CITY OF
RIVERSIDE

Office of the City Manager – Administration

May 24, 2011

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

Fiscal Year 2011/2012 Budget Hearing

Honorable Mayor and Council Members;

I am pleased to submit the Proposed Fiscal Year 2011/2012 Budget for your consideration and for additional public comments during the June 14 Budget Hearing.

This budget continues to employ a prudent approach while reflecting a gradual economic recovery, as demonstrated by local revenue trends as well as regional and national economic forecasts. Riverside is uniquely positioned for the coming fiscal year as a direct result of the City Council's judicious management over the last several years.

The proposed budget provides a high level of public services and retains a highly productive workforce. Key indicators of the City's stability include bond ratings that have been affirmed or upgraded in the last year, maintenance of a $42 million General Fund reserve equivalent to 20% of General Fund expenditures, and recognition by Competitive Analytics, an independent scientific think tank, that Riverside is the most fiscally sound city in the State on a per capita basis. This is in contrast to most other cities in the State which face deficits, layoffs and furloughs of staff including public safety, and reductions in public services. The following chart shows the budget challenges faced by other cities in California.

Projected Budget Deficits			
City	Population	FY 2011/2012 Projected Deficit	Deficit per Capita
Los Angeles	3,810,129	$ 336,000,000	$89
San Diego	1,311,882	$ 46,500,000	$36
San Jose	958,789	$ 115,200,000	$122
San Francisco	812,820	$ 306,700,000	$381
Fresno	500,121	$ 18,600,000	$38
Sacramento	469,566	$ 39,000,000	$84
Long Beach	463,894	$ 18,600,000	$40
Oakland	392,932	$ 58,000,000	$148
Anaheim	341,034	$ 10,500,000	$31
Santa Ana	325,228	$ 13,600,000	$42
Riverside	306,779	-	-
Stockton	293,515	$ 34,000,000	$117
Irvine	219,156	$ 7,000,000	$33

Fiscal Year 2010/2011 Year in Review

As we prepare to enter the new fiscal year, it is important to review the projected year-end status of the current spending plan.

Fiscal Year 2010/2011
Projected Year-End
Gen Fund Budget Status

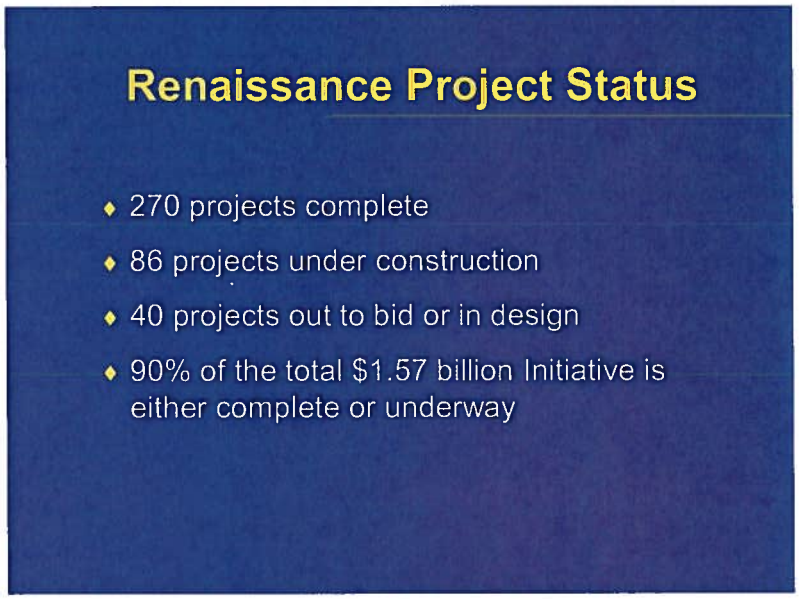
- Expenditures $199 million
- Revenues $194 million
- One-time revenues $ 5 million
- **Year-end Reserves $ 42 million**

The year-end reserves are $1.5 million higher than the amended budget adopted on August 24, 2010, which projected a $40.5 million reserve. City Departments will complete the current year well within budget parameters, having managed spending below levels approved in the budget. Their success in this effort included aggressive pursuit of additional revenues along with careful management of the resources allocated by the City Council.

Under the City Council's leadership, the City has continued the Riverside Renaissance providing a dramatic improvement to the City's physical environment, increased responsiveness to citizen needs through our nationally recognized 311 Call Center program, preserved safety in our community and prioritized staffing and services based on direct citizen benefits. These accomplishments include:

Delivered iconic projects via the Riverside Renaissance

With over three-quarters of the multi-year program already underway or complete, the Riverside Renaissance Initiative is enhancing quality of life throughout our 26 neighborhood communities.



Key projects recently completed include:

- Arlington Heights Sports Park
- Arlanza Library
- Hunt Park Gymnasium
- Marcy Library/Parks, Recreation and Community Services Headquarters
- Riverside Community College Aquatics Center
- Universal Playground at Fairmount Park

- Van Buren Boulevard Widening and Median Enhancements from Jackson Street to the Santa Ana River
- Riverside Energy Resource Center (RERC) Units 3 & 4

Over the coming year, the City expects to complete a number of major Renaissance projects, which includes:

- Magnolia Avenue Grade Separation
- Van Buren Boulevard/SR 91 Interchange
- Five Points Street Improvements
- Doty-Trust Park
- Hunter Hobby Park Improvements
- Arlington Park Child Care Center
- Challen Park Improvements
- Downtown Fire Station
- Fox Entertainment Plaza
- Riverside Municipal Auditorium Seismic Retrofit/Rehabilitation
- Riverside Metropolitan Museum Improvements
- Heritage House Improvements
- Dales Senior Center
- Corporation Yard Renovation and Upgrades

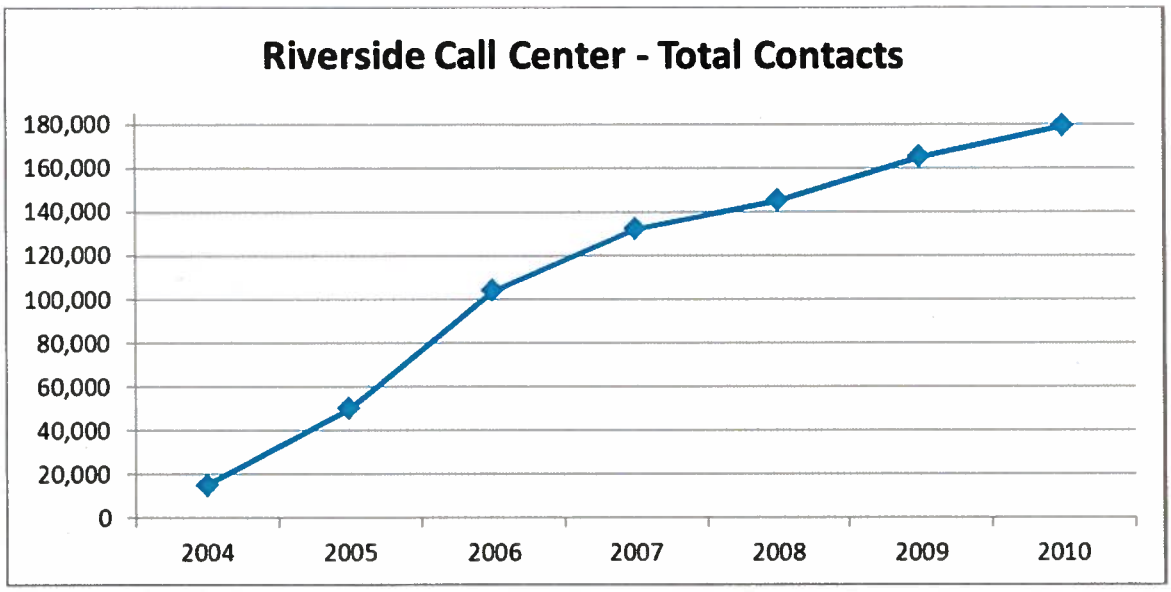
In addition, construction will commence in Fiscal Year 2011/2012 on the final Renaissance projects, including:

- Tequesquite Park
- Riverside Convention Center Renovation & Expansion
- Water Quality Control Plant Expansion
- Villegas Park and Community Center Improvements
- Collett Avenue Extension
- Iowa Avenue Grade Separation
- Streeter Avenue Grade Separation
- Railroad Quiet Zones

Efficient Delivery of Services

As reflected in the following chart, our 311 Call Center received approximately 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 and Smartphone applications (i-Phone and Android), with a Blackberry application under development. 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.



Preserved Safety in our Community

The City of Riverside was successful in receiving a $5,140,185 grant from the U.S. Department of Justice, Community Oriented Policing Services (COPS) Office. The COPS grant provides 100% funding to hire 15 full-time, entry-level police officer positions for a period of 36 months. The City will be required to retain all of the grant funded positions for a minimum of 12 months at the conclusion of the grant funded period.

During Fiscal Year 2010/2011 to date, the City's public safety programs have:

- Made 3,079 Felony arrests
- Made 3,096 Misdemeanor arrests
- Cleared 1,517 Part I crime cases
- Issued 20,397 Vehicle Code citations
- Answered 402,081 calls into the 911 Dispatch Center
- Provided Emergency Medical instructions to 12,236 callers while paramedics were en route
- Answered nearly 27,120 calls for Fire Department responses (including Emergency Medical responses)
- Conducted 5,472 annual fire safety inspections

The City's achievements over the past fiscal year inspire confidence in what will be accomplished with the resources allocated to the Fiscal Year 2011/2012 spending plan.

Proposed Fiscal Year 2011/2012 Budget

The City's overall Proposed Budget for Fiscal Year 2011/2012 is $992,994,022 with General Fund expenditures totaling $211,240,829.

Of particular note is that the budget is targeted to sustain the General Fund reserve of $42 million, higher than projected for the end of the current fiscal year and representing approximately 20% of the total General Fund. The City retains this fiscal backstop which:

- Preserves the City's extremely strong credit rating (which generates additional savings through reduced financing costs); and
- Positions the City to address economic opportunities which may arise as the regional economy begins to tilt in a positive direction.

A key partner in presenting this strong budget is our employees who have stepped up and agreed to terms that will help reduce future pension costs. We thank the Fire, Fire Management, SEIU, and Management and Confidential units for their support in implementing this strategy. We are hopeful that the remaining bargaining units will also come to the table and match what their fellow workers have done.

Revenue Trends

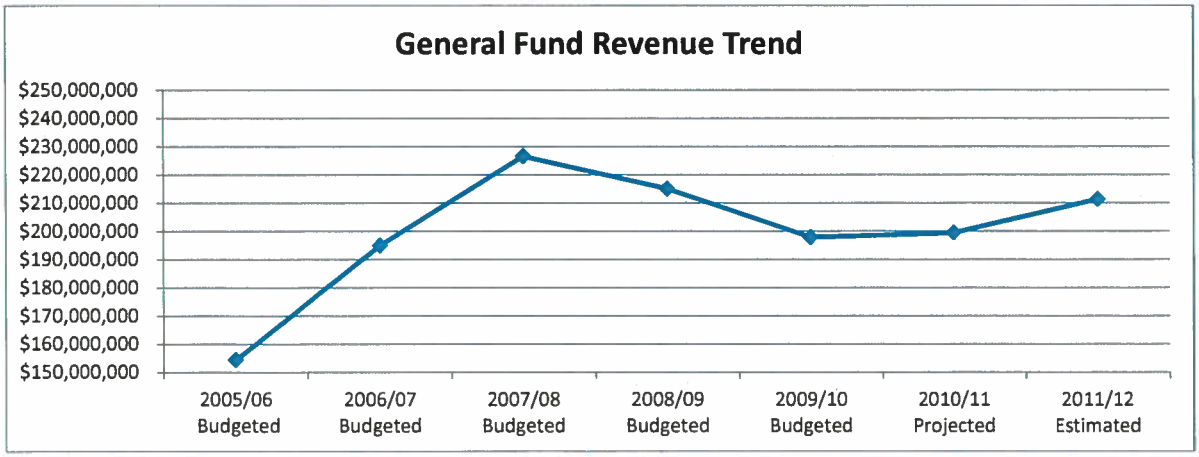
Revenues supporting non-General Fund functions remain strong and will support operations, capital improvements and related costs in these areas. The following table shows these revenue sources.

Non-General Fund Revenue Sources			
Revenue Source	**Budgeted 2010-11**	**Estimated 2011-12**	**% of Total**
Charges for Services	$ 451,185,658	$ 462,963,047	59%
Intergovernmental	33,309,955	80,630,393	10%
Taxes	47,954,934	50,125,635	6%
Other (Primarily Interest)	37,451,101	24,359,095	3%
Special Assessments	10,019,000	9,685,118	1%
Fines and Forfeits	6,131,000	3,399,444	0%
Licenses and Permits	2,346,260	2,651,003	0%
Charges to Departments	7,581,359	11,936,687	2%
Use of Bond Proceeds & Fund Balance	92,785,524	136,002,771	17%
Total Revenues	**$ 688,764,524**	**$ 781,753,193**	**100%**

General Fund revenues, which support many of the City's basic operations and services, are comprised primarily of Property and Sales Tax proceeds. General Fund revenue is estimated at $211 million, a 6% increase from projected Fiscal Year 2010/2011. The table below illustrates the various components.

General Fund Revenue Sources			
	Projected 2010-11	**Estimated 2011-12**	**% of Total**
Sales & Use Taxes	$43,193,000	$46,611,000	22%
Property Taxes	44,579,091	45,807,533	22%
Interfund Transfers	38,917,600	39,936,100	19%
Utility Users Tax	26,909,000	27,525,200	13%
Charges for Services	10,684,359	11,192,392	5%
Fines & Forfeits	5,146,099	8,793,998	4%
Other Taxes	7,677,000	8,167,700	4%
Licenses & Permits	6,759,160	7,421,323	4%
Other	4,499,117	4,685,123	2%
Special Assessments	4,062,140	4,525,220	2%
Intergovernmental	2,011,000	2,350,000	1%
One-Time Revenues	4,940,000	1,600,000	1%
Council Directives/Special Reserves	-	2,625,240	1%
Total Revenues	**$199,377,566**	**$211,240,829**	**100%**

In preparing the City's annual budget, significant attention is always focused on General Fund revenue trends, to ensure that funding levels are projected at sustainable levels. As shown below, the City's General Fund revenue trends have closely followed economic cycles.

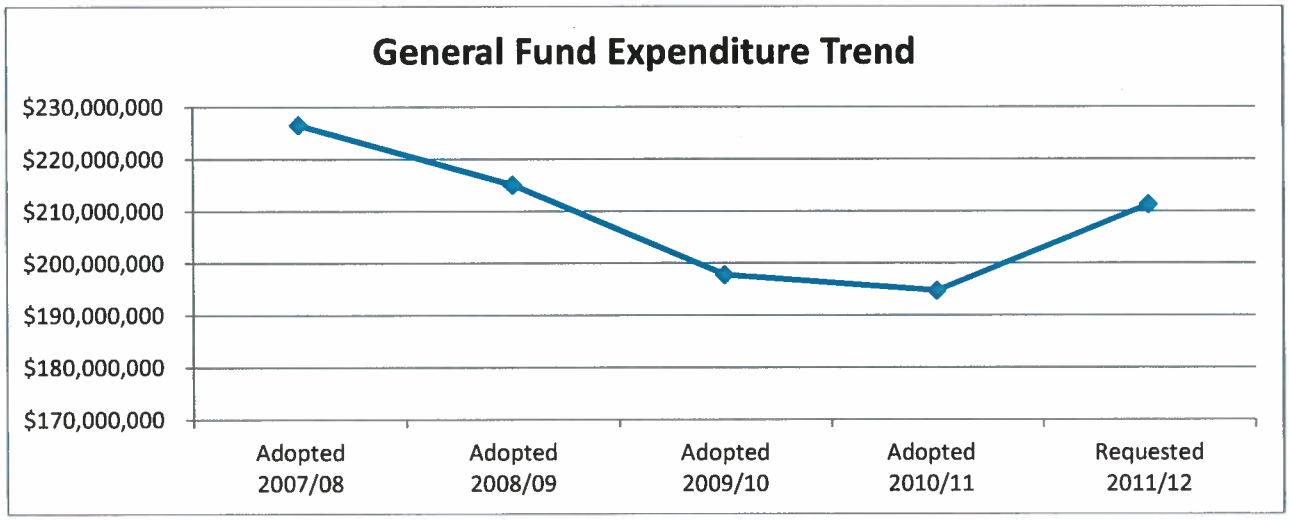


Expenditure Trends

As is customary, Public Utilities, Public Works and Development functions represent the majority of total City spending, which reflects the nature of these enterprise/capital oriented functions. Annual funding levels are largely driven by capital projects and external resources associated with such undertakings. Non-General Fund expenditures are categorized below for quick reference.

Non-General Fund Expenditure Sources			
Department	**Budgeted 2010-11**	**Requested 2011-12**	**% Change**
Public Utilities	$463,832,264	$478,584,039	3.2%
Public Works	120,017,303	201,063,065	67.5%
Development	59,014,200	57,861,398	(2.0%)
Management, Finance	22,153,947	23,476,243	6.0%
General Services	10,577,763	11,332,756	7.1%
Parks, Recreation and Community Services	7,506,225	7,398,450	(1.4%)
Airport	1,796,222	2,037,242	13.4%
Other	3,866,867	-	(100%)
Total Non-General Fund Projected	**$688,764,791**	**$781,753,193**	**13.5%**

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 next section of this report will focus primarily upon these budgetary elements.



The size of the City's General Fund is largely tied to the overall health of the regional economy. As seen over the past several years, the national economic slowdown has exerted extreme downward pressure on Inland Southern California. The City Council's prudent fiscal policies combined with the City's entrepreneurial successes have allowed Riverside to responsibly navigate through unprecedented, successive drops in key revenue sources.

As illustrated below, recommended General Fund expenditures align with projected revenues and cost saving opportunities, while maximizing resources to support City Council priorities. The budget plan presented to the City Council has been crafted to sustain existing public service levels provided to City residents.

The adopted Fiscal Year 2010/2011 Budget was $194,733,410. On August 10, 2010, the City Council approved supplemental appropriations from the 2009/2010 year-end surplus. The supplemental appropriations included $1,000,000 for the Police Department, $600,000 for Parks, Recreation and Community Services (PRCS) operations, $900,000 for Public Works and $300,000 for Library services. At that time, the Council also approved $500,000 for the Dales Senior Center renovations and $250,000 for improvements to the Heritage House. Additionally, over the course of the fiscal year, the City Council has authorized approximately $240,000 in additional supplemental appropriations, which includes the donation to the Sendai Relief Fund. This resulted in an amended Fiscal Year 2010/2011 budget of $198,523,410.

Looking ahead to Fiscal Year 2011/2012, the City faces increased costs which includes:

- $4,695,000 for pension cost increases from PERS
- $4,333,000 to fully fund Liability Insurance and Worker's Compensation Insurance costs
- $458,000 for the annual increase in pension obligation bond debt service

Additionally, City Council priorities are addressed through the following programmatic changes:

- $1 million in supplemental funding to the Police Department to recruit and fill vacant sworn positions, and to meet the Police Chief's other requests for public safety requirements, in addition to continuing the $1 million supplemental appropriation that was provided in Fiscal Year 2010/2011.

- Additional funding for Parks, Recreation and Community Services to meet on-going maintenance and operational costs associated with the opening of new and expanded park and recreation facilities such as Arlington Heights Sports Park and the recently acquired Martha McLean Park ($500,000). The budget also continues the $600,000 supplemental appropriation from Fiscal Year 2010/2011.

- Street tree trimming is another important program that will receive supplemental funding this year. In addition to $250,000 that is budgeted from utility funds for line clearing, $850,000 is proposed for the Public Works Department to provide emergency street tree trimming as well as resume maintenance grid tree trimming, a $600,000 increase from Fiscal Year 2010/2011.

- Continuation of Library funding in the amount of $300,000 which was provided in Fiscal Year 2010/2011 to assist with the purchase of library materials for citywide circulation; complement investments in facilities, service hours, staffing and technology; and increase the library's book collection for the newly opened Arlanza and Marcy libraries and the upcoming Hillcrest High School Library.

- An increase in general funding for the Development Department in the amount of $1,623,436 to continue key economic development, arts and culture and marketing initiatives that were previously funded with redevelopment funds. The proposed budget funds Arts & Culture grants and the sponsorship program at the same levels as the current fiscal year ($432,240), as discussed during the Redevelopment Workshop on April 26.

- Departments annually do not spend all the funding that the City Council has authorized in order to achieve managed savings. This is due to holding off on filling vacant positions unless critical to support City Council priority programs, and only purchasing necessary goods and services. As a result, there is funding returned by all departments which is captured by incorporating managed savings into the overall budget. This number is anticipated at $2,976,090 which is reflected as a reduction to the overall General Fund budget.

The following chart summarizes the proposed General Fund budget by department, including the items detailed above. This budget also includes anticipated savings from pension and benefit reforms, including $1,405,000 which bargaining units have already agreed to and $829,000 which is still pending. The pension and benefit reforms still pending are currently shown as managed savings to the appropriate departments. To

the extent that concessions are not agreed to, the departments will be required to reduce expenditures in a like amount. Lastly, miscellaneous budgetary changes are incorporated resulting in a total City General Fund budget for Fiscal Year 2011/2012 of $211,240,829.

General Fund Expenditure Sources			
Department	**Projected 2010-11**	**Requested 2011-12**	**% Change**
City Attorney	$ 3,421,205	$ 3,451,041	1%
City Clerk	1,000,973	1,096,077	10%
City Council	826,773	983,553	19%
City Manager	13,596,632	14,180,164	4%
Community Development	5,624,871	8,262,744	47%
Development	4,839,468	6,462,904	34%
Fire	39,445,476	40,384,377	2%
General Services	5,077,608	5,768,685	14%
Human Resources	2,310,972	2,312,591	0%
Information Technology	9,782,973	11,892,524	22%
Library	5,234,417	5,484,543	5%
Mayor	759,309	764,526	1%
Museum	1,039,002	1,087,098	5%
Parks, Recreation & Comm Svcs	12,861,354	14,853,300	15%
Police	76,826,719	80,246,205	4%
Public Works	13,476,905	16,473,482	22%
Sub-Total (Before Allocations)	**$ 196,124,657**	**$ 213,703,814**	**9%**
2010-11 Supplemental Budget Report	3,550,000	-	
Other Mid-Year Appropriations	240,000	-	
One-Time Charge to NPA Fund	(1,000,000)	-	
Net Debt Service Allocation	18,495,048	19,312,156	
Net Cost Allocation	(18,886,295)	(21,775,141)	
Total General Fund Projected	**$ 198,523,410**	**$ 211,240,829**	**6%**

With economic indicators beginning to show the first positive signs (both nationally and regionally), revenues and expenditures are projected to increase approximately 6%. As a result, next year's budget will allow continued direction of funds to support the City Council's key priorities:

- Police & Fire
- Economic Development
- Code Enforcement
- Parks and Community Service programs
- Libraries
- Project BRIDGE & Youth Opportunity Center
- Anti-Graffiti program
- Environmental stewardship
- Renaissance capital projects
- Arts & Innovation
- Seizing Our Destiny

General Fund Reserves

Actual 2007-08	Actual 2008-09	Actual 2009-10	Amended 2010-11	Projected 2010-11	Estimated 2011-12
$44,671,132	$39,921,138	$44,062,267	$40,512,267	$42,291,183	$42,291,183

As noted previously, the projected General Fund reserve balance is approximately $1.5 million larger than anticipated in the amended budget. In addition, $2.6 million of additional revenue received in Fiscal Year 2010/2011 is being carried forward into the new budget to meet City Council priorities.

State and Federal Budget Threats

As Riverside emerges from the nationwide recession both financially sound and more efficient than ever, the State of California's ongoing budget crisis looms as a potential dark cloud on the fiscal horizon. By missing key opportunities to bring order to its finances in recent years, the State faces growing deficits which threaten all of its residents, and the local governments which serve them.

The unemployment rate is declining both regionally and nationally. Interestingly, between April 2010 and April 2011, government posted the greatest year-over-year decline in employment with a loss of 7,000 jobs within the Riverside-San Bernardino-Ontario Metropolitan Statistical Area. This included declines of 3,800 local government jobs and 3,600 federal government jobs and an <u>increase</u> of 400 State of California jobs.

While California experienced significant increased tax revenue this spring, the State still faces a $9.6 billion deficit. The Governor's May Revise proposes additional cuts to local government while continuing to increase the size of the State workforce. The following measures will directly impact the City of Riverside's budget, if enacted:

- Elimination of redevelopment agencies. This would cut approximately $11 million from the City in the first year, including $1.8 million for Development Department staff and program costs, $2.1 million for Code Enforcement and graffiti abatement and $7.1 million in housing set-aside funds for housing staff and programs.

- Temporary Vehicle License Fee (VLF) Tax Extension. The budget relies on a five-year extension of a 0.5% increase in the VLF tax in order to fund local law enforcement grants (COPS) and booking fee subventions. If the tax extension fails, Riverside will be negatively impacted by a loss of approximately $350,000 from COPS and $700,000 from booking fee reimbursements.

- Realignment Funding. The budget relies on the voters approving a five-year extension of the temporary 1% sales tax. Additionally, the 0.25% temporary surcharge on income taxes would be extended for four years, beginning in 2012. These revenues would fund realignment of public safety programs from the state to local governments, primarily at the County level.

- Library funding. The May Revise restored half of the library funding that was proposed for elimination in the Governor's original budget proposal. This will reduce library funding to the City by approximately $71,000 from Fiscal Year 2010/2011.

The State of California is required to adopt a State budget by June 15, a deadline which was routinely ignored by prior legislatures. Last fall, voters approved Proposition 25 which will suspend legislator pay if this budget deadline is missed. However, State officials are now arguing that the budget adopted in March 2011 meets the requirements of that Proposition even though the budget is not balanced. Therefore, it is unknown whether legislators will strive to meet the June 15 budget deadline. As a result, the City's budget may be approved prior to resolution of the State budget impacts identified above.

The federal government is also considering budget cuts in order to reduce the federal budget deficit. Cuts already enacted reduced Community Development Block Grant (CDBG) funding by 16% and HOME program funding by 12%. The City will closely monitor the federal government for additional actions which may directly affect the City of Riverside, such as:

- Additional cuts to CDBG/HUD Entitlement programs currently proposed at 7.5% for federal Fiscal Year 2012, on top of the 16% cut for federal Fiscal Year 2011.

- The U.S. Supreme Court decision requiring the State of California to reduce the prison population by approximately 33,400 inmates over the next two years. According to the California Department of Corrections, the Governor's realignment plan will play a large role in achieving this reduction, shifting low-level offenders to county custody and post-release supervision in lieu of state incarceration and parole. This is likely to result in more criminals on the street threatening our residents.

Summary and Recommendations

Preparation of the Fiscal Year 2011/2012 Budget culminates a complex process undertaken by all City Departments to ensure that the funding plan meets the City Council's policy directives and public service priorities. The underpinnings of this Budget are sound, and reflect this City Council's traditionally conservative approach to allocating resources to address our community's current needs and safeguard its long-term fiscal health. While other governments are grappling with tough choices impacting core services including public safety, Riverside is poised to continue our sound financial standing and enter Fiscal Year 2011/2012 in a forward lean.

IT IS, THEREFORE, RECOMMENDED that the City Council:

1. Conduct a Public Hearing on June 14, 2011 to receive citizen comments on the proposed Fiscal Year 2011/2012 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 Budget during the evening session of the City Council's June 21, 2011 meeting.

Respectfully Submitted,

BRADLEY J. HUDSON
City Manager

Attachment: Preliminary Annual Budget