

Management's Discussion and Analysis (Unaudited)

As management of the City, we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page i of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) Notes to Basic Financial Statements. This report also contains certain supplementary information.

Government-wide financial statements The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, and culture and recreation. The business-type activities of the City include Electric, Water, Sewer, Refuse, Public Parking, Airport and Transportation services.

The government-wide financial statements include the activities of the City and three blended component units, which consist of the Riverside Housing Authority, Riverside Public Financing Authority and the Riverside Municipal Improvements Corporation. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government. The Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency) is also included

as a fiduciary component unit since it would be misleading to exclude the Successor Agency due to the nature and significance of the relationship between the City and the Successor Agency. The activity of the Successor Agency is reported with the City's fiduciary funds, which is not included in the government-wide statements since the resources of those funds are *not* available to support the City's own programs.

Both the Governmental Activities and the Business-Type Activities are presented on the accrual basis of accounting, a basis of accounting that differs from the modified accrual basis of accounting used in presenting governmental fund financial statements. Note 1 of the Notes to Basic Financial Statements fully describe these bases of accounting. Proprietary funds, discussed below, also follow the accrual basis of accounting.

The government-wide financial statements can be found on pages 20-21 of this report.

Fund financial statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary.

Governmental funds *Governmental funds* are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations to facilitate this comparison are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The major reconciling items relate to capital assets and debt. In the Governmental Funds, acquisitions of capital assets are treated as "expenditures" because upon purchase of a capital asset, cash used for the acquisition is no longer available for other purposes. The issuance of debt provides cash, which is now available for specified purposes. Accordingly, at the end of the fiscal year, the unrestricted fund balances of the Governmental Funds reflect spendable resources available for appropriation by the City Council. Spendable balances are not presented on the face of the government-wide financial statements.

The City maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Capital Outlay Fund, which are major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual

fund data for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 70-73 in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 22-26 of this report.

Proprietary funds The City maintains two different types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for Electric, Water, Sewer, Refuse, Public Parking, Airport and Transportation services. *Internal service* funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for self-insured insurance programs, central stores and its fleet of vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal service funds are presented as proprietary funds because both enterprise and internal service funds follow the accrual basis of accounting.

Proprietary funds provide the same type of information as the government-wide financial statements (*business-type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The four remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 78-86 in this report.

The basic proprietary fund financial statements can be found on pages 27-30 of this report.

Fiduciary funds Fiduciary funds are used to account for situations where the City's role is purely custodial. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on page 32-33 of this report, and the combining statement for the agency fund can be found on page 87.

Notes to Basic Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to Basic Financial Statements begin on page 34 of this report.

Financial Highlights

New significant Accounting Standards Implemented In fiscal year 2014-15, the City adopted two new statements of financial accounting standards issued by the Government Accounting Standards Board (GASB) that relates to pension activity: Statement No. 68, *“Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.”* Statement No. 68 (Statement) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for the City’s defined benefit pension plans. The Statement replaces the requirements of prior GASB statements impacting accounting and disclosure of pensions. Statement No.71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.”* The measurement date for the pension liabilities is as of June 30, 2014. This date reflects a one year lag and was used so that these financial statements could be issued in an expedient manner. Contributions made to the City’s pension plans subsequent to the measurement date are reported as deferred outflows of resources in accordance with Statement No.71.

The significant impact to the City of implementing Statement No. 68 is the reporting of the City’s pension liability on the City’s government wide financial statements. There are also new note disclosure requirements and required supplementary information schedules as a result of implementing this Statement.

In order to implement the Statement, a prior period adjustment was made to the City’s governmental and business-type activities July 1, 2014 net position. The prior period adjustment decreased the City’s governmental type activities beginning net position by \$421,829 from \$1,200,922 to \$779,093 and the City’s business-type activities beginning net position by \$167,498 from \$1,045,049 to \$877,551 and reflects the reporting of: 1) net pension liabilities of \$275,584 and \$125,376 governmental and business-type activities, respectively, 2) deferred outflow of resources of \$44,314 and \$20,161, respectively and 3) deferred inflow of resources of \$79,413 and \$36,130, respectively. Refer to Note 15 for more information regarding the City’s pensions.

The adoption of Statement No. 68 has no impact on the City’s governmental fund financial statements, which continue to report expenditures equal to the amount of the City’s actuarially determined contribution (formerly referred to as the “annual required contribution”). The calculation of pension contributions is also unaffected by this Statement. GASB Statement No. 68 was not reflected in the 2014 results due to lack of information from the pension plans necessary to implement in prior year.

Government-wide Financial Analysis

The following table presents a summarization of the City’s assets, liabilities, deferred inflows and outflows, and net position for its governmental and business-type activities. As noted earlier, a government’s net position may serve over time as a useful indicator of its financial position.

(Amounts presented in thousands)

	Governmental		Business type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 292,043	\$ 391,053	\$ 809,052	\$ 740,238	\$1,101,096	\$1,131,291
Capital assets, net	1,379,913	1,359,060	1,666,927	1,587,102	3,046,840	2,946,162
Total assets	1,671,956	1,750,113	2,475,979	2,327,340	4,147,936	4,077,453
Deferred outflows of resources	66,351	19,880	62,584	40,444	128,934	60,324
Current liabilities	66,211	65,949	153,836	154,937	220,047	220,886
Long-term liabilities	767,003	503,073	1,432,349	1,159,042	2,199,352	1,662,115
Total liabilities	833,214	569,022	1,586,185	1,313,979	2,419,399	1,883,001
Deferred inflows of resources	79,414	49	41,083	8,756	120,497	8,805
Net position:						
Net investment in capital assets	1,126,220	1,106,384	626,166	616,844	1,752,386	1,723,228
Restricted	105,847	96,587	75,660	68,506	181,507	165,093
Unrestricted	(406,388)	(2,049)	209,469	359,699	(196,919)	357,650
Total net position	\$ 825,679	\$ 1,200,922	\$ 911,295	\$ 1,045,049	\$1,736,974	\$2,245,971

The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,736,974 at June 30, 2015, a decrease of \$508,997 from June 30, 2014.

By far the largest portion of the City's net position (101 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net position (10 percent) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$209,469 is held by the business-type activities and (\$406,388) net deficit is held by the governmental activities.

Unrestricted net position in the amount of (\$196,919), a decrease of 155% from prior year, is the change in resources available to fund City programs to citizens and debt obligations to creditors. The entire negative unrestricted net position resides in the City's General Fund and is primarily the result of the reporting of the City's net pension liability.

Governmental activities decreased the City's net position by \$375,243 to \$825,679 for the year ended June 30, 2015, accounting for 74% of the City's total decrease in net position. The primary result of this decrease was a prior period adjustment of \$421,829 due to the implementation of new pension standards related to the City's pension obligations. Governmental operating results is discussed on page 10 and business-type operating results is discussed on page 13.

On the following page is a condensed summary of activities of the City's governmental and business-type operations for the period ended June 30, 2015 with the prior fiscal year presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid in understanding the results of the current year's activities.

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(Amount presented in thousands)

	Governmental Activities		Business type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charge for services	\$ 55,043	\$ 46,112	\$ 491,622	\$ 485,462	\$ 546,665	\$ 531,574
Operating grants and contributions	12,869	14,341	3,869	2,524	16,738	16,865
Capital grants and contributions	43,904	48,433	8,027	11,486	51,931	59,919
General Revenues:						
Sales taxes	59,437	55,096	-	-	59,437	55,096
Property taxes	54,864	51,323	-	-	54,864	51,323
Other taxes and fees	38,899	37,327	-	-	38,899	37,327
Investment income	3,233	2,759	5,319	8,005	8,552	10,764
Other	15,548	5,688	7,652	7,081	23,200	12,769
Total Revenues	<u>283,797</u>	<u>261,079</u>	<u>516,489</u>	<u>514,558</u>	<u>800,286</u>	<u>775,637</u>
Expenses:						
General government	26,587	39,331	-	-	26,587	39,331
Public safety	154,123	149,555	-	-	154,123	149,555
Highways and streets	36,563	36,564	-	-	36,563	36,564
Culture and recreation	45,594	42,252	-	-	45,594	42,252
Interest on long-term debt	17,025	17,741	-	-	17,025	17,741
Electric	-	-	309,874	304,416	309,874	304,416
Water	-	-	62,792	60,030	62,792	60,030
Sewer	-	-	35,593	40,385	35,593	40,385
Refuse	-	-	20,007	20,831	20,007	20,831
Airport	-	-	1,809	1,662	1,809	1,662
Transportation	-	-	4,385	4,067	4,385	4,067
Public parking	-	-	5,604	4,610	5,604	4,610
Total expenses	<u>279,892</u>	<u>285,443</u>	<u>440,064</u>	<u>436,001</u>	<u>719,956</u>	<u>721,444</u>
Increase (decrease) in net position before transfers	3,905	(24,364)	76,425	78,557	80,330	54,193
Transfers, net	42,681	43,100	(42,681)	(43,100)	-	-
Total changes in net position	<u>46,586</u>	<u>18,736</u>	<u>33,744</u>	<u>35,457</u>	<u>80,330</u>	<u>54,193</u>
Net position - beginning, as previously reported	<u>1,200,922</u>	<u>1,182,186</u>	<u>1,045,049</u>	<u>1,009,592</u>	<u>2,245,971</u>	<u>2,191,778</u>
Prior period adjustment	(421,829)	-	(167,498)	-	(589,327)	-
Net position - beginning, as restated	<u>779,093</u>	<u>1,182,186</u>	<u>877,551</u>	<u>1,009,592</u>	<u>1,656,644</u>	<u>2,191,778</u>
Net position - ending	<u>\$ 825,679</u>	<u>\$ 1,200,922</u>	<u>\$ 911,295</u>	<u>\$ 1,045,049</u>	<u>\$ 1,736,974</u>	<u>\$ 2,245,971</u>

Governmental activities. Total net position for governmental activities decreased by \$375,243 or 31% from prior year. Governmental net position in the prior fiscal year increased by \$18,736. Key elements of this year's activity in relation to the prior year are as follows:

Revenues:

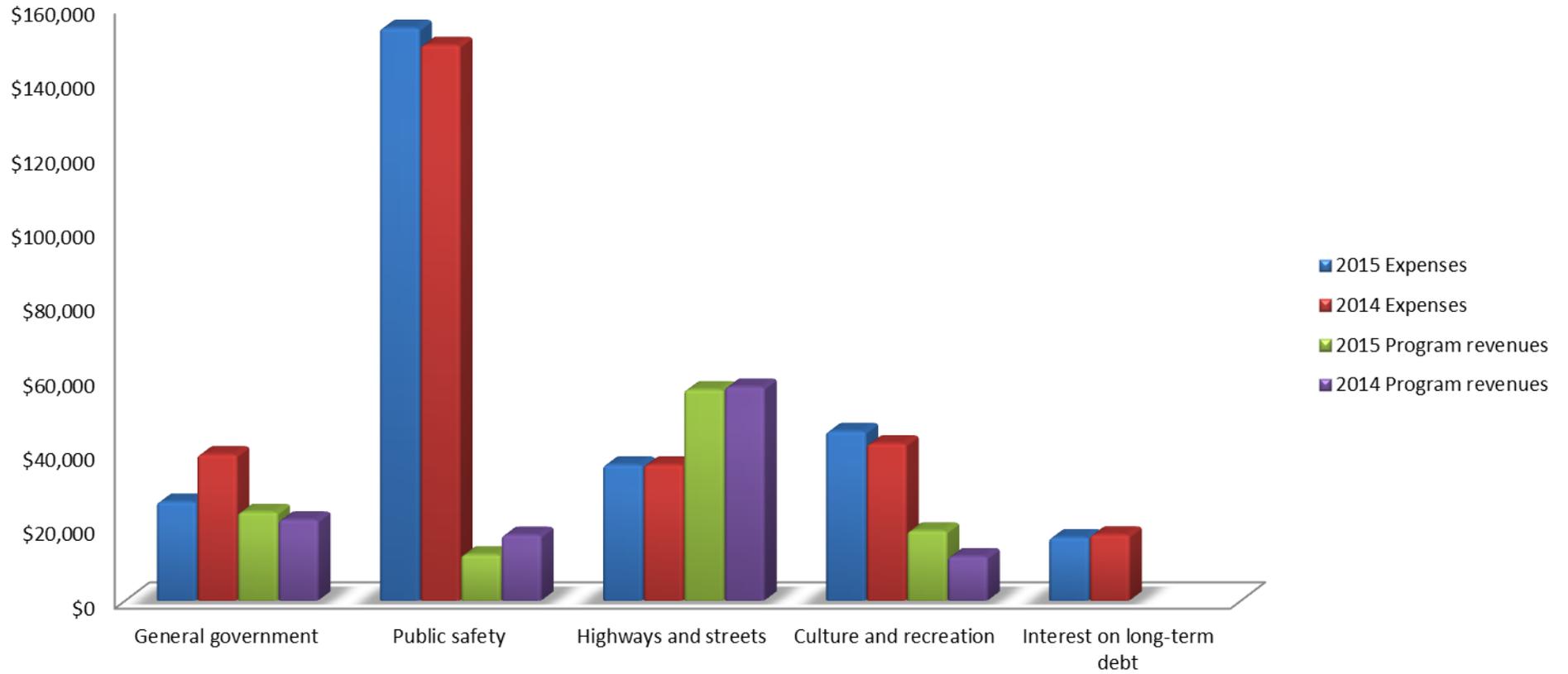
- While variances between years exist for the various revenue categories, the total net increase was approximately \$23 million, which is largely attributable to an increase in charges for services, sales tax revenue and an increase in miscellaneous revenue. Overall charges for services increased by \$9 million or 19% and sales tax revenue increased by \$4.3 million or 8%. The increase in charges for services was primarily attributable to a \$5.2 million increase in revenue related to the grand re-opening of the Riverside Convention Center and an increase of \$2.6 million related to the Fox Performing Arts Theater and Riverside Municipal Auditorium. A new operating vendor took over the operations of the Fox Performing Arts Theater and Riverside Municipal Auditorium half way through fiscal 2014. With an increased emphasis on expanding the entertainment line-up and a full fiscal year of operations, the combined result increased the City's overall entertainment experience as well as program revenues. The increase in sales tax revenue relates to an increase in general sales and use tax resulting from increased consumer spending. Miscellaneous revenue increased \$9.7 million or 171%. The increase was primarily attributable to an increase in operating income related to the City's internal service funds of \$4.2 million. Claims and insurance expense decreased \$1.6 million from prior year while overall charges for services increased \$1.3 million.

Expenses:

- While variances between years exist for the various expense functions, the total net increase was approximately \$1.8 million or less than 1%. This is primarily related to an increase of \$2.6 million in operating expenses related to the Fox Performing Arts Theater and Riverside Municipal Auditorium. A new operating vendor took over the operations of the Fox Performing Arts Theater and Riverside Municipal Auditorium. With an increased emphasis on expanding the entertainment line-up and a full fiscal year of operations the combined result increased the City's overall entertainment experience as well as program expenses.

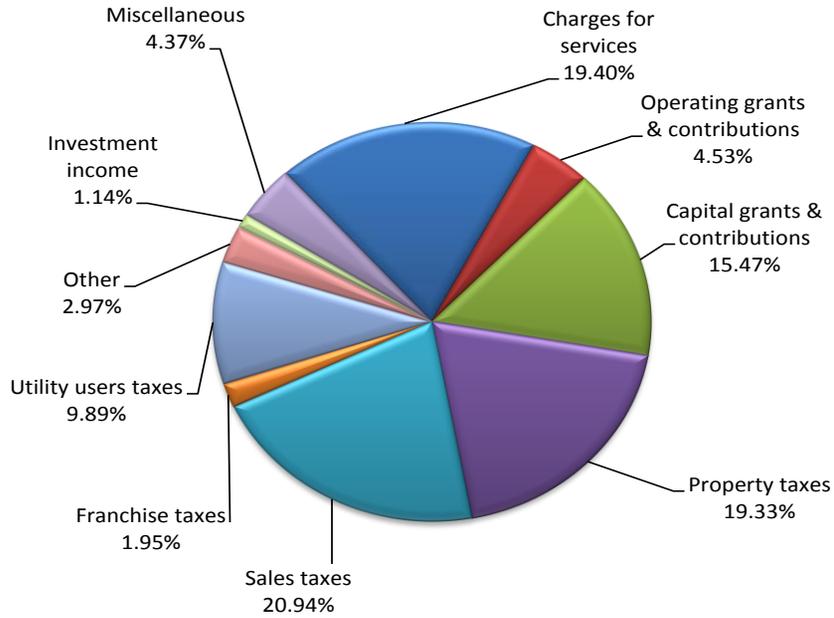
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Expenses and Program Revenues – Governmental Activities – Fiscal Year Comparison 2015 vs. 2014

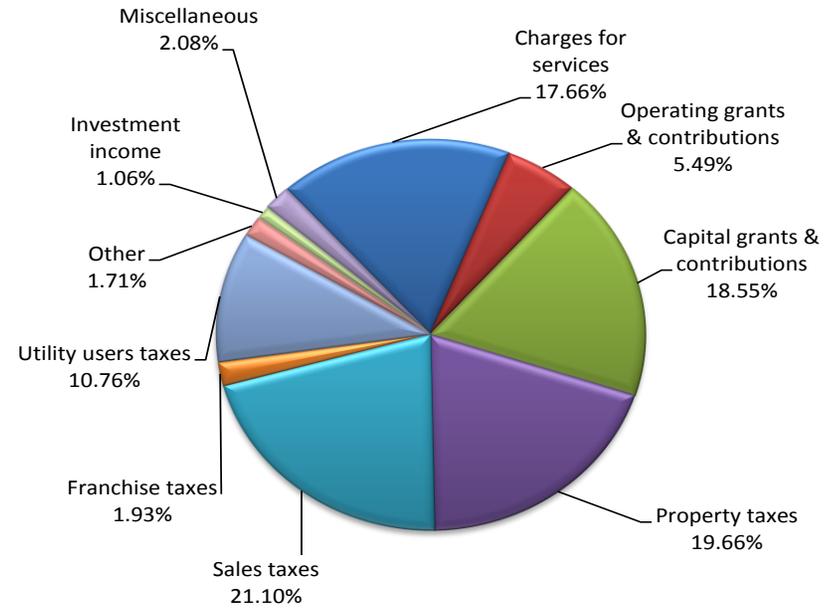


Revenues by Source – Governmental Activities – Fiscal Year Comparison 2015 vs. 2014

2015



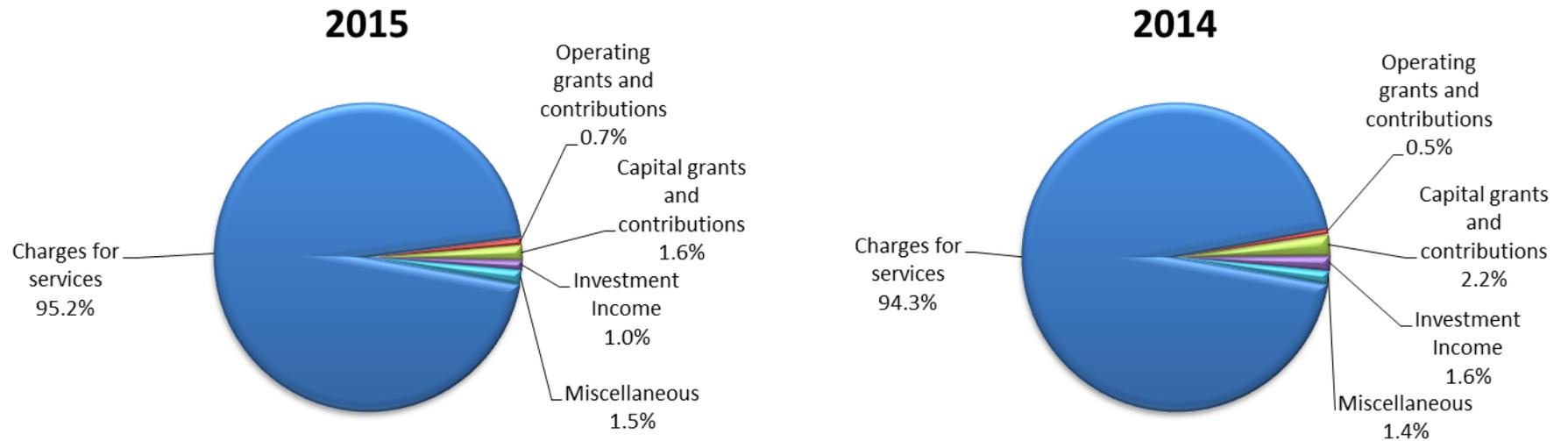
2014



Business-type activities. The net position of business-type activities decreased by \$133,754, accounting for a 12.8% decrease in total net position. The net position of business-type activities increased by \$35,457 in the prior year. Key elements of this year’s activity in relation to the prior year are as follows:

- Charges for services remained relatively flat along service lines resulting in an overall increase of \$6,160 or 1.2%. The primary catalyst for the increase is the Sewer fund which accounted for \$4,174 of the increase and was due to annual rate increases.
- Overall expenses increased by \$4,063 primarily in Electric. Production and purchased power expense increased due to the write-off of the regulatory asset related to SONGS replacement power associated with the shutdown of SONGS units 2 and 3. The overall decrease in net position primarily relates to a prior period adjustment to beginning net position in the amount of \$167,498 for all business-type activities in the current year. This was the result of the implementation of new pension accounting and financial reporting standards.

Revenues by Source – Business-Type Activities – Fiscal Year Comparison



Financial Analysis of the City's Funds

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following table summarizes the balance sheet of the City's General, Capital Outlay, and Other Governmental Funds. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

(Amounts presented in Thousands)

	General Fund		Capital Outlay		Other Governmental Funds		Total Governmental Funds	
	2015	2014	2015	2014	2015	2014	2015	2014
Total assets	\$ 112,678	\$ 109,891	\$ 51,122	\$ 71,633	\$ 125,524	\$ 121,524	\$ 289,324	\$ 303,048
Total liabilities	\$ 29,345	\$ 26,114	\$ 14,304	\$ 29,406	\$ 14,112	\$ 15,312	\$ 57,761	\$ 70,832
Deferred inflows of resources								
Unavailable revenue	3,682	4,917	18,205	4,860	38,001	34,522	59,888	44,299
Fund balances								
Nonspendable	23,642	24,419	-	-	36,902	1,460	60,544	25,879
Restricted	2,985	2,204	18,613	37,367	38,796	71,963	60,394	111,534
Assigned	13,965	14,505	-	-	-	-	13,965	14,505
Unassigned	39,059	37,732	-	-	(2,287)	(1,733)	36,772	35,999
Total fund balance	79,651	78,860	18,613	37,367	73,411	71,690	171,675	187,917
Total liabilities, deferred inflows and fund balances	\$ 112,678	\$ 109,891	\$ 51,122	\$ 71,633	\$ 125,524	\$ 121,524	\$ 289,324	\$ 303,048

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$171,675 a decrease of \$16,242 compared to the prior year. Additionally, 35% of the fund balance \$60,544 is *nonspendable*, which comprises the portion of fund balance that cannot be spent due to form. \$60,394 or 35% of fund balance is *restricted*, which represents the portion of fund balance that is subject to externally enforceable limitations by law, enabling legislation or limitations imposed by creditors or grantors. \$13,965 or 8% of fund balance is constrained by the City's intent to utilize fund balance for specific purposes, which is reported within the fund balance classification *assigned*. The remainder of the fund balance is *unassigned*, meaning it is available for spending at the City's discretion. Of

that amount, \$38,500 has been set aside for future economic contingencies at June 30, 2015 whereas \$36,000 had been set aside in the previous year. The City's governmental funds reported combined total assets of \$289,324 at June 30, 2015, a decrease of \$13,724 compared to the prior year. Liabilities and deferred inflows of resources amounted to \$117,649, an increase of \$2,518. The primary reason for the increase in total assets and related fund balances is due to the receipt of State Mandated Claims of \$2.9 million including interest which was received in June 2015. The reimbursement was for mandated related costs incurred prior to 2004. The claims were required to be repaid under Proposition 1A. The Governor's May Revise directed that the remaining balances be paid this fiscal year due to the State of California's revenue surplus.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, total fund balance equaled \$79,651 in comparison to \$78,860 in the prior year. The portion of fund balance classified as unassigned was \$38,977, most of which was set aside for future economic contingencies.

Fund balance for the Capital Outlay Fund decreased by \$18,754. The primary reason for the decrease is due to the use of bond proceeds in the Capital Outlay Fund associated with the 2013 Certificates of Participation. In fiscal 2015, approximately \$8.4 million of bonds proceeds were utilized for related pavement rehabilitation projects throughout the City.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Electric, Water and Sewer Funds at the end of the year amounted to \$171,120, \$41,524, and \$8,272 respectively. The unrestricted net position for the Electric, Water and Sewer Funds in the prior year was \$258,514, \$78,570, and \$19,066, respectively. The decrease in unrestricted net position for the Electric, Water and Sewer Funds is primarily a result of operating activities and one-time adjustments as described below.

The primary reason for the decrease in unrestricted net position for the Proprietary funds was due to the effects of recording a net pension liability in the amount of \$125,376 in the current year. This was the direct result of the implementation of new pension accounting and financial reporting standards.

Electric Fund operating results experienced an increase in charges for services of \$4,393 or 1.5%, primarily from the effects of an increase in retail load as a result of warmer than normal temperature. Retail sales (residential, commercial, industrial, and other sales) represent 83.8% of total revenues. Retail sales, net of reserve/recovery were \$299,607 and \$295,214 for years ended June 30, 2015 and 2014, respectively. Operating expenses increased \$16,968 or 6.1%, which primarily relates to an increase in purchased power due to increased energy prices and distribution costs.

The Water Fund reported lower operating results, with retail sales exceeding the previous year's results. Retail sales (residential, commercial, industrial, and other sales) represent 94.4% of total revenues. Retail sales, net of reserve/recovery were \$56,983 and \$62,762

for the years ended June 30, 2015 and 2014, respectively. The decrease in retail sales was primarily due to a decrease in retail consumption as a result of consumer conservation efforts due to the State of California drought conditions.

Net position of the Sewer Fund increased by \$17,342 and \$10,993 for the years ended June 30, 2015 and 2014, respectively. Operating revenues increased by \$4,174 or 9% primarily as a result of annual rate increase coupled with a reduction in overall operating expenses.

General Fund Budgetary Highlights

(Amounts presented in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	<u>\$194,554</u>	<u>\$213,554</u>	<u>\$213,352</u>	<u>(\$202)</u>
Expenditures:				
General Government	10,202	19,046	14,027	5,019
Public Safety	146,492	158,781	156,648	2,133
Highways & Streets	18,369	20,213	16,594	3,619
Culture & Recreation	35,134	39,419	37,405	2,014
Capital Outlay	168	10,286	4,899	5,387
Debt Service	17,290	48,230	48,006	224
Total Expenditures	<u>227,655</u>	<u>295,975</u>	<u>277,579</u>	<u>18,396</u>
Deficiency of Revenue Under Expenditures	(33,101)	(82,421)	(64,227)	18,194
Other Financing Sources	30,137	63,831	65,018	1,187
Net Change in Fund Balances	(2,964)	(18,590)	791	19,381
Beginning Fund Balance	78,860	78,860	78,860	-
Ending Fund Balance	<u>\$75,896</u>	<u>\$60,270</u>	<u>\$79,651</u>	<u>\$19,381</u>

Final budgeted revenues increased from the amount originally budgeted as a result of grant related programs. In addition, final budgeted expenditures increased from the amount originally budgeted as a result of grant related appropriations made during the year.

Actual amounts differed from the final fund budget as follows:

Actual expenditures were less than budgeted amounts by approximately \$18 million. This is primarily associated with unspent appropriations for grants, capital projects and other special programs that were not completed during the year (which are carried over to the next fiscal year).

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business-type activities as of June 30, 2015 amounted to \$3,046,840 (net of accumulated depreciation). This investment includes land, intangibles, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was \$100,678 (\$20,853 for governmental activities including internal service funds and \$79,825 for business-type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements of \$51 million, \$53 million in Sewer capital improvements primarily related to the Sewer plant expansion project, \$42 million in Electric capital improvements primarily related to the Riverside Transmission Reliability Project (RTRP) and a CIS Utility Billing system, and \$31 million in Water capital improvements primarily related Linden Reservoir roof replacement and various other water main replacement projects.

Construction in progress totaled \$348,337 at June 30, 2015. Some of the major projects in process are various Sewer system improvements including continuing phase 1 of the Sewer plant expansion project, the (RTRP) and related reliability improvements to the Riverside Public Utility's 230 KV Transmission Substation and various Water main replacement programs. Depreciation expense during the fiscal year was \$45,386 for governmental activities and \$52,711 for business-type activities.

City of Riverside's Capital Assets (net of depreciation)

(Amounts presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$339,755	\$333,799	\$51,187	\$51,115	\$390,942	\$384,914
Intangibles	198	-	35,262	21,964	35,460	21,964
Buildings	123,798	125,869	149,436	153,917	273,234	279,786
Improvements other than Buildings	209,870	220,184	1,088,239	1,072,578	1,298,109	1,292,762
Machinery and equipment	22,430	21,016	34,102	26,647	56,532	47,663
Infrastructure	649,742	625,181	-	-	644,226	625,181
Construction in progress	34,120	33,011	308,701	260,881	348,337	293,892
Total	\$1,379,913	\$1,359,060	\$1,666,927	\$1,587,102	\$3,046,840	\$2,946,162

Additional information on the City's capital assets can be found in note 5 on page 43-44 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$2,199,352 which includes bonded debt of \$1,590,008.

City of Riverside's Long-Term Debt

(Amounts presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenue Bonds	\$ -	\$ -	\$1,239,634	\$1,094,290	\$1,239,634	\$1,094,290
General Obligation Bonds	13,546	14,460	-	-	13,546	14,460
Pension Obligation Bonds	108,725	115,775	-	-	108,725	115,775
Certificates of Participation	187,212	191,446	-	-	187,212	191,446
Notes Payable	-	-	37,225	36,030	37,225	36,030
Loans Payable	45,574	47,611	-	-	45,574	47,611
Capital Leases	14,966	13,168	1,720	2,266	16,686	15,434
Lease Revenue Bonds	40,891	42,344	-	-	40,891	42,344
Landfill Capping	-	-	5,922	6,172	5,922	6,172
Arbitrage Liability	-	-	15	14	15	14
Compensated Absences	22,015	21,996	8,444	7,925	30,459	29,921
Judgment	3,334	6,667	-	-	3,334	6,667
Claims liability	38,795	35,167	-	-	38,795	35,167
Net OPEB Obligation	16,361	14,439	13,072	11,403	29,433	25,842
Pension liability	275,584	-	125,376	-	400,960	-
Water Acquisition Rights	-	-	941	941	941	941
Total	<u>\$767,003</u>	<u>\$503,073</u>	<u>\$1,432,349</u>	<u>\$1,159,041</u>	<u>\$2,199,352</u>	<u>\$1,662,114</u>

The City's total debt increased by \$537,238 or 32% during the current fiscal year. The net increase primarily resulted from the issuance of the 2014A Sewer Bonds and the recording of the City's Pension liability resulting from the implementation of new pension accounting standards.

The City's Water Utility maintains "AAA" and "AA+" ratings, from Standard & Poors and Fitch, respectively, for their revenue bonds, while the Electric Utility maintains "AA-" ratings from both rating agencies. The City's general obligation bond ratings are "AA-" and "AA," respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total adjusted assessed valuation. The legal debt limit was \$670,013 at June 30, 2015, which applies only to general obligation debt. At June 30, 2015, the City had \$13,546 of general obligation debt, resulting in available legal debt capacity of \$656,467.

Additional information on the City's long-term debt can be found in note 6 beginning on page 44 of this report.

Economic Factors and Next Year's Budget and Rates

- Unemployment in the City of Riverside is 6.5% as compared to 8.4% for the prior year.
- The required employer contribution rates as a percentage of payroll for the City's retirement program will be changing effective July 1, 2015 as follows:
 - Miscellaneous Plan – 18.944 to 21.012%.
 - Safety Plan – 29.041% to 31.549%.

At the time of budget preparation for fiscal year 2016, the economic outlook for the City was considered to be stable. The General Fund Budget for fiscal year 2016 of approximately \$256 million was adopted as balanced. It represents an increase from the prior year of approximately 4%, largely related to an increase in pension costs and new debt service related to the Fox Entertainment Plaza and several capital leases.

Request for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 3900 Main Street City of Riverside, CA 92522.