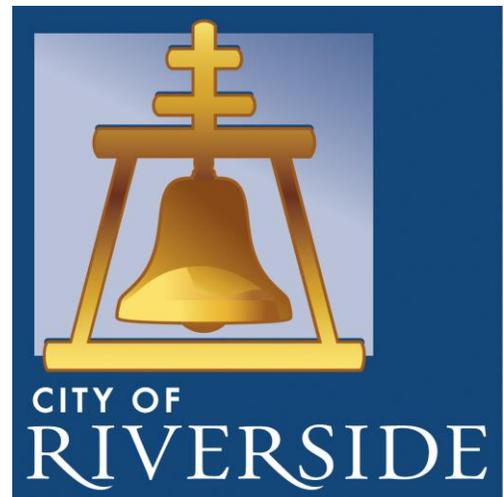
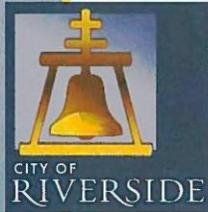


CITY MANAGER'S BUDGET MESSAGE



CITY MANAGER'S BUDGET MESSAGE



Office of the
City Manager

June 18, 2013

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

Fiscal Year 2013/14 Budget Hearing

Honorable Mayor and City Council Members:

I am pleased to submit the Proposed Fiscal Year 2013/14 Budget for your consideration and for additional public comments during the June 18 Budget Hearing.

This budget proposes judicious use of additional revenues, reflecting a continuing economic recovery while making every effort to control costs. Riverside continues to be uniquely and positively positioned financially as a direct result of the City Council's conservative fiscal management during the economic downturn and the strategic augmentation of service levels during the past three 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 a General Fund Reserve in excess of the City's policy of 15% of General Fund expenditures.

Fiscal Year 2012/13 Year in Review

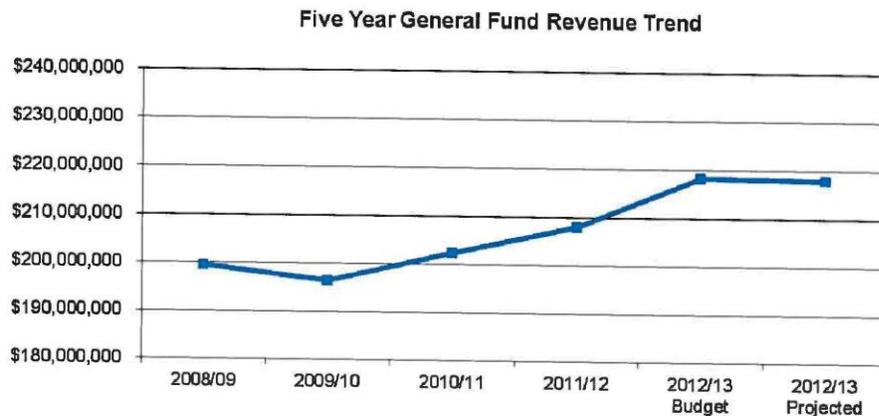
General Fund Revenues

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 2012/13 budget forecasted revenues for the General Fund totaling \$218.3 million. For the reasons outlined

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below, the year-end forecast of General Fund revenue is \$217.9 million.



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

1. Sales tax collections are approximately \$388,000 under budget, which is a variance of only 0.8%.
2. Property tax collections are approximately \$879,000 under budget, which is a variance of 1.9% attributable to the following two issues:
 - a. Secured, unsecured, and in lieu property taxes are approximately \$704,000 under budget due to slower than anticipated growth in non-Successor Agency assessed value.
 - b. Supplemental and prior year taxes are approximately \$175,000 under budget.
3. Utility users tax collections are approximately \$419,000 under budget, which is a variance of 1.5% primarily attributable to lower than anticipated natural gas prices.
4. Transient occupancy tax collections are \$287,000 under budget, which is a variance of 7.3% attributable to slower than anticipated growth in hotel occupancy rates.
5. Charges for services and licenses and permits revenues are approximately \$239,000 under budget, which is a variance of 1.7% attributable to the net impact of numerous slightly over and under budget revenue accounts.

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6. Special assessments are approximately \$365,000 under budget, which is a variance of 7.7% attributable to lower than anticipated debris removal and weed abatement assessments.

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

1. Intergovernmental revenues are approximately \$318,000 above budget, which is a variance of 26.1% attributable to a final payment of outstanding prior year vehicle license fees from the State as well as reimbursement of certain outstanding claims associated with unfunded State mandates.
2. Fines and forfeits revenues are approximately \$709,000 above budget, which is a variance of 14.3% primarily attributable to higher than anticipated administrative civil penalties revenues.
3. Interfund transfers are approximately \$450,000 above budget, which is a variance of 1.1% attributable to higher audited Fiscal Year 2011/12 revenues for the electric and water utilities, which increased the General Fund transfer from each utility.
4. Other and one-time revenues are approximately \$783,000 above budget, which is a variance of 7.8% primarily attributable to higher than anticipated one-time distributions of housing and non-housing excess funds held by the Redevelopment Successor Agency to other taxing entities, offset by lower than anticipated interest revenues and higher than anticipated bad debt write-offs.

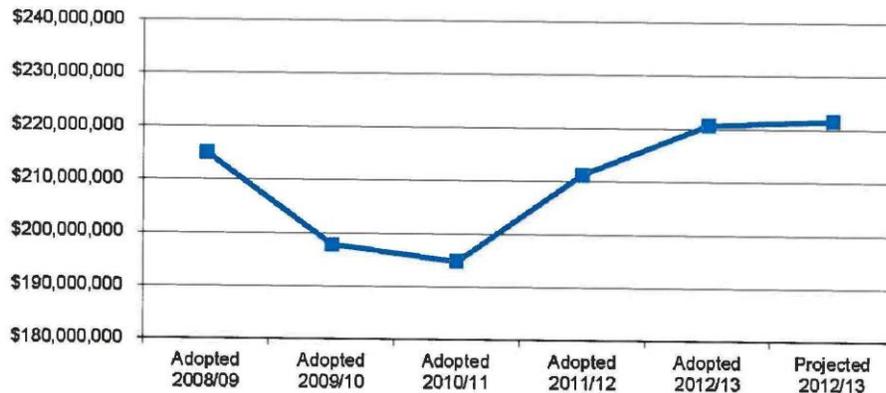
	2012/13 Adopted	2012/13 Projected	Budget Variance
Sales & Use Taxes	\$ 51,079,000	\$ 50,690,569	\$ (388,431)
Property Taxes	47,265,758	46,386,954	(878,804)
Interfund Transfers	40,890,700	41,340,400	449,700
Utility Users Tax	28,397,050	27,978,000	(419,050)
Charges for Services	11,758,858	11,566,604	(192,254)
Licenses & Permits	7,456,234	7,319,292	(136,942)
Franchises	5,099,000	5,100,000	1,000
Fines & Forfeits	4,955,437	5,664,935	709,498
Special Assessments	4,749,395	4,384,395	(365,000)
Transient Occupancy Tax	3,912,000	3,625,000	(287,000)
Property Transfer Tax	1,500,000	1,500,000	-
Intergovernmental	1,220,000	1,537,947	317,947
Other / One-Time	10,044,881	10,828,272	783,391
Total	\$ 218,328,313	\$ 217,922,368	\$ (405,945)
Carried Forward Revenue	1,422,322	1,422,322	-
Adjusted Total	\$ 219,750,635	\$ 219,344,690	\$ (405,945)

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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 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. In Fiscal Year 2012/13, the General Fund expenditure budget was again cautiously increased to \$220.7 million, primarily to cover costs resulting from the elimination of Redevelopment Agency support for various General Fund programs as well as to provide funding for a portion of the Riverside Renaissance Certificates of Participation debt service. The debt service in question is an obligation of the Local Park Impact Fees Fund, but insufficient impact fee revenues are currently being collected to fully service the debt. For the reasons outlined below, the year-end forecast for General Fund expenditures has increased to \$221.6 million, excluding the mid-year appropriations discussed in the following section.

Five Year General Fund Expenditure Trend



Staff conducts a variance analysis on a department by department basis throughout the year. Forecasted General Fund expenditures are projected to be \$856,000 above the adopted budget, when including managed savings of \$2,923,000 targeted for achievement. This minor net over budget amount represents only 0.4% of the adopted budget and is attributable to additional required spending in the Police and Fire Departments related to overtime and accrued leave balance pay-outs, which has been partially offset by higher managed savings in other departments. Staff has conducted a detailed analysis of recurring over

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and under budget conditions in various departments over the last several fiscal years as the City’s budget monitoring has been refined. Included in the 2013/14 budget recommended for adoption are adjustments to help curtail these recurring variances.

	2012/13 Adopted	2012/13 Projected	Budget Variance
Department Budgets	\$ 215,312,893	\$ 216,168,893	\$ 856,000
Net Cost Allocation	(17,851,693)	(17,851,693)	-
Net Debt Allocation	23,253,711	23,253,711	-
Total	\$ 220,714,911	\$221,570,911	\$ 856,000

Appropriations from Reserves

Subsequent to adoption of the Fiscal Year 2012/13 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 \$1.3 million as of the March 31, 2013, Monthly Financial Report to the City Council. The following table summarizes these mid-year appropriations from the General Fund Reserve:

Item	City Council Approval Date	Amount
Marcy Library Sale Process	July 24, 2012	\$ 10,000
Chicago/Linden Strategic Plan	September 25, 2012	150,000
Loring Park Improvements	November 27, 2012	93,235
Community Garden Water	December 18, 2012	2,500
Downtown Fire Station Sale Process	January 15, 2013	15,000
Mayor’s Office Transition Funding	February 12, 2013	74,000
City Clerk’s Elections Account	February 12, 2013	75,000
Various Capital Projects	February 12, 2013	320,000
Fairmount Park Golf Course	February 26, 2013	192,350
Measure A Election	March 5, 2013	85,000
Fire Department Radio Repeater	May 7, 2013	114,989
Fox Entertainment Plaza Operations	May 14, 2013	200,000
Total		\$ 1,332,074

Additionally, since the publication of the March 31, 2013, Monthly Financial Report in May, the City Council has also appropriated \$100,000 toward roof repairs to the Casa Blanca Library, which is fully offset by revenue from a legal settlement, and \$7,000 toward construction of the Cesar Chavez Statue project.

General Fund Reserve Outlook

Should the revenue and expenditure forecast outlined above come to pass as projected in the March 31, 2013, Monthly Financial Report, the General Fund reserve balance would decrease to approximately \$36.5 million as of the close of Fiscal Year 2012/13. However, staff remains

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optimistic that revenues will continue to improve and that departments will continue to identify opportunities to reduce expenditures whenever possible. These increased revenues and reduced expenditures will likely lessen the projected decrease in the reserve balance as the books are closed for Fiscal Year 2012/13 in July and August and audited thereafter. Staff will return to the City Council once the audit is complete and the final Fiscal Year 2012/13 operating results are known to provide an update on the reserve balance.

Proposed Fiscal Year 2013/14 Budget

The City's overall proposed budget for Fiscal Year 2013/14 is \$895,691,346 with General Fund expenditures totaling \$222,528,010. Of particular note is that the budget for the General Fund is once again balanced, with anticipated revenues equaling projected expenditures. You may recall that in the current fiscal year the budget was adopted with a deficit of just under \$1 million. Fortunately, increasing revenues projected for next fiscal year will allow this gap to be closed along with additional gaps related to one-time revenue included in the current fiscal year's budget and revenue carried over from Fiscal Year 2011/12 into the current year. This budget will sustain the General Fund reserve at its current level and maintain the balance in excess of the City's policy of 15% of operating expenditures, which:

- Preserves the City's strong credit rating (generating 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.

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 details these revenue sources:

	2012/13 Budgeted	2013/14 Estimated	Change
Charges for Services	\$ 474,988,915	\$ 494,589,322	\$ 19,600,407
Intergovernmental	67,147,263	23,510,742	(43,636,521)
Other (Primarily Interest)	37,056,851	17,749,774	(19,307,077)
Taxes	26,470,667	24,606,039	(1,864,628)
Special Assessments	6,683,178	7,752,534	1,069,356
Fines and Forfeits	3,810,000	3,972,000	162,000
Licenses and Permits	2,554,302	2,627,366	73,064
Charges to Departments	12,430,282	11,895,890	(534,392)
Bond Proceeds	293,277,191	70,053,000	(223,224,191)
Total	\$924,418,649	\$656,756,667	\$(267,661,982)

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Charges for services revenue is the predominant indicator of the economic health of the City's non-General Fund functions, which primarily include its Electric, Water, Sewer, and Refuse enterprise funds. Across all funds, charges for services revenues are anticipated to increase by \$19.6 million or 4.1%. The other material variances in non-General Fund revenues are the result of the following issues:

1. The decrease in intergovernmental revenues is the result of decreased grants budgeted for transportation capital projects in the Fiscal Year 2013/14 budget. Because many grants provide multi-year funding for large projects, these revenues are of a cyclical nature.
2. The decrease in other revenues is primarily attributable to one-time CalTrans contributions in aid of construction to the Water Fund in Fiscal Year 2012/13 related to the CA-91 widening project.
3. The decrease in tax revenues is the result of gradually declining Successor Agency property tax revenues as enforceable obligations are paid and tax increment flows to other taxing entities per the terms of the Redevelopment Agency dissolution legislation.
4. The increase in special assessment revenue relates to property tax collections for Assessment Districts and Community Facilities Districts, which are used to pay debt service associated with bonds issued by those districts.
5. The decrease in bond proceeds primarily relates to the inclusion of the primary appropriation for the Water Quality Control Plant Expansion project in the Fiscal Year 2012/13 budget.

General Fund revenues, which support many of the City's basic operations and services, are comprised primarily of property and sales tax receipts. General Fund revenues are estimated to total \$222.5 million, a 1.5% increase from the projected Fiscal Year 2012/13 revenue budget.

However, the Fiscal Year 2012/13 projected revenue budget also includes one-time revenues of \$3 million related to the sale of certain delinquent property tax receivables, \$2.3 million related to the distribution of excess cash balances from the former Redevelopment Agency to other taxing entities (including the General Fund), and \$714,000 received as a result of a settlement with Riverside County related to property tax administration fees. Therefore, the recurring revenues for Fiscal Year 2012/13 are actually only projected to total \$211,379,027 rather than \$219,344,690. Taking these adjustments into account, the true growth

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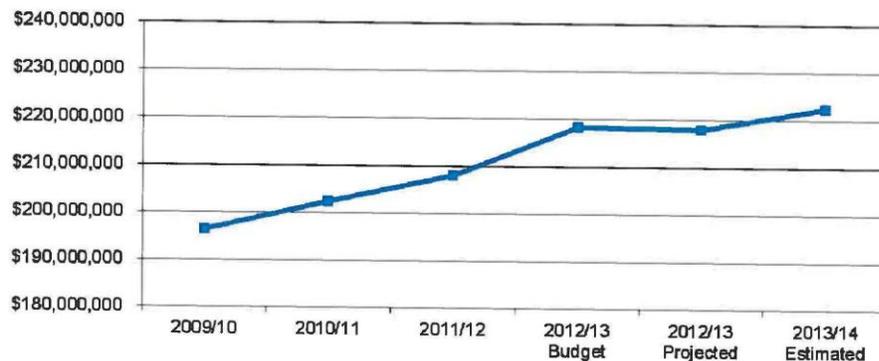
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in recurring revenues projected for Fiscal Year 2013/14 amounts to 3.5%. The table below illustrates the various components of the General Fund revenue budget:

	2012/13 Projected	2013/14 Requested	Change
Sales & Use Taxes	\$ 50,690,569	\$ 54,218,000	\$ 3,527,431
Property Taxes	46,386,954	47,305,753	918,799
Interfund Transfers	41,340,400	42,493,000	1,152,600
Utility Users Tax	27,978,000	28,043,000	65,000
Charges for Services	11,566,604	12,796,884	1,230,280
Licenses & Permits	7,319,292	7,735,760	416,468
Fines & Forfeits	5,664,935	5,516,144	(148,791)
Franchises	5,100,000	5,171,500	71,500
Special Assessments	4,384,395	4,401,416	17,021
Other	4,284,931	4,531,707	246,776
Transient Occupancy Tax	3,625,000	3,806,000	181,000
Intergovernmental	1,537,947	1,195,000	(342,947)
Property Transfer Tax	1,500,000	1,600,000	100,000
Total	\$211,379,027	\$218,814,164	\$7,435,137
One-Time Revenues	6,543,341	3,713,846	(2,829,495)
Carried Forward Revenue	1,422,322	-	(1,422,322)
Adjusted Total	\$219,344,690	\$222,528,010	\$3,183,320

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:

Five Year General Fund Revenue Trend



As is noted in the table above, recurring General Fund revenues are forecasted to grow by \$7.4 million versus the current year, or 3.5%. This increase is primarily attributable to the following issues:

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1. Sales tax revenue continues to rebound strongly and has now reached a level not seen since before the recession. Sales tax revenue is projected to grow by approximately \$3.0 million, an increase of 6.0%. Also included is \$500,000 of projected sales tax revenue associated with the expansion of Riverside Community Hospital, which increases the growth rate to 7.0%.
2. Property tax revenues initially declined during the recession and then stabilized but were slow to increase due to the lag between current property prices and the time that changes in assessed value are reflected on the tax roll. Preliminary information received from the County of Riverside indicates that assessed values will begin to grow again, resulting in a projected increase in property tax revenue of approximately \$919,000 or 2.0%.
3. Charges for services and licenses and permits revenues are projected to grow by a total of approximately \$1.6 million, an increase of 8.7%. This increase is primarily related to continued increases in building permit and planning activity, as well as the addition of revenue related to the City's operation of the Fairmount Park Golf Course, which offsets the related operating costs included in the expenditure budget.
4. Interfund transfers are projected to grow by \$1.2 million, an increase of 2.8%. This increase is the result of continued increases in the customer base of both the electric and water utilities.

These four items account for \$7.2 million of the \$7.4 million increase in recurring 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 decreasing as a result of a decrease in budgeted capital projects in Fiscal Year 2013/14. This reduction is primarily the result of inclusion of a large portion of the Water Quality Control Plant Expansion project in the Fiscal Year 2012/13 budget as well as a reduction in grant-funded projects in Fiscal Year 2013/14. Non-General Fund expenditures by Department are categorized in the table below:

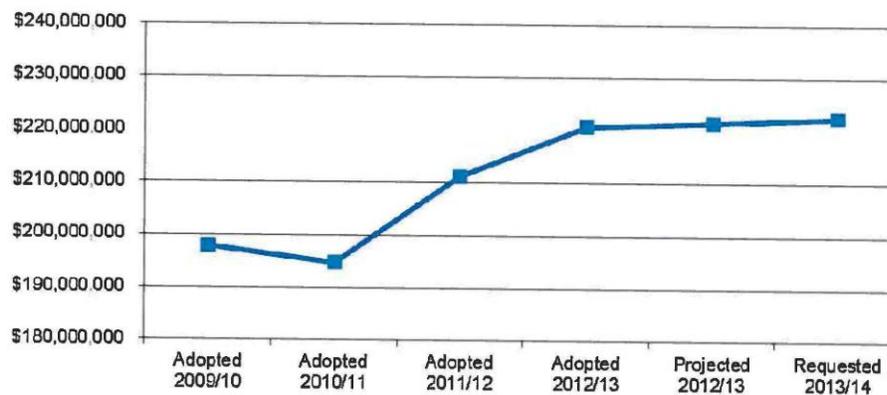
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	2012/13 Budgeted	2013/14 Requested	Change
Public Utilities	\$ 481,990,825	\$ 500,541,136	\$ 18,550,311
Public Works	380,314,821	101,176,098	(279,138,723)
Community Dev.	33,040,468	31,083,397	(1,957,071)
Finance	15,483,812	15,175,895	(307,917)
General Services	10,945,818	12,405,302	1,459,484
Parks, Rec., and CS	5,012,232	7,442,749	2,430,517
Human Resources	4,188,868	4,380,733	191,865
Airport	1,934,616	958,026	(976,590)
Total	\$ 932,911,460	\$ 673,163,336	\$(259,748,124)

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 following section will provide detailed information regarding planned General Fund spending.

Five Year General Fund Expenditure Trend



The size of the City's General Fund is largely tied to the overall health of the regional economy. The economic downturn that began in Fiscal Year 2007/08 has finally reversed and the City's General Fund revenues are now beyond the peak seen at that time. The City Council's prudent fiscal policies during the economic downturn, which continue today, combined with the City's operational successes, have allowed Riverside to emerge from the economic downturn well positioned to begin to restore service levels for key City Council priorities.

While staff is hopeful that continued revenue growth in the coming year will allow services to continue to be augmented in the Fiscal Year 2014/15 budget or perhaps mid-year in Fiscal Year 2013/14, there are a

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number of issues that must be addressed with the bulk of the additional revenue anticipated in the upcoming Fiscal Year.

1. As discussed earlier, the Fiscal Year 2012/13 budget included a sizable amount of one-time revenue. The majority of additional revenues projected for Fiscal Year 2013/14 will simply plug the hole left when this one-time revenue is not repeated. As a result, only approximately \$3.2 million of the new revenue anticipated can be utilized to address needs for growth in the budget.
2. Pension costs associated with sworn Police and Fire Department employees have increased by approximately \$1.1 million as a result of increased rates assessed by CalPERS. Fortunately, for the upcoming year the rates for non-public safety employees increased by a negligible amount.
3. New debt service costs associated with the Convention Center Renovation and Expansion project amount to approximately \$0.7 million. While additional transient occupancy tax revenues approved by the voters will cover this debt service, because the revenues were already being received in Fiscal Year 2012/13 prior to the start of debt service payments, the increased debt service costs had to be absorbed into the operating budget.
4. Costs associated with operating newly opened Parks, Recreation, and Community Services Department facilities amount to approximately \$1.3 million. These costs were included in the initial iteration of the Fiscal Year 2013/14 budget, however ultimately partially offsetting reductions were required within the Department's budget as described below in order to balance the budget.

As discussed previously, structural budgetary shortfalls have existed in the Police and Fire Departments for a number of years, which resulted from budget targets that were insufficient to fully fund overtime, paid leave cash outs, and other expenditures in these departments without further reducing service levels. These unachievable budget targets for the Police and Fire Departments have effectively required that managed savings elsewhere in the budget offset these recurring over budget amounts. We believe that these shortfalls will continue absent additional resources being allocated to the Police and Fire Departments, because ultimately the expenditures are largely beyond the Departments' control. It is unfair to these Departments to continue to provide them with insufficient budget targets to fund their current level of operations, and this situation therefore needs to be corrected with the appropriation of additional resources. Accordingly, following a careful evaluation during

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Fiscal Year 2012/13, the budgets of these departments have been increased to a level that should fully eliminate these recurring deficits. Managed savings has been and will continue to be achieved by other departments that should fully offset these increased appropriations, and so the net impact to the operating budget is effectively zero. However, this change will provide the Police and Fire Departments with a realistic budget and eliminate a problem that has existed in the budget for a number of years.

Managed savings is increasing by a smaller amount than the increase to the Police and Fire Department budgets, however, primarily as a result of decreasing the managed savings anticipated from pension reform. The City originally projected the savings associated with pension reform based on a complex analysis of anticipated retirements and staff turnover evaluating the age of the City's workforce and historical experience. With a little over a year of actual experience, actual retirements and turnover have lagged projections. While ultimately all of the savings projected will be realized, the issue is one of timing. In order to be more conservative and avoid over projecting the savings associated with pension reform in the Fiscal Year 2013/14 budget, staff has based the revised projection on actual savings achieved in Fiscal Year 2012/13 rather than the forecast previously developed, which is proving more optimistic than actual experience thus far.

Once all required additions to the budget were incorporated into the Fiscal Year 2013/14 budget, the budget was still not balanced. Staff therefore returned to departments and achieved an additional \$0.8 million of cuts in order to balance revenues with expenditures. Additionally, rather than make further cuts to the budget, staff is recommending that the payment due in Fiscal Year 2013/14 for an interfund loan obligation of the Local Park Impact Fees Fund be deferred for a one-year period in order to allow the Fund to make a payment on the Riverside Renaissance Certificates of Participation totaling \$2.3 million. The Fund is obligated to pay approximately 40% of the debt service on Certificates of Participation, however reduced impact fee revenues have required the General Fund to step in to make these payments. This action will prevent a like amount of additional cuts to the General Fund budget. Interest on the interfund loan will continue to be paid and it will begin to amortize again in Fiscal Year 2014/15.

It should also be noted that the Fiscal Year 2013/14 budget as proposed does not yet address the settlement related to the Water General Fund Transfer and the requirement to transfer approximately \$3.3 million to the Water Fund from the General Fund. As discussed with the City Council previously, staff is determining whether additional revenues can be identified to offset a portion of the amount to be transferred, with the

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remainder likely to come from the General Fund Reserve. Staff will return to the City Council at a later date with recommendations to address this issue. Any required supplemental appropriation will be addressed in the mid-year budget report.

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 2013/14 of \$222,528,010:

	2012/13 Budgeted	2013/14 Requested	Change
City Attorney	\$ 3,400,266	\$ 3,569,417	\$ 169,151
City Clerk	1,016,697	1,154,699	138,002
City Council	1,074,080	1,076,190	2,110
City Manager	5,242,083	4,982,625	(259,458)
Community Development	9,602,122	9,310,537	(291,585)
Finance	5,254,254	5,431,835	177,581
Fire	42,250,374	43,171,417	921,043
General Services	4,488,342	4,521,274	32,932
Human Resources	2,483,473	2,430,621	(52,852)
Innovation & Technology	9,809,017	9,712,675	(96,342)
Library	5,652,415	5,647,419	(4,996)
Mayor	726,976	770,694	43,718
Museum	2,863,640	2,883,371	19,731
Non-Departmental	16,455,815	17,083,975	628,160
Parks, Rec., and CS	15,459,648	16,566,576	1,106,928
Police	80,345,738	82,187,315	1,841,577
Public Works	12,883,075	13,091,889	208,814
Sub-Total	\$219,008,015	\$223,592,529	\$ 4,584,514
Managed Savings	(3,695,122)	(4,432,000)	(736,878)
Net Cost Allocation Plan	(17,851,693)	(18,563,722)	(712,029)
Net Debt Service Allocation	23,253,711	21,931,203	(1,322,508)
Total	\$220,714,911	\$222,528,010	\$ 1,813,099

With the majority of new revenues being utilized to fill the void left by Fiscal Year 2012/13’s one-time revenue, expenditures are projected to increase by only approximately 0.8%. However, to the extent possible, departments have crafted next year’s budget to continue to direct additional resources 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

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- Environmental Stewardship
- Arts & Innovation
- Seizing Our Destiny

General Fund Reserve Outlook

The Fiscal Year 2013/14 General Fund budget as currently proposed is balanced with revenue equaling expenditures. Staff will continue to focus on opportunities to conserve resources whenever possible and to look for new revenue sources throughout the year. At the mid-year report in January 2014, 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 most of our bargaining units in place through 2014, all without increases in compensation or benefits. Negotiations are ongoing with SEIU, whose contract expires at the end of this month. Management is working collaboratively with the union negotiating team to identify opportunities to provide financial and other recognition to their members for their continued support of the City's fiscal conservatism without increasing the overall bottom line costs to the City associated with compensation and benefits in the upcoming fiscal year. Additionally, pension and benefit reform continues to pay dividends and an additional \$661,000 of savings is anticipated in Fiscal Year 2013/14, building upon recurring savings achieved in prior fiscal years. These cost controls have allowed revenues to catch up with expenditures so that the City is on sound financial footing going into Fiscal Year 2013/14 with a balanced budget.

The following table summarizes the anticipated General Fund reserve balance as of the March 31, 2013, Monthly Financial Report, 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 Actual	40,014,760
2012/13 Projected	36,456,465
2013/14 Projected ¹	36,456,465

¹ Does not include the impact on the reserve balance of any draw on reserves to address the Water General Fund Transfer settlement.

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Regional, State, and Federal Considerations

Riverside's unemployment rate continues to decline year-over-year, following a trend seen both regionally and nationally. The City's March 2013 unemployment rate was down to 9.7% compared to the March 2012 rate of 12.9%, reflecting a 24.8% decrease in the unemployment rate over a one-year period. This is a strong indication that the local region is moving in the right direction and that the City's investment in economic development initiatives is paying dividends. Over the last year, the Riverside-San Bernardino-Ontario Metropolitan Statistical Area has added 18,400 jobs, an increase of 1.6%. All indications point to a continued positive trend in employment in the upcoming year, which will continue to support increased revenues for the City and continued enhancements to the City's service delivery.

The State of California's multi-year budget crisis seems finally to be over following the approval of additional taxes by the State's voters in late 2012 and continued increases in revenues. The Governor's May Revise proposes a responsible budget with revenue estimates lower than those of the Legislative Analyst's Office and reflecting the beginning of an effort to pay down the "wall of debt" accumulated during the economic downturn. More importantly, the State for the first time in several years is not proposing any actions that would negatively impact the City's budget through redirection of funding or cuts to critical programs.

The Federal budget typically does not impact the City's General Fund; however, it does closely impact other City functions. As a result of the Federal sequestration, the City has seen negative impacts during Fiscal Year 2012/13 in the form of reduced grant funding and impairment of the credits it receives for Build America Bonds issued by the electric, water, and sewer utilities. Staff is closely monitoring these issues and evaluating alternatives where they exist. We will continue to update the City Council whenever new information is available.

Summary and Recommendations

Preparation of the Fiscal Year 2013/14 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

CITY MANAGER'S BUDGET MESSAGE

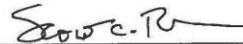
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poised to continue cautiously increasing service levels and to enter Fiscal Year 2013/14 on sound financial ground.

It is, therefore, recommended that the City Council:

1. Conduct a Public Hearing on June 18, 2013, to receive citizen comments on the proposed Fiscal Year 2013/14 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 25, 2013, meeting.

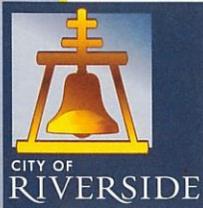
Respectfully Submitted,



SCOTT C. BARBER
City Manager

Attachment: Preliminary Annual Budget

CITY MANAGER'S BUDGET MESSAGE



Office of the
City Manager

August 23, 2013

Fiscal Year 2013/14 Final Adopted Budget Adjustments

Honorable Mayor and City Council,

Several minor adjustments were made to the proposed fiscal year 2013/14 budget presented to the City Council at the Public Hearing held on June 18, 2013 in order to finalize the budget for approval by the City Council on June 25, 2013. These adjustments were highlighted in Attachment D to the June 25, 2013, City Council report. There was also an addition made to the budget by the City Council during the budget approval meeting that resulted in a minor budget adjustment to the General Fund. As a result, the budget reflected in the final budget document differs from the preliminary document originally presented to the City Council and outlined in the budget transmittal letter.

The adjustments are listed below, none of which have a material fiscal impact to the approved annual budget:

1. Several adjustments were made to the debt service budget in the Local Park Impact Fees Fund related to the recommendation approved by the City Council to defer principal payments on two interfund loans for a period of two fiscal years. The preliminary budget as presented included budget for the deferred principal payments in error and an amount for interest payable that required adjustment.
2. \$24,939 was added to account number 5200200-412311 in the Parks, Recreation, and Community Services Department budget for the Special Transit Fund. This amount was included in the budget but was omitted from the printed budget document due to a reporting error related to the City's new budget software.
3. \$10,000 was added to the Parks, Recreation, and Community Services Department budget for the General Fund per the City Council's direction at the budget approval meeting to provide additional operating hours at City pools. The one-time revenue budget for the General Fund was increased by an equivalent amount so that the budget remains balanced.

Respectfully Submitted,


Scott C. Barber
City Manager