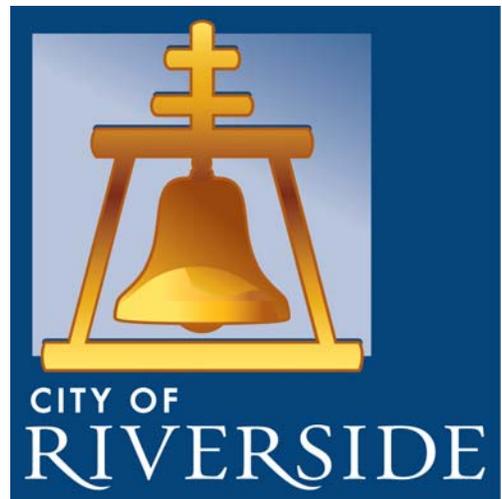
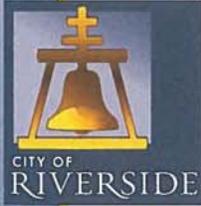


CITY MANAGER'S BUDGET MESSAGE



CITY MANAGER'S BUDGET MESSAGE



Office of the
City Manager

May 22, 2012

Honorable Mayor and City Council Members
City of Riverside
3900 Main Street
Riverside, CA 92522

Fiscal Year 2012/13 Budget Hearing

Honorable Mayor and City Council Members:

I am pleased to submit the Proposed Fiscal Year 2012/13 Budget for your consideration and for additional public comments during the June 12 Budget Hearing.

This budget proposes to conserve limited resources while reflecting a continuing economic recovery, as demonstrated by recently experienced revenue trends as well as local, regional, and national economic forecasts. Riverside is uniquely positioned for the coming fiscal year as a direct result of the City Council's judicious management during the economic downturn and the strategic augmentation of service levels during the past two fiscal years.

The proposed budget provides a high level of public services and retains a highly productive workforce. Key indicators of the City's stability include a General Fund bond rating that has been affirmed in the last year with a stable outlook, and maintenance of an approximately \$40 million General Fund reserve equivalent to 18% of General Fund expenditures.

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Fiscal Year 2011/12 Year in Review

Appropriations from Reserves

Subsequent to adoption of the Fiscal Year 2011/12 General Fund budget, the City Council has appropriated funds from the General Fund reserve for various mid-year funding requirements. In total, the mid-year appropriations amount to \$1.1 million. The primary mid-year appropriation was \$800,000 appropriated on July 12, 2011, for the acquisition of land for Mission Ranch Park and for a joint project with Riverside County to construct a linear park/trail along the Box Springs Corridor. The following table summarizes the mid-year appropriations to date from the General Fund reserve:

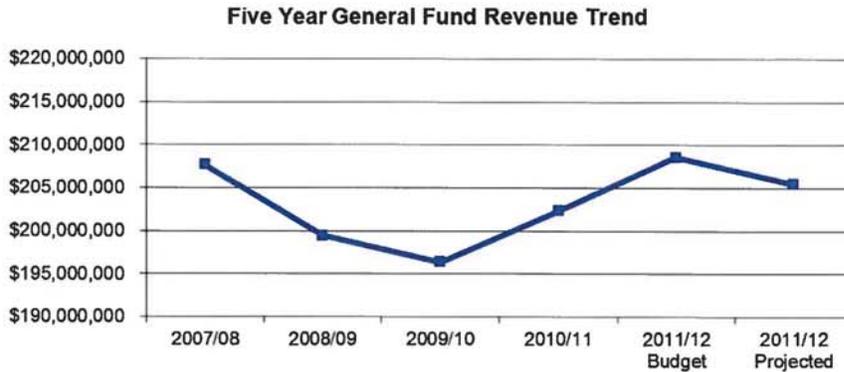
Item	City Council Approval Date	Amount
Mission Ranch and Box Springs Corridor Acquisition	July 12, 2011	\$ 800,000
Measure I Election	July 26, 2011	85,000
TriTech Small Business Development Center	September 27, 2011	30,000
RCC Aquatics Complex Maintenance	October 25, 2011	100,000
Economic Development Efforts	February 28, 2012	100,000
Total		\$ 1,115,000

General Fund Revenues

General Fund revenues began their decline in Fiscal Year 2007/08 as the economic downturn began to negatively impact the City's revenues. The City's revenues hit their low point in Fiscal Year 2009/10 at \$196.4 million, down from a high in Fiscal Year 2006/07 of \$208.9 million. Since that time, revenues have been slowly increasing as indicated in the chart below. The adopted Fiscal Year 2011/12 budget forecasted revenues for the General Fund totaling \$208.6 million. For the reasons outlined below, the year-end forecast of General Fund revenue is \$205.5 million.

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The shortfall in General Fund revenues can be attributed primarily to the following major variances:

1. The State permanently redirected vehicle license fee (VLF) revenues formerly received by the City to other purposes. The impact of this take-away by the State amounts to \$1,130,000 in the current year.
2. Fines and Forfeits revenues are forecasted to decrease primarily as a result of two issues:
 - a. The City is projected to receive \$1,800,000 less as a result of the maturing of the City’s neglected property abatement program. The program is working as intended and has resulted in proper maintenance of many foreclosed properties by banks. The compliance rate has improved, and as a result revenues are coming in below original estimates.
 - b. The City is projected to receive \$1,154,000 less as a result of reduced revenue from red light cameras. This is primarily due to CalTrans construction work on the State Route 91, which has resulted in the removal of various red light cameras on freeway on/off ramps.
3. One-time revenue is anticipated to be \$1,200,000 less than budgeted. Each year, the City’s accounting staff typically identifies one-time revenues from various sources in an amount exceeding the budget. However, for the current year, the amount anticipated at this time is only \$400,000.

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These shortfalls have been partially offset by the following additional revenues:

1. Additional property tax revenue is anticipated, which has been generated as a result of the dissolution of the City's Redevelopment Agency. Specifically:
 - a. The City is projected to receive \$1,270,000 in property tax increment formerly received by the Redevelopment Agency, which results from unused resources flowing from the Redevelopment Agency to the various taxing entities located in the City. This is a conservative estimate, and the actual amount received may be higher.
 - b. The City received \$602,000 of pass-through revenues from the Redevelopment Agency, which previously were not requested from the Agency but the City is entitled to receive under existing law.
2. Additional sales tax revenue in the amount of \$609,000 is anticipated, which is a result of the positive economic trends seen nationwide.

	2011/12 Adopted	2011/12 Projected	Budget Variance
Sales & Use Taxes	\$ 46,611,000	\$ 47,220,000	\$ 609,000
Property Taxes	44,389,533	46,713,575	2,324,042
Interfund Transfers	39,936,100	39,791,080	(145,020)
Utility Users Tax	27,525,200	27,521,000	(4,200)
Charges for Services	11,192,392	10,880,205	(312,187)
Fines & Forfeits	8,793,998	5,375,033	(3,418,965)
Licenses & Permits	7,421,323	7,158,863	(262,460)
Franchises	4,970,000	4,949,000	(21,000)
Other	4,685,123	4,823,698	138,575
Special Assessments	4,525,220	4,760,220	235,000
Transient Occupancy Tax	3,197,700	3,142,000	(55,700)
Property Transfer Tax	1,418,000	1,450,000	32,000
Intergovernmental	2,350,000	1,303,739	(1,046,261)
One-Time Revenues	1,600,000	400,000	(1,200,000)
Total	\$ 208,615,589	\$ 205,488,413	\$ (3,127,176)
Carried Forward Revenue	2,625,240	7,000,000	4,374,760
Adjusted Total	\$ 211,240,829	\$ 212,488,413	\$ 1,247,584

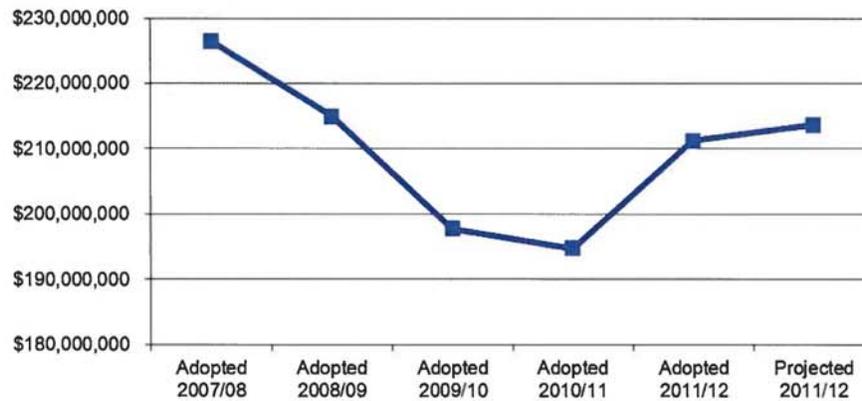
General Fund Expenditures

The adopted General Fund expenditure budget peaked in Fiscal Year 2007/08 at \$226.5 million. The economic downturn began that year, and revenues never rose above the \$208.9 million seen in Fiscal Year 2006/07. As a result of the economic downturn and resulting declining revenues, the General Fund expenditure budget was cut to a low of \$194.7 million in Fiscal Year 2010/11, reflecting a 14% decrease from

CITY MANAGER’S BUDGET MESSAGE

Fiscal Year 2007/08. In Fiscal Year 2011/12, the General Fund expenditure budget was cautiously increased to \$211.2 million, primarily to fully fund required contributions to the City’s Liability Insurance Trust Fund and to accommodate increasing CalPERS rates. For the reasons outlined below, the year-end forecast for General Fund expenditures has increased to \$213.7 million.

Five Year General Fund Expenditure Trend



The increase in General Fund expenditures can be attributed primarily to the following major variances:

1. The mid-year appropriations discussed above have increased the projected expenditures by \$1,115,000.
2. As a result of the elimination of the Redevelopment Agency, projected expenditures have increased by \$917,000. Additional information regarding the impact of the elimination of the Redevelopment Agency is provided below.
3. Staff conducts a variance analysis on a department by department basis throughout the year. Forecasted General Fund expenditures are projected to be \$458,000 above the adopted budget, when including managed savings of \$4,248,000 targeted for achievement. Some of this managed savings is related to anticipated pension and benefit concessions that have not been achieved, which accounts for the failure to achieve the targeted level of savings.

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	2011/12 Adopted	2011/12 Projected	Budget Variance
Department Budgets	\$ 213,703,814	\$ 215,079,215	\$ 1,375,401
Mid-Year Appropriations	-	1,115,000	1,115,000
Net Cost Allocation	(21,775,141)	(21,775,141)	-
Net Debt Allocation	19,312,156	19,312,156	-
Total	\$ 211,240,829	\$ 213,731,230	\$ 2,490,401

With the passage of AB 1X 26 and its ultimate validation by the California Supreme Court in December, the City's Redevelopment Agency was dissolved effective February 1, 2012. Expenditure impacts for Fiscal Year 2011/12 of approximately \$917,000 include the following items:

1. \$625,000 for code enforcement in Redevelopment Project Areas formerly charged to the Redevelopment Agency.
2. \$247,000 for graffiti abatement in Redevelopment Project Areas formerly charged to the Redevelopment Agency.
3. \$45,000 for various other charges to the former Redevelopment Agency that have been discontinued.

It should be noted that these impacts are for only five months of the fiscal year, from the date of dissolution in February through June 30, 2012. These amounts are in addition to the sizable amounts already shifted from the Redevelopment Agency to the General Fund in the adopted Fiscal Year 2011/12 General Fund budget in anticipation of the reduced Redevelopment Agency funding. All of these additional costs have been accounted for in the proposed budget for Fiscal Year 2012/13 and are now supported by general purpose General Fund revenues.

Should the revenue and expenditure forecast outlined above come to pass as currently projected, the General Fund reserve balance would decrease to approximately \$39.1 million as of the close of Fiscal Year 2011/12. However, staff anticipates that sales tax receipts for the third and fourth quarters will increase as they have in the first and second quarters. Additionally, as outlined above property tax revenue received from the former Redevelopment Agency may exceed the amount budgeted. These increased revenues will likely reduce or entirely eliminate this projected decrease in the reserve, and the balance would remain at approximately \$40 million as the books are closed for Fiscal Year 2011/12 in September and October.

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Proposed Fiscal Year 2012/13 Budget

The City's overall Proposed Budget for Fiscal Year 2012/13 is \$1,153,626,371 with General Fund expenditures totaling \$220,714,911.

Of particular note is that the budget is targeted to sustain the General Fund reserve of approximately \$40 million, comparable to the level projected for the end of the current fiscal year and representing approximately 18% of the total General Fund. The City retains this fiscal backstop which:

- Preserves the City's extremely strong credit rating (which generates additional savings through reduced financing costs); and
- Positions the City to address economic opportunities which may arise as the regional economy moves in a positive direction.

Organizational Changes

During the course of my first year as City Manager, with your support and concurrence, I have made a number of organizational changes to the City's Departments. These changes are reflected in the proposed budget for Fiscal Year 2012/13 including:

- Moving Economic Development from the Development Department to the City Manager's Office.
- Moving Capital Projects from the Development Department to the General Services Department.
- Moving Arts & Cultural Affairs from the Development Department to the Museum Department.

In addition to these changes already implemented, the following changes are proposed for implementation with the start of the 2012/13 Fiscal Year:

- The Development Department will merge with the Community Development Department, with our new Community Development Director serving as Department Head reporting to Deanna Lorson. Emilio Ramirez will continue to serve as Development Director and will report to the Community Development Director.
- The Finance Division will once again be a separate Finance Department, with Brent Mason continuing to serve as Finance Director reporting directly to me.
- The Safety Section of the new Finance Department will be transferred to the Human Resources Department. The Workers' Compensation Division was transferred last fiscal year, and given the close relationship between these two functions this transfer makes good organizational sense.

CITY MANAGER'S BUDGET MESSAGE

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- Until Fiscal Year 2004/05, certain contracts and programs were budgeted in the Non-Departmental section of the budget. These items were budgeted there because they are typically large and are not subject to cuts in the same manner as other programs in times of economic downturn (either because the City is contractually obligated to fund the program or because there are dedicated revenue sources providing the required funding). Since these items were moved to various Departments' budgets in Fiscal Year 2005/06, evaluating the ability of departments to reduce their budgets has been made more challenging. We are, therefore, bringing back the Non-Departmental section of the budget in Fiscal Year 2012/13, with the following contracts and programs to be included there:

1. Street Light Assessment District
2. Fox Performing Arts Center
3. City Hall Occupancy Costs
4. Convention and Visitor Contract
5. Red Light Photo Enforcement Program
6. Landscape Maintenance Districts
7. Animal Control Contract
8. Other Miscellaneous Contracts and Programs

Department Heads will continue to exercise operational and budgetary control over these contracts and programs, but moving them to the Non-Departmental section of the budget will make the task of projecting expenditures and analyzing operations much easier going forward.

Revenue Trends

Revenues supporting non-General Fund functions remain strong and will support operations, capital improvements and related costs in these areas. The following table shows these revenue sources:

	2011/12 Budgeted	2012/13 Estimated	Change
Charges for Services	\$ 462,963,047	\$ 472,488,915	\$ 9,525,868
Intergovernmental	81,034,393	66,617,493	(14,416,900)
Taxes	50,125,635	50,253,035	127,400
Other (Primarily Interest)	24,334,785	38,252,618	13,917,833
Special Assessments	7,386,001	6,988,143	(397,858)
Fines and Forfeits	3,399,444	3,810,000	410,556
Licenses and Permits	2,651,003	2,554,302	(96,701)
Charges to Departments	11,936,687	12,431,282	494,595
Bond Proceeds	125,702,520	318,202,380	192,499,860
Total	\$769,533,515	\$971,598,168	\$202,064,653

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The decrease in intergovernmental revenues is the result of decreased grants budgeted for transportation capital projects in the Fiscal Year 2012/13 budget. Because many grants provide multi-year funding for large projects, these revenues are of a cyclical nature. The increase in other revenues is the result of a contribution in aid of construction to the Water Fund, which relates to ongoing CalTrans construction activity. Lastly, the increase in bond proceeds is primarily attributable to the appropriation of \$217.0 million for the remainder of the Water Quality Control Plant Expansion project.

General Fund revenues, which support many of the City’s basic operations and services, are comprised primarily of Property and Sales Tax proceeds. General Fund revenue is estimated at \$218.3 million, a 6.2% increase from projected Fiscal Year 2011/12. The table below illustrates the various components:

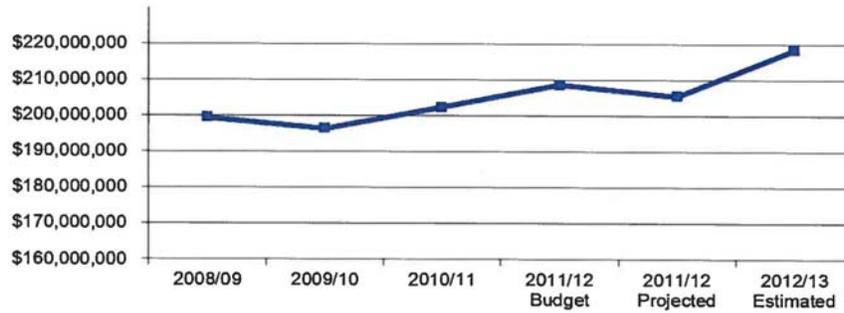
	2011/12 Adopted	2012/13 Requested	Change
Sales & Use Taxes	\$ 46,611,000	\$ 51,079,000	\$ 4,468,000
Property Taxes	44,389,533	47,265,758	2,876,225
Interfund Transfers	39,936,100	40,890,700	954,600
Utility Users Tax	27,525,200	28,397,050	871,850
Charges for Services	11,192,392	11,758,858	566,466
Licenses & Permits	7,421,323	7,456,234	34,911
Franchises	4,970,000	5,099,000	129,000
Other	4,685,123	5,044,881	359,758
Fines & Forfeits	8,793,998	4,955,437	(3,838,561)
Special Assessments	4,525,220	4,749,395	224,175
Transient Occupancy Tax	3,197,700	3,912,000	714,300
Property Transfer Tax	1,418,000	1,500,000	82,000
Intergovernmental	2,350,000	1,220,000	(1,130,000)
One-Time Revenues	1,600,000	5,000,000	3,400,000
Total	\$208,615,589	\$218,328,313	\$ 9,712,724
Carried Forward Revenue	2,625,240	1,422,322	(1,202,918)
Adjusted Total	\$211,240,829	\$219,750,635	\$ 8,509,806

In preparing the City’s annual budget, significant attention is always focused on General Fund revenue trends, to ensure that funding levels are projected at sustainable levels. As shown below, the City’s General Fund revenue trends have closely followed economic cycles:

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General Fund Revenue Trend



As is noted in the table above, General Fund revenues are forecasted to grow by \$12.8 million versus the current year, or 6.2%. This increase is primarily attributable to the continuing increase in sales tax revenue, which is now reaching levels not seen since before the recession and is forecasted to grow by approximately \$4 million. With the dissolution of the Redevelopment Agency, approximately \$2 million of additional property tax revenue will flow to the General Fund. As a result of the voter-approved increase in the City’s transient occupancy tax rate, 1% of the ultimate 2% increase will be assessed beginning July 1, 2012. The estimated increase in transient occupancy tax revenue is approximately \$700,000. Lastly, the City is entering into a transaction to sell certain delinquent property tax receivables that should generate an as yet undetermined amount of one-time revenue. A conservative estimate of the revenue that will be generated is \$3 million, and this amount is reflected as one-time revenue in the proposed Fiscal Year 2012/13 budget. These four items account for \$9.7 million of the \$12.8 million increase in revenues anticipated, with the balance distributed throughout most of the other categories of revenue in the budget.

Expenditure Trends

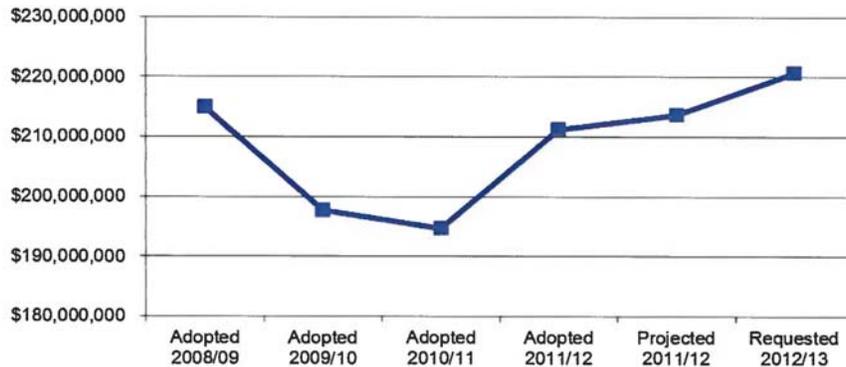
As is customary, Public Utilities, Public Works, and Community Development functions represent the majority of total City spending, which reflects the nature of these enterprise/capital oriented functions. Annual funding levels are largely driven by capital projects and external resources associated with such undertakings. Projected expenditures in the Public Works Department will be increasing as a result of an increase in budgeted capital projects in Fiscal Year 2012/13. Conversely, as a result of the dissolution of the Redevelopment Agency expenditures in the Community Development Department will be decreasing by approximately 43%. Non-General Fund expenditures are categorized in the table below for quick reference:

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	2011/12 Budgeted	2012/13 Requested	Change
Public Utilities	\$ 478,584,039	\$ 481,990,825	\$ 3,406,786
Public Works	201,063,065	380,314,821	179,251,756
Community Development	57,861,398	33,040,468	(24,820,930)
Finance	19,201,378	15,483,812	(3,717,566)
General Services	11,332,756	10,945,818	(386,938)
Parks, Rec., and CS	7,398,450	5,012,232	(2,386,218)
Human Resources	4,274,865	4,188,868	(85,997)
Airport	2,037,242	1,934,616	(102,626)
Total	\$ 781,753,193	\$ 932,911,460	\$151,158,267

The General Fund is the portion of the Budget through which the City Council directs resources to provide most basic governmental services, particularly in the public safety arena. Given the significance of this portion of next year's spending plan, the next section of this report will focus primarily upon these budgetary elements.

General Fund Expenditure Trend



The size of the City's General Fund is largely tied to the overall health of the regional economy. The recent past has seen a national economic slowdown that has exerted extreme downward pressure on Inland Southern California. Over the last two years, this trend has started to reverse. The City Council's prudent fiscal policies combined with the City's operational successes have allowed Riverside to responsibly navigate through the unprecedented, successive drops in key revenue sources. Now that revenues are again increasing, the City is well-positioned to cautiously restore services in key areas.

As the economy begins to rebound, Riverside is poised to seize its destiny by enhancing targeted public service levels provided to City residents. As the first step in moving forward with this goal, funding has

CITY MANAGER'S BUDGET MESSAGE

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been allocated to economic development given that it is a key priority for the City Council for the upcoming year. As a result, Economic Development Division staff have been moved from the Development Department to the City Manager's Office to focus on meeting the objectives in the Seizing Our Destiny initiative to recruit highly desirable companies; incubate, support and help entrepreneurs; create sustainable funding mechanisms and attract investment to support business innovation; streamline government procedures, processes, and forms through an Ombudsman; and retain and train Riverside residents to take on these new job opportunities. The total impact of this change is approximately \$1.4 million.

While staff is hopeful that continued revenue growth in the coming year will allow services to continue to be augmented in the Fiscal Year 2013/14 budget or perhaps mid-year in Fiscal Year 2012/13, there are a number of issues that must be addressed with the bulk of the additional revenue anticipated.

- As discussed earlier, the dissolution of the Redevelopment Agency in February has resulted in additional General Fund costs of \$917,000 in Fiscal Year 2011/12, which when annualized equal an impact of over \$2 million in Fiscal Year 2012/13. This amount is in addition to the costs already absorbed by the General Fund in prior fiscal years as available Redevelopment resources declined.
- The City's Cost Allocation Plan allocates out the cost of centralized services such as Human Resources, Finance, and the City Clerk's Office. Because these functions must continue, the costs of those Departments' operations continue to be funded by the public-facing Departments throughout the City. With the dissolution of the Redevelopment Agency, cost allocations formerly allocated to the Agency have been shifted Citywide to other Departments, with much of those costs now allocated to the General Fund. This amount is estimated to be approximately \$2 million.
- The final component of the debt service associated with the Riverside Renaissance, which is attributable to park and community center projects constructed over the past five years, has been incorporated into the proposed General Fund budget. Originally this debt service was intended to be funded through park development impact fees collected from new development. However, these fee revenues have declined and are not able to service the debt. In the future, as revenues increase, the debt service will be shifted back to the impact fees fund to the extent that funding is available. The total impact of this change is approximately \$3.1 million.

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- The adopted budget for Fiscal Year 2011/12 assumed that certain pension and benefit concessions would be achieved. While much of what was anticipated was achieved, ultimately the collective bargaining process resulted in a final result that produced a lower level of savings than was originally anticipated. Just as this change results in achieving less than the desired level of managed savings in Fiscal Year 2011/12, it has resulted in the need to increase the General Fund budget to fully fund the level of benefits that the City is contractually obligated to provide to its employees.

The following chart summarizes the proposed General Fund budget by department, including the items detailed above, resulting in a total City General Fund budget for Fiscal Year 2012/13 of \$220,714,911:

	2011/12 Budgeted	2012/13 Requested	Change
City Attorney	\$ 3,525,453	\$ 3,400,266	\$ (125,187)
City Clerk	1,119,710	1,016,697	(103,013)
City Council	1,004,760	1,074,080	69,320
City Manager	14,820,634	5,242,083	(9,578,551)
Community Development	8,440,905	9,602,122	1,161,217
Development	6,602,257	-	(6,602,257)
Finance	-	5,254,254	5,254,254
Fire *	40,734,971	42,250,374	1,515,403
General Services	5,893,069	4,488,342	(1,404,727)
Human Resources	2,362,455	2,483,473	121,018
Information Technology	12,148,950	9,809,017	(2,339,933)
Library	5,602,801	5,652,415	49,614
Mayor	781,011	726,976	(54,035)
Museum	1,110,538	2,863,640	1,753,102
Non-Departmental	-	16,455,815	16,455,815
Parks, Rec., and CS	15,173,567	15,459,648	286,081
Police *	81,801,786	80,345,738	(1,456,048)
Public Works	16,828,682	12,883,075	(3,945,607)
Sub-Total	\$217,951,549	\$219,008,015	\$ 1,056,466
Managed Savings	(2,976,090)	(2,198,000)	778,090
Pension Reform Savings	(1,271,645)	(1,497,122)	(225,477)
Net Cost Allocation Plan	(21,775,141)	(17,851,693)	3,923,448
Net Debt Service Allocation	19,312,156	23,253,711	3,941,555
Total	\$211,240,829	\$220,714,911	\$ 9,474,082

* The decrease in the Police budget and increase in the Fire budget is the result of reinstating the charge for 25% of dispatch operations.

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With economic indicators showing positive signs (both nationally and regionally), expenditures are projected to increase approximately 4.5%. As a result, next year's budget will allow continued direction of funds to support the City Council's key priorities:

- Police & Fire
- Economic Development
- Code Enforcement
- Parks and Community Service Programs
- Libraries
- Project BRIDGE & Youth Opportunity Center
- Anti-Graffiti Program
- Environmental Stewardship
- Arts & Innovation
- Seizing Our Destiny

General Fund Reserves

The Fiscal Year 2012/13 General Fund budget as currently proposed is not balanced. While several additional revenue sources have been identified such as the sale of property tax receivables, absent these one-time revenues a usage of reserves of approximately \$6 million would be required. However, the economy continues to improve and revenues are steadily increasing. The approximately \$5 million of one-time revenue anticipated for Fiscal Year 2012/13 is a conservative estimate, with actual revenue to be received from the sale of the property tax receivables anticipated to be higher. Nevertheless, the budget, as proposed, anticipates a remaining deficit of just under \$1 million.

Staff will continue to identify opportunities to conserve resources whenever possible and to identify new revenue sources throughout the year. At the mid-year report in January 2013, it is anticipated that we will have a clear indication of the continued improvement of the economy and related increases in revenue.

Fortunately, our employees have worked with us throughout the economic downturn to control costs and we have contracts with all of our bargaining units in place through 2013 and 2014, all without increases in compensation or benefits. Additionally, pension and benefit reform continues to pay dividends and an additional \$1.5 million of savings is anticipated in Fiscal Year 2012/13. These cost controls should allow revenues to catch up with expenditures so that we can be on sound financial footing going into Fiscal Year 2013/14.

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The following table summarizes the anticipated General Fund reserve balance, recognizing that additional revenues may well yet materialize this fiscal year or next. Absent no additional revenues, the following numbers are indicative of the trend in the reserve balance:

Fiscal Year	Reserve Balance
2008/09 Actual	\$39,921,138
2009/10 Actual	44,062,267
2010/11 Actual	40,368,872
2011/12 Mid-Year	40,095,854
2011/12 Projected	39,126,055
2012/13 Projected	38,161,779

State and Federal Budget Threats

The unemployment rate continues to decline year-over-year both regionally and nationally. However, for Riverside, the March 2011 unemployment rate was 13.7% compared to a March 2012 rate of 12.9%, showing that the local region is moving in the right direction. Almost 60% of the jobs gained within the Riverside-San Bernardino-Ontario Metropolitan Statistical Area during that same period were in professional and businesses services, up 6,200 jobs.

Interestingly, between March 2011 and March 2012, the total non-farm employment increased by 10,500 jobs. Government, construction and finance continue to contract, losing a combined total of 9,100 jobs between March 2011 and March 2012.

The State of California’s ongoing budget crisis looms as the Governor’s May Revise reflects an increased deficit of \$15.7 billion, up from the January projection of \$9.2 billion. The anticipated budget shortfall is attributed to overly optimistic revenue forecasts, increased Proposition 98 spending, and federal court rulings blocking several proposed budget reductions. The May Revise proposes to close the budget deficit with further cuts to health and safety programs, while protecting funding for education pending the outcome of the Governor’s November tax measure that will raise income tax on those earning more than \$250,000 and result in additional revenue estimated at \$6 billion. If the measure fails, more reductions will be forthcoming statewide that could further impact education, social programs, etc.

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The following measures will directly impact the City of Riverside's budget, if enacted:

- An increase of \$1.4 billion to the estimate of one-time payments to schools from former Redevelopment Agency cash reserves is proposed, including affordable housing set-aside funds. The impact to Riverside is the complete sweep of Redevelopment affordable housing funds and Redevelopment non-housing funds not encumbered for an enforceable obligation.
 - The remaining Redevelopment affordable housing funds are approximately \$7.6 million.
 - The remaining Redevelopment non-housing funds are approximately \$2.0 million.
 - The amounts above do not include the proceeds of the sale of real estate assets by successor agencies, as well as the anticipated repayment of the SERAF loan; although it is anticipated that those monies will also be remitted back to the State following payment of enforceable obligations.
 - Staff will continue to work with the City's State lobbyist and the League of California Cities to strategize a plan of action in opposition to this language.
- Library funding. The May Revise continues the elimination of half of the Public Library Fund monies the City receives annually. This funding was originally eliminated as part of the Fiscal Year 2011/12 budget, which reduced library funding to the City by approximately \$71,000 versus Fiscal Year 2010/11. As this reduction was included as part of the Fiscal Year 2012/13 budget process, there is no additional impact anticipated as a result of the ongoing reduction.

The State Legislature is required to send a budget to the Governor by June 15 and subsequently requires the Governor to sign the budget by July 1. However, this deadline has been routinely ignored by prior legislatures. As a result, the City's budget may be approved prior to resolution of the State budget impacts identified above.

CITY MANAGER'S BUDGET MESSAGE

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Summary and Recommendations

Preparation of the Fiscal Year 2012/13 Budget culminates a complex process undertaken by all City Departments to ensure that the funding plan meets the City Council's policy directives and public service priorities. The underpinnings of this Budget are sound, and reflect this City Council's traditionally conservative approach to allocating resources to address our community's current needs and safeguard its long-term fiscal health. While many other governments continue to face tough choices impacting core services including public safety, Riverside is poised to continue our sound financial standing and enter Fiscal Year 2012/13 in a forward lean.

IT IS, THEREFORE, RECOMMENDED that the City Council:

1. Conduct a Public Hearing on June 12, 2012, to receive citizen comments on the proposed Fiscal Year 2012/13 Annual Budget;
2. Provide direction to staff regarding any modifications to be made prior to adoption of the Annual Budget; and
3. Consider adoption of the Final Annual Budget during the evening session of the City Council's June 26, 2012, meeting.

Respectfully Submitted,



SCOTT C. BARBER
City Manager

Attachment: Preliminary Annual Budget