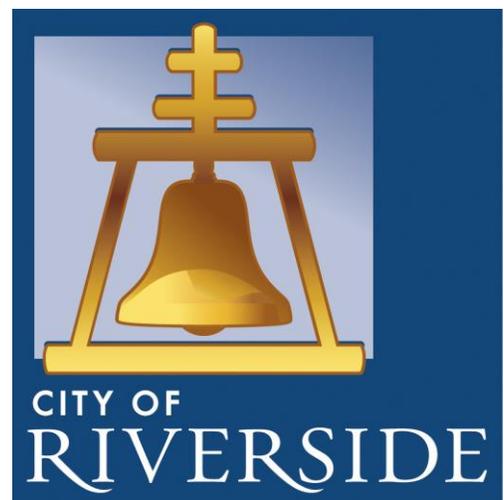
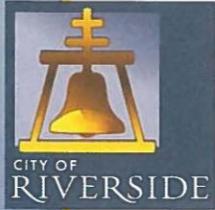


CITY MANAGER'S BUDGET MESSAGE



CITY MANAGER'S BUDGET MESSAGE



Office of the
City Manager

June 10, 2014

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

Fiscal Year 2014/15 Budget Hearing

Honorable Mayor and City Council Members:

I am pleased to submit the Proposed Fiscal Year 2014/15 Budget for your consideration and for additional public comments during the June 10 Budget Hearing.

This budget proposes judicious utilization of increasing revenues, reflecting the City's economic recovery following the recession. The budget will, for the first time, exceed the fiscal year 2007/08 budget of \$226 million. While this is a positive sign that the City is well past the depths of the recession, increasing costs are largely preventing a return of service levels to those delivered prior to the recession. City staff continue to make every effort to control costs and expand services in a thoughtful manner. Riverside continues to be uniquely and positively positioned financially as a direct result of the City Council's conservative fiscal management throughout the recent 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 2013/14 Year in Review

General Fund Revenues

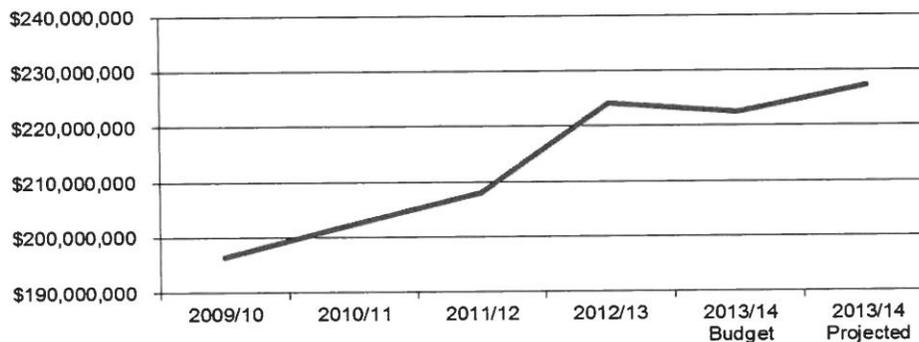
General Fund revenues began their decline in Fiscal Year 2007/08 as the economic downturn began to negatively impact the City's revenues. The City's revenues hit their low point in Fiscal Year 2009/10 at \$196.4 million, down from a high in Fiscal Year 2006/07 of \$208.9 million. Since

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that time, revenues have been slowly increasing as indicated in the chart below. The adopted Fiscal Year 2013/14 budget forecasted revenues for the General Fund totaling \$222.5 million. For the reasons outlined below, the year-end forecast of General Fund revenue is \$227.2 million.

Five Year General Fund Revenue Trend



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

1. As a result of the transmission revenue-related adjustment to the Electric GFT (\$2.6 million) and increased Electric Fund revenues in general (\$0.6 million), interfund transfer revenue is projected to exceed budget by \$3.2 million.
2. Property tax revenues are estimated to be \$0.8 million higher than budgeted for the current fiscal year primarily as a result of increased property tax revenues generated by the dissolution of the City's Redevelopment Agency.
3. Property transfer tax revenues are estimated to be \$0.4 million higher than budgeted for the current fiscal year due to an increase in real estate transactions.
4. Intergovernmental revenues are estimated to be \$0.4 million higher than budgeted for the current fiscal year due primarily to larger than anticipated reimbursements from the State.
5. These and other minor increases are partially offset by minor decreases in other revenue categories as well as the two following material negative variances:

CITY MANAGER’S BUDGET MESSAGE

- a. Charges for services and licenses & permits revenues are a combined \$0.7 million below budget primarily due to slower than anticipated growth in building activity.
- b. One-time revenues are estimated to be \$1.0 million below budget due to a lower amount of one-time revenues being generated than has been typical in recent years.

	2013/14 Adopted	2013/14 Projected	Budget Variance
Sales & Use Taxes	\$ 54,218,000	\$ 53,933,000	\$ (285,000)
Property Taxes	47,305,753	48,116,208	810,455
Interfund Transfers	42,493,000	45,694,500	3,201,500
Utility Users Tax	28,043,000	27,835,000	(208,000)
Charges for Services	12,796,884	12,484,802	(312,082)
Licenses & Permits	7,735,760	7,314,200	(421,560)
Other	5,755,553	5,749,153	(6,400)
Fines & Forfeits	5,516,144	5,337,070	(179,074)
Franchises	5,171,500	4,880,000	(291,500)
Special Assessments	4,401,416	4,424,110	22,694
Transient Occupancy Tax	3,806,000	3,941,000	135,000
Property Transfer Tax	1,600,000	1,980,000	380,000
Intergovernmental	1,195,000	1,586,019	391,019
One-Time Revenues	2,500,000	1,500,000	(1,000,000)
Total	\$ 222,538,010	\$ 224,775,062	\$ 2,237,052
Prior Year Carry-Forward	-	2,425,097	2,425,097
Adjusted Total	\$ 222,538,010	\$ 227,200,159	\$ 4,662,149

Note: Prior year carry-forward reflects \$2.4 million of GFT revenue from the Electric Fund carried forward from Fiscal Year 2012/13 to facilitate the Water GFT settlement payments.

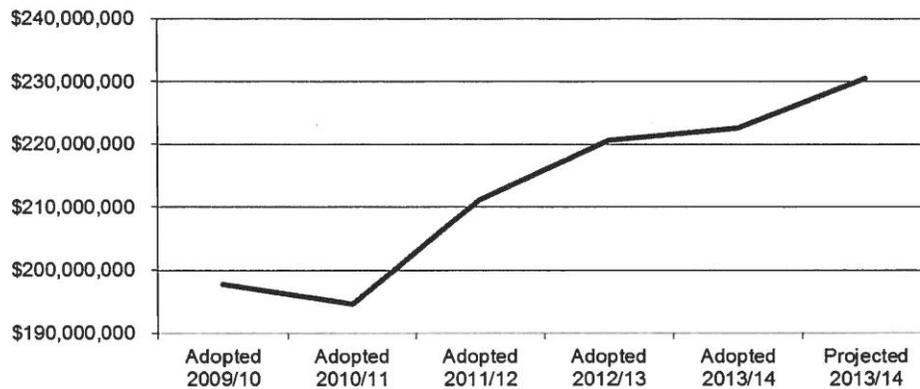
General Fund Expenditures

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 2013/14, the General Fund expenditure budget was cautiously increased to \$222.5 million. For the reasons outlined below, staff is forecasting General Fund expenditures to be \$230.6 million, an increase of \$8.0 million, or 3.6%. This includes the total of previously approved and currently requested supplemental appropriations from the General Fund reserve of approximately \$7.3 million.

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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 \$742,000 above the adopted budget, when including managed savings of \$4,432,000 targeted for achievement. This minor net over budget amount represents only 0.3% of the adopted budget. Staff continues to conduct and refine a detailed analysis of each department’s annual over or under budget status. Included in the 2014/15 budget recommended for adoption are adjustments to again refine department budgets to further reduce budget variances.

	2013/14 Adopted	2013/14 Projected	Budget Variance
Department Budgets	\$ 216,870,529	\$ 217,612,529	\$ 742,000
Net Cost Allocation	(18,563,722)	(18,563,722)	-
Net Debt Allocation	24,231,203	24,231,203	-
Total	\$222,538,010	\$223,280,010	\$ 742,000

Note: Table excludes mid-year appropriations from reserves of \$7.3 million.

Appropriations from Reserves

Subsequent to adoption of the Fiscal Year 2013/14 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 \$7.3 million as of the April 30, 2014, Monthly Financial Report to the City Council. The following table summarizes these mid-year appropriations from the General Fund Reserve:

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Item	City Council Approval Date	Amount
Marcy Library Sale Process	August 13, 2013	\$ 42,600
Sign Code Update	September 10, 2013	100,000
Give Big Riverside Campaign	September 10, 2013	10,000
Citrus and Beyond Conference	September 24, 2013	42,000
Riverside Reconnects Streetcar Study	October 8, 2013	62,500
Park Storm Repairs	October 22, 2013	216,430
Riverside ExCITE Fiber Connection	January 7, 2014	75,000
Harada House Property Acquisition	January 28, 2014	150,000
Greenbelt Preservation Initiative	February 11, 2014	50,000
City Hall Furniture Reconfiguration	February 25, 2014	50,000
Main Library Architectural Drawings	February 25, 2014	100,000
Law Library MOU Payment	February 25, 2014	233,334
Wi-Fi Network Operations	February 25, 2014	258,000
City Attorney’s Office Staffing	February 25, 2014	105,000
Museum Elevator Rehabilitation	February 25, 2014	110,000
Library Grant Matching Funds	February 25, 2014	35,000
Water GFT Settlement Payments	February 25, 2014	5,025,597
Community Livability Program	April 1, 2014	636,465
Total		\$ 7,301,926

General Fund Reserve Outlook

Should the revenue and expenditure forecast outlined above come to pass as projected in the April 30, 2014, Monthly Financial Report, the General Fund reserve balance would decrease to approximately \$36.1 million as of the close of Fiscal Year 2013/14. However, staff remains 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 2013/14 in July and August and audited thereafter. Staff will return to the City Council once the audit is complete and the final Fiscal Year 2013/14 operating results are known to provide an update on the reserve balance.

Proposed Fiscal Year 2014/15 Budget

The City’s overall proposed budget for Fiscal Year 2014/15 is \$914,663,211 with General Fund expenditures totaling \$240,056,800. This balanced 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

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- Positions the City to address economic opportunities that 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:

	2013/14 Budgeted	2014/15 Estimated	Change
Charges for Services	\$ 494,589,322	\$ 508,026,466	\$ 13,437,144
Intergovernmental	21,700,742	26,985,896	5,285,154
Taxes	24,606,039	24,921,274	315,235
Other (Primarily Interest)	17,749,774	16,022,094	(1,727,680)
Special Assessments	7,752,534	8,233,472	480,938
Fines and Forfeits	3,972,000	3,905,516	(66,484)
Licenses and Permits	2,627,366	2,775,986	148,620
Charges to Departments	11,895,890	13,522,903	1,627,013
Bond Proceeds	70,053,000	48,104,500	(21,948,500)
Total	\$654,946,667	\$652,498,107	\$(2,448,560)

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 \$13.4 million or 2.7%. The other material variances in non-General Fund revenues are the result of the following issues:

1. The increase in intergovernmental revenues is the result of increased grants budgeted in the Fiscal Year 2014/15 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 lower projected balances of bond proceeds on hand in the City's enterprise funds in Fiscal Year 2014/15, which reduced interest revenue. These revenues are cyclical in nature as new bonds are issued periodically and proceeds remain on hand for several years.
3. The increase in charges to departments is the result of increased workers compensation and liability insurance assessments from the City's internal service insurance trust funds to the City's various departments and funds.

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 \$240.1

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million, a 5.7% increase from the projected Fiscal Year 2013/14 revenue budget.

This increase is partially the result of two accounting adjustments that result in an additional \$4.9 million of revenue fully offset by related expenditures. The first adjustment is attributable to the City’s new contract for operation of the Fox Performing Arts Center and the Municipal Auditorium. Accounting rules require that the revenue and expenditures related to the two facilities be accounted for in the City’s budget. Under the previous contract, only the Fox Performing Arts Center was included in the City’s budget and the revenues budgeted were lower than they are under the new contract. These changes account for \$3.1 million of additional revenue. The second adjustment is attributable to a change in the way that the Finance Department will account for pension obligation bond debt service paid by other City funds. Previously, a charge was included in the budget to offset a portion of the debt service equal to the amounts paid by other funds. This methodology was overly complicated, and beginning in 2014/15 the budget will reflect as revenue those contributions from other funds. This change accounts for \$1.8 million of additional revenue. When these two accounting changes are adjusted out, the actual revenue growth in the General Fund is projected to be 3.5%. The table below illustrates the various components of the General Fund revenue budget:

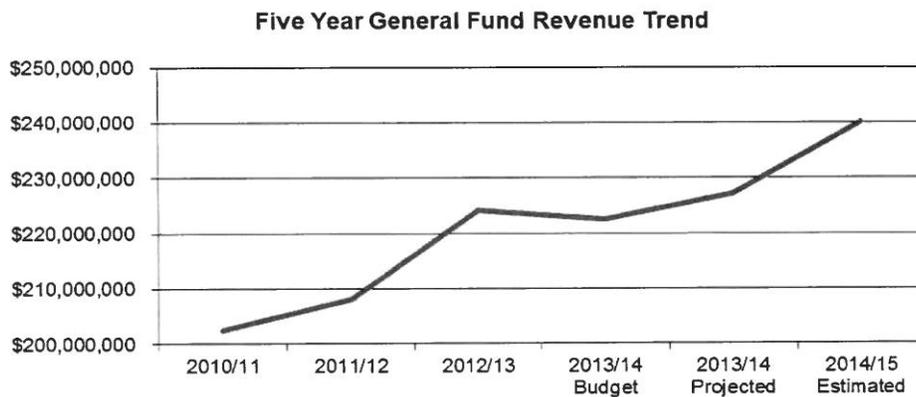
	2013/14 Projected	2014/15 Requested	Change
Sales & Use Taxes	\$ 53,933,000	\$ 57,455,000	\$ 3,522,000
Property Taxes	48,116,208	50,736,173	2,619,965
Interfund Transfers	45,694,500	45,412,500	(282,000)
Utility Users Tax	27,835,000	28,153,000	318,000
Charges for Services	14,084,802	17,575,434	3,490,632
Licenses & Permits	7,314,200	8,421,200	1,107,000
Other	4,149,153	6,622,863	2,473,710
Fines & Forfeits	5,337,070	5,005,800	(331,270)
Franchises	4,880,000	4,840,000	(40,000)
Special Assessments	4,424,110	4,570,430	146,320
Transient Occupancy Tax	3,941,000	4,470,000	529,000
Property Transfer Tax	1,980,000	2,376,000	396,000
Intergovernmental	1,586,019	1,418,400	(167,619)
One-Time Revenues	1,500,000	3,000,000	1,500,000
Total	\$224,775,062	\$240,056,800	\$15,281,738
Carried Forward Revenue	2,425,097	-	(2,425,097)
Adjusted Total	\$227,200,159	\$240,056,800	\$12,856,641

Note: Increases in Charges for Services and Other are almost entirely the result of the two items discussed in the paragraph preceding this table. Adjusted growth is 5.4% and 2.0%, respectively.

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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:



As is noted in the table above, recurring General Fund revenues are forecasted to grow by \$12.9 million versus the current year, or 5.7%. This increase is primarily attributable to the following issues:

1. Sales tax revenue has rebounded strongly and is anticipated to remain strong in the coming fiscal year. Sales tax revenue is projected to grow by approximately \$3.5 million, an increase of 6.5%. Included within this number is \$500,000 of projected sales tax revenue associated with the expansion of Riverside Community Hospital. Pursuant to the tax sharing agreement previously approved by the City Council, these revenues will flow back to the hospital when received.
2. Property tax revenues have ended their decline and home values in the City are steadily increasing. Preliminary information received from the County of Riverside indicates that assessed values will grow strongly in the upcoming fiscal year, resulting in a projected increase in property tax revenue of approximately \$2.6 million or 6.0%.
3. After adjusting out the portion of the increase attributable to the contract to operate the Fox Performing Arts Center and the Municipal Auditorium, charges for services revenues are projected to grow by approximately \$0.5 million or 5.4%. This increase is primarily being driven by continued increases in development activity.

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4. Licenses & permits revenues are projected to grow by approximately \$1.1 million or 15.1%. This increase is primarily being driven by continued increases in building permit and related development activity. The basis for the larger than typical increase is that a temporary revenue decline seen in the current fiscal year is forecasted to reverse strongly based on the development queue currently being processed by the Planning Division.
5. Transient occupancy tax revenues are forecasted to grow by \$0.5 million or 13.7%. This increase is the result of a previously approved increase in the tax rate from 12% to 13% effective July 1, 2014, as well as higher hotel occupancy rates due to the improved economy and the newly renovated Riverside Convention Center.
6. Property transfer tax revenues are anticipated to grow by \$0.4 million or 20.0%. This increase is anticipated due to increased real estate transaction activity seen over the past year, which is anticipated to continue.
7. One-time revenues are anticipated to increase from \$1.5 million to \$3.0 million due to anticipated property sales that will benefit the General Fund.

These seven items account for the majority of anticipated revenue growth and are partially offset by slightly lower levels of revenue in several other categories. Additionally, last fiscal year's revenue budget included \$2.4 million of revenue carried forward from a prior fiscal year that was utilized to make a portion of the Water GFT settlement payment.

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 and Public Utilities Departments will be increasing and decreasing, respectively, as a result of a decrease in budgeted capital projects in Fiscal Year 2014/15. The increase in the General Services Department budget is the result of its merger with the former Airport Department, and the increase in the Human Resources Department budget is attributable to a higher budget in the Workers Compensation Division. Non-General Fund expenditures by Department are categorized in the table below:

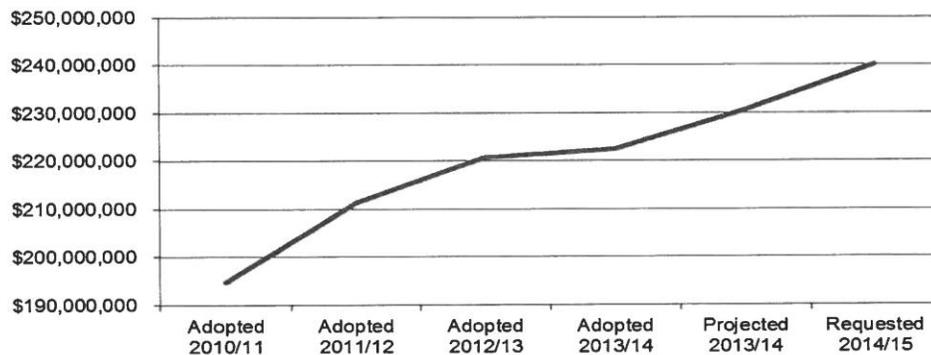
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	2013/14 Budgeted	2014/15 Requested	Change
Public Utilities	\$ 500,541,136	\$ 490,772,276	\$ (9,768,860)
Public Works	101,176,098	111,567,886	10,391,788
Community Dev.	31,083,397	32,096,338	1,012,941
Finance	15,175,895	14,593,188	(582,707)
General Services	12,405,302	13,402,204	996,902
Parks, Rec., and CS	5,923,928	6,284,180	360,252
Human Resources	4,380,733	5,890,339	1,509,606
Airport	958,026	-	(958,026)
Total	\$ 671,644,515	\$ 674,606,411	\$ 2,961,896

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 fully 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, allowed Riverside to emerge from the economic downturn well positioned to begin to restore service levels for key City Council priorities. Over the past year, this process has started, though other spending pressures have prevented a full return to pre-recession service levels.

While staff are hopeful that continued revenue growth in the coming year will allow services to continue to be augmented in the Fiscal Year

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2015/16 budget or perhaps mid-year in Fiscal Year 2014/15, there are a number of issues that must be addressed with the bulk of the additional revenue anticipated in the upcoming Fiscal Year.

1. Pension costs associated with sworn Police and Fire Department employees have increased by approximately \$1.6 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 and continued turnover into pension tiers 2 and 3 will result in approximately \$0.6 million of savings to partially offset the increases pension costs.
2. New debt service costs associated with the Convention Center Renovation and Expansion project and several capital leases approved last fiscal year amount to approximately \$4.0 million. While additional transient occupancy tax revenues approved by the voters will cover the Convention Center debt service over the life of the debt, 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 must be absorbed into the operating budget.
3. The City is self-insured for workers compensation and liability risks below certain levels covered by excess insurance policies. In recent years, claims have increased and reserves have gone down. In order to reverse the trend associated with reserves, rates have been increased for both workers compensation and liability insurance for all City departments. These rates continue to be assessed based on historical claims and other factors that equitably distribute costs across all departments. The General Fund impact of these increases for Fiscal year 2014/15 amounts to \$1.7 million.
4. The City Council has recently approved a memorandum of understanding with the SEIU General Unit and comparable increased for management and confidential employees. Additionally, with the expiration of the City's memoranda of understanding with the two Fire Department unions, on July 1, 2014, contributions to the related retiree medical trusts will again become the City's responsibility. These payments were deferred under the expiring MOU. The total impact of these increased on the General Fund is approximately \$1.1 million.

Following the funding of these increased costs, little additional revenue remained to address other priorities. 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:

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- Public Safety
- Economic Development
- Code Enforcement, Anti-Graffiti, and Other Livability Programs
- Parks, Community Service, and Youth Programs
- Libraries
- Environmental Stewardship
- Arts & Innovation
- Seizing Our Destiny

Specifically, additional resources were allocated to critical needs such as:

1. Funding was allocated to the Police Department for two additional Police Officer positions, as required as COPS grant funding ends. Three additional positions were already funded in previous years to address this requirement.
2. Funding was allocated to the Community Development Department for the Homeless Outreach Team due to grant funding being eliminated. Absent providing this funding, the City's homeless programs would have been drastically reduced.
3. Increased funding was provided to the Riverside Public Library for the purchase of additional library materials. This allocation continues a plan started last year to annually allocate additional resources to this critical need.
4. Funding was added to the Parks, Recreation, and Community Services Department budget for the School for the Arts.
5. Museum and Cultural Affairs Department funding was increased in order to add staff required to maintain accreditation of the Riverside Metropolitan Museum.
6. The Public Works Department was provided with additional resources to maintain landscaping improvements installed under the Riverside Renaissance Initiative.
7. The Public Works and Parks, Recreation, and Community Services Departments were provided with additional funding to cover higher water rates imposed by the Western Municipal Water District on the City's facilities located within their service territory.

It is important to note that funding was not included in the proposed Fiscal Year 2014/15 General Fund budget for the Community Livability Program. There were insufficient resources available to address the full list of critical needs presented by Departments, and tough choices had to

CITY MANAGER’S BUDGET MESSAGE

be made to balance the budget. It is anticipated that funding will remain from the allocation from reserves made for the Program in Fiscal Year 2013/14. These funds will be carried forward into Fiscal Year 2014/15 to continue the program into the early months of the fiscal year. Staff will return to the City Council with an update on the program at that time, including a request for any additional funding that may be required.

Additionally, rather than make further cuts to the budget, staff is recommending that the payment due in Fiscal Year 2014/15 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 2015/16.

The following table summarizes the proposed General Fund budget by department, including the items detailed above, resulting in a total City General Fund budget for Fiscal Year 2014/15 of \$240,056,800:

	2013/14 Budgeted	2014/15 Requested	Change
City Attorney	\$ 3,569,417	\$ 3,923,080	\$ 353,663
City Clerk	1,154,699	945,802	(208,897)
City Council	1,076,190	1,142,728	66,538
City Manager	4,982,625	4,986,456	3,831
Community Development	9,310,537	9,535,123	224,586
Finance	5,431,835	7,462,538	2,030,703
Fire	43,171,417	44,482,241	1,310,824
General Services	4,521,274	4,546,653	25,379
Human Resources	2,430,621	2,500,699	70,078
Innovation & Technology	9,712,675	10,815,540	1,102,865
Library	5,647,419	5,877,233	229,814
Mayor	770,694	813,097	42,403
Museum & Cultural Affairs	2,883,371	3,151,933	268,562
Non-Departmental	17,083,975	21,134,388	4,050,413
Parks, Rec., and CS	14,276,576	14,555,537	278,961
Police	82,187,315	86,606,288	4,418,973
Public Works	13,091,889	11,900,890	(1,190,999)
Sub-Total	\$221,302,529	\$234,380,226	\$13,077,697
Managed Savings	(4,432,000)	(6,301,000)	(1,869,000)
Net Cost Allocation Plan	(18,563,722)	(18,103,303)	460,419
Net Debt Service Allocation	24,231,203	30,080,877	5,849,674
Total	\$222,538,010	\$240,056,800	\$17,518,790

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The primary variances in the expenditure budget can be attributed to the following items:

1. The increase in the Police Department budget of \$4.4 million is primarily attributable to funding additional officer positions, higher CalPERS rates, increased liability insurance and workers compensation assessments, and continuing a multi-year process of eliminating recurring budget deficits in the Department. The deficit reduction adjustment is offset by an increase in General Fund managed savings, since other departments budget savings were previously offsetting the Police Department's deficit.
2. The increase in the Non-Departmental budget of \$4.1 million is primarily attributable to the higher budget for the operation of the Fox Performing Arts Center and Municipal Auditorium, which is fully offset by additional revenue, as well as the transfer of the crossing guards program from the Public Works Department's budget.
3. The increase in the Finance Department budget of \$2.0 million is primarily attributable to the appropriation of resources to cover the remaining Water GFT settlement payments.
4. The increase in the Fire Department budget of \$1.3 million is primarily attributable to higher CalPERS rates and increased liability insurance and workers compensation assessments.
5. The increase in the Innovation & Technology Department budget of \$1.1 million is primarily attributable to the transfer of a portion of the ACS contract budget from the Electric Fund, which is now charged to the Electric Fund through the cost allocation plan.
6. The decrease in the Public Works Department budget of \$1.2 million is primarily attributable to the transfer of the crossing guards program to the Non-Departmental budget.

Lastly, it should be noted that departments identified \$650,000 of critical equipment needs during the budget process. They include \$620,000 for computer hardware and \$30,000 for software for the Museum. Staff will return to the City Council later in the upcoming fiscal year with a proposal to finance those needs with a capital lease.

Public Safety Vehicle Replacement Program

Earlier this fiscal year, the City Council was briefed on a multi-year program under development to fully fund the Police and Fire Departments' vehicle replacement needs now and in the future. During the recession, funds historically budgeted for these purchases were

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eliminated. Some purchases continued on a critical needs basis, which were primarily funded using multi-year capital lease financings. The replacement program that has been developed would provide annual funding of \$3.2 million beginning in Fiscal Year 2015/16. This funding would be utilized to implement a rotating replacement cycle for the entire marked and unmarked Police Department fleet, the entire Fire Department fleet, and the Police Department's three helicopters.

It is anticipated that approximately \$1.9 million per year of existing capital lease payment appropriations can be directed towards this program by Fiscal Year 2019/20, which will reduce the net General Fund impact of the program to only \$1.6 million per year. In the interim years, the General Fund would need to contribute as much as \$2.9 million annually. It is anticipated that the first year's cash contribution can be made in Fiscal Year 2015/16, presuming that revenues continue to increase. For Fiscal Year 2014/15, one final capital lease financing is proposed to address the immediate needs of the Police and Fire Departments.

Included with the recommendations for June 24th's budget adoption will be a recommendation to direct staff to proceed with issuing an RFP for the capital lease financing. This financing will also include the \$650,000 of computer hardware and software purchases described above. Staff will then return to the City Council later in the fiscal year with a recommendation for awarding the financing and appropriating the funds for the vehicle purchases. The current list of vehicles anticipated to be included is as follows:

- Police Department
 - 20 marked Police Department units
 - 50 unmarked Police Department units

- Fire Department
 - 2 fire engines
 - 1 patrol engine
 - 1 squad vehicle
 - 1 water tender
 - 1 utility truck

The total cost for these vehicles is estimated at \$3.8 million. All of the vehicles to be replaced are beyond their useful lives. These purchases will be a good start toward restoring both departments' fleets to their regular replacement schedules.

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General Fund Reserve Outlook

The Fiscal Year 2014/15 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 2015, 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. The SEIU General Unit and IBEW recently reached agreements with the City for three year contracts that reflect reasonable increases in compensation and benefits, while recognizing the significantly higher pension contributions that the City will be making over the upcoming years. A similar package was provided to management and confidential employees following the signing of the SEIU contract. Negotiations are ongoing with the SEIU Refuse Unit, and contracts with the Fire and Police unions are expiring in June and December, respectively. Management anticipates working with the remaining labor groups collaboratively to identify opportunities to provide financial and other recognition to their members for their continued support of the City's fiscal conservatism, while minimizing additional increases to the City's compensation and benefits costs in the upcoming fiscal year.

The following table summarizes the anticipated General Fund reserve balance as of the April 30, 2014, 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
2009/10 Actual	\$44,062,267
2010/11 Actual	40,368,872
2011/12 Actual	40,014,760
2012/13 Actual	39,463,120
2013/14 Projected	36,081,343
2014/15 Projected	36,081,343

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 2014 unemployment rate was down to 9.5%. This is a strong indication that the local region is moving in the right direction and that the City's

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investment in economic development initiatives is paying dividends. 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 has ended and the Governor has advocated for paying down debt and saving for the future. The Governor's May Revise proposes a responsible budget that does not consider 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 2013/14 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 2014/15 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 augmenting service levels and to enter Fiscal Year 2014/15 on sound financial ground.

It is, therefore, recommended that the City Council:

1. Conduct a Public Hearing on June 10, 2014, to receive citizen comments on the proposed Fiscal Year 2014/15 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 24, 2014, meeting.

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Respectfully Submitted,



SCOTT C. BARBER
City Manager

Attachment: Preliminary Annual Budget

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ADJUSTMENTS TO BE MADE TO THE PRELIMINARY FISCAL YEAR 2014/15 ANNUAL BUDGET

The following changes to the preliminary Fiscal Year 2014/15 Annual Budget as presented to the City Council on June 10, 2014, are required:

1. To correct an error in the Riverside Public Library budget that inadvertently redirected resources intended for library materials to other accounts.

a. 5135000-42*	(\$25,000)	Miscellaneous Non-Personnel
b. 5135000-426800	\$25,000	Library Materials

2. To specifically highlight resources allocated to two programs in the Parks, Recreation, and Community Services Department budget that are currently shown as part of larger line items.

a. 5215000-42*	(\$29,500)	Miscellaneous Non-Personnel
b. 5215000-450014	\$ 4,500	Live Steamers
c. 5215000-453346	\$25,000	School for the Arts

3. To cover additional personnel costs granted under the terms of the recently approved memorandum of understanding with the IBEW and IBEW Supervisory bargaining units.

a. Electric Fund	\$1,827,813	Various Personnel Accounts
b. Water Fund	\$ 953,025	Various Personnel Accounts

4. To adjust cost allocations within Riverside Public Utilities to distribute certain overhead between the Electric, Water, and Central Stores Funds that was preliminarily allocated to the Electric Fund in order to avoid a delay in printing the budget. The City’s cost allocation plan was outsourced this year for the first time per the contract previously approved by the City Council with NBS, which required a large amount of work that could not be entirely completed prior to printing of the preliminary budget document.

- a. Interfund charge adjustments to object 881100 as needed, with a net budgetary impact of \$0.
- b. Any required adjustments to interfund charges for services provided by the Electric Fund to the Water, Sewer, and/or Refuse funds resulting from these changes.

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Fiscal Year 2014/15 Budget Adjustments (Continued)

5. To adjust cost allocations within the Sewer Fund to distribute certain overhead within the various cost centers of the Fund. This adjustment is also required due to implementation delays with the NBS cost allocation plan.
 - a. Interfund charge adjustments to object 881100 as needed, with a net budgetary impact of \$0.

6. To adjust the special programs budget within the City Attorney's Office.

a. 1300000-450241	(\$2,500)	Conflict of Interest Advice
b. 1300000-450239	\$2,500	General Litigation Costs

7. To remove funds included in error in the Electric Fund budget for information technology outsourcing, which are now budgeted in the General Fund and charged to the Electric Fund through the cost allocation plan.
 - a. 6000020-4212xx (\$843,700) Info Sys Outsourcing

8. To correct the personnel detail included within Attachment E to the preliminary budget, which included several typographical errors and omitted changes. Funds were correctly budgeted and only the position listing was incorrect. There is no fiscal impact associated with these corrections.
 - a. Museum/Administration – Show Administrative Analyst funded as half-time instead on unfunded as part of accreditation staffing plan.
 - b. Museum/Administration – Show reclassification of Office Specialist (T) half-time position to Office Specialist (T) full-time position as part of accreditation staffing plan.
 - c. Police/Field Operations – Remove redundant footnote #6 regarding transferred FTEs. Correct footnote is #8 reflecting 2 additional FTEs added in addition to 3 added in prior years for officers moving from COPS Grant funding to General Fund funding.
 - d. Public Works/City Engineering – Reclassify (1) Development Service Representative II position to (1) Development Service Representative III position.
 - e. City Manager/Economic Development – Reflect the transfer of the City Planner (NC) position from Community Development/Planning.

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