



*City of Arts & Innovation*

# City Council Memorandum

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**TO: HONORABLE MAYOR AND CITY COUNCIL                      DATE: APRIL 8, 2025**

**FROM: FINANCE DEPARTMENT    WARDS: ALL**

**SUBJECT: FISCAL YEAR 2024/25 SECOND QUARTER FINANCIAL UPDATE AND MID-CYCLE BUDGET ADJUSTMENTS – \$254,423 SUPPLEMENTAL APPROPRIATIONS AND INTERFUND TRANSFERS; \$2,767,065 IN REVENUE INCREASES**

**ISSUE:**

Receive and provide input on the Fiscal Year 2024/25 Second Quarter Financial Update; approve proposed mid-year budget adjustments.

**RECOMMENDATIONS:**

That the City Council:

1. Receive and provide input on the Fiscal Year 2024/25 Second Quarter Financial Update; and
2. With at least five affirmative votes, authorize the Chief Financial Officer, or designee, to record mid-cycle budget adjustments, including supplemental appropriations, interfund transfers, and other budgetary entries in the amount of \$254,423 of expenditure and \$2,767,065 in revenue adjustments across various funds as detailed in this report.

**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.

## **DISCUSSION:**

Throughout the fiscal year, City departments and the Budget Office monitor and analyze all City funds for potential issues that require attention and mitigating action. For the second-quarter report, City departments analyzed the financial status of all funds and appropriations under their purview. The results of the City's major funds and areas of concern in other funds (if any) are included in this report. This update spans the period of July 2024 through December 2024.

### **General Fund and Measure Z**

The second-quarter analysis presents a cautious outlook for the General Fund and Measure Z. Although most revenues are aligning with budgeted projections, there are projected sales tax decreases and ongoing risks that can change the City's fiscal outlook. Additionally, these projected revenue decreases are exacerbated by increased costs in overtime, timing of revenue recording, and other supplemental appropriations approved to date.

Further, uncertainty at both the federal and local levels persist, including proposed tariffs, immigration policies, and federal funding reductions, which may present additional future challenges. The implementation and potential impact of these policies on the local economy remains unclear. Therefore, staff continue to advise caution on any additional unallocated spending and will continue to monitor and provide further updates for the major revenue categories in future reports.

This report includes recommended mid-cycle budget adjustments for certain areas that reflect increased expenditures and/or decreased revenue trends, and cost savings measures to address a potential fiscal year end shortfall.

**Adopted Budget:** The adopted FY 2024/25 budget for the General Fund totaled \$361.2 million with a balanced budget. The FY 2024/25 Measure Z budget adopted in June 2024 projected an approximately \$32.15 million ending fund balance, which includes a deliberate net drawdown of \$19.8 million per the adopted spending plan. Separately, \$5.00 million is held in contingency reserves per the adopted Measure Z Reserve Policy to ensure sufficient funding for ongoing costs in the event of under-performing revenues.

As of the second quarter review of the budget, several trends have emerged that necessitate changes to the adopted budget. Further, additional areas that reflect increased expenditures and/or decreased revenues are being closely monitored for budget overages. Updates on these areas will be provided in the third quarter review.

**Revenues:** FY 2024/25 General Fund revenues recorded through December 2024 were assessed in the context of FY 2024/25 adopted budget, performance to date, and potential economic impacts through the end of the fiscal year.

General Fund					
Revenue Category	Adopted Budget	Amended Budget 12/31/2024	Year-End Projection	\$ Change	% Change
Property Taxes	\$ 92.59	\$ 92.59	\$ 92.59	\$ -	0.0%
Sales Tax	93.84	93.84	91.93	(1.91)	-2.0%
Cannabis Tax	0.50	0.50	-	(0.50)	-100.0%
Utility Users Tax	34.94	34.94	34.94	-	0.0%
Transient Occupancy Tax	8.71	8.71	8.71	-	0.0%
Franchise Fees	6.91	6.91	6.91	-	0.0%
Licenses & Non-Developer Permits	11.96	11.96	11.96	-	0.0%
Non-Development Charges for Services	12.04	12.04	12.04	-	0.0%
Development Fees & Charges	8.46	8.46	8.46	-	0.0%
General Fund Transfer	53.41	53.41	53.45	0.04	0.1%
Measure Z Transfer	18.27	18.27	24.16	5.89	32.2%
Other Revenues & Transfers In	19.61	18.73	21.17	2.45	13.1%
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 361.22</b>	<b>\$ 360.34</b>	<b>\$ 366.31</b>	<b>\$ 5.96</b>	<b>1.66%</b>
Measure Z					
Sales Tax	\$ 83.72	\$ 83.72	\$ 80.51	\$ (3.21)	-3.8%
Interest Earnings	0.80	0.80	0.80	-	0.0%
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 84.52</b>	<b>\$ 84.52</b>	<b>\$ 81.31</b>	<b>\$ (3.21)</b>	<b>-3.8%</b>

The following outlines trends for the performance of key revenue streams and recommended revenue adjustments:

- Sales Tax** – The second-quarter analysis is showing a slower growth in sales tax revenue. The City’s sales tax consultant, HdL, projects a potential \$5.12 million sales tax decrease in FY 2024/25, including \$1.91 million (2.1%) in the General Fund and \$3.21 million (3.8%) in Measure Z. Although preliminary figures reported by the State through the end of January demonstrate that sales tax revenue receipts have slightly outperformed HdL’s estimate, they are still trending towards a revenue decrease.

Significant uncertainty remains regarding the expected performance of this revenue stream in the second half of the year, especially considering the potential impacts of newly enacted and rapidly changing federal policies. Therefore, City staff recommend adopting a conservative approach by recording projected sales tax decreases provided by the City’s sales tax consultant. City staff are actively monitoring impacts on sales tax revenue and may recommend additional adjustments in future quarterly reports.

- Property Taxes** – The City has experienced substantial property tax revenue growth over the past few years, but this growth has slowed due to higher interest rates, refinancing costs, and overall higher housing costs, which have reduced consumer demand for housing. However, as of the second quarter, projected FY 2024/25 revenues are still expected to align with budgeted projections.
- Utility Users Tax (UUT)** – The second-quarter analysis of the utility users tax indicates that revenues are slightly exceeding budgeted projections, but no adjustment is recommended.
- Transient Occupancy Tax (TOT)** – The second-quarter analysis of TOT indicates that revenue is mostly in line with budgeted projections. Although the City has experienced a

slight decline in TOT revenue so far this fiscal year, no adjustment is recommended at this time.

- **Franchise Fees** – The second-quarter analysis of franchise fees indicates that revenue is largely in line with budgeted projections, and no adjustments are recommended at this point in the fiscal year.
- **Business License Tax** – The second-quarter analysis of business license tax shows signs of declining revenues compared to budgeted projections. However, HdL, the City’s business license tax administrator, recently established a discovery program to pursue out-of-compliance businesses, which is expected to boost revenue for the second half of the fiscal year. Staff will continue to monitor and report any significant deviations and will make future recommendations to Council in subsequent quarterly reports, if necessary.
- **Development Fees and Charges** – The second quarter analysis of development fees and charges indicates a slight decline in revenue compared to budgeted projections. This is partly due to budget assumptions that assumed earlier implementation of fee increases, which are now anticipated begin in May. Staff will continue to monitor for significant deviations and make recommendations to Council in subsequent quarterly reports, if necessary.
- **Cannabis Revenue** – The FY 2024/25 adopted budget projected \$500,000 in Cannabis Business Tax revenue. However, the City Council directed staff to conduct further research and analysis on various aspects of cannabis licensing, delaying implementation. Given the ongoing evaluation and uncertainty surrounding the program’s future, staff recommend taking a conservative approach by reducing the \$500,000 in General Fund revenue associated with the delayed implementation.
- **March JPA Land Sales** – The FY 2024/25 adopted budget projected \$3.1 million in revenue associated with the city’s share of March JPA land sale revenue. However, the city now anticipates receiving \$650,000 in the current year. Therefore, staff recommend adjusting the anticipated revenue estimate to \$650,000 to reflect expected land sales.
- **General Fund Transfer** – Staff recommend an adjustment of \$40,700 to reflect an increase in actual revenue receipts associated with the GFT in FY 2023/24.

As identified in the first quarter report, FY 2024/25 revenue projections were updated to reflect a \$2.4 million reduction in General Fund revenue originally budgeted for the sale of surplus police helicopters. Since the revenue was received and recorded in late FY 2023/24, it was reflected in the FY 2023/24 fund balance, as required by accounting rules. However, because an equivalent level of expenditure is budgeted in FY 2024/25, the timing difference has created a budgetary gap for the current year. To mitigate the impact of economic uncertainties, staff recommend funding the expenditure with current year revenue rather than drawing from fund balance, where the revenue is reflected.

**Expenditures:** As of the second quarter, overall General Fund and Measure Z expenditures are generally aligning with budgeted appropriation limits. However, overtime costs for Police and Fire are trending above budget, and recommended budget adjustments are outlined below. Further, there remain risks of additional unanticipated costs.

### Recommended Adjustments

The following explains significant items and recommended expenditure adjustments:

- **Personnel** – The personnel expenditure budget includes a 6% vacancy savings factor (\$15.5 million for the General Fund and \$500,000 for Measure Z) within a non-departmental fund account, freeing up funds for allocation to City priorities. However, all positions are fully budgeted within their respective departments, demonstrating the City's commitment to filling these positions.

As of the end of the second quarter, the General Fund vacancy rate stood at 8.8%, representing a decrease of 2.3% from the start of the fiscal year. The vacancy rate further dropped to 7.8% by the end of February. The Measure Z vacancy rate was 19.7% at the end of December, falling to 16.8% by the end of February. If current trends of filling positions continue through the remainder of the fiscal year, the City may be at risk of not meeting the General Fund vacancy savings factor. However, staff project exceeding the Measure Z vacancy rate factor by at least \$1.1 million. Therefore, staff recommend increasing the Measure Z vacancy rate factor by \$1.1 million, resulting in budget savings. Staff will continue to monitor the General Fund vacancy rate and propose any necessary adjustments in a future quarterly report.

Public Safety Overtime Costs: Second quarter analysis of overtime trends demonstrates that both Fire and Police will exceed budgeted appropriation limits.

- Fire Department overtime costs are incurred to meet contractual MOU Employee Agreements for constant staffing. These costs arise from employee vacancies, sick leave, and vacation/holiday use. Additionally, overtime is required for special incidents and events, such as the Hawarden Incident, July 4th celebrations, the Festival of Lights, and the Junior Firefighter Academy, which necessitate staffing from off-duty personnel.
- Police Department overtime costs have increased due to the onboarding of new recruits, with a significant increase in training hours. These hours include training for routine field activities, use of force and defensive tactics, as well as report writing. During training, both the trainee and the trainer will earn overtime. Additionally, extensive operations and investigations attributed to higher overtime this fiscal year, including operations in the Magnolia Corridor and several homicide investigations.

Staff recommend a supplemental appropriation of \$4 million (\$3.5 million General Fund and \$500,000 Measure Z) in overtime costs for the Fire Department (\$2 million) and Police Department (\$2 million).

- **Non-Personnel** – Non-personnel expenses are challenging to project due to fluctuations in the timing of expenditures throughout the fiscal year, as well as the common occurrence of unexpended funds being carried over at the end of the fiscal year. As of the second quarter, expenditures are expected to align with budgeted expectations.
- **Section 115 Trust Transfer** – The FY 2024/25 adopted budget included a \$12 million transfer to the Section 115 Trust. However, due to an overpayment in FY 2023-24, \$794,000 of the budgeted transfer will not be needed in the current fiscal year to meet the contribution target. Therefore, staff recommend reducing the budgeted transfer by this amount, resulting in budgetary savings.

Council Approved/Pending Adjustments

During the first two quarters of FY 2024/25, the City Council approved the following supplemental appropriations:

*General Fund (\$2.63 million):*

- Simpson v. City of Riverside Lawsuit Legal Fees (\$139,400) – Increase to the legal budget to cover additional expenses related to extensive discovery, a hearing on liability, and an upcoming hearing on damages, beyond the scope of the initial approved budget.
- Riverside Firefighters' Association MOU Adjustments (\$297,000) – Increase to Fire to support higher personnel costs associated with the revised Memorandum of Understanding with the Riverside Firefighters' Association.
- Local Affordable Housing Trust (\$25,773) – Transfer to the Local Affordable Housing Trust associated with a policy to provide fifty percent of the sale proceeds from city owned properties purchased with General Fund resources to support affordable housing projects.
- Rental Assistance Program for Seniors (\$900,000) – Allocation of American Rescue Plan Act (ARPA) interest income to support rental assistance for seniors.
- Park and Recreation Agencies Accreditation (\$150,000) – Allocation of ARPA interest income to fund a consultant to complete a Parks Commission for Accreditation of Park and Recreation Agencies accreditation strategy.
- Legal Costs (\$250,000) – Allocation of ARPA interest income to add Redwood Public Law to the City's panel of authorized attorneys to work on public/private partnership projects.
- City of Riverside vs Regents of University of California Legal Services (\$425,000) – Increase to the City Attorney's Office budget for a three-year legal services agreement with the law firm of Shute Mihaly & Weinberger, to represent the City in the lawsuit entitled City of Riverside v. The Regents of the University of California.
- City Council Assistant Salary Increases (\$139,492) – Increase to the City Council budget to support salary adjustment for Council Assistants.
- City of Corona Aviation Program Agreement (\$120,000) – Increase to the police budget with a corresponding revenue adjustment to provide as-needed emergency air support services to the city of Corona.
- City Attorney Case Management Software (\$83,389) – Increased funding to the City Attorney's office to support technology services for a legal case management system.

*Measure Z (\$214,000):*

- Real Time Crime Center (\$200,000) – Allocation to implement a Real-Time Crime Center in the Police Department.
- Riverside Firefighters' Association MOU Adjustments (\$14,000) – Increase to support higher personnel costs associated with the revised Memorandum of Understanding with the Riverside Firefighters' Association.

The Measure Z Spending Plan (Attachment 2) was also updated to include the projected debt obligations for the full financing of the Museum renovation. Council approval for the actual appropriation will be requested upon issuance of the debt.

In January 2025, Council approved MOUs with the Riverside Police Officer's Association (including the Supervisory Group) and the Riverside Police Administrators' Association, which

resulted in an additional fiscal impact of \$1.32 million in the General Fund and \$273,851 in Measure Z in Fiscal Year 2024/25.

During the first two quarters of FY 2024/25, the City Council approved changes totaling a net gain of \$1.88 million in the General Fund Infrastructure Reserve:

- Museum Expansion and Renovation Project (\$10 million) – Funding was returned to the General Fund Infrastructure Reserve following Council approval of debt financing for the project.
- Solid Waste (Refuse) Fund Loan (\$2.87 million) – An interfund loan was provided to the Solid Waste Fund for the purchase of solid waste collection vehicles.
- Bordwell Park Gymnasium Project (\$600,000) – An allocation to cover a funding shortfall for the construction award and associated costs, including plan check, permits, inspections, and administration.
- Northside Agriculture Innovation Center (\$2,300,000) – An allocation to support critical infrastructure needs to complete Phase 1 of the Northside Agriculture Innovation Center.
- Economic Development, Project Development, and Tax Consulting (\$133,750) – An allocation to support consultant services for economic development and tax credits.
- Voltu Electric Vehicles (\$2,217,500) – An allocation to support the purchase of 20 Voltu Electrified F350 XL Crew Cab 4WD Trucks. This funding is intended to be repaid by the departments and funds purchasing the vehicles for City operations.

**Summary:** Based on conservative year-end revenue projections, anticipated expenditure overages, and supplemental appropriations approved or pending approval to date, City staff are projecting a year-end deficit of approximately \$15.61 million (\$12.58 million General Fund and \$3.02 million Measure Z), unless cost savings measures are implemented to address the shortfall. This represents only a 4.3% departure from projected year-end general fund budget totals. While the City has various reserve balances that can help address the projected shortfall, relatively minor adjustments to expenditures are sufficient to again balance the budget and guard against any possible budget shortfalls in the current fiscal year. Additionally, national economic uncertainty and the direction of the economy could impact the City's financial outlook, both in the current year and future years, including the effects of rapidly changing federal policies. Given these uncertainties, City staff advise against using reserves at this point and caution against committing to any additional unallocated spending. Therefore, several cost savings measures are recommended as mid-cycle budget adjustments, as noted below. Further, staff will continue to monitor the performance of the City's revenues and expenditures, providing additional recommendations in future quarterly reports.

General Fund		Measure Z	
Expenditure	Amount (in millions)	Expenditure	Amount (in millions)
Adopted Budget	\$ 361.22	Adopted Budget	\$ 104.28
Supplementals Approved through Second Quarter	2.63	Supplementals Approved through Second Quarter	0.21
Supplementals Approved/Pending in Third Quarter	1.52	Supplementals Approved/Pending in Third Quarter	1.86
Police and Fire Overtime	3.50	Fire Overtime	0.50
Section 115 Trust Transfer Overpayment	(0.79)	Museum Debt Service Payments	(2.91)
Cost Savings Measures	(1.77)	Police Lateral Hiring Incentive	0.16
<b>Total Expenditures</b>	<b>\$ 366.31</b>	Cost Savings Measures	(7.80)
		Transfer to General Fund	5.89
		<b>Total Expenditures</b>	<b>\$ 102.19</b>

Below is a recap of the City’s General Fund and Measure Z Reserve Balances:

General Fund		Measure Z	
Policy Reserves	Balance (in millions)	Fund Balance*	Balance (in millions)
Emergency Reserve (15%)	\$ 54.18	Policy Reserve	5.00
Contingency Reserve (5%)	18.06	<b>Total</b>	<b>\$ 42.90</b>
<b>Total</b>	<b>\$ 72.24</b>	* Reflects projected fund balance as of the end of the second quarter	
<b>Other Reserves</b>		* Measure Z fund balance is anticipated to be drawn down over the adopted five-year plan.	
Reserved for Section 115 Trust Contributions	\$ 30.24		
Infrastructure Reserve	9.38		
Technology Reserve	5.00		
Water GFT Escrow	16.63		
Section 115 Trust	77.19		
<b>Total</b>	<b>\$ 138.44</b>		
<b>Total Reserves</b>	<b>\$ 210.68</b>		

**Mid-cycle Budget Adjustments:** Throughout the fiscal year, staff assess the need for adjustments to the adopted budget. Revenue adjustments of negative \$4.84 million (General Fund) and negative \$3.2 million (Measure Z) are recommended to be recorded in the appropriate revenue categories to align with current year-end projections. This includes the following:

- **Sales Tax (-\$5,116,063):** Record a decrease of \$1,910,063 in the General Fund and \$3,206,000 in Measure Z for sales tax revenue to align year-end revenue projections with estimates provided by the City’s sales tax consultant.
- **March JPA Land Sale (-\$2,475,000):** Record a decrease of \$2,475,000 in the General Fund associated with anticipated decrease revenue from land sales as part of the March JPA.



- **Cannabis Tax (-\$500,000):** Record a decrease of \$500,000 in General Fund revenue given the delays in implementation of the Cannabis program.
- **Electric GFT (\$40,700):** Record an increase in the General Fund Transfer of \$40,700: the increase is based on FY 2023/24 year-end results of higher revenue.

The following expenditure budget adjustments are recommended for Council approval to address necessary budget overages and to make other adjustments that align with updated expenditure schedules:

- **Overtime Costs – Police and Fire Departments (\$4,000,000):** Record a supplemental appropriation of \$2,000,000 in the General Fund, Police Department, \$1,500,000 in the General Fund, Fire Department, and \$500,000 in the Measure Z, Fire Department, to support projected increased overtime costs for the Police and Fire Departments.
- **Museum Expansion and Rehabilitation Debt Service – (-\$2,911,806):** Record a decrease of \$2,911,806 in the Measure Z associated with delayed debt service payments for the Museum Expansion and Rehabilitation, as payments will not begin until FY 2025/26.
- **Section 115 Trust Transfer (-\$794,000):** Record a decrease of \$794,000 in the General Fund, to adjust for an overpayment made to the Section 115 Trust in Fiscal Year 2023/24.
- **Measure Z - Police Department - (\$155,000):** Record a supplemental appropriation of \$155,000 in the Measure Z Fund for the reinstatement of the Police Lateral Hiring Incentive, bringing the FY 2024/25 budget total to \$200,000.

Recommended Cost Savings Measures

**Cost Saving Measures:** The following expenditure budget adjustments are recommended for Council approval as cost savings measures to address the projected deficit. These adjustments are not anticipated to have a material impact on program initiatives.

*General Fund (-\$1.76 million)*

- **Various Parks Activities (-\$520,000):** Record a decrease of \$520,000 in the General Fund and Measure Z associated with various parks activities including, but not limited to:
  - Professional services: \$150,000 reduction. This reduction will delay completion of the Hole Lake Master Plan in the near term. An RFP was issued seeking a consultant to lead the Hole Lake Master Plan effort, however Staff was not satisfied with the RFP responses received and will put out a revised RFP next fiscal year. Staff will explore potential alternative funding sources, including infrastructure reserves, if the fiscal outlook does not improve in the coming quarters.
  - Citywide events: \$200,000 reduction. This reduction aligns with the timing of significant events, such as the Latin Festival, which is scheduled to occur in the next fiscal year. The fiscal impact on events occurring in the last quarter of the current fiscal year is anticipated to be minor, and staff will seek sponsorships or alternative funding to help mitigate potential impacts.
  - Golf course support: \$17,830 reduction. This reduction reflects anticipated year-end savings and is not expected to materially impact current golf course operations.
  - Recreation services: \$142,170 reduction. This reduction will delay an expansion in adaptive programming until next fiscal year. Current offerings will remain in place, but expansion of existing inclusive recreational opportunities may be delayed until next fiscal year.

- Training: \$10,000 reduction. A total of \$21,250 was budgeted for training, with \$2,919 being spent to date. While essential training will continue, this budget reduction will delay additional staff development until next fiscal year.
- **Senior Rental Assistance Program – HHS (-\$500,000):** Record a decrease of \$500,000 in the General Fund to account for the program being undersubscribed and to align funds with projected program needs. A total of \$900,000 was originally budgeted for this program; however, despite vigorous outreach, to date only 34 seniors have subscribed to the program, obligating \$211,895. Additional outreach is underway, but based on current results, the program only requires \$400,000 total to successfully meet its goals, allowing the remaining \$500,000 to be reallocated to other needs.
- **Police Radio Replacement (-\$365,712):** Record a decrease of \$365,712 in the General Fund associated with savings from the purchase of police radios. A total of \$5.29 million was allocated for police radios; however, the actual cost was \$4.93 million, leaving an excess balance of \$365,712 available for reallocation. This reduction will partially offset increased overtime costs in the Police Department.
- **Professional Services, Travel, and Other Support Services – City Manager’s Office (-\$300,000):** Record a decrease of \$300,000 in the General Fund associated with various professional services, travel, and other support within the City Manager’s office.
- **Education Reimbursement (\$-100,000):** Record a decrease of \$100,000 in the General Fund reflecting anticipated savings in education reimbursement. A total of \$458,354 was allocated for fiscal year 2024-2025; however, to date, only \$87,971 has been used, leaving a balance of \$370,383 to cover any additional expenses through June 30, 2025, signaling that reallocation of \$100,000 from this fund is warranted.

Staff also recommend using \$4,927,459 of unappropriated revenue and interest revenue to offset a portion of the revenue shortfall and unanticipated costs. See ARPA section below for additional details.

*Measure Z (-\$7.79 million)*

Given that most of these initiatives receive ongoing Measure Z funds, these reductions will primarily result in a short-term delay in the completion of additional projects.

- **Vacancy Savings Factor (-\$1,100,000):** Record an expenditure reduction of \$1,100,000 in the Measure Z fund to reflect additional anticipated savings from vacant Measure Z positions.
- **Vehicle Replacement – Fire Department (-\$2,000,000):** For FY 2024/25, the Fire Department was allocated \$12,067,487 for vehicle replacement, inclusive of carryover funding, of which \$6,591,090 has been spent to purchase seven vehicles including 3 ambulances, 2 fire engines, 1 hazmat support vehicle, and 1 straight truck. Additionally, the Fire Department is ready to purchase another \$2,721,500 in vehicles, including two additional fire engines. A decrease of \$2,000,000 in the remaining Measure Z Fire Department vehicle replacement fund is recommended to reassign this amount to cover anticipated Fire Department overtime costs which may be incurred prior to June 30, 2025. The practical impact of this reassignment is a short-term delay in purchasing a new Fire tiller apparatus costing approximately \$2,700,000, which was programed to replace an existing Fire tiller apparatus purchased in 2006. It is anticipated that the new Fire tiller apparatus will be purchased with the fiscal year 2025/26 budget allocation.
- **Deferred Maintenance & Recreation– Parks (-\$480,000):** Record a decrease of \$480,000 in the Measure Z fund associated with Parks Deferred Maintenance. A total of

\$5.52 million was allocated for deferred parks maintenance in FY 2024/25 (Measure Z and General Fund), an increase of \$3.7 million over the prior fiscal year. Of the budgeted amount, \$2.12 million has been spent, leaving a balance of \$3.4 million in the deferred maintenance account. City staff continue to address deferred maintenance as quickly as possible, but an ending balance of at least \$480,000 is anticipated and can be safely reallocated.

- **Citywide Vehicle Replacement (-\$1,600,000):** Record a decrease of \$1,600,000 in the Measure Z fund associated with the replacement of citywide vehicles. The City has allocated approximately \$22.17 million for new vehicle purchases in FY 2024/25, a record investment in the City's fleet that will reduce maintenance costs and vehicle downtime. However, the miscellaneous vehicle replacement fund has not been used this fiscal year and can be reallocated. This annual allocation will remain intact in the FY 2025/26 budget.
- **Tree Maintenance (-\$916,719):** Record a decrease of \$916,719 in the Measure Z fund associated with tree maintenance contracts. The budget allocates a total of \$3.25 million for tree maintenance, which aligns with the level of funding in the FY 2023/24 budget. Of the current budget allocation, \$2,333,280 has been spent, leaving a balance of \$916,719 in this account. The City tree contract is currently being rebid through an RFP process, and it is anticipated that these funds can be safely reallocated. Full funding for tree maintenance will remain intact in the FY 2025/26 budget.
- **Technology Improvements (-\$800,000):** Record a decrease of \$800,000 in the Measure Z fund associated with citywide technology improvements. A total of \$2.9 million was allocated in the current budget to support upgrading the City's technology to better serve the City's residents and businesses. The use of this additional \$800,000 is not anticipated between now and June 30, 2025; however, should any immediate and urgent technology needs arise, the City will explore use of the technology reserve at that time.
- **Vehicle Replacement – Police Department (-\$500,000):** Record a decrease of \$500,000 in the Measure Z fund associated with the replacement of Police vehicles and apply these funds to cover anticipated Police Department overtime needs. This fiscal year's budget allocated \$3,847,434 for police vehicles, of which \$3,185,705 has been spent, leaving a budget of \$661,729. In consultation with the Police Department, only \$161,729 is needed for the remainder of this fiscal year making \$500,000 available for reallocation to police overtime.
- **Senior & Disabled Program (-\$200,000):** Record a decrease of \$200,000 in the Measure Z fund associated with senior and disabled programming. A total of \$500,000 was budgeted for this new program, of which approximately \$300,000 has been programmed. This reduction will not impact current programming, as this portion of the total budget allocation has not yet been programmed for use in the current fiscal year.
- **Homeless Outreach (-\$100,000):** Record a decrease of \$100,000 in the Measure Z fund associated with homeless outreach efforts to reflect anticipated year end savings in professional services.
- **Pavement Management (-\$83,280):** Record a decrease of \$83,280 in the Measure Z fund associated with the Pavement Management Program. A total of \$27.9 million was allocated for paving work across all funding sources in FY 2024/25. This reduction is anticipated year-end savings and is not expected to materially impact pavement management efforts.

Staff recommend an increased transfer from Measure Z to the General Fund of \$5,889,969 to offset unanticipated increased public safety costs in the General Fund, such as Police and Fire overtime.

**American Rescue Plan Act (ARPA) Revenue Replacement and Interest (\$4,927,459)**

On December 10, 2024, the City Council received an update on the ARPA expenditure plan and accepted staff’s recommendations to safeguard unexpended funds, both obligated and unobligated. Council approved the allocation of all unexpended funds to Revenue Replacement – Provision of Government Services, supported by qualifying public safety expenditures, to allow the City to safely meet the obligation deadline for all unobligated funds and report all ARPA funding as fully expended well in advance of the expenditure deadline. Unobligated funds were transferred into the General Fund as an unappropriated revenue source pending analysis of the City’s financial performance for FY 2024/25.

The actual unobligated funding as of the end of December totaled approximately \$4.22 million. Of this amount, \$1.06 million has been appropriated by the City Council over the last three months to complete other projects originally funded by ARPA. Staff recommend using \$4,600,459 to offset unanticipated increased General Fund expenditures and revenue shortfalls. This amount includes \$1.45 million of previously approved contingency funds for existing projects. To the extent projects end up needing additional resources, consideration can be providing to allocating additional funding from the infrastructure reserve. Additionally, Staff also recommend using \$327,000 of unallocated ARPA interest to further offset increased General Fund costs.

**Adjusted Budget Results**

The following table summarizes all adjustments to date and recommendations, maintaining a balance General Fund budget while simultaneously minimizing the draw on Measure Z fund balance. Additionally, while some previously approved supplementals, such as the impact of negotiated MOUs, were approved as a draw on the General Fund and Measure Z fund balances, staff recommend utilizing a combination of cost savings measures and Measure Z fund balance to maintain the General Fund balanced in the current year, given the economic uncertainties.

FY 2024/25 Summary					
	Adopted Budget	Council Approved/Pending Adjustments <sup>+</sup>	Q2 Recommended Adjustments	Q2 Recommended Cost Savings Measures	Final Adjusted Budget*
<b>General Fund</b>					
Revenue/Transfers In	\$ 361,227,227	\$ (880,759)	\$ (4,844,363)	\$ 10,817,428	\$ 366,319,533
Expenditure/Transfers Out	361,227,227	4,152,018	2,706,000	(1,765,712)	366,319,533
<b>Surplus/(Deficit)</b>	<b>\$ -</b>	<b>\$ (5,032,777)</b>	<b>\$ (7,550,363)</b>	<b>\$ 12,583,140</b>	<b>\$ (0)</b>
<b>Measure Z</b>					
Revenue/Transfers In	\$ 84,515,000	\$ -	\$ (3,206,000)	\$ -	\$ 81,309,000
Expenditure/Transfers Out	104,283,345	2,075,616	(2,256,806)	(1,910,030)	102,192,125
<b>Surplus/(Deficit)**</b>	<b>\$ (19,768,345)</b>	<b>\$ (2,075,616)</b>	<b>\$ (949,194)</b>	<b>\$ 1,910,030</b>	<b>\$ (20,883,125)</b>
* Excludes carryovers and approved unobligated ARPA adjustments, which do not have a net impact the on surplus/deficit calculation.					
** Measure Z fund balance is anticipated to be drawn down over the adopted five-year plan.					

**Electric Fund**

The FY 2024/25 adopted budget for the Electric Fund projects a \$9.3 million operating gain, excluding bond proceeds and capital project allocations. The Electric Fund is on target to meet budgeted expectations as of the close of the second quarter of FY 2024/25.

**Revenues:** As of the end of the second quarter, Electric operating revenues stand at 54.5% of budgeted projections. With the summer season at the beginning of the fiscal year, projected retail sales were expected to be 53.2% of total budget through December 2024. Retail sales are 56% of total budget through December 2024, which is 2.8% higher than expected. The higher than anticipated retail revenues are a result of increased electric consumption attributed to warmer temperatures through the first and second quarters of the fiscal year. Transmission rate revenues (TRR) are projected to perform better than anticipated for the remainder of Fiscal Year 2024/25. Fiscal Year TRR revenues are projected to be 24.4% (\$6.0 million) higher than budget due to an increase in the TRR rate associated with an increase in SCE transmission costs.

**Expenditures:** Electric operating expenditures are 43.6% of the total budget at the end of the second quarter. Personnel savings are anticipated due to a vacancy rate of 12.7%. Within the Non-Personnel budget, certain categories are slightly over budget due to overtime costs; however, this increase is expected to be offset by personnel savings.

### **Water Fund**

The FY 2024/25 adopted budget for the Water Fund projected a \$3 million net gain before capital expenditures. A net draw on fund reserves of approximately \$5.63 million is projected when including budgeted bond proceeds and capital expenditures. This drawdown in reserves is a strategy employed to fund various infrastructure projects that support the continuation of quality services to the citizens of Riverside while keeping rates low. Current overall projections within the Water Fund are in line with budgeted expectations.

**Revenues:** As of the end of the second quarter, total operating revenues for the Water Fund are 55.0% of budgeted projections. Projected retail sales were expected to be 55.9% of total budget through December 2024. Retail sales are 59.2% of total budget through December 2024, which is 3.3% higher than expected. Increased water consumption appears to be driven by warmer temperatures and less precipitation through the first two quarters of the fiscal year. Increased water retail sales do not have a corresponding increase in water expenses. Weather, including precipitation, can significantly impact retail revenues, which will be monitored throughout the remainder of the fiscal year.

Water Wholesale and Conveyance Revenue is projected to be less than anticipated due to reduced demand from other utilities. The revised revenue projection is expected to be \$1.98 million (33%) less than the original projection of \$5.9 million. Many factors can impact the revenues, which will be monitored throughout the remainder of the fiscal year.

**Expenditures:** At the end of the second quarter, Water Fund operating expenditures stand at 34.3% of the budget. Personnel savings are anticipated due to a vacancy rate of 10.9%. Non-personnel expenditures are trending 34.3% of adopted budget; however, it is important to note some expenditures vary in their timing throughout the fiscal year. Overall, water expenditures are projected to remain within the budgeted appropriation limit at fiscal year-end.

### **Refuse Fund**

The FY 2024/25 adopted budget for the Refuse Fund anticipates a net operating loss of approximately \$3.1 million, primarily due to rising disposal costs, compliance with state mandates, and operational challenges related to fleet maintenance and staffing shortages. The fund began the fiscal year with \$6 million in reserves, which are sufficient to cover the projected deficit. As of

the second quarter, financial projections indicate that the Refuse Fund remains on track with this estimate.

A \$9.6 million carryover, including funding for delayed refuse vehicle purchases, shifted expenditures into the current fiscal year. Although the purchase was budgeted and encumbered last fiscal year, delivery has been delayed, with current estimates projecting arrival in April 2025. As a result, these expenditures are reflected in the current year's financials, even though the corresponding revenue was recognized in the prior fiscal year. Additionally, the City Council approved a \$2.87 million loan from the General Fund Infrastructure Reserves on September 17, 2024, to fund additional solid waste collection vehicles, with repayment scheduled through FY 2028. In future years, loan repayments will impact Refuse Fund reserves, but these costs will be distributed over multiple years and are expected to be partially offset by projected revenue increases from scheduled rate adjustments.

The overall financial outlook for the Refuse Fund remains stable, though short-term cost pressures from fleet delays and maintenance issues are expected to persist through the third quarter. Financial relief is anticipated in the fourth quarter, as new vehicles arrive, and critical staff are hired.

**Revenues:** As of the second quarter, total revenues reached \$18.5 million, representing 51.62% of budgeted projections for the fiscal year. While street sweeping revenues were originally expected to increase, delays in new street sweeper deliveries have affected operational efficiency, postponing anticipated revenue growth in this category.

**Expenditures:** Total expenditures through the second quarter are \$15.8 million, representing 30.5% of the total budget. Delays in vehicle replacements and increased maintenance needs have increased reliance on private haulers, with costs for this category projected to exceed the adopted budget by \$1.7 million. An emergency private hauler contract issued in September 2024 is addressing service gaps but cost savings from improved fleet reliability will be delayed until the new refuse collection vehicles arrive.

Personnel savings are anticipated due to a vacancy rate of 25.3%. While savings in other areas may help offset the estimated overage in private hauler costs, staff will continue to monitor expenditures and may bring a recommendation to the City Council in the third quarter if the use of additional reserves becomes necessary.

### **Sewer Fund**

The FY 2023/24 adopted amended budget projects a net operating gain of \$9.4 million excluding capital expenditures but anticipates a total draw on fund reserves of approximately \$0.51 million when including capital expenditures. As of the second quarter, the fund is generally operating within budgeted expectations.

**Revenues:** The second-quarter analysis indicates that the Sewer Fund is at 43% of budgeted projections for the fiscal year. The fund is experiencing lower revenue in new sewer connections due to a slowdown in new development and sewer hookups. Other rate areas within the Sewer fund, specifically in the non-residential category, are slightly outperforming budgeted expectations. Although the overall revenue is trending slightly lower than budget, there is no recommendation to adjust revenues at this point in time.

**Expenditures:** Operating expenditures are 35.3% of the total budget at the end of the second quarter. Through the end of the second quarter, the Sewer Fund had a 19.1% vacancy rate. The

high vacancy rate requires staff to work overtime to cover shifts and manage the increased workload. As a result, overages are expected in the overtime budget, which will be offset by personnel vacancy savings. In the Non-Personnel budget, costs for chemical supplies are rising due to continuing price increases related to rising materials costs. Despite the trend of higher prices, expenditures are expected to remain within budgeted expectations.

### **Public Parking Fund**

The FY 2024/25 adopted budget for the Public Parking Fund projected a net gain of \$1 million excluding capital expenditures but anticipates a total draw on fund reserves of approximately \$0.55 million when including capital expenditures. On April 18, 2023, the City Council approved a new Parking Rate and Hour Schedule effective July 1, 2023. These adjustments, along with other related expenditure adjustments, are incorporated into the FY 2024/25 adopted budget.

**Revenues:** The downtown parking operation has experienced a significant turnaround in utilization, leading to a positive annual increase in revenues due to the implementation of the Parking Your Way program, incorporating more accessible free parking, new parking rates, expanded hours of operation, new monthly parking programs, the rollout of the Park Riverside app, and the installation of Parking Access Revenue Control Systems (PARCS) in the garages. The second quarter analysis shows an approximate 6% growth versus budgeted revenues.

Revenues from parking citations associated with Street Sweeping are trending lower than anticipated through the second quarter, partly due to delays in the acquisition of street sweeping vehicles. Once the vehicles are delivered, this revenue is expected to rebound.

**Expenditures:** Operating expenditures are at 71% of the total budget at the end of the second quarter. As of the end of December, the Public Parking Fund had a 13% vacancy rate. These shortages, coupled with extended hours of operation, have necessitated the need for overtime.

Monthly operating costs for Parking Concepts Inc. (PCI) are higher than expected due to the implementation of the Parking Your Way program. This program includes extended hours of operation, new parking programs, additional staffing, additional credit card transaction fees, equipment installation, and weekly power washing maintenance. However, increased revenues generated from Parking Your Way are anticipated to offset the additional operating expenses with PCI.

### **Budget Adjustments**

Throughout the fiscal year, staff assess the need for adjustments to the adopted budget. The following non-General Fund and Measure Z budget adjustments are recommended for Council approval:

- **Parks & Recreation Department - Interdepartmental Transfer (\$304,544.18):** Record and interdepartmental transfer of \$304,544.18 from the Community & Economic Development Department to the Parks & Recreation Department, related to the transfer of the Arts & Culture division to Parks & Recreation.
- **Housing & Human Services – Interdepartmental Transfer (\$14.99):** Record an interdepartmental transfer of \$14.99 from Community and Economic Development to the Housing and Human Services Department.
- **Grants & Restricted Programs Fund – Parks & Recreation - Donations (\$1,060):** Record a supplemental appropriation to record a carryover from unexpended funds from FY 2023/24 of donations received in prior year.

- **Grants & Restricted Programs Fund – Marketing & Communications - Interdepartmental Transfer (\$218,198.62):** Record an interdepartmental transfer of Public, Educational, and Government (PEG) expenditure account from the City Manager’s Office to the Marketing & Communications Department.
- **Electric Fund - Interdepartmental Transfer (8.0 FTEs & \$784,624):** Record an interdepartmental transfer of 8.0 FTEs, and all necessary personnel budgets, from the Electric Fund, Power Supply Operations division to the Electric Fund, Administration division, Strategic Initiatives in the amount of \$784,624.
- **Entertainment Fund – Parks, Recreation & Community Services (\$3,479,911.21):** Record a supplemental appropriation from the available Shuttered Grant reserves in the Entertainment Fund for the purposes of maintenance of buildings and other venue maintenance expenditures.

### **STRATEGIC PLAN ALIGNMENT:**

The reporting and presentation of financial results support **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 five 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.
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 financial reports, methodologies, and strategies proposed by staff demonstrate innovative management of City finances.
5. **Sustainability & Resiliency** – The financial reports, methodologies, and strategies proposed by staff demonstrate the City’s commitment to the long-term fiscal health of the City and the preservation of City services.

### **FISCAL IMPACT:**

The total fiscal impact of the recommended mid-cycle budget adjustments is summarized by fund in the following table.



MID-CYCLE BUDGET ADJUSTMENTS			
Fund	Revenues	Expenditures	Net Impacts to Fund Balance
101 - General Fund	\$ 5,973,065	\$ 940,288	\$ 5,032,777
110 - Measure Z	-3,206,000	-4,166,836	960,836
215 - Grants and Restricted	0	1,060	-1,060
581 - Entertainment Fund		3,479,911	-3,479,911
<b>Citywide Total</b>	<b>\$ 2,767,065</b>	<b>\$ 254,423</b>	<b>\$ 2,512,642</b>

The City’s budget remains strong and is well structured to weather whatever economic headwinds may appear. As of the second quarter, the General Fund and Measure Z face some challenges due to a decrease in budgeted revenues, such as sales taxes, and increased unanticipated costs including Police and Fire overtime and MOU costs. These challenges have resulted in a projected fiscal year end budget deficit of \$15.61 million (\$12.58 million General Fund and \$3.02 million Measure Z), representing a 4.3% change from the projected budget. While significant reserve balances are available to help offset the deficit, targeted reductions in expenditures are recommended to bring the budget back into balance instead of using reserves. 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 advise against using General Fund reserves or the Measure Z fund balance at this time and recommend exercising caution when considering any additional spending. To address the projected budget deficit, \$14.49 million in General Fund and Measure Z cost savings measures are recommended as mid-cycle budget adjustments.

The City’s Electric and Water funds are expected to remain within their appropriation limits, and fund reserves are expected to remain within policy levels.

The Refuse Fund remains within budget, despite short-term cost pressures which are expected to persist through the third quarter. Financial relief is projected for the fourth quarter as new vehicles are delivered and critical staff are onboarded. The Fund continues to draw down on reserve balances to support operational costs, with the expectation that the fund will break even by FY 2027/28.

The Sewer Fund is experiencing slightly under-performing revenue as compared to budget. However, the Fund is also experiencing a lower expenditure trend, partly due to a high vacancy rate, and is expected to remain within budget.

Due to the implementation of the Parking Your Way program, the Public Parking Fund has experienced a significant upturn in utilization. The fund continues to experience staffing shortages and is utilizing overtime as a practical solution until vacancies are filled.

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Attachments:

1. Presentation
2. Measure Z Spending Plan
3. Mid-Cycle Budget Adjustments