

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, 2018. 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, Civic Entertainment, 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 fourteen 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 twelve 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 73-79 in this report.

The City adopted an annual appropriated budget for its General Fund for the Year ended June 30, 2018. 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, Civic Entertainment, 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 five 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 81-90 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 92.

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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 284,312	\$ 267,671	\$ 698,172	\$ 709,575	\$ 982,484	\$ 977,246
Capital assets, net	1,305,799	1,356,278	1,914,775	1,834,007	3,220,574	3,190,285
Total assets	1,590,111	1,623,949	2,612,947	2,543,582	4,203,058	4,167,531
Deferred Outflows of Resources	139,335	178,732	84,789	103,067	224,124	281,799
Current liabilities	54,472	64,559	125,417	138,896	179,889	203,455
Long-term liabilities	817,358	828,551	1,462,028	1,418,369	2,279,386	2,246,920
Total liabilities	871,830	893,110	1,587,445	1,557,265	2,459,275	2,450,375
Deferred Inflows of Resources	16,037	64,455	30,204	47,854	46,241	112,309
Net position:						
Net investment in capital assets	1,093,896	1,102,409	800,227	702,844	1,894,123	1,805,253
Restricted	112,183	104,853	80,717	93,570	192,900	198,423
Unrestricted	(364,500)	(362,146)	199,143	245,116	(165,357)	(117,030)
Total net position	\$ 841,579	\$ 845,116	\$ 1,080,087	\$ 1,041,530	\$ 1,921,666	\$ 1,886,646

The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,921,666 at June 30, 2018, an increase of \$35,020 from June 30, 2017.

By far the largest portion of the City's net position of 99% 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% 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, \$199,143 is held by the business-type activities and \$(364,500) net deficit is held by the governmental activities.

Unrestricted net position in the amount of \$(165,357), a net position decrease of 41% 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 standard 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 decreased the City's net position by \$(3,537) to \$841,579 for the year ended June 30, 2018. The primary result of this decrease is due to a prior period adjustment of (\$1,001) related to the reporting of the other-post employment benefits liability in accordance with an accounting standard issued by the GASB that relates to other post-employment benefits; Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions."

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, 2018 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.

(Balance of page intentionally left blank)

(Amount presented in Thousands)

	Governmental Activities		Business type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charge for services	\$ 38,117	\$ 57,340	\$ 544,164	\$ 517,941	\$ 582,281	\$ 575,281
Operating Grants and Contributions	22,548	19,374	3,374	3,751	25,922	23,125
Capital Grants and Contributions	18,039	7,617	26,957	24,151	44,996	31,768
General Revenues:						
Sales taxes	120,338	75,883	-	-	120,338	75,883
Property taxes	63,515	59,526	-	-	63,515	59,526
Other taxes and fees	39,263	39,539	-	-	39,263	39,539
Investment income	5,187	6,145	3,939	2,650	9,126	8,795
Other	4,450	2,050	12,901	14,662	17,351	16,712
Total Revenues	<u>311,457</u>	<u>267,474</u>	<u>591,335</u>	<u>563,155</u>	<u>902,792</u>	<u>830,629</u>
Expenses:						
General government	45,360	45,110	-	-	45,360	45,110
Public safety	216,772	160,665	-	-	216,772	160,665
Highways and streets	42,544	38,585	-	-	42,544	38,585
Culture and recreation	38,362	48,806	-	-	38,362	48,806
Interest on long-term debt	12,414	16,028	-	-	12,414	16,028
Electric	-	-	333,061	317,335	333,061	317,335
Water	-	-	68,281	62,189	68,281	62,189
Sewer	-	-	54,136	38,305	54,136	38,305
Civic Entertainment	-	-	19,995	-	19,995	-
Airport	-	-	2,179	1,998	2,179	1,998
Refuse	-	-	22,082	21,953	22,082	21,953
Transportation	-	-	4,782	4,221	4,782	4,221
Public parking	-	-	6,186	5,448	6,186	5,448
Total expenses	<u>355,452</u>	<u>309,194</u>	<u>510,702</u>	<u>451,449</u>	<u>866,154</u>	<u>760,643</u>
Increase (decrease) in net position	(43,995)	(41,720)	80,633	111,706	36,638	69,986
Transfers, net	41,459	45,716	(41,459)	(45,716)	-	-
Total changes in net position	<u>(2,536)</u>	<u>3,996</u>	<u>39,174</u>	<u>65,990</u>	<u>36,638</u>	<u>69,986</u>
Net position - beginning, as previously stated	<u>845,116</u>	<u>825,679</u>	<u>1,041,530</u>	<u>975,540</u>	<u>1,886,646</u>	<u>1,801,219</u>
Prior period adjustment	(1,001)	-	(617)	-	(1,618)	-
Net position - beginning, as restated	<u>844,115</u>	<u>841,120</u>	<u>1,040,913</u>	<u>975,540</u>	<u>1,885,028</u>	<u>1,816,660</u>
Net position - ending	<u>\$ 841,579</u>	<u>\$ 845,116</u>	<u>\$ 1,080,087</u>	<u>\$ 1,041,530</u>	<u>\$ 1,921,666</u>	<u>\$ 1,886,646</u>

Governmental activities. Total net position for governmental activities decreased by \$(2,536) before the prior period adjustment while prior fiscal year increased by \$3,996. Key elements of this year's activity in relation to the prior year are as follows:

Revenues:

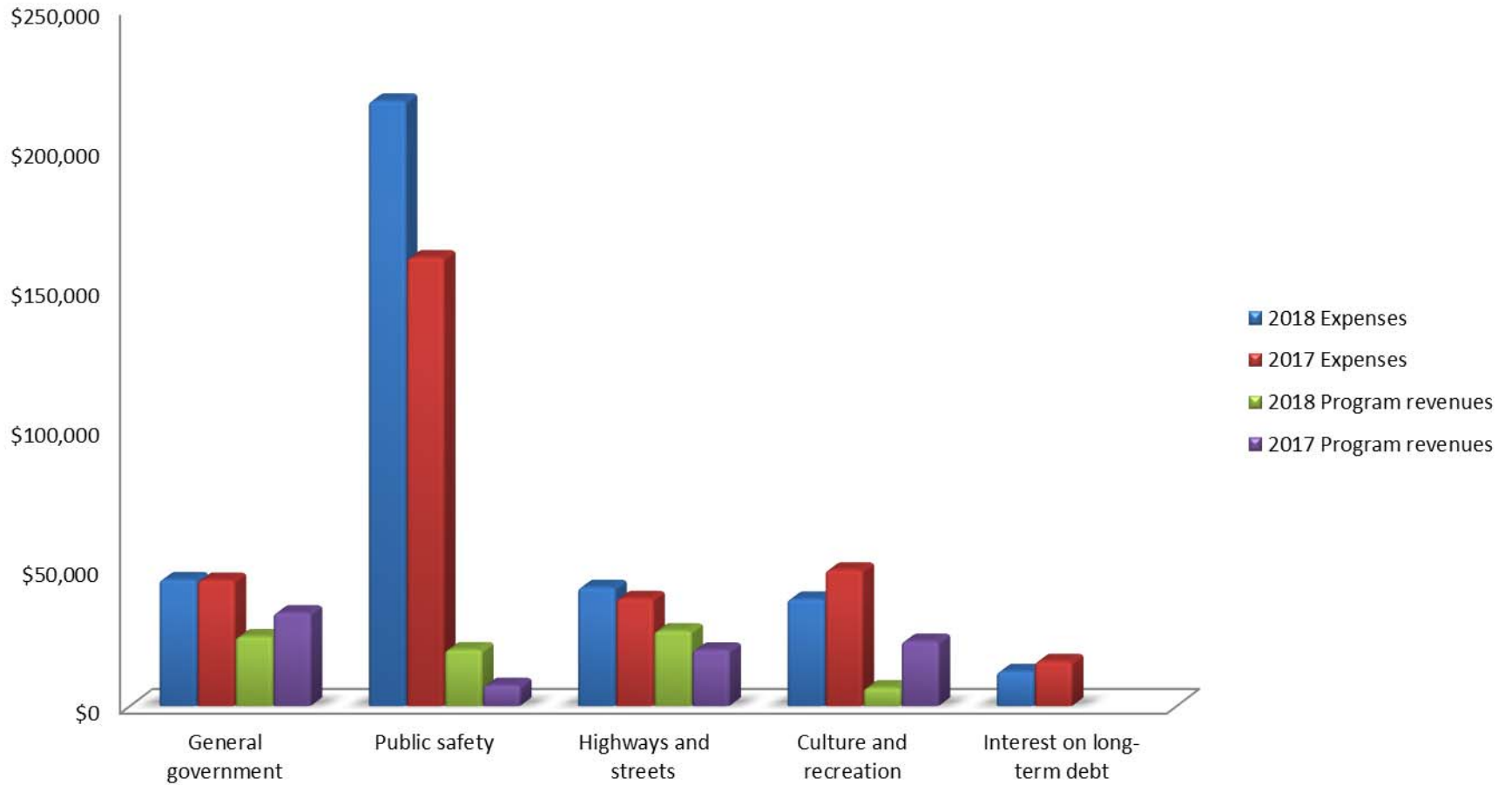
- While variances between years exist for the various revenue categories, the total net increase was approximately \$44.0 million or 16%, which is largely attributable to a significant increase in sales tax due to Measure Z. As the result of Measure Z, a one cent sales tax initiative that was approved by voters in November 2016, the City experienced a significant increase in sales tax revenue of \$44.0 million of which \$43.6 million is directly related to the passing and implementation of Measure Z.
- The City experienced decreases in charges for services of \$19,223 from prior year, which was largely attributed to the establishment of the Civic Entertainment Fund related activities, which reported charges for services for the year ended June 30, 2018 of \$16,393.

Expenses:

- While variances between years exist for the various expense functions, the total net increase was approximately \$46.3 million or 13%. This is primarily related to an increase of approximately \$39 million in pension expense related to the annual recording of the City's pension liability; \$29.3 million of the pension expense was related to public safety. The increase in Public safety was also a factor due to funding from Measure Z sales tax for additional safety needs. Increases in other expense categories were minimal and in line with anticipated results.

(Balance of page intentionally left blank)

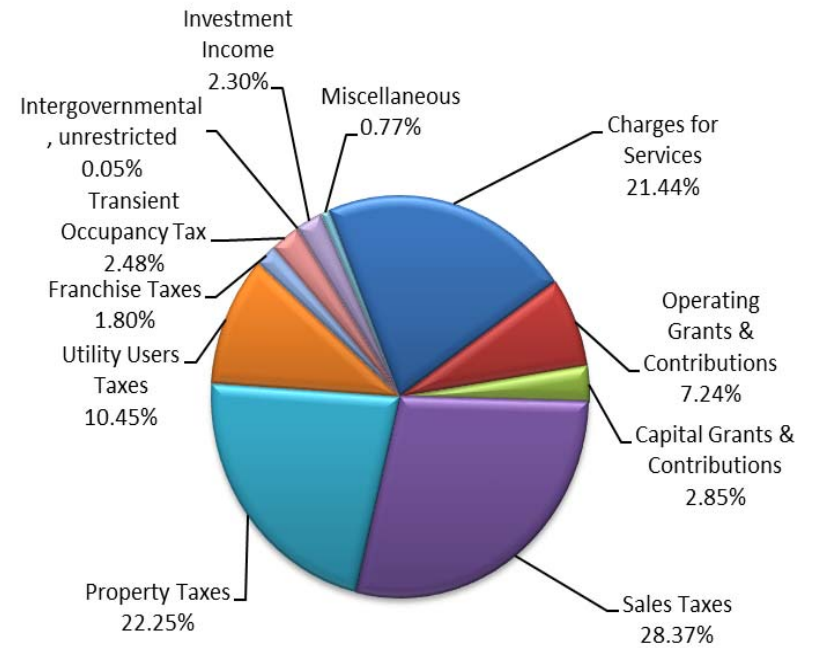
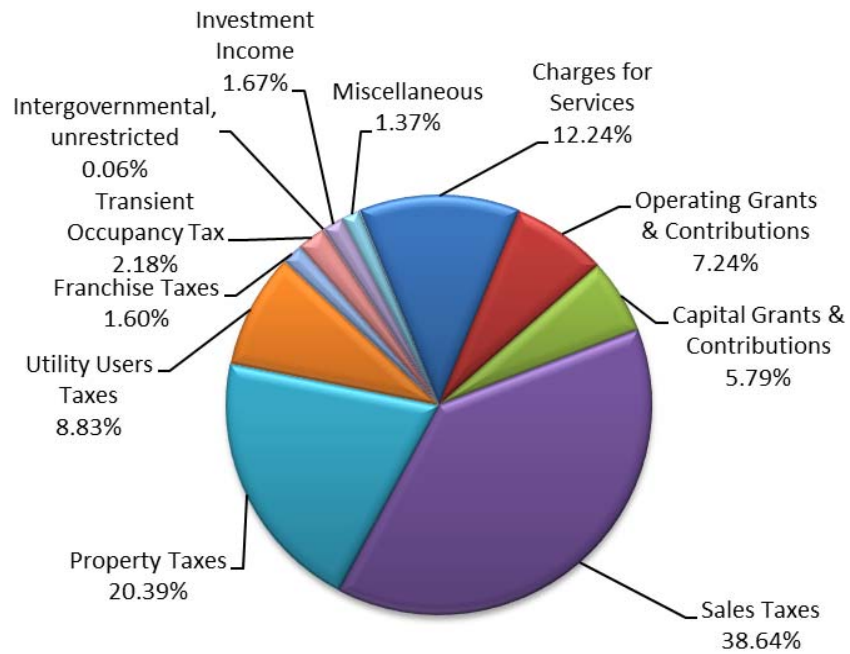
Program Revenues and Expenses – Governmental Activities – Fiscal Year Comparison 2018 vs. 2017



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

2018

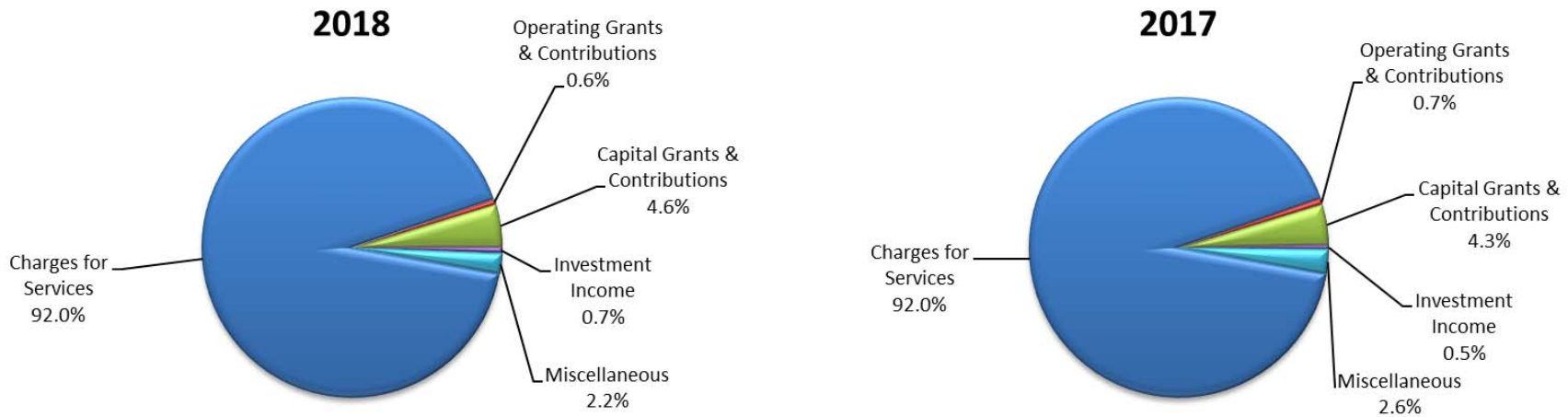
2017



Business-type activities. Total net position for business-type activities increased by \$39,174 before the prior period adjustment while prior fiscal year increased by \$65,990. Key elements of this year’s activity in relation to the prior year are as follows:

- Charges for services increased by \$26,223 or 5%. The majority of the increase in charges for services was largely attributed to the establishment of the Civic Entertainment Fund related activities, which reported charges for services for the year ended June 30, 2018 of \$16,393. The Water Utility and Sewer Utility also had increases of \$4,201 and \$5,346 respectively.
- Overall expenses increased by \$59,253 or 13%. A large part of the increase in overall expenses is due to the establishment of the Civic Entertainment Fund related activities which reported expenses of \$18,736. The Electric, Water and Sewer Funds had increased expenses of \$16,937, \$6,320 and \$7,479 respectively.

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	
	2018	2017	2018	2017	2018	2017	2018	2017
Total assets	\$ 127,266	\$ 125,798	\$ 27,688	\$ 23,681	\$ 103,808	\$ 100,635	\$ 258,762	\$ 250,114
Total liabilities	\$ 32,957	\$ 36,536	\$ 1,159	\$ 2,559	\$ 9,346	\$ 10,440	\$ 43,462	\$ 49,535
Deferred inflows of resources								
Unavailable revenue	4,685	6,192	81	3,176	38,769	37,688	43,535	47,056
Fund balances								
Nonspendable	1,947	26,168	-	-	4,855	1,601	6,802	27,769
Restricted	2,991	2,651	26,448	17,946	50,838	50,930	80,277	71,527
Committed	53,800	-	-	-	-	-	53,800	-
Assigned	23,242	14,968	-	-	-	-	23,242	14,968
Unassigned	7,644	39,283	-	-	-	(24)	7,644	39,259
Total fund balance	89,624	83,070	26,448	17,946	55,693	52,507	171,765	153,523
Total liabilities, deferred inflows and fund balances	\$ 127,266	\$ 125,798	\$ 27,688	\$ 23,681	\$ 103,808	\$ 100,635	\$ 258,762	\$ 250,114

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$171,765 an increase of \$18,242 compared to the prior year. Additionally, 4% of the fund balance \$6,802 is *nonspendable*, which comprises the portion of fund balance that cannot be spent due to form. \$80,277 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. *Committed* fund balance of \$53,800 or 31% of the fund balance was set aside for economic contingencies which is 20% of the 2018-2019 General Fund adopted expenditure budget of \$269,000. \$23,242 or 14% 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 \$7,644 or 4% is *unassigned*, meaning it is available for spending at the City's discretion. The City's governmental funds reported combined total assets of

\$258,762 at June 30, 2018, an increase of \$8,648 compared to the prior year. Liabilities and deferred inflows of resources amounted to \$86,997, a decrease of \$9,594.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, total fund balance equaled \$89,624 in comparison to \$59,974 in the prior year, as restated. The increase in fund balance is due to the increased sales tax revenues from Measure Z and the cost saving efforts by departments during the current year. The portion of fund balance classified as unassigned was \$7,644 and \$53,800 classified as committed 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 \$189,276, \$5,349, and \$46,821 respectively. The unrestricted net position for the Electric, Water and Sewer Funds in the prior year was \$207,042, \$27,550, and \$18,614, respectively. The decrease in unrestricted net position of the Electric Fund was primarily attributable to the payment on bond defeasance and funding of capital projects. The decrease in unrestricted net position of the Water Fund was the result of the use of unrestricted cash and cash equivalents to fund capital projects. The increase in unrestricted net position for the Sewer Fund is primarily a result of operating activities as described below.

Electric Fund operating results experienced a decrease in charges for services of \$1,550. Retail sales (residential, commercial, industrial, and other sales) represent 84.1% of total revenues. Retail sales, net of reserve/recovery were \$305,969 and \$308,781 for years ended June 30, 2018 and 2017, respectively. The decrease in charges for services was due to a slight decrease in consumption and a decrease in proceeds from the sale of renewable energy credits and settlement recoveries, offset by an increase in regulatory transactions and transmission revenues. Operating expenses increased \$16,937 or 5.80%, due to an increase in pension expense, power supply costs, transmission access charges from the California Independent System Operator (ISO) and general operating expenses.

The Water Fund reported higher operating results, with retail sales higher than the previous year's results by \$3,620. Retail sales (residential, commercial, industrial, and other sales) represent 87.3% of total revenues. Retail sales, net of reserve/recovery were \$58,216 and \$54,596 for the years ended June 30, 2018 and 2017, respectively. The increase in retail sales was primarily due to the lifting of drought restrictions. Overall expenses were higher which primarily relates to pension expense 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 \$12,740 and \$25,436 for the years ended June 30, 2018 and 2017, respectively. Operating revenues increased by \$5,346 or 8.9% primarily as a result of an annual rate increase of 8.5% and increased consumption. Depreciation and amortization expense increased by \$5,897 and interest expense and fiscal charges increased by \$8,352. These changes are due to the completion of sewer capital projects and their current year depreciation.

General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	226,480	267,833	271,316	\$3,483
Expenditures:				
General Government	17,209	31,831	15,635	16,196
Public Safety	176,797	191,684	184,608	7,076
Highways & Streets	19,056	21,079	18,643	2,436
Culture & Recreation	44,330	33,071	29,136	3,935
Capital Outlay	227	6,017	2,646	3,371
Debt Service	195	-	14	(14)
Total Expenditures	257,814	283,682	250,682	33,000
Excess (deficiency) of revenues over (under) expenditures	(31,334)	(15,849)	20,634	36,483
Other financing sources	34,244	21,271	9,016	(12,255)
Net change in fund balances	2,910	5,422	29,650	24,228
Fund balance - beginning, as previously stated	83,070	83,070	83,070	0
Prior period adjustment	(23,096)	(23,096)	(23,096)	0
Fund balance - ending	62,884	65,396	89,624	\$24,228

The primary reason for final budgeted revenues and expenditures increasing from the Original Budget was due to the Measure Z budget adopted during the mid-year budget cycle; therefore Measure Z budget was only included in the Final Budget.

Actual amounts differed from the final fund budget are as follows:

Actual expenditures were less than final budgeted amounts by approximately \$33.0 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) as well as the cost saving efforts by City Departments.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business-type activities as of June 30, 2018 amounted to \$3,220,574 (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 \$30,289 (a decrease of \$50,479 for governmental activities and an increase of \$80,768 for business-type activities).

Major capital improvements during the current fiscal year included: new infrastructure consisting primarily of roads of \$13 million; sewer mains and tertiary treatment plant of \$16 million; \$23 million in Water Utility upgrades primarily related to system expansion and improvements, and continued pipeline replacement programs; and \$42 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 \$171,473 at June 30, 2018 an increase of \$46,229 or 36.9%. The increase in construction in progress is primarily related to the Riverside Transmission Reliability Project (RTRP) and related reliability improvements to the Utility's 230 KV Transmission Substation and Switchgear upgrade for Springs Substation. Depreciation expense during the fiscal year was \$47,939 for governmental activities and \$66,632 for business-type activities.

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

(Amount presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$343,022	\$343,918	\$94,900	\$80,246	\$437,922	\$424,164
Construction in progress	68,894	44,310	102,579	80,934	171,473	125,244
Buildings	110,802	115,087	466,259	471,137	577,061	586,224
Improvements other than Buildings	146,343	197,482	1,177,665	1,123,191	1,324,008	1,320,673
Machinery and equipment	23,170	22,971	33,888	37,080	57,058	60,051
Intangibles	87	131	39,484	41,419	39,571	41,550
Infrastructure	613,481	632,379	-	-	613,481	632,379
Total	\$1,305,799	\$1,356,278	\$1,914,775	\$1,834,007	\$3,220,574	\$3,190,285

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

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$1,614,823 which includes bonded debt of \$1,416,505.

City of Riverside’s Long-Term Debt

(Amounts presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds	\$10,388	\$11,513	\$ -	\$ -	\$10,388	\$11,513
Pension Obligation Bonds	60,883	92,592	18,324	-	79,207	92,592
Certificates of Participation	150,800	156,516	-	-	150,800	156,516
Lease Revenue Bonds	36,246	37,854	-	-	36,246	37,854
Revenue Bonds	-	-	1,139,864	1,180,345	1,139,864	1,180,345
Loans Payable	1,746	41,325	-	-	1,746	41,325
Notes Payable	-	-	78,583	35,255	78,583	35,255
Capital Leases	25,647	17,193	6,821	6,209	32,468	23,402
Landfill Capping	-	-	4,770	5,390	4,770	5,390
Water Acquisition Rights	-	-	938	938	938	938
Compensated Absences	24,985	22,790	8,596	8,279	33,581	31,069
Claims liability	46,232	44,945	-	-	46,232	44,945
Total	\$356,927	\$424,728	\$1,257,896	\$1,236,416	\$1,614,823	\$1,661,144

The City’s total debt decreased by \$46,321 or 2.87% 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 \$747,624 at June 30, 2018, which applies only to general obligation debt. At June 30, 2018, the City had \$10,388 of general obligation debt, resulting in available legal debt capacity of \$737,236.

Additional information on the City’s long-term debt can be found in note 6 beginning on page 45 of this report.

Economic Factors and Next Year's Budget and Rates

- Unemployment in the City of Riverside is 4.4% as compared to 5.0% for the prior year.
- The largest impact to the City's long-term financial stability relates to pension costs from CalPERS. Over the next five years, the City's total CalPERS expenditures will increase 45% from \$74.5M in FY 2018-19 to approximately \$108.3M in FY 2022-23.

The cost increases are mainly due to investment losses by CalPERS during the Great Recession, which impacted all of the California agencies' retirement plans managed by CalPERS. Additional factors causing cost increases, which impact all or many agencies include:

- Retroactive retirement benefit enhancements for City employees between 2001 and 2006.
- Long-term investment returns not meeting expectations (e.g. 8.8% over the last five years, 4.4% over the last 10 years, and 6.6% over the last 20 years).
- Increased contributions resulting from the CalPERS anticipated return-on-investment rate over the past 15 years, which was decreased from 8.25% to 7%.
- CalPERS expects retirees to live longer.

CalPERS began to 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 effective July 1, 2017. As a result, the following lists the two required contribution components per plan for FY 2018/19:

- Miscellaneous Plan – 12.314%. Unfunded Liability Payment of \$18,743
- Safety Plan – 20.436%. Unfunded Liability Payment of \$15,061

At the time of the two-year budget preparation for the fiscal year 2018-19 and 2019-20 budget cycle, the economic outlook for the City was considered to be stable. However, there are significant challenges in the next five years due to pension costs as outlined above. The City will continue to implement operational efficiencies, where possible, to minimize costs and impact to service levels as CalPERS costs increase.

The General Fund Budget for fiscal year 2018/19 of approximately \$269 million was adopted. It represents an increase from the prior year of approximately .75%. Expenditure growth is expected to outpace revenue growth due to the rising costs of PERS.

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.