

REVISED

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Item No.: 1

Office of the City Manager – Administration

February 15th, 2011

*Honorable Mayor and City Council
3900 Main Street
City of Riverside, California*

Honorable Mayor and Council Members:

FY 2010-11 Mid-Year Budget Report

Thank you for this opportunity to present the Fiscal year 2010-11 Mid-Year Budget Report for your consideration and direction during today's workshop. As originally crafted, this budget reflected the reality of a national economy slowly beginning to emerge from deep recession. At the mid-year point, we offer cautious optimism that this period of economic decline appears to be ending. While many issues of importance lie before us such as rising pension and insurance costs, and the state budget crisis, this Council's decisive budgetary action has the City poised to address these issues while simultaneously investing in the City's future through many strategic initiatives. In addition, unlike many other neighboring jurisdictions, Riverside enters the second half of this fiscal year with high service levels, a prudent General Fund Reserve and a highly productive workforce generally unaffected by disruptive labor issues.

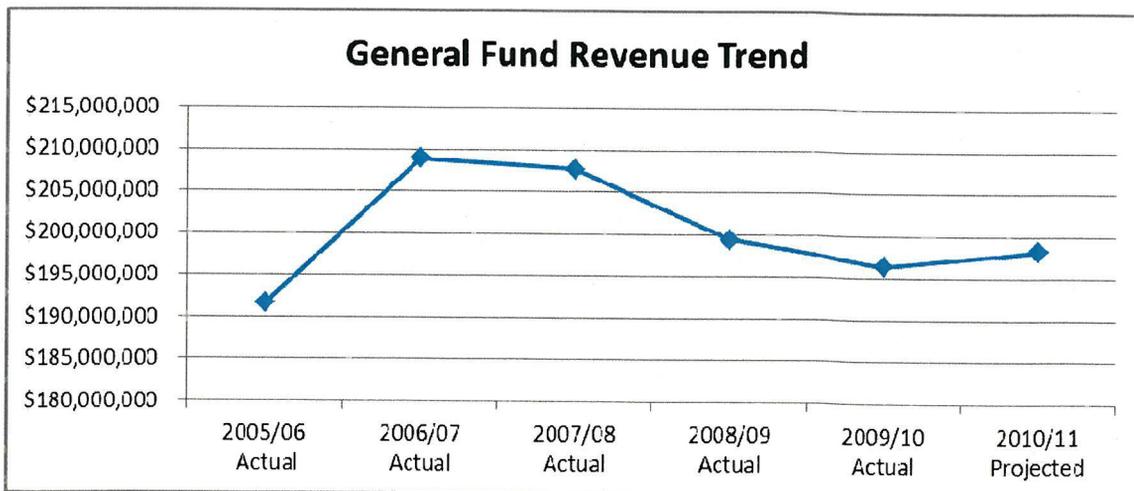
As adopted, the FY 2010-11 budget totals approximately \$883.5 million, with a General Fund of \$194.7 million. On August 24, 2010, the City Council approved the use of fund balance in the amount of \$3.55 million thereby increasing the General Fund budget for the current year to \$198.4 million and reducing reserves to \$40 million. This Council approved amended budget provides the policy direction for service levels in the current year and the basis for developing next year's spending plan.

This Mid-Year Report will update the Mayor and Council regarding current year fiscal and service trends and provide the opportunity for critical policy input from the Council prior to developing next year's budget.

Revenue Trends

By evaluating current indicators within a multi-year context we are able to provide the most comprehensive review of the City's current financial status. For the first time in three years, City tax revenue is increasing - a positive sign of economic recovery. Sales tax, which currently accounts for over 20% of General Fund revenue, has demonstrably halted its downward trend and is projected at \$43.2 million compared to a \$39.9 million budget amount. Property taxes, although typically slower to respond to improved economic conditions, also show encouraging growth and are projected at \$44.5 million compared to a budgeted figure of \$44.0 million.

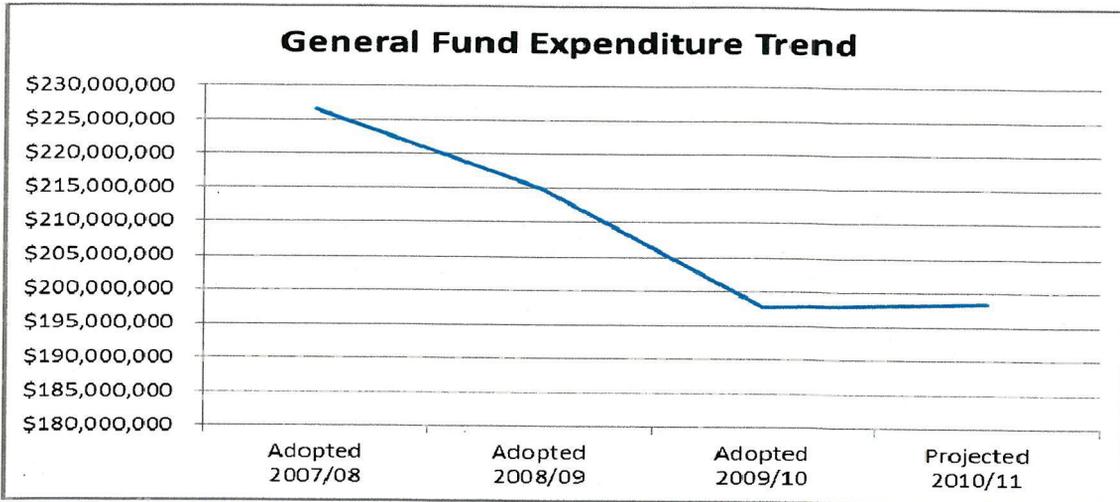
The two charts below illustrate General Fund revenues heading in a positive direction.



Revenue Source	Adopted 2010-11	Projected 2010-11	% of Total
Property Taxes	\$ 43,998,883	\$ 44,549,091	22%
Sales & Use Taxes	39,932,000	43,193,000	22%
Interfund Transfers	39,694,600	38,917,600	20%
Utility Users Tax	25,881,000	26,447,000	13%
Charges for Services	9,898,621	10,304,121	5%
Other Taxes	7,932,000	7,677,000	4%
Licenses & Permits	7,329,119	6,924,119	3%
Fines & Forfeits	5,070,000	4,805,000	2%
Other	5,052,547	4,795,316	2%
Special Assessments	4,089,640	4,089,640	2%
Intergovernmental	2,255,000	2,480,000	1%
Neglected Property Abatement Rev.	-	2,430,000	1%
One-Time Revenues	3,600,000	1,625,000	1%
Total Revenues	\$ 194,733,410	\$ 198,236,887	100%

Expenditure Trends

The charts below illustrate that expenditures, in keeping with the Council's clear direction, have been reduced over the past several years to align with revenues and to maintain reserves at a responsible level. Over a five year period, approved General Fund spending has been reduced from \$226.5 million in fiscal year 2007-08 to \$198.4 million in the current year. At the mid-year mark, slightly less than 50% of City Council approved spending authority has been utilized as Department Heads, with active support from managers and employees at all levels, continue to undertake efforts to reduce operating costs while sustaining key service levels.



Though there may be variances on a Department-specific basis, General Fund expenditures are projected to be within City Council approved appropriations and the budget remains balanced. This includes the City Council's decision to utilize \$3.55 million in prior year surplus to off-set additional expenditures for priorities in the Police, Public Works, Library, Museum, and Parks Recreation and Community Services Departments.

Department	Adopted 2010-11	Amended 2010-11
City Attorney	\$ 3,421,205	\$ 3,421,205
City Clerk	1,000,973	1,000,973
City Council	826,773	826,773
City Manager	13,596,632	13,661,632
Community Development	5,624,871	5,624,871
Development	4,839,468	4,914,468
Fire	39,445,476	39,445,476
General Services	5,077,608	5,077,608
Human Resources	2,310,972	2,310,972
Information Technology	9,782,973	9,782,973
Library	5,234,417	5,534,417
Mayor	759,309	759,309
Museum	1,039,002	1,289,002
Parks, Recreation & Comm Svcs	12,861,354	13,961,354
Police	76,826,719	77,826,719
Public Works	13,476,905	14,376,905
Sub-Total (Before Allocations)	\$ 196,124,657	\$ 199,814,657
One-Time Charge to NPA Fund	(1,000,000)	(1,000,000)
Net Debt Service Allocation	18,495,048	18,495,048
Net Cost Allocation	(18,886,295)	(18,886,295)
Total General Fund Projected	\$ 194,733,410	\$ 198,423,410

General Fund Reserves

The combination of modest growth in revenues and prudent management of resources maintains the City's budget reserve and high credit rating. Projections for FY 2010-11 are on target to close the year with a General Fund balance of approximately \$44 million, consistent with the prior year level before strategic use of budget surplus as directed by the Council. The table below summarizes the City's General Fund Reserves over the past several years.

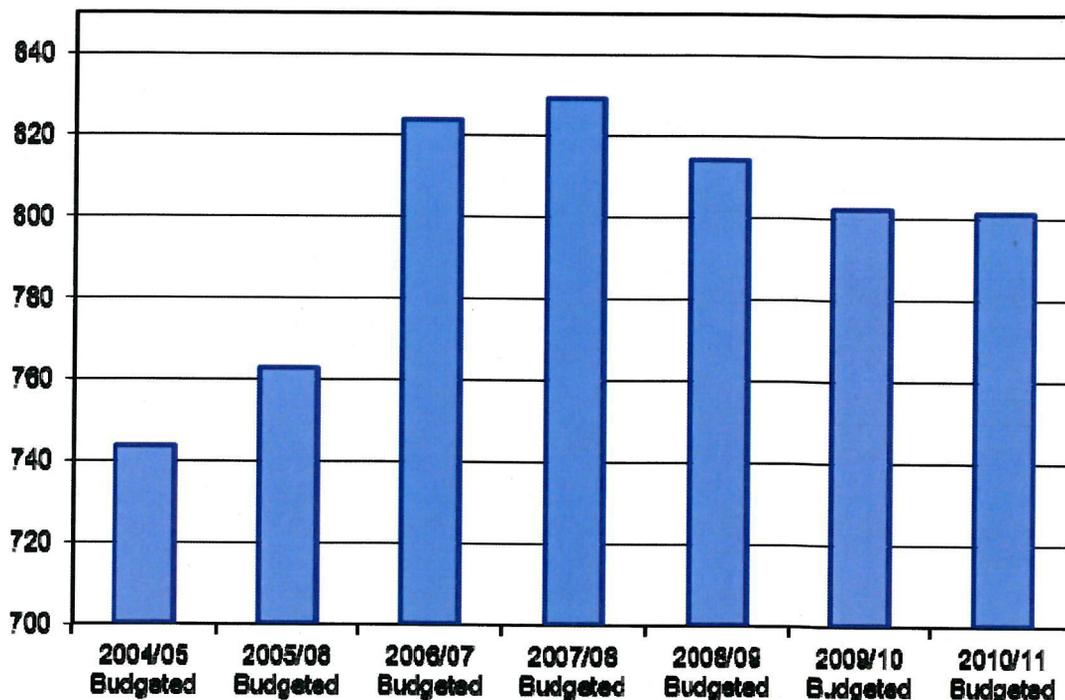
Actual 2007-08	Actual 2008-09	Actual 2009-10	Adopted 2010-11	Amended 2010-11	Projected 2010-11
\$44,671,132	\$39,921,138	\$44,062,267	\$44,062,267	\$40,512,267	\$43,875,744

Staffing

The cost of providing public services is tied closely to staffing levels. A look at staffing trends demonstrates the correlation between workforce levels, available resources, and City Council priorities. One of the most significant aspects of this data is the proportion of staffing in Public Safety departments and Enterprise Funds versus General Government functions.

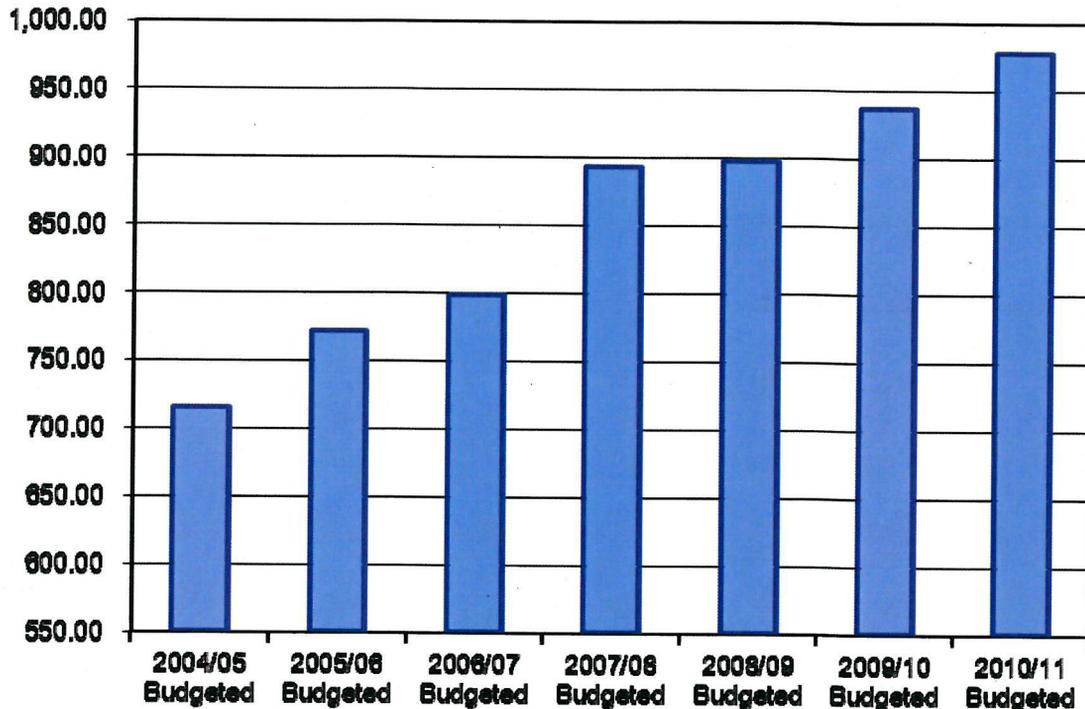
On June 15, 2010 the City Council approved acceptance of \$5.1 million from the Office of Community Oriented Policing Services (COPS) Hiring program to fund 15 Police Officer positions. This grant augments General Fund resources and helps to preserve the level of sworn staffing. After the grant terminates, the City will be able to fund these officers out of other resources generated by the improving economy. Many of these positions are being filled by experienced police officers who transfer to the City of Riverside from other agencies that are facing financial hardship. Similarly, Fire safety staffing levels have remained stable over the past six years and recruitment efforts have consistently yielded large pools of qualified candidates indicating that the City is an extremely competitive and attractive workplace for experienced public safety personnel.

Public Safety - Staffing Levels



Over the past seven years, the City has been able to augment the level of specialized services provided to local residents. As seen in the graph below, Riverside's Enterprise Funds (e.g. Utilities, Refuse, Sewer) have increased staffing to meet rising public expectations in these important quality of life areas. Coupled with the important investments in critical infrastructure (as an element of both the Riverside Renaissance and Seizing our Destiny), our City has raised the bar in terms of service delivery, while keeping utility rates lower than those of nearby communities. In addition, many of the new positions in the Enterprise Funds have been filled with former General Fund employees, thereby utilizing experienced City employees and limiting the need for disruptive workforce reductions.

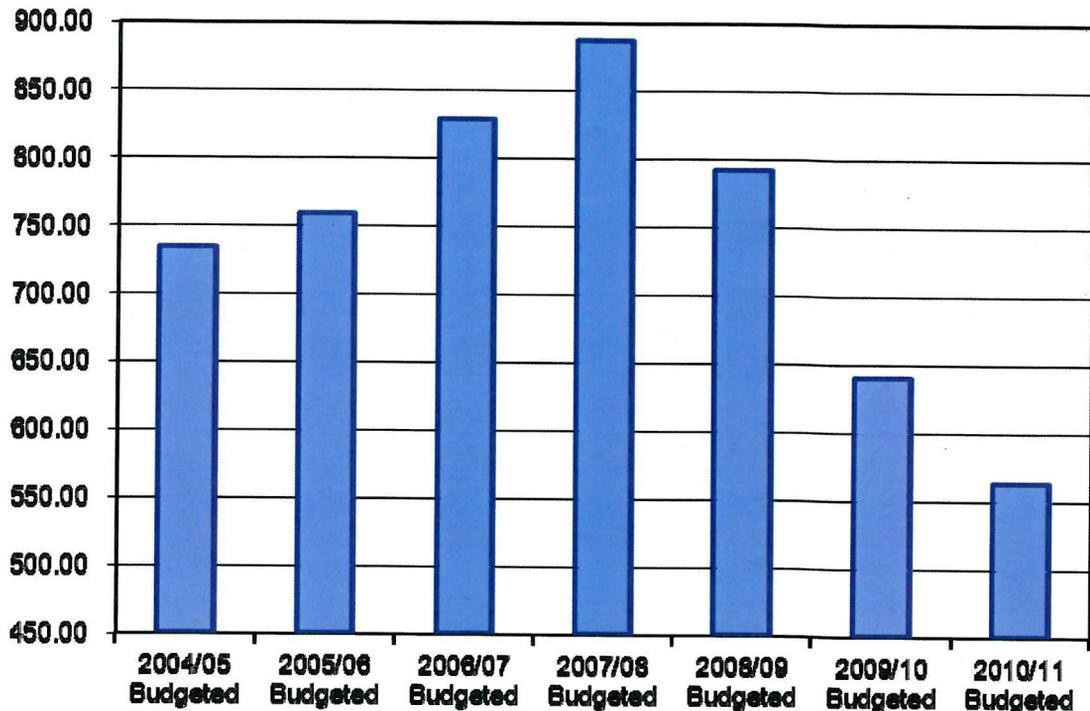
Enterprise and Other Funds - Staffing Levels



While appropriate spending reductions in General Government functions are required to sustain public safety services, Riverside's realignment of its general government staffing model has also been focused on the City Council's long-term objectives. In previous years, routine attrition, through departures or retirements, was filled by promoting existing staff and/or hiring new employees. In extraordinary fiscal times such as these, however, attrition has been carefully managed to capitalize on opportunities to reduce General Fund costs through position vacancies. Depending upon the nature of the positions that become vacant, departments closely examine how best to focus available resources to accomplish City Council objectives. Such alternatives routinely include:

- Allowing positions to remain vacant
- Promoting an existing employee to a vacated position, while leaving the employee's former position vacant
- Reorganizing functions/assignments to achieve staffing efficiencies
- Reprioritizing work activities
- Privatizing appropriate services

General Government - Staffing Levels



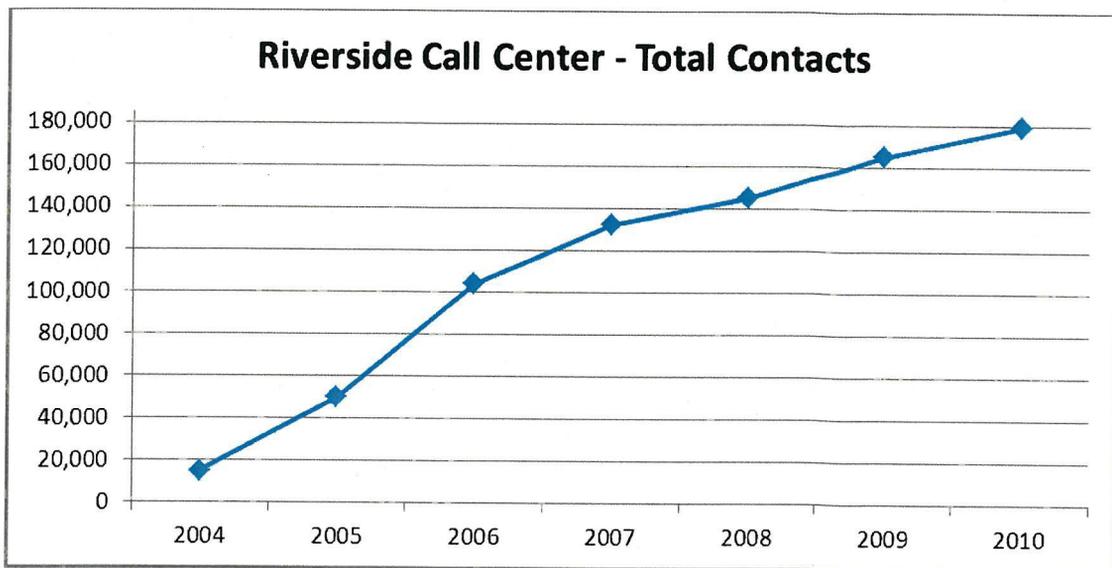
This approach has reduced the cost of providing City services, and yielded some extraordinary results, as highlighted below.

Efficient Delivery of Services

Economic adversity has not thwarted Riverside's progress in delivering a robust range of services to our residents. In fact, our managers and workforce have transformed Riverside into a remarkably high performance organization over the past four years. While many local governments aspire to "do more with less," the City of Riverside is actually achieving unsurpassed efficiencies.

Riverside's 311 call system, a national best practice, provides a consolidated intake point to receive calls for service and to set the stage for work order completion tracking. This unique system also presents a meaningful tool with which to measure actual service delivery trends.

As reflected in the following chart, our 311 center received almost 180,000 requests for service in the 2010 calendar year, compared to fewer than 20,000 in 2004. Over the past five years, call volume has increased over 70% while service response times have fallen dramatically. In addition, we have added new applications that allow citizen requests for services to be processed through e-mail or an i-Phone application. These statistics would garner positive notice in strong economic times; that these achievements were made in a period of economic decline, and a significant reduction in the number of employees, is unprecedented.



Renaissance Momentum

The Riverside Renaissance Initiative continues to deliver impactful community improvement projects designed to transform the City with an investment of approximately \$1.48 billion. During this fiscal year, it is anticipated that the following projects will be completed:

- Arlington Heights Sports Park
- Arlanza Library
- Marcy Library
- Hunter Park Sports Complex
- Hunt Park Gymnasium
- Riverside Aquatics Center

Several other projects will continue through design and construction into the next fiscal year. In addition to providing outstanding capital

improvements for our residents, the Renaissance Initiative has stimulated the local economy and provided funding for many City jobs during this time of reduced government budgets.

Challenges for fiscal year 2011/12

While the City has conservatively budgeted and managed its resources, the external environment presents many challenges. Three significant areas of concern include:

- Fragile economic recovery
- Pension and insurance costs
- Impacts of State fiscal crisis

Though there are positive signs of recovery, both our local and national economies remain fragile. The City's revenue projections reflect an optimistic outlook while remaining in tune with these economic realities.

Rising pension costs are also a reality that many governmental organizations are facing, and from which the City of Riverside is not exempt. Increased pension costs for next year are estimated at \$4.7 million with even higher increases in future years. Furthermore, fully funding liability trust fund contributions will add \$3.6 million to next year's budget for a combined impact to the General Fund of over \$8 million. In order to balance the escalating cost of labor with the need to maintain an efficient workforce, the City will continue to collaborate with employee groups to craft a more reasonable compensation structure as well as to continue to explore innovative service delivery models wherever possible. Such efforts will ensure that commitments made to current employees can be honored and that the City is able to make commitments to future employees that are sustainable.

Finally, the State's fiscal crisis continues to threaten local agencies. The Council has rejected the Governor's proposal to eliminate Redevelopment and has advocated vigorously to derail this unconstitutional and inappropriate action. Elimination of Redevelopment would result in a loss to the City of Riverside estimated to be in excess of \$50 million per year; loss of funding for 72 positions citywide; and, a General Fund impact of approximately \$8.5 million covering a range of activities that benefit our residents. In addition, thousands of private sector jobs and millions of dollars in private investments will be lost in the City. Staff will continue to monitor the State budget process and advise the City Council regarding the impacts of any future revisions, proposals, and ballot measures upon the City of Riverside.

Fiscal Year 2011-12 Budget Strategy

Under the Council's leadership, the City of Riverside will continue along a steady course into the coming fiscal year. This measured approach has placed the City on a path which emphasizes living within our means while simultaneously focusing on core services, and investing in our future. In crafting next year's plans, Departments are emphasizing the following key priorities of the City Council:

- "Seizing our Destiny" Initiatives
- Preserve Public Safety
- Support Business Development and job creation
- Continue Transportation Investments
- Provide Environmental Leadership
- Maintain the Renaissance Momentum
- Promote Arts & Innovation

In mapping out a route designed to address the challenges of fiscal year 2011-12, staff anticipates total General Fund expenditures of \$206.8 million. Projected cost increases will be addressed by increasing revenues as a result of the economic recovery, pension reform and adjustments to employee benefits, targeted spending reductions, and the aggressive identification of one-time revenues. Under this approach, general purpose reserves would be sustained at approximately \$44 million which represents over 20% of total General Fund expenditures and a level matched by very few surrounding jurisdictions.

City staff is actively gearing up for the FY 2011-12 budget process with aggressive planning already underway in preparation for presenting a draft spending plan to the City Council for consideration. As always, your policy direction remains the essential component in crafting a budget that meets essential public service needs in these challenging economic times. Given the current political and economic climate in Sacramento, we are not recommending early adoption of the City budget as we have done in prior years. With the City Council's concurrence, budget adoption will be scheduled after the Governor's May Revise of the proposed State budget is released and the June special elections, if they are held. This will allow staff to assess the impact of the State budget proposals on the City and its operations.

Summary and Recommendations

At the mid-year point of the 2010-11 fiscal year, the City's fiscal condition remains solid. Revenues are exceeding expectations and we anticipate a \$3.875 million dollar budget surplus that will place year-end reserves at about \$44 million. Challenges ahead include rising pension, liability and workers compensation costs as well as challenges related to the State fiscal crisis. I am confident that our Council, management and employees will work cooperatively to address these issues and enter the next half of the fiscal year with a forward lean towards "Seizing Our Destiny".

It is, therefore, recommended that the City Council:

1. Receive this mid-year update regarding the City's Fiscal Year 2010-11 Budget;
2. Provide strategic policy direction to staff regarding service and fiscal objectives for the remainder of the current fiscal year and development of next year's spending plan; and
3. Direct staff to return to the City Council on June 14, 2011, for a Public Hearing on the Fiscal Year 2011-12 Proposed Budget to be followed two weeks later with final budget adoption.

Respectfully Submitted,


Bradley J. Hudson
City Manager