parking revenue compared to original estimates. Additionally, a one-time land sale of Parking Fund property, along with higher-than-expected interest earnings, contributed \$550,000 (49.5%) to the positive variance.

Expenditures: Operating expenditures, net of encumbrances, are \$804,000 (8.5%) below the total budget. This savings is primarily due non-personnel expenditures coming in \$778,000 (12.2%) below budget, largely due to \$790,000 in savings from underutilized professional services, which were budgeted on an 'as-needed' basis.

Capital Expenditures: Capital expenditures totaling \$3.32M were recorded during the fiscal year; this amount includes \$459,000 of encumbrances and \$1.70M of unexpended capital project funds that have been carried forward to FY 2024/25 as provided for in the Riverside Municipal Code.

Reserves: Following a FY 2023/24 net gain of \$3.01M, the Public Parking Fund is expected to end the fiscal year with \$5.88M in fund reserves.

Carryovers

A total of \$43,743,863 is recommended for Council approval, comprised of \$10,213,460 in restricted funding and \$33,530,403 in discretionary funding.

Restricted Carryovers represent appropriations of funding designated for a specific use per a third-party agreement, including donations, endowments, and grant matches.

Discretionary Carryovers include amounts appropriated for a specific purpose in previous periods, but unexpended due to timing or for other reasons. Discretionary carryovers may also include a reallocation of amounts from their original purpose to a new purpose, either identified as an emerging need or not funded in the adopted budget due to budget constraints.

Carryover Requests Summary

	Restricted	Discretionary	Total
General Fund	\$ 818,322	\$ 3,837,062	\$ 4,655,384
Measure Z Fund	-	6,385,293	6,385,293
Electric Fund	-	11,128,497	11,128,497
Water Fund	-	880,510	880,510
Refuse Fund	83,000	-	83,000
Other Funds	9,312,138	11,299,041	20,611,179
Total Carryover Requests	\$ 10,213,460	\$ 33,530,403	\$ 43,743,863

Refer to Attachment 1, Appendix A for a detailed listing of carryover requests.

STRATEGIC PLAN ALIGNMENT:

The reporting and presentation of financial results aligns with **Strategic Priority 5 – High Performing Government and Goal 5.3** – Enhance communication and collaboration with community members to improve transparency, build public trust and encourage shared decision-making.

Financial reporting aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – Presentation of financial results provides a transparent view and communication of City finances in a forum that accommodates community engagement and the involvement of the Budget Engagement Commission.
2. **Equity** – The financial report is available to all members of the public via the City website, and the presentation of the financial report in a public forum accommodates community engagement from all members of the public.
3. **Fiscal Responsibility** – The financial report and proposed recommendations demonstrate the City’s commitment to responsible management of the City’s financial resources.
4. **Innovation** – The proposed recommendations demonstrate innovative monitoring and management of City finances.
5. **Sustainability & Resiliency** – The financial reports, methodologies, and strategies implemented by staff demonstrate the City’s commitment to the long-term fiscal health of the City and sustainable provision of City services.

FISCAL IMPACT:

The General Fund ended FY 2023/24 with a net budgetary gain of \$6.10M, primarily due to modest overall revenue growth, bolstered by significant growth in property tax revenues, and \$3.83M in expenditure savings. However, due to necessary adjustments to maintain the 20% policy reserve level, and required audit adjustments to comply with accounting standards, the General Fund is expected to close the fiscal year with a negative available fund balance of \$1.54M. This negative balance reflects a timing difference, which is fully offset by an accounting

requirement to show a loan receivable from the Parking Fund as nonspendable fund reserves. As the loan is repaid, the funds will revert to available fund balance.

The City's major enterprise funds (Electric, Water, Refuse, Sewer, and Public Parking) are expected to end the fiscal year with positive reserve balances within established policy requirements. Final results are pending the conclusion of the City's financial audit.

The approval of carryovers has no new fiscal impact, as the funding was already approved by the City Council in June 2023 with the adoption of the FY 2023/24 budget.

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Attachments:

1. Financial Report and Carryover Recommendations
2. Presentation