

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, 2017. 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 (0,000).

Overview of the Financial Statements

This discussion and analysis is 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 19-20 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 71-77 in this report.

The City adopted an annual appropriated budget for its General Fund for the Year ended June 30, 2017. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 21-25 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 79-88 in this report.

The basic proprietary fund financial statements can be found on pages 26-30 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 31-32 of this report, and the combining statement for the agency fund can be found on page 90.

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 33 of this report.

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 Activities		Business type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 267,671	\$ 273,925	\$ 709,575	\$ 736,950	\$ 977,246	\$ 1,010,875
Capital assets, net	1,356,278	1,377,609	1,834,007	1,778,027	3,190,285	3,155,636
Total assets	1,623,949	1,651,534	2,543,582	2,514,977	4,167,531	4,166,511
Deferred Outflows of Resources	178,732	131,318	103,067	98,835	281,799	230,153
Current liabilities	64,559	76,188	138,896	162,967	203,455	239,155
Long-term liabilities	828,551	772,609	1,418,369	1,416,469	2,246,920	2,189,078
Total liabilities	893,110	848,797	1,557,265	1,579,436	2,450,375	2,428,233
Deferred Inflows of Resources	64,455	92,935	47,854	58,836	112,309	151,771
Net position:						
Net investment in capital assets	1,102,409	1,123,910	702,844	654,870	1,805,253	1,778,780
Restricted	104,853	106,488	93,570	85,526	198,423	192,014
Unrestricted	(362,146)	(389,278)	245,116	235,144	(117,030)	(154,134)
Total net position	\$ 845,116	\$ 841,120	\$ 1,041,530	\$ 975,540	\$ 1,886,646	\$ 1,816,660

The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,886,646 at June 30, 2017, an increase of \$69,986 from June 30, 2016.

By far the largest portion of the City's net position of 96% 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 11% 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, \$245,116 is held by the business-type activities and \$(362,146) net deficit is held by the governmental activities.

Unrestricted net position in the amount of \$(117,030), a decrease of 24% from prior year, is the change in resources available to fund City programs to citizens and debt obligations to creditors. The negative unrestricted net position is primarily the result of the reporting of the City's net pension liability in accordance with an 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.

Governmental activities increased the City's net position by \$3,996 to \$845,116 for the year ended June 30, 2017, accounting for 6% of the City's total increase in net position. The primary result of this increase is due to an increase in deferred outflows related to the City's pension obligations which are changes in total pension liability and fiduciary net position that are to be recognized in future pension expense. Governmental activities operating results is discussed on page 9 and business-type operating results is discussed on page 12.

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, 2017 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	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charge for services	\$ 57,340	\$ 46,354	\$ 517,941	\$ 493,094	\$ 575,281	\$ 539,448
Operating Grants and Contributions	19,374	16,321	3,751	2,322	23,125	18,643
Capital Grants and Contributions	7,617	31,216	24,151	18,868	31,768	50,084
General Revenues:						
Sales taxes	75,883	60,976	-	-	75,883	60,976
Property taxes	59,526	55,545	-	-	59,526	55,545
Other taxes and fees	39,394	39,651	-	-	39,394	39,651
Investment income	6,145	729	2,650	6,888	8,795	7,617
Other	2,195	12,185	14,662	22,666	16,857	34,851
Total Revenues	<u>267,474</u>	<u>262,977</u>	<u>563,155</u>	<u>543,838</u>	<u>830,629</u>	<u>806,815</u>
Expenses:						
General government	45,110	24,483	-	-	45,110	24,483
Public safety	160,665	161,284	-	-	160,665	161,284
Highways and streets	38,585	38,836	-	-	38,585	38,836
Culture and recreation	48,806	47,762	-	-	48,806	47,762
Interest on long-term debt	16,028	16,387	-	-	16,028	16,387
Electric	-	-	317,335	307,925	317,335	307,925
Water	-	-	62,189	57,769	62,189	57,769
Sewer	-	-	38,305	39,978	38,305	39,978
Airport	-	-	1,998	1,799	1,998	1,799
Refuse	-	-	21,953	21,652	21,953	21,652
Transportation	-	-	4,221	4,113	4,221	4,113
Public parking	-	-	5,448	5,141	5,448	5,141
Total expenses	<u>309,194</u>	<u>288,752</u>	<u>451,449</u>	<u>438,377</u>	<u>760,643</u>	<u>727,129</u>
Increase (decrease) in net position	(41,720)	(25,775)	111,706	105,461	69,986	79,686
Transfers, net	45,716	41,216	(45,716)	(41,216)	-	-
Total changes in net position	<u>3,996</u>	<u>15,441</u>	<u>65,990</u>	<u>64,245</u>	<u>69,986</u>	<u>79,686</u>
Net position - beginning	841,120	825,679	975,540	911,295	1,816,660	1,736,974
Net position - ending	<u>\$ 845,116</u>	<u>\$ 841,120</u>	<u>\$ 1,041,530</u>	<u>\$ 975,540</u>	<u>\$ 1,886,646</u>	<u>\$ 1,816,660</u>

Governmental activities. Total net position for governmental activities increased by \$3,996 from prior year. Governmental activities net position in the prior fiscal year increased by \$15,441. Key elements of this year's activity in relation to the prior year are as follows:

Revenues:

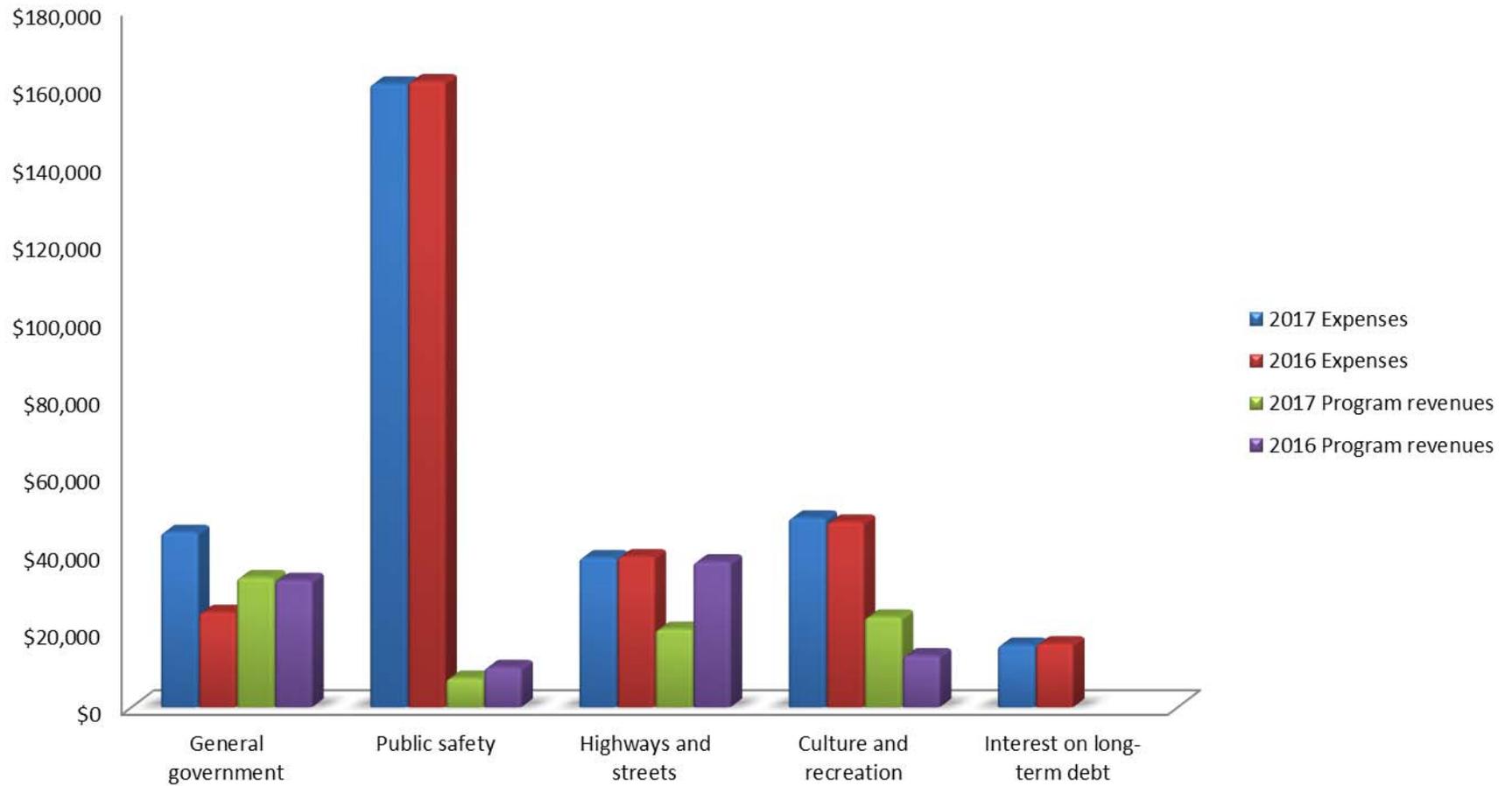
- While variances between years exist for the various revenue categories, the total net increase was approximately \$4.5 million or 2%, which is largely attributable to a decrease in capital grants and contributions offset by significant increases in sales tax and charges for services. Capital grants and contributions decreased by approximately \$23.6 million or 76%. The largest component of the decrease relates to capital outlay projects. Specifically, the City completed several major grade separation projects in the prior fiscal year such as Streeter and Riverside Avenue grade separations. Prior year expenses for these grade separation projects account for \$14.4 million of the decrease.
- The City experienced increases in charges for services from its Convention Center and the Riverside Municipal Auditorium in the amounts of \$1.3 million and \$1.42 million, respectively. In addition, revenues were up almost \$1.0 million on residential development fees which coincides with recent increases in the economic outlook. As the result of Measure Z, a one cent sales tax initiative that was approved by voters in November 2016, the City experienced a significant increase in sales tax revenue of \$14.9 million of which \$12.0 million is directly related to the passing and implementation of Measure Z.

Expenses:

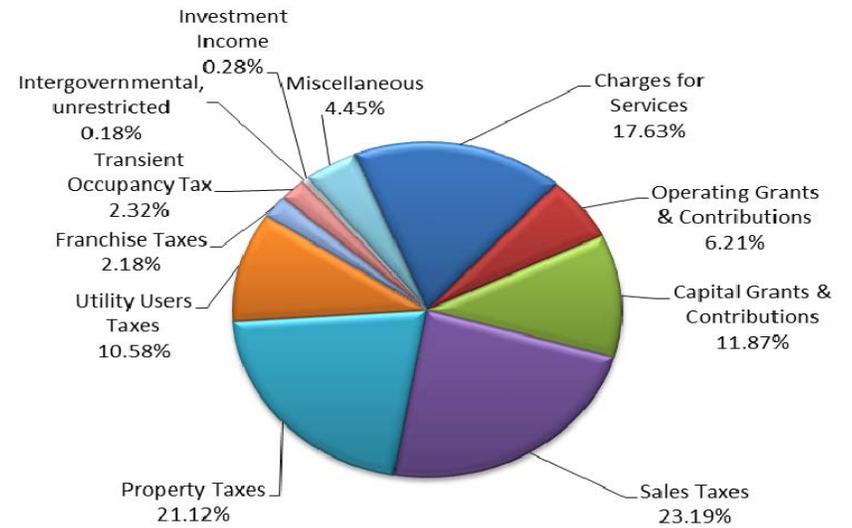
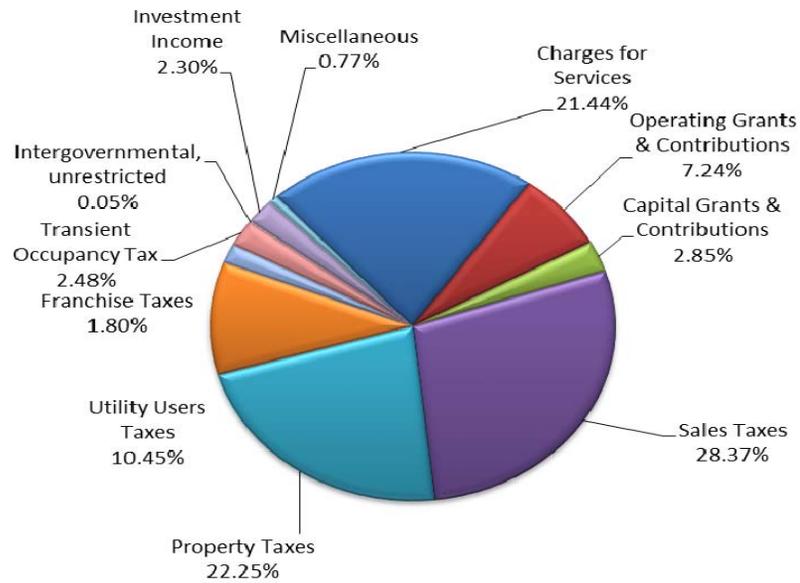
- While variances between years exist for the various expense functions, the total net increase was approximately \$20.0 million or 7%. This is primarily related to an increase of approximately \$17.9 million in pension expense related to the annual recording of the City's pension liability. Increases in other expense categories were minimal and in line with anticipated results.

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Program Revenues and Expenses – Governmental Activities – Fiscal Year Comparison 2017 vs. 2016



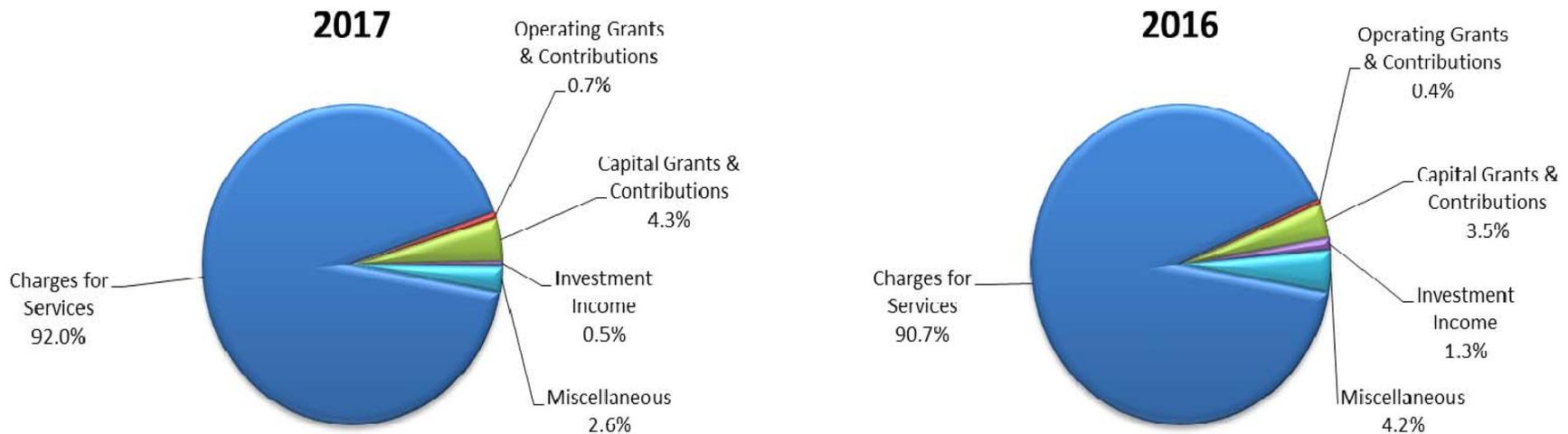
Revenues by Source – Governmental Activities – Fiscal Year Comparison 2017 vs. 2016



Business-type activities. The net position of business-type activities increased by \$65,990 accounting for a 6% increase in total net position. The net position of business-type activities increased by \$65,990 in the prior year. Key elements of this year's activity in relation to the prior year are as follows:

- Charges for services increased by \$24,847 or 5%. The Electric Utility experienced an increase in charges for services of approximately \$11.5 million primarily in the areas of retail sales, transmission and other operating revenue. Retail sales increased \$4.1 million due to increased consumption brought on by warmer weather. Transmission revenue increased \$2.6 million due to the City's high voltage specific utility rate and other operating revenue increased \$5.5 million due to an increase in proceeds on the sale of renewable energy credits and on the sale of cap and trade allowances. In addition, Water Utility and Sewer charges for services were up approximately \$4,300 and \$7,100 million, respectively. The increase in Water Utility revenues was a result of increased consumption after the lifting of State water restriction mandates and warmer weather during the summer season. Sewer revenues increased \$7,071 primarily as a result of an 8% increase in sewer rates and significant infrastructure improvements and developments that came online during the year.
- Overall expenses increased by \$13,072 primarily as the result of increased expenses in the Electric and Water Fund of \$9,410 and \$4,420, respectively, were directly related to increases in energy and water distribution costs.

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 Fund		Other Governmental Funds		Total Governmental Funds	
	2017	2016	2017	2016	2017	2016	2017	2016
Total assets	\$ 125,798	\$ 106,710	\$ 23,681	\$ 29,387	\$ 100,635	\$ 124,654	\$ 250,114	\$ 260,751
Total liabilities	\$ 36,536	\$ 33,042	\$ 2,559	\$ 5,132	\$ 10,440	\$ 12,702	\$ 49,535	\$ 50,876
Deferred inflows of resources								
Unavailable revenue	6,192	8,090	3,176	5,582	37,688	37,535	47,056	51,207
Fund balances								
Nonspendable	26,168	23,094	-	-	1,601	1,619	27,769	24,713
Restricted	2,651	3,067	17,946	18,673	50,930	72,798	71,527	94,538
Assigned	14,968	9,922	-	-	-	-	14,968	9,922
Unassigned	39,283	29,495	-	-	(24)	-	39,259	29,495
Total fund balance	83,070	65,578	17,946	18,673	52,507	74,417	153,523	158,668
Total liabilities, deferred inflows and fund balances	\$ 125,798	\$ 106,710	\$ 23,681	\$ 29,387	\$ 100,635	\$ 124,654	\$ 250,114	\$ 260,751

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$153,523 a decrease of \$5,145 compared to the prior year. Additionally, 18% of the fund balance \$27,769 is *nonspendable*, which comprises the portion of fund balance that cannot be spent due to form. \$71,527 or 47% 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. \$14,968 or 10% 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. The City's governmental funds reported combined total assets of \$250,114 at June 30, 2017, a decrease of \$10,637 compared to the prior year. Liabilities and deferred inflows of resources amounted to \$96,591, a decrease of \$5,492. Other Governmental Funds was the primary contributor to the decrease in overall assets and deferred inflows. A loan payoff in the form of an advance to the Successor

Agency was received earlier than anticipated from a hotel development project in the amount of \$17.9 million. Additional other similar recurring loan payments were received in the current year that contributed to the additional decrease in total asset receivables. This was offset to a small degree by an increase in total assets for the General Fund primarily due to an increase in cash and investments and increased sales tax revenue.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, total fund balance equaled \$83,070 in comparison to \$65,578 in the prior year. The portion of fund balance classified as unassigned was \$39,283 set aside for future economic contingencies.

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 \$207,042, \$27,550, and \$18,614 respectively. The unrestricted net position for the Electric, Water and Sewer Funds in the prior year was \$203,050, \$36,569, and \$5,093, respectively. The increase in unrestricted net position of the Electric and Sewer Fund was the result of increased operating activities. The decrease in unrestricted net position for the Water Fund is primarily a result of operating activities as described below.

Electric Fund operating results experienced an increase in charges for services of \$11,536 or 3.3%, 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 84.4% of total revenues. Retail sales, net of reserve/recovery were \$308,790 and \$304,486 for years ended June 30, 2017 and 2016, respectively. The increase in sales was primarily due to increased customer consumption; increased voltage utility specific rate per the annual filing with the Federal Energy Regulatory Commission; increased proceeds on sale of renewable energy credits and on the sale of cap and trade allowances. Operating expenses increased \$9,814 or 3.50%, which primarily relates to a non-cash pension expense credit of \$5 million in the prior year as a result of pension accounting standards. In addition, in the current year, the City's refinancing of pension obligation bonds resulted in an allocated increase of \$2.6 million for the Electric Utility's share of the obligation.

The Water Fund reported higher operating results, with retail sales higher than the previous year's results by \$4,304. Retail sales (residential, commercial, industrial, and other sales) represent 87.2% of total revenues. Retail sales, net of reserve/recovery were \$54,596 and \$50,195 for the years ended June 30, 2017 and 2016, respectively. The increase in retail sales was primarily due to the lifting of water restriction mandates and warmer weather during the summer season. Distribution expenses were higher which primarily relates to a pension expense credit of \$1.8 million in the prior year as a result of pension accounting standards. In addition, there was an increase in production costs resulting from higher consumption and general operating expenses.

Net position of the Sewer Fund increased by \$25,436 and \$14,570 for the years ended June 30, 2017 and 2016, respectively. Operating revenues increased by \$7,071 or 13.4% primarily as a result of an annual rate increase of 8% and increased sewer connection fees related to infrastructure building unit development. In addition, operating expenses decreased by \$1,233 compared to prior year boosting the funds net position.

General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	<u>217,236</u>	<u>237,996</u>	<u>238,018</u>	<u>\$22</u>
Expenditures:				
General Government	19,664	22,016	16,451	5,565
Public Safety	158,246	167,773	162,868	4,905
Highways & Streets	19,815	21,747	17,504	4,243
Culture & Recreation	37,986	42,570	40,440	2,130
Capital Outlay	227	7,979	3,361	4,618
Debt Service	19,214	50,359	49,463	896
Total Expenditures	<u>255,152</u>	<u>312,444</u>	<u>290,087</u>	<u>22,357</u>
Deficiency of Revenue Under Expenditures	(37,916)	(74,448)	(52,069)	22,379
Other Financing Sources	<u>35,560</u>	<u>69,491</u>	<u>69,561</u>	<u>70</u>
Net Change in Fund Balances	(2,356)	(4,957)	17,492	22,449
Beginning Fund Balance	<u>65,578</u>	<u>65,578</u>	<u>65,578</u>	<u>-</u>
Ending Fund Balance	<u><u>63,222</u></u>	<u><u>\$60,621</u></u>	<u><u>\$83,070</u></u>	<u><u>\$22,449</u></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 final budgeted amounts by approximately \$22.4 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, 2017 amounted to \$3,190,285 (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 \$34,649 (a decrease of \$21,331 for governmental activities and an increase of \$55,980 for business-type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of a tertiary treatment plant of \$291 million; \$12 million in Water Utility upgrades primarily related to system expansion and improvements, and continued pipeline replacement programs; and \$39 million in Electric Utility capital improvements primarily related to improvements to the Electric system in the form of substations, transformers, neighborhood streetlights and distribution line extensions and replacements to serve customers.

Construction in progress totaled \$125,244 at June 30, 2017 a decrease of \$266,268 or 68.0%. The decrease in construction in progress is primarily related to the completion and capitalization of an upgrade to the City's Water Quality Control Plant in the amount of \$291 million. The main construction project still in process is the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the Utility's 230 KV Transmission Substation. Depreciation expense during the fiscal year was \$48,564 for governmental activities and \$58,249 for business-type activities.

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

(Amount presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$343,918	\$342,792	\$80,246	\$63,839	\$424,164	\$406,631
Construction in progress	44,310	41,535	80,934	349,977	125,244	391,512
Buildings	115,087	119,786	471,137	187,285	586,224	307,071
Improvements other than Buildings	197,482	205,750	1,123,191	1,101,988	1,320,673	1,307,738
Machinery and equipment	22,971	25,075	37,080	34,228	60,051	59,303
Intangibles	131	175	41,419	40,710	41,550	40,885
Infrastructure	632,379	642,496	-	-	632,379	642,496
Total	\$1,356,278	\$1,377,609	\$1,834,007	\$1,778,027	\$3,190,285	\$3,155,636

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 \$1,661,144 which includes bonded debt of \$1,478,820.

City of Riverside’s Long-Term Debt

(Amounts presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$11,513	\$12,567	\$ -	\$ -	\$11,513	\$12,567
Pension Obligation Bonds	92,592	101,000	-	-	92,592	101,000
Certificates of Participation	156,516	181,429	-	-	156,516	181,429
Lease Revenue Bonds	37,854	39,398	-	-	37,854	39,398
Revenue Bonds	-	-	1,180,345	1,208,851	1,180,345	1,208,851
Loans Payable	41,325	43,482	-	-	41,325	43,482
Notes Payable	-	-	35,255	37,793	35,255	37,793
Capital Leases	17,193	12,006	6,209	4,694	23,402	16,700
Landfill Capping	-	-	5,390	5,686	5,390	5,686
Water Acquisition Rights	-	-	938	938	938	938
Compensated Absences	22,790	22,444	8,279	8,120	31,069	30,564
Claims liability	44,945	43,269	-	-	44,945	43,269
Total	\$424,728	\$455,595	\$1,236,416	\$1,266,082	\$1,661,144	\$1,721,677

The City’s total debt decreased by \$60,533 or 3.64% during the current fiscal year. The net decrease is primarily related to principal obligation payments on bonded debt.

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 \$720,357 at June 30, 2017, which applies only to general obligation debt. At June 30, 2017, the City had \$11,513 of general obligation debt, resulting in available legal debt capacity of \$708,844.

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 6.1% as compared to 6.5% for the prior year.
- ❑ The required employer normal cost contribution rates as a percentage of payroll for the City's retirement program will be changing effective July 1, 2017. Additionally, beginning with Fiscal Year 2017-18 CalPERS will collect employer contributions toward the plan's unfunded liability as dollar amounts instead of prior method of a contribution rate combined with the normal cost rate. As a result, the following lists the two required contribution components per plan as follows :
 - Miscellaneous Plan – 22.978% to 12.136%. Unfunded Liability Payment of \$15,126,070.
 - Safety Plan – 34.836% to 19.867%. Unfunded Liability Payment of \$11,912,989.

At the time of the two-year budget preparation for the fiscal year 2016-17 and 2017-18 budget cycle, the economic outlook for the City was considered to be stable. However, there were significant structural shortfalls projected over the next five fiscal years in the General Fund. The City's administration has implemented balancing measures to address the fiscal challenges that will replenish the General Fund Reserve over a five year period. In addition, the City successfully passed a one cent sales tax initiative (Measure Z). The one-cent increase in the City's sales tax rate from 7.75% to 8.75% authorized by Measure Z took effect on April 1, 2017. It is anticipated Measure Z will generate an additional \$51.5 million per year in sales tax revenue.

The Budget Engagement Commission (BEC), a group of city residents and business owners appointed to represent the community in advising the City Council on budget matters, held seven meetings to review staff's recommendations for Measure Z spending and to formulate its own proposal for the City Council's consideration. During these meetings, the BEC heard presentations and comments about spending priorities and community needs from city staff, other commissions and boards, and the public. On May 9, 2017, the BEC presented its recommendations to City Council. The recommendation included a five-year plan for spending \$218 Million on community needs. The City Council heard presentations from city staff and public comments recommending spending priorities. On May 16, 2017, the City Council adopted a five-year spending plan for Measure Z revenue. The spending plan addresses 33 of the community's critical needs with 6 major categories: Public Safety; Fiscal Discipline/Responsibility; Quality of Life; Critical Operating Needs; Facility Capital Needs and Technology.

The General Fund Budget for fiscal year 2017 of approximately \$267 million was adopted. It represents an increase from the prior year of approximately 4.0%, largely related to increased personnel costs associated with new labor agreements, CalPERS increases and increases related to the Riverside Convention Center and Municipal Auditorium.

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.