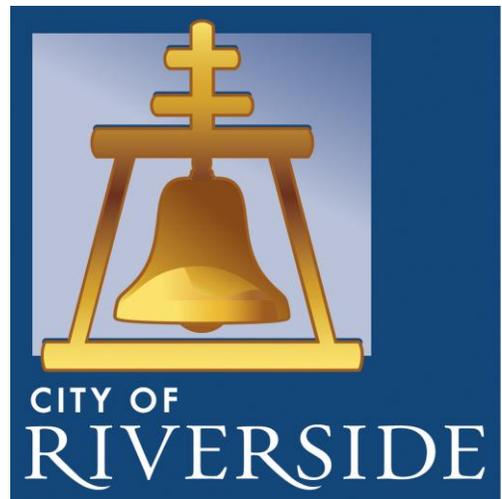
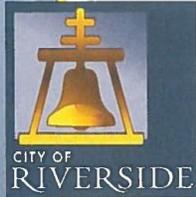


CITY MANAGER'S BUDGET MESSAGE



CITY MANAGER'S BUDGET MESSAGE



Office of the
City Manager

May 20, 2015

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

Fiscal Year 2015/16 Budget Hearing

Honorable Mayor and City Council Members:

I am pleased to submit the proposed fiscal year 2015/16 budget for your consideration and for additional public comments during the June 9th public hearing.

This budget proposes a continued but cautious expansion of services, reflecting the City's sustained economic growth over the past few years. However, cost increases related to pensions, labor agreements, and debt service obligations continue to limit the City's ability to allocate significant funding to new programs and initiatives. Available revenues beyond those needed to address these commitments have been directed to the City Council's priorities, including the Community Livability Program, the Grow Riverside Conference, library materials, the Riverside School for the Arts, and the Metropolitan Museum.

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 compliance with the City's policy level of 15% of General Fund expenditures. It should be noted that the City Council is being presented with a General Fund budget that projects a surplus of \$1.0 million, with the surplus funds to be added to the reserve in order to grow the balance and continue to meet the 15% target. Riverside continues to be uniquely and positively positioned financially as a direct result of the City Council's conservative fiscal management. This conservative financial footing has set the stage for the initial implementation of the City Council's strategic plan in the year ahead.

CITY MANAGER'S BUDGET MESSAGE

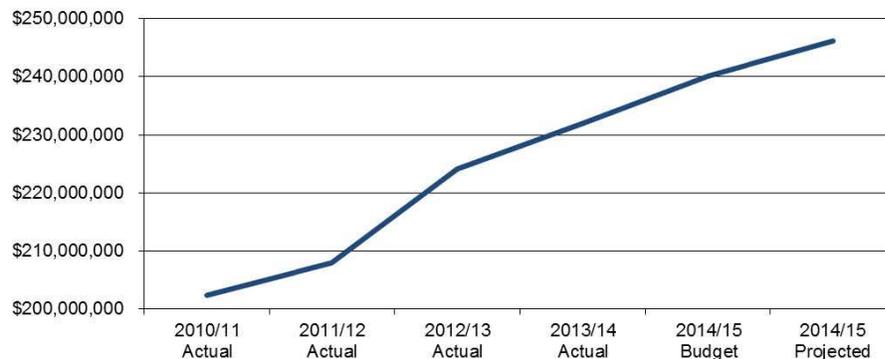
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Fiscal Year 2014/15 Year in Review

General Fund Revenues

The adopted fiscal year 2014/15 budget forecasted revenues for the General Fund totaling \$240.1 million. For the reasons outlined below, the year-end forecast of General Fund revenue is \$246.1 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 an accounting adjustment related to the Riverside Convention Center management contract (see **Appropriations from Reserves** section below), Charges for Services revenue has been increased by \$4 million, which is fully offset by related expenditures.
2. Sales tax revenues are estimated to be \$2.0 million higher than budgeted for the current fiscal year due to positive results versus the original forecast. In addition, \$0.8 million of prior year sales tax revenues in excess of the year-end estimated accrual were carried forward into the current fiscal year.
3. These and other minor increases are partially offset by minor decreases in other revenue categories as well as the two following material negative variances:
 - a. Fines and Forfeits revenues are estimated to be \$1.7 million lower than budgeted for the current fiscal year primarily due to elimination of the photo enforcement program, which is partially offset by a related reduction in expenditures.

CITY MANAGER’S BUDGET MESSAGE

- b. One-time revenues are estimated to be \$0.8 million below budget due to a lower amount of one-time revenues being generated.

	2014/15 Adopted	2014/15 Projected	Budget Variance
Sales & Use Taxes	\$ 57,455,000	\$ 59,430,000	\$ 1,975,000
Property Taxes	50,736,173	50,799,483	63,310
Interfund Transfers	45,412,500	45,276,800	(135,700)
Utility Users Tax	28,153,000	28,283,000	130,000
Charges for Services	17,575,434	22,045,639	4,470,205
Licenses & Permits	8,421,200	8,462,911	41,711
Other	6,622,863	6,444,863	(178,000)
Fines & Forfeits	5,005,800	3,303,500	(1,702,300)
Franchises	4,840,000	5,235,000	395,000
Special Assessments	4,570,430	4,601,430	31,000
Transient Occupancy Tax	4,470,000	5,030,000	560,000
Property Transfer Tax	2,376,000	2,172,500	(203,500)
Intergovernmental	1,418,400	2,045,694	627,294
One-Time Revenues	3,000,000	2,206,000	(794,000)
Total	\$ 240,056,800	\$ 245,336,820	\$ 5,280,020
Prior Year Carry-Forward	-	764,510	764,510
Adjusted Total	\$ 240,056,800	\$ 246,101,330	\$ 6,044,530

Note: Prior year carry-forward reflects \$0.8 million of sales tax revenues in excess of the year-end estimated accrual.

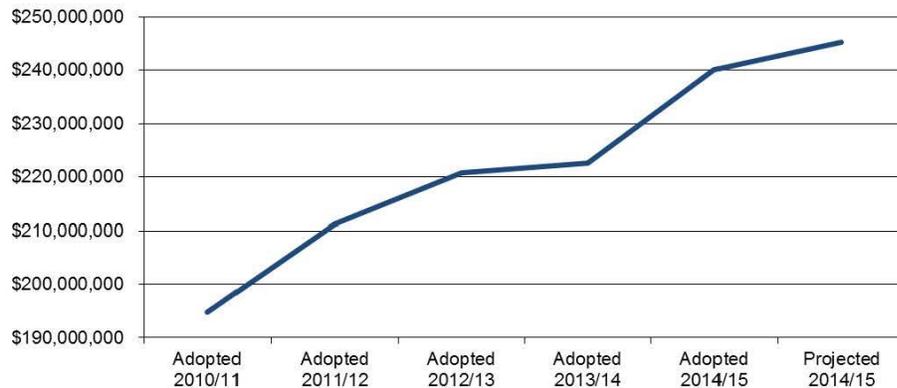
General Fund Expenditures

The adopted fiscal year 2014/15 budget appropriated expenditures for the General Fund totaling \$240.1 million. For the reasons outlined below, staff is forecasting General Fund expenditures to be \$247.1 million, an increase of \$7.0 million, or 2.9%. This includes the total of previously approved and currently requested supplemental appropriations from the General Fund reserve of approximately \$5.1 million.

CITY MANAGER'S BUDGET MESSAGE

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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 \$1,932,000 above the adopted budget. This net over budget amount represents only 0.8% 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 2015/16 budget recommended for adoption are budget adjustments to increase department budgets to minimize future budget variances.

	2014/15 Adopted	2014/15 Projected	Budget Variance
Department Budgets	\$ 228,079,225	\$ 230,011,225	\$ 1,932,000
Net Cost Allocation	(18,103,303)	(18,103,303)	-
Net Debt Allocation	30,080,878	30,080,878	-
Total	\$240,056,800	\$241,988,800	\$ 1,932,000

Note: Table excludes mid-year appropriations from reserves of \$5.1 million.

Appropriations from Reserves

Subsequent to adoption of the fiscal year 2014/15 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 \$5.1 million to date. The following table summarizes these mid-year appropriations from the General Fund Reserve:

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Item	City Council Approval Date	Amount
La Sierra Ballot Initiative Election	July 8, 2014	\$ 75,000
Grow Riverside Conference	October 21, 2014	35,000
Community Livability Program	October 28, 2014	792,186
Long Night of Arts & Innovation	January 27, 2015	25,000
Convention Center Mgmt. Contract	February 10, 2015	4,000,000
Riverside School for the Arts	February 10, 2015	50,000
Library Materials	February 10, 2015	50,000
Assistance to Firefighters Grant Match	May 12, 2015	87,435
Total		\$ 5,114,621

It should be noted that an accounting adjustment related to the incorporation of the Riverside Convention Center into the General Fund budget has resulted in an increase in both revenue and expenditures in the budget of \$4.0 million as reported at mid-year. This adjustment was required because the new management contract for the Convention Center, necessitated by the financing of the Center’s renovation and expansion using tax-exempt bonds, places the risk associated with the profitability of the Center on the General Fund rather than the operator. Accounting standards require the resulting change in presentation in the City’s budget and financial statements. When adjusting for this item, mid-year appropriations from reserves total \$1.1 million.

General Fund Reserve Outlook

Should the revenue and expenditure forecast outlined above come to pass as projected in the March 31, 2015, Monthly Financial Report, the General Fund reserve balance would decrease by \$1.0 million to approximately \$37.4 million as of the close of fiscal year 2014/15. However, based on past trends staff remains optimistic that revenues will continue to improve and that departments will continue to identify opportunities to reduce expenditures whenever possible. Any increase in revenues or reduction in expenditures will lessen the projected decrease in the reserve balance as the books are closed for fiscal year 2014/15 in July and August. Staff will return to the City Council once the audit is complete and the final fiscal year 2014/15 operating results are known to provide an update on the reserve balance.

Proposed Fiscal Year 2015/16 Budget

The City’s overall proposed budget for fiscal year 2015/16 is \$983,038,637 with General Fund expenditures totaling \$256,593,718. This balanced budget will maintain the General Fund reserve at the City’s policy level of 15% of operating expenditures, which:

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- Preserves the City's strong credit rating (generating additional savings through reduced financing costs); and
- 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:

	2014/15 Budgeted	2015/16 Estimated	Change
Charges for Services	\$ 508,026,466	\$ 520,634,596	\$ 12,608,130
Intergovernmental	24,284,996	34,128,302	9,843,306
Taxes	24,921,274	24,345,529	(575,745)
Other (Primarily Interest)	18,722,995	17,340,243	(1,382,752)
Special Assessments	7,935,098	5,685,532	(2,249,566)
Fines and Forfeits	3,905,516	3,900,000	(5,516)
Licenses and Permits	2,775,986	2,946,704	170,718
Charges to Departments	13,522,903	13,718,196	195,293
Bond Proceeds	48,104,500	84,435,500	36,331,000
Total	\$652,199,734	\$707,134,602	\$54,934,868

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 \$12.6 million or 2.5%. 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 2015/16 budget. Because many grants provide multi-year funding for large projects, these revenues are of a cyclical nature.
2. The decrease in special assessment revenues is primarily attributable to the recent maturity of bonds associated with three of the City's community facilities districts. As a result, property taxes will be decreasing for property owners in certain portions of the Orancrest and Sycamore Highlands areas of the City.
3. The increase in bond proceeds is routine and reflects the cyclical nature of the City's capital improvement program.

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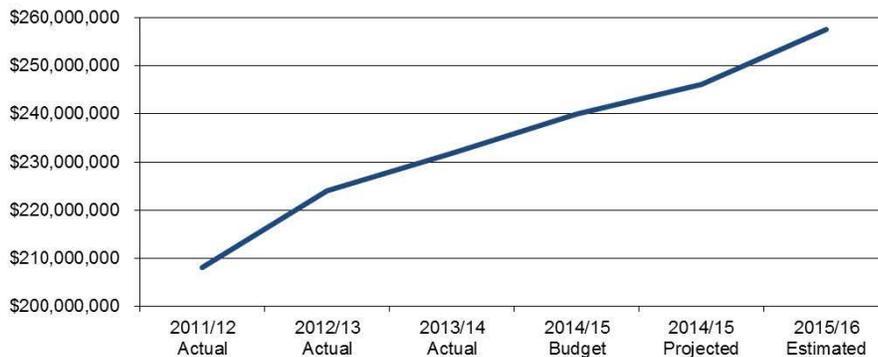
General Fund Revenue Trends

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 \$257.6 million, a 4.7% increase from the projected fiscal year 2014/15 budget.

	2014/15 Projected	2015/16 Requested	Change
Sales & Use Taxes	\$ 59,430,000	\$ 62,949,000	\$ 3,519,000
Property Taxes	50,799,483	53,742,073	2,942,590
Interfund Transfers	45,276,800	46,134,100	857,300
Utility Users Tax	28,283,000	29,082,000	799,000
Charges for Services	22,045,639	23,389,806	1,344,167
Licenses & Permits	8,462,911	9,093,500	630,589
Other	6,444,863	5,809,026	(635,837)
Fines & Forfeits	3,303,500	2,418,500	(885,000)
Franchises	5,235,000	5,365,000	130,000
Special Assessments	4,601,430	4,621,843	20,413
Transient Occupancy Tax	5,030,000	5,656,000	626,000
Property Transfer Tax	2,172,500	2,609,000	436,500
Intergovernmental	2,045,694	1,897,000	(148,694)
One-Time Revenues	2,206,000	2,500,000	294,000
Total	\$ 245,336,820	\$255,266,848	\$9,930,028
Carried Forward Revenue	764,510	-	(764,510)
Anticipated Fee Revenue	-	2,326,871	2,326,871
Adjusted Total	\$ 246,101,330	\$257,593,719	\$11,492,389

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 followed the recent upward trend in the economy:

Five Year General Fund Revenue Trend



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As is noted in the table above, recurring General Fund revenues are forecasted to grow by \$11.5 million versus the current year, or 4.7%. 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, with growth of approximately \$3.5 million, an increase of 5.9%. 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 are experiencing significant growth for the second consecutive year, with preliminary information received from the County of Riverside indicating that assessed values will grow strongly in the upcoming fiscal year, resulting in a projected increase in property tax revenue of approximately \$2.9 million or 5.8%.
3. Charges for services revenues are projected to grow by approximately \$1.3 million or 6.1%. This increase is primarily being driven by projected growth in Convention Center revenues as well as continued increases in development activity.
4. Licenses & permits revenues are projected to grow by approximately \$0.6 million or 7.5%. This increase is primarily due to continued increases in building permit and related development activity as well as growth in business tax receipts.
5. Transient occupancy tax revenues are forecasted to grow by \$0.6 million or 12.5%. This increase is due to continued growth in hotel activity due to the improved economy, the newly renovated and expanded Riverside Convention Center, and the work of the Riverside Convention and Visitors Bureau and the Riverside Sports Commission.
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.

These six items account for the majority of anticipated revenue growth and are partially offset by slightly lower levels of revenue in several other categories. The material reductions are as follows:

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1. Other revenues are decreasing by \$0.6 million or 9.9% due to the end of a three year series of settlement payments from Riverside County related to litigation regarding property tax administration fees.
2. Fines and forfeits revenues are decreasing by \$0.9 million or 26.8% primarily due to the elimination of the photo enforcement program. This decrease is partially offset by a related reduction in expenditures.

Additionally, last fiscal year's revenue budget included \$0.8 million of revenue carried forward from the prior fiscal year, which related to higher than anticipated sales tax collections in the 4th quarter of the prior year. As a matter of routine, these receipts are estimated but not received until the budget has been adopted. Variances are typically immaterial, but the continued improvement of the economy has resulted in a variance more sizable than is usually experienced.

User Fee Study and Related Revenues

Included within the proposed General Fund budget is \$2.3 million of additional revenues related to proposed increases to the City's user fees. These fees were last updated over four years ago in early 2011. As a result, the fees have not kept pace with the increasing costs associated with providing fee-supported services. The General Fund has filled the gap with general purpose tax revenues, meaning that the City's residents are supporting development activity rather than developers paying for the cost of the services provided. Absent an increase in fees, the cost recovery levels will continue to decline.

Staff proposes that the date of the public hearing for approval of the user fee study be set on June 23rd when the final budget is scheduled to be adopted. The hearing would be set for the July 28th City Council meeting. The fee study is now nearly complete, but this additional time will allow for the proper vetting of the proposed fee increases by the City Council, the Finance Committee, the Greater Riverside Chambers of Commerce, and other community groups. Accordingly, the revenue included in the budget reflects nine months of fee revenue for development fees, recognizing the requirement under state law for a 60 day period after adoption before fees go into effect. Other fees are included in the budget with eleven months of revenue assumed.

While improving cost recovery and lowering the general fund support for fee-supported program is one aspect of the desire to increase user fees, another is the recognized need for improving the City's development processes and increasing related staffing. To that end, the budget proposes the addition of 15 funded positions in the Community and

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Economic Development Department. These positions include additional resources in the Building and Safety (5 positions) and Planning (10 positions) Divisions. These new positions will be allocated to fast tracking planning and permit approvals. Additionally, a Plan Check Engineer will be added in the Public Works Department to complement and support the additions in the Community and Economic Development Department.

Expenditure Trends

Public Utilities and Public Works 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 primarily as a result of an increase in budgeted capital projects in fiscal year 2015/16. The decrease in the Finance Department budget is the result of the previously discussed maturity of community facilities district bonds. Non-General Fund expenditures by Department are categorized in the table below:

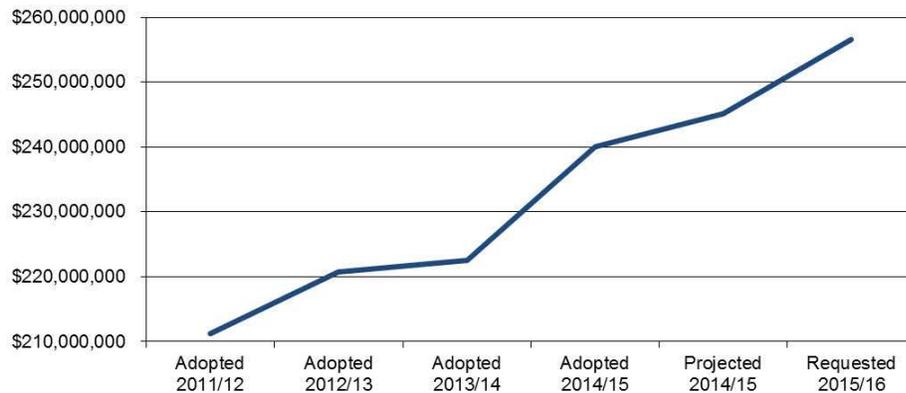
	2014/15 Budgeted	2015/16 Requested	Change
Public Utilities	\$ 492,709,414	\$ 498,296,844	\$ 5,587,430
Public Works	111,567,886	158,605,605	47,037,719
Community Dev.	32,096,338	31,505,174	(591,164)
Finance	14,593,188	11,513,175	(3,080,013)
General Services	13,402,204	13,999,346	597,142
Parks, Rec., and CS	6,284,180	6,548,516	264,336
Human Resources	5,890,339	5,976,259	85,920
Total	\$ 676,543,549	\$ 726,444,919	\$ 49,901,370

General Fund Expenditure Trends

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 proposed General Fund spending.

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Five Year General Fund Expenditure Trend



Growth in the General Fund budget 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 several years 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 two years, this process started, though other spending pressures have prevented a full return to pre-recession service levels in many cases.

While staff are hopeful that continued revenue growth in the coming year will allow services to be augmented in the future, there are a number of issues that must be addressed with any additional revenue reasonably anticipated in the upcoming fiscal year.

1. New debt service costs associated with the Fox Entertainment Plaza, several capital leases approved last fiscal year, and absorbing a portion of the Riverside Renaissance Debt Service formerly paid with park impact fees amount to approximately \$2.9 million.
2. Pension costs associated with all employees have increased by approximately \$2.5 million as a result of increased rates assessed by CalPERS. Fortunately, continued turnover into pension tiers 2 and 3 will result in approximately \$0.6 million of savings to partially offset the increased pension costs.
3. The City Council has in the past two years approved memoranda of understanding with the RCFA, RFMG, RPAA, and SEIU General Unit, with comparable increases to SEIU provided to management and

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confidential employees. The total impact of these increases on the General Fund is approximately \$2.3 million.

Following the necessary funding of these increased costs, new financial resources are extremely limited. To the extent possible, departments have crafted next year's budget to direct additional resources to support the City Council's key priorities as outlined in the recently adopted strategic plan:

- Enhanced Customer Service
- Economic Development
- Community Services
- City Transportation
- Improve Housing Diversity & Options
- Improve Teamwork & Communication
- Reduce Taxpayer Liability & Costs

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

1. \$234,000 was allocated to the Police Department for two additional Police Officer positions, as required as COPS grant funding ends. Five additional positions were already funded in previous years to address this requirement.
2. Additional resources were allocated to the Fire Department to correct a structural issue related to overtime and leave pay-out expenditures at a cost of \$668,000. Additionally, a new procedure has been developed related to the budgeting of mutual aid revenue and expenditures. This will ensure that when mutual aid costs are higher than anticipated in the adopted budget then additional resources will be appropriated to the Fire Department mid-year from mutual aid revenues in order to offset related over budget amounts.
3. \$150,000 was provided to the Community and Economic Development Department to fund the Grow Riverside Conference from the base budget rather than mid-year appropriations.
4. Increased funding in the amount of \$50,000 was provided to the Riverside Public Library for the purchase of additional library materials.
5. An additional \$200,000 was allocated to the Riverside Convention and Visitors Bureau and the Riverside Sports Commission to augment efforts to attract visitors to Riverside.

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6. Museum and Cultural Affairs Department funding was increased by \$650,000 in order to add staff and programming required to maintain accreditation of the Riverside Metropolitan Museum.
7. The Public Works Department was provided with additional staffing resources to maintain landscaping improvements, address street maintenance issues, and maintain traffic signals at a cost of \$541,000.
8. The Parks, Recreation, and Community Services Department was provided with \$465,000 of additional funding to address several key programs, including additional resources for the Riverside School for the Arts, tree watering at the former Riverside Golf Club site, and enhanced aquatics programs.
9. The City Clerk's office was provided with \$158,000 to add a full-time position and purchase software to manage the City's increasing level of California Public Records Act requests.
10. As outlined in the preceding section, a total of 16 additional positions were funded in the Community and Economic Development and Public Works Departments to enhance the City's planning and permitting services. Of these, 11 were funded from anticipated user fee study revenues at an annualized cost of \$1.1 million, with the remaining 5 positions funded through a reallocation of existing resources.

Funding was not included in the proposed fiscal year 2015/16 General Fund budget for the Public Safety Vehicle Replacement Program. There are insufficient resources available to address this or many other critical needs presented by Departments, and difficult choices had to be made to balance the budget. Every effort will be made to include funding for this critical program in the base budget for fiscal year 2016/17.

For the last several years, the City has deferred the principal payments due on two interfund loan obligations of the Local Park Impact Fees Fund in order to allow that 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 the Certificates of Participation, however reduced impact fee revenues have required the General Fund to step in to make these payments. The deferral of the principal payments has prevented a like amount of additional cuts to the General Fund budget in recent years.

This year, staff is recommending that principal payments begin on one of the two loans, though impact fee revenues remain too low for the park

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fees to also cover the Local Park Impact Fees Fund's obligation to the General Fund. As a result, the contribution to the General Fund from the park fees is being reduced by a like amount. Interest on the second interfund loan will continue to be paid, and it is anticipated that it will begin to amortize again in fiscal year 2016/17. In the event that park impact fee revenues continue to remain at their current level, an additional increase in support from the General Fund to service the Riverside Renaissance Certificates of Participation will be necessary in fiscal year 2016/17 in order to begin amortizing the second loan. Once the interfund loans have been paid in full in five years, the contributions to the General Fund would be increased. This will place additional stress on the General Fund in the short term, but beginning the amortization of these loans will be beneficial to the City's fiscal integrity in the long term.

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 2015/16 of \$256,593,718:

	2014/15 Budgeted	2015/16 Requested	Change
City Attorney	\$ 3,923,080	\$ 4,066,225	\$ 143,145
City Clerk	945,802	1,596,263	650,461
City Council	1,142,728	1,274,352	131,624
City Manager	4,986,456	5,290,931	304,475
Community & Econ. Dev.	9,535,123	11,687,783	2,152,660
Community Livability	-	786,680	786,680
Finance	7,462,538	8,325,675	863,137
Fire	44,482,241	47,600,629	3,118,388
General Services	4,546,653	4,058,278	(488,375)
Human Resources	2,500,699	2,726,952	226,253
Innovation & Technology	10,815,540	11,079,054	263,514
Library	5,877,233	6,149,818	272,585
Mayor	813,097	872,591	59,494
Museum & Cultural Affairs	3,151,933	3,785,710	633,777
Non-Departmental	21,134,388	24,846,896	3,712,508
Parks, Rec., and CS	14,555,537	15,795,719	1,240,182
Police	86,606,288	88,122,448	1,516,160
Public Works	11,900,890	12,933,933	1,033,043
Sub-Total	\$234,380,226	\$250,999,937	\$16,619,711
Managed Savings	(6,301,000)	(6,100,000)	201,000
Net Cost Allocation Plan	(18,103,303)	(19,940,744)	(1,837,441)
Net Debt Service Allocation	30,080,877	31,634,525	1,553,648
Total	\$240,056,800	\$256,593,718	\$16,536,918

In addition to the cost increases outlined previously, larger variances in individual department budgets can be attributed to the following items:

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1. The increase in the Non-Departmental budget of \$3.7 million is primarily attributable to the inclusion of the Convention Center management contract in the budget.
2. The increase in the Fire Department budget of \$3.1 million is primarily attributable to MOU increases, CalPERS rate increases, and providing additional resources to address overtime and leave pay-out costs in a manner that conforms more closely to the reality of the past several years.
3. The increase in the Community and Economic Development Department budget of \$2.2 million is the result of the addition of positions to enhance planning and building service delivery as well as the transfer of the Economic Development Division from the Office of the City Manager.
4. The decrease in the General Services Department budget of \$0.5 million is the result of the transfer of the Broadcasting Division to the Office of the City Manager.

General Fund Reserve Outlook

The fiscal year 2015/16 General Fund budget as currently proposed is balanced with revenue providing sufficient resources to cover all budgeted 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 February 2016, we will have a clearer indication regarding the state of the local and national economy and whether there are any increases in revenue beyond our conservative projections.

Fortunately, our employees worked with us throughout the economic downturn to control costs and have continued in partnership in the years following the recession. The SEIU General and Refuse Units, IBEW, RCFA, RFMG, and RPAA have all reached agreements with the City for multi-year contracts that reflect reasonable increases in compensation and benefits, while acknowledging the significantly higher pension contributions that the City will be making over the upcoming years. Following the signing of the SEIU General Unit contract, a similar package was provided to management and confidential employees. Negotiations are ongoing with the RPOA, whose contract expired in December. Management anticipates working collaboratively with the RPOA to identify opportunities to provide financial and other recognition to their members, while minimizing additional increases to the City's compensation and benefits costs as we work to absorb higher pension costs, begin to restore various programs to their pre-recession scope and funding, and maintain fiscal conservatism.

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The following table summarizes the anticipated General Fund reserve balance as of the March 31, 2015, 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
2010/11 Actual	40,368,872
2011/12 Actual	40,014,760
2012/13 Actual	39,463,120
2013/14 Actual	38,438,826
2014/15 Projected	37,436,735
2015/16 Projected	38,436,735

It should be noted that the projected balance for fiscal year 2015/16 is \$1.0 million higher than the projected balance for fiscal year 2014/15. This increase is the result of the proposed budget, which contemplates generating a surplus of \$1.0 million to maintain the General Fund reserve balance at the City Council's policy level of 15% of the operating expenditure budget. Staff is in the process of reviewing the City's reserve policy and those of comparable cities in California and throughout the United States. Staff will return to the City Council later in fiscal year 2015/16 with a formal recommendation for a written reserve policy that will incorporate best practices and make recommendations that reflect the unique aspects of Riverside's financial situation.

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 2015 unemployment rate was 6.6%, which reflects a continued healthy decline versus March 2014's 9.5% unemployment rate. 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 continues to pay dividends. The City's focus on economic development directly fosters increased General Fund revenues that directly facilitate enhancements to the City's programs and service delivery.

The Governor has advocated for paying down debt and saving for the future in recent budgets, and the May Revise reflects a significant revenue surplus that is being directed to continuing to pay down debt, save for a rainy day, and enhance funding for schools and various programs cut during the recession. The May Revise does not propose any actions that would negatively impact the City's budget through redirection of funding or cuts to critical programs and includes the

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payment of various state mandate claims owed to the City in the next few months that will provide a one-time boost to fiscal year 2014/15 revenues.

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 2014/15 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 2015/16 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 the City Council's traditionally conservative approach to allocating resources to address our community's current needs and safeguard its long-term fiscal health. Riverside is well positioned to address the City Council's strategic plan and to enter fiscal year 2015/16 on sound financial ground.

It is, therefore, recommended that the City Council:

1. Conduct a public hearing on June 9, 2015, to receive citizen comments on the proposed fiscal year 2015/16 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 23, 2015, meeting.

Respectfully Submitted,



JOHN A. RUSSO
City Manager

Attachment: Preliminary Annual Budget