

## 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, 2021. 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, Airport, Refuse, Transportation, Public Parking and Civic Entertainment Funds.

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 21-22 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 fifteen 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, Capital Outlay Fund, and General Debt Service 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 83-86 in this report.

The City adopted an annual appropriated budget for its General Fund for the Year ended June 30, 2021. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 23-26 of this report.

**Proprietary funds** The City maintains two different types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for Electric, Water, Sewer, Airport, Refuse, Transportation, Public Parking and Civic Entertainment 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 91-100 in this report.

The basic proprietary fund financial statements can be found on pages 28-32 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 33-34 of this report.

**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 35 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 expressed in thousands)

	Governmental Activities		Business type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 503,107	\$ 403,430	\$ 724,367	\$ 768,306	\$ 1,227,474	\$ 1,171,736
Capital assets, net	1,337,100	1,250,038	1,976,364	1,971,688	3,313,464	3,221,726
Total Assets	1,840,207	1,653,468	2,700,731	2,739,994	4,540,938	4,393,462
Deferred Outflows of Resources	100,355	434,386	70,694	192,756	171,049	627,142
Current liabilities	112,061	57,827	57,503	55,635	169,564	113,462
Long-term liabilities	854,428	1,140,370	1,610,535	1,743,630	2,464,963	2,884,000
Total Liabilities	966,489	1,198,197	1,668,038	1,799,265	2,634,527	2,997,462
Deferred Inflows of Resources	5,745	23,082	4,549	33,674	10,294	56,756
Net Position:						
Net investment in capital assets	1,170,232	1,081,991	756,116	751,865	1,926,348	1,833,856
Restricted	164,809	153,806	78,885	75,170	243,694	228,976
Unrestricted	(366,713)	(369,222)	263,837	272,776	(102,876)	(96,446)
<b>Total Net Position</b>	<b>\$ 968,328</b>	<b>\$ 866,575</b>	<b>\$ 1,098,838</b>	<b>\$ 1,099,811</b>	<b>\$ 2,067,166</b>	<b>\$ 1,966,386</b>

The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2,067,166 at June 30, 2021, an increase of \$100,780 from June 30, 2020.

The City's net position 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 12% 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, \$263,837 is held by the business-type activities and \$(366,713) net deficit is held by the governmental activities.

Unrestricted net position in the amount of \$(102,876), a net position decrease of (7)% 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."

(amounts expressed in thousands)

Governmental activities increased the City's net position by \$101,753 to \$968,328 for the year ended June 30, 2021.

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, 2021 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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(amounts expressed in thousands)

	Governmental Activities		Business type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues:</b>						
Program Revenues:						
Charge for services	\$ 34,106	\$ 38,060	\$ 555,267	\$ 546,945	\$ 589,373	\$ 585,005
Operating Grants and Contributions	64,405	21,779	3,976	3,473	68,381	25,252
Capital Grants and Contributions	28,284	19,945	12,273	13,979	40,557	33,924
General Revenues:						
Sales taxes	150,321	128,653	-	-	150,321	128,653
Property taxes	71,986	72,609	-	-	71,986	72,609
Other taxes and fees	41,905	40,446	-	-	41,905	40,446
Investment income	4,969	10,185	681	19,838	5,650	30,023
Other	6,487	9,802	11,986	8,211	18,473	18,013
<b>Total Revenues</b>	<b>402,463</b>	<b>341,479</b>	<b>584,183</b>	<b>592,446</b>	<b>986,646</b>	<b>933,925</b>
<b>Expenses:</b>						
General government	97,927	63,651	-	-	97,927	63,651
Public safety	219,136	222,061	-	-	219,136	222,061
Highways and streets	42,034	46,983	-	-	42,034	46,983
Culture and recreation	37,693	37,400	-	-	37,693	37,400
Interest on long-term debt	19,083	13,181	-	-	19,083	13,181
Electric	-	-	366,165	350,667	366,165	350,667
Water	-	-	71,738	73,742	71,738	73,742
Sewer	-	-	61,029	62,961	61,029	62,961
Entertainment	-	-	11,885	2,304	11,885	2,304
Airport	-	-	2,326	26,549	2,326	26,549
Refuse	-	-	28,428	4,607	28,428	4,607
Transportation	-	-	4,623	4,628	4,623	4,628
Public parking	-	-	4,684	21,584	4,684	21,584
<b>Total Expenses</b>	<b>415,873</b>	<b>383,276</b>	<b>550,878</b>	<b>547,042</b>	<b>966,751</b>	<b>930,318</b>
Increase (Decrease) in Net Position	(13,410)	(41,797)	33,305	45,404	19,895	3,607
Transfers, net	34,879	35,324	(34,278)	(35,324)	601	-
Change in Net Position	21,469	(6,473)	(973)	10,080	20,496	3,607
Net position - Beginning of Year, as previously stated	866,575	873,048	1,099,811	1,089,731	1,966,386	1,962,779
Prior period adjustment	80,284	-	-	-	80,284	-
Net Position, Beginning of Year, as restated	946,859	873,048	1,099,811	1,089,731	2,046,670	1,962,779
<b>Net Position, End of Year</b>	<b>\$ 968,328</b>	<b>\$ 866,575</b>	<b>\$ 1,098,838</b>	<b>\$ 1,099,811</b>	<b>\$ 2,067,166</b>	<b>\$ 1,966,386</b>

**Governmental activities.** Total change in net position for governmental activities increased by \$21,469 while prior fiscal year decreased by \$(6,437). Key elements of this year's activity in relation to the prior year are as follows:

**Revenues:**

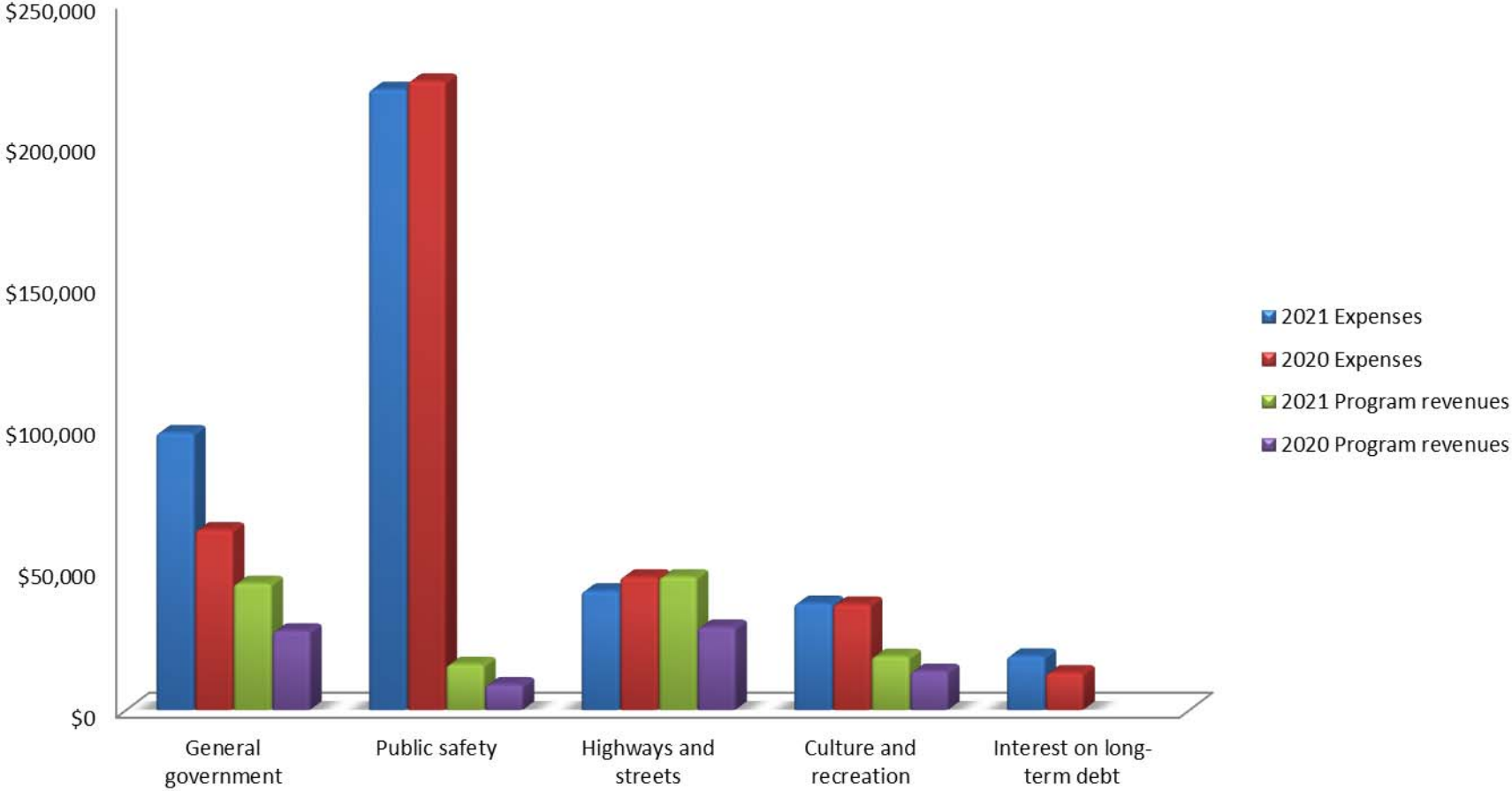
- While variances between years exist for the various revenue categories, the total net increase was \$60,984 or 18%. This is largely attributable to increases in operating and capital grants and contributions of \$50,965, primarily from additional funds received from the CARES Act (\$28,117), COVID related grants (\$6,809), homeless related grants (\$6,636) and other miscellaneous grants (\$9,403). The increase to sales taxes of \$21,668 was primarily from increased sales of vehicles, consumer goods and increases in building and construction. The decrease in charges for services of \$(3,954) is primarily attributed to decreases in charges in fees and services due to the COVID 19 pandemic and various shutdowns.

**Expenses:**

- While variances between years exist for the various expense functions, the total net increase was \$32,597 or 8%. This is primarily related to the Parada II Litigation (\$24,000). More information can be found on page 75 of this report. Also, an increase of \$5,902 of interest on long-term debt which is primarily attributable to the issuance of the 2020 Pension Obligation Bond in June of 2019.

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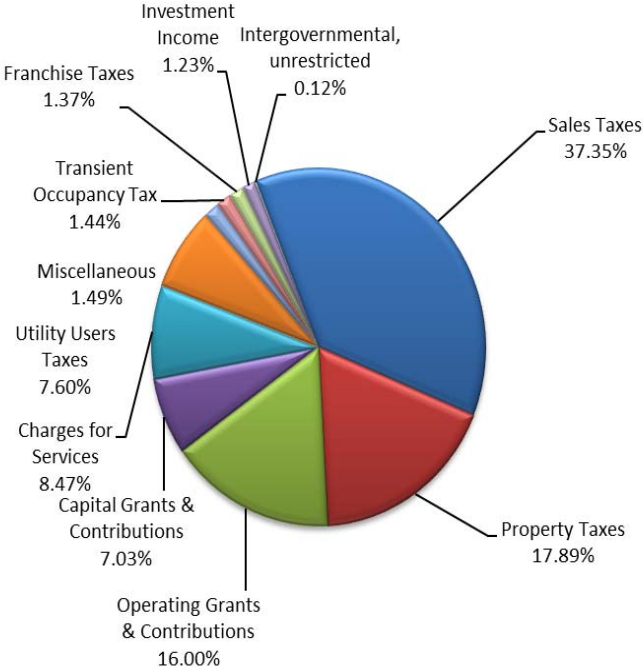
**Program Revenues and Expenses – Governmental Activities – Fiscal Year Comparison 2021 vs. 2020**



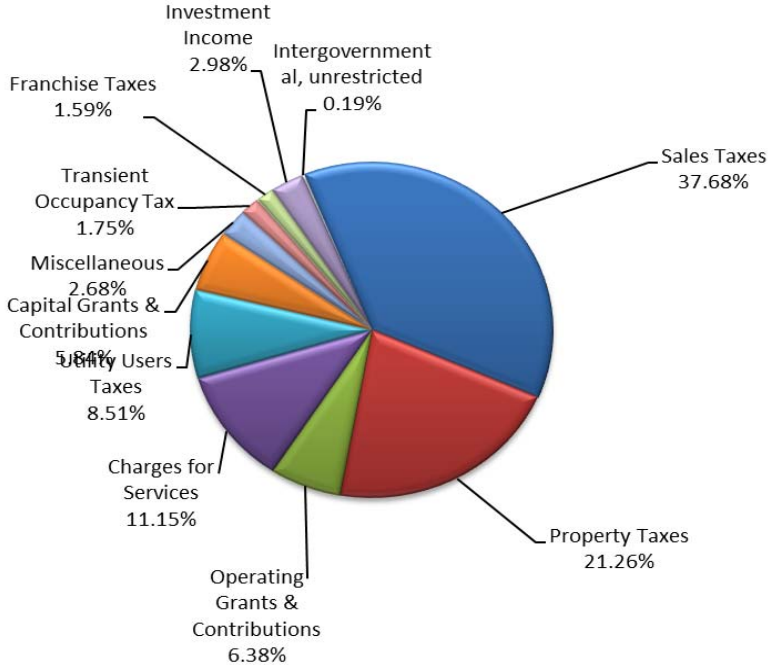


### Revenues by Source – Governmental Activities – Fiscal Year Comparison 2021 vs. 2020

2021



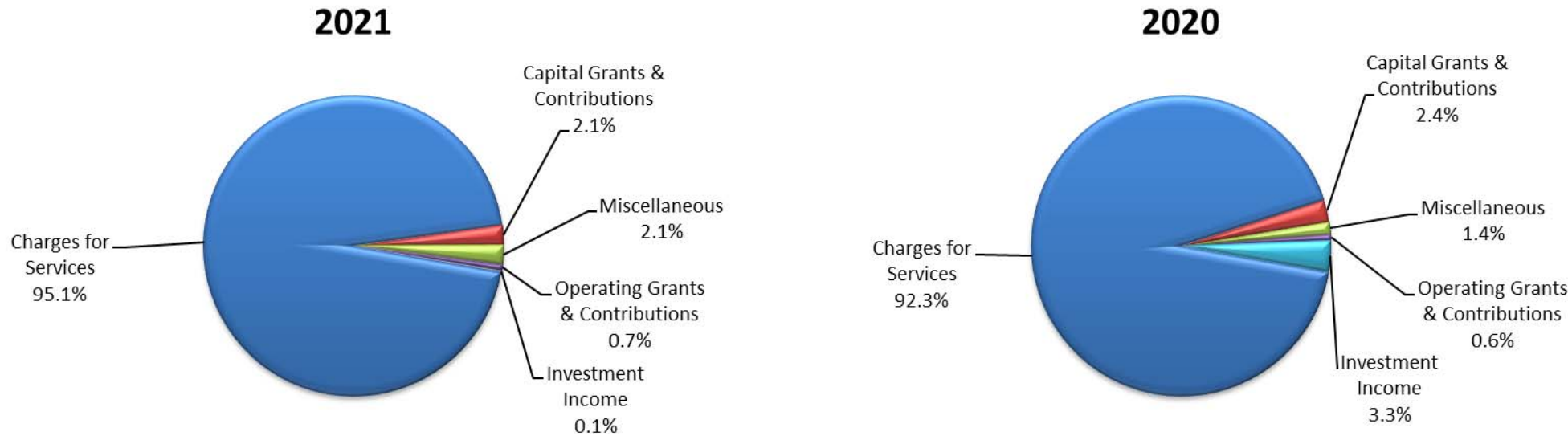
2020



**Business-type activities.** Total net position for business-type activities decreased by \$(973) while prior fiscal year increased by \$10,080. Key elements of this year's activity in relation to the prior year are as follows:

- Charges for services slightly increased from prior year resulting in an increase of \$8,322 or 1.5%. Water charges for services increased \$10,085 due to increases in consumption and water conveyance revenue and Electric Fund charges for services increased by \$7,132 primarily due to an increase in consumption of electricity. Conversely, the Civic Entertainment Fund charges for services decreased by \$10,852 due to the ongoing COVID-19 pandemic and closure of the various entertainment venues.
- Overall expenses increased by \$3,836 or 0.7%. The Electric Fund had increased operating expenses of \$15,866, primarily due to increase personnel services and maintenance and operation costs; while the Water and Sewer Funds showed a decrease in operating costs of \$(1,878) and \$(1,820), respectively primary due to a decrease in personnel 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 Fund, Capital Outlay Fund, and Other Governmental Funds. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

	General Fund		Capital Outlay Fund		General Debt Service		Governmental Funds		Governmental Funds	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Total assets	\$ 201,980	\$ 172,931	\$ 54,804	\$ 64,886	\$ 13,165	\$ 13,421	\$ 169,940	\$ 105,538	\$ 439,889	\$ 356,776
Total liabilities	\$ 38,774	\$ 35,513	\$ 3,674	\$ 5,657	\$ 1,873	\$ 2,211	\$ 67,553	\$ 13,167	\$ 111,874	\$ 56,548
Deferred inflows of resources										
Unavailable revenue	3,559	3,549	772	211	-	-	47,556	42,898	51,887	46,658
Fund balances										
Nonspendable	1,870	1,446	-	-	-	-	1,477	1,510	3,347	2,956
Restricted	10,697	10,699	50,358	59,018	11,292	11,210	53,354	47,990	125,701	128,917
Committed	62,400	59,280	-	-	-	-	-	-	62,400	59,280
Assigned	24,890	21,260	-	-	-	-	-	-	24,890	21,260
Unassigned	59,790	41,184	-	-	-	-	-	(27)	59,790	41,157
Total fund balance	159,647	133,869	50,358	59,018	11,292	11,210	54,831	49,473	276,128	253,570
Total liabilities, deferred inflows and fund balances	\$ 201,980	\$ 172,931	\$ 54,804	\$ 64,886	\$ 13,165	\$ 13,421	\$ 169,940	\$ 105,538	\$ 439,889	\$ 356,776

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$276,128 an increase of \$22,558 compared to the prior year. Additionally, 1% of the fund balance \$3,347 is *nonspendable*, which comprises the portion of fund balance that cannot be spent due to form. \$125,701 or 46% 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 \$62,400 or 23% of the fund balance was set aside for economic contingencies. Committed for economic contingencies consists of 20% of the 2021-22 General Fund adopted expenditure budget of \$287,000 or \$57,400 and \$5,000 for General Fund – Measure Z. \$24,890 or 9% 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 \$59,790 or 22% is *unassigned*, meaning it is available for spending at the City's discretion. The City's governmental funds reported combined total assets of \$439,889 at June 30,

2021, an increase of \$83,113 compared to the prior year. Liabilities and deferred inflows of resources amounted to \$163,761, an increase of \$60,555 from prior year.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, total fund balance equaled \$159,647, in comparison to \$133,869 in the prior year. The increase in fund balance is primarily due to increased sales and use taxes as well as the cost saving efforts by City Departments. The Capital Outlay Fund is used to account for the acquisition or construction of major capital facilities. The total fund balance was \$50,358, compared to \$59,018 in prior year. The decrease was due to increased capital projects. The General Debt Service Fund accounts for the accumulation of resources and payment of long-term debt principal and interest. The total fund balance was \$11,292, compared to \$11,210 in prior year. The Other Governmental Funds are made up of various non-major funds. The fund balance was \$54,831, compared to \$49,473 in prior year. The increase was mainly due to the increase in the Gas Tax Special Revenue Fund of \$2,118 and the Housing Special Revenue Fund of \$1,945 in the current year.

**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 \$201,521, \$6,220, and \$63,285 respectively. The unrestricted net position for the Electric, Water and Sewer Funds in the prior year was \$221,466, \$(1,210), and \$57,371, respectively. The decrease in unrestricted net position of the Electric Fund (\$19,945) was primarily attributable increase in personnel services and maintenance and operations expenses. The increase in unrestricted net position of the Water Fund (\$7,430) was primarily attributable to increases in charges for services. The increase in unrestricted net position for the Sewer Fund (\$5,914) is primarily a result of increased charges for services and reduced personnel service costs.

(amounts expressed in thousands)

## General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	<u>\$256,238</u>	<u>\$256,202</u>	<u>\$300,372</u>	<u>\$44,170</u>
Expenditures:				
General Government	11,241	22,126	4,612	17,514
Public Safety	205,919	196,447	190,115	6,332
Highways & Streets	19,152	18,253	16,203	2,050
Culture & Recreation	31,578	32,699	26,104	6,595
Capital Outlay	281	3,394	692	2,702
Total Expenditures	<u>268,171</u>	<u>272,919</u>	<u>237,726</u>	<u>35,193</u>
Excess (deficiency) of revenues over (under) expenditures	(11,933)	(16,717)	62,646	79,363
Other financing sources	<u>(2,458)</u>	<u>(22,400)</u>	<u>(36,868)</u>	<u>(14,468)</u>
Net change in fund balances	(14,391)	(39,117)	25,778	64,895
Fund balance - Beginning of Year	<u>133,869</u>	<u>133,869</u>	<u>133,869</u>	<u>0</u>
Fund balance - End of Year	<u>\$119,478</u>	<u>\$94,752</u>	<u>\$159,647</u>	<u>\$64,895</u>

The primary reason for final budgeted revenues and expenditures increasing from the Original Budget is due to the City passing an emergency budget due to the unknown effects of the COVID 19 pandemic.

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

Actual expenditures were less than final budgeted amounts by approximately \$35,193. This is primarily associated with unspent appropriations for projects 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, 2021 amounted to \$3,313,464 (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 capital assets for the current fiscal year was \$91,738; an increase of \$87,062 for governmental activities (\$80,284 is related to a prior period adjustment for land and infrastructure additions due to a change in calculation of street mileage from a system upgrade which maintains street mileage) and an increase of \$4,676 for business-type activities.

(amounts expressed in thousands)

Major capital improvements during the current fiscal year included ongoing projects: consisting primarily of roads of \$26,313; sewer mains and tertiary treatment plant of \$9,129; \$9,665 in Water Utility projects primarily related to main replacements, booster station replacement, well projects and pump station replacements and meters; and \$30,167 in Electric Utility capital improvements primarily related to substation equipment, meter purchases, trans poles and fixtures, and street lighting.

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

	Governmental Activities		Business Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$376,616	\$338,504	\$100,111	\$99,985	\$476,727	\$438,489
Construction in progress	30,820	68,398	126,187	104,990	157,007	173,388
Buildings	111,601	72,053	473,476	482,697	585,077	554,750
Improvements other than Buildings	107,316	117,693	1,213,090	1,218,014	1,320,406	1,335,707
Machinery and equipment	33,113	34,825	32,712	32,091	65,825	66,916
Intangibles	-	3	30,788	33,911	30,788	33,914
Infrastructure	677,634	618,562	-	-	677,634	618,562
Total	<u>\$1,337,100</u>	<u>\$1,250,038</u>	<u>\$1,976,364</u>	<u>\$1,971,688</u>	<u>\$3,313,464</u>	<u>\$3,221,726</u>

Additional information on the City's capital assets can be found in note 5 on page 47 of this report.

(amounts expressed in thousands)

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$2,062,498 which includes bonded debt of \$1,849,092.

### City of Riverside's Long-Term Debt

The City's total debt decreased by \$(46,484) or (2.2)% during the current fiscal year. The net decrease is primarily related to payments on long term debt.

	Governmental Activities		Business Type Activities		Total	
	2021	2020	2021	2020	2021	2020
General Obligation Bonds	\$6,478	\$7,874	\$ -	\$ -	\$6,478	\$7,874
Pension Obligation Bonds	352,824	364,633	116,227	119,625	469,051	484,258
Certificates of Participation	90,215	94,802	27,213	28,483	117,428	123,285
Lease Revenue Bonds	72,471	75,964	7,059	7,473	79,530	83,437
Revenue Bonds	-	-	1,176,605	1,212,914	1,176,605	1,212,914
Loans Payable	457	899	-	-	457	899
Notes Payable	-	-	64,678	69,519	64,678	69,519
Contracts Payable	-	-	1,067	1,019	1,067	1,019
Capital Leases	14,922	18,207	2,354	3,633	17,276	21,840
Landfill Capping	-	-	10,419	10,776	10,419	10,776
Compensated Absences	30,901	29,228	12,005	10,105	42,906	39,333
Claims liability	76,603	53,828	-	-	76,603	53,828
Total	<u>\$644,871</u>	<u>\$645,435</u>	<u>\$1,417,627</u>	<u>\$1,463,547</u>	<u>\$2,062,498</u>	<u>\$2,108,982</u>

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 for fixed rate bonds and "A or A+" and "AA-" ratings for the variable rate bonds from Standard & Poors and Fitch, respectively. 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 \$873,171 at June 30, 2021, which applies only to general obligation debt. At June 30, 2021, the City had \$6,478 of general obligation debt, resulting in available legal debt capacity of \$866,693.

Additional information on the City's long-term debt can be found in note 8 beginning on page 50 of this report.

## Economic Factors and Next Year's Budget and Rates

- Unemployment in the County of Riverside is 7.9% compared to 14.8% for the prior year as of June 30, 2021.
- Ongoing challenges with the City's structural deficit currently projected at \$10 million which is mitigated through the managed hiring process and maintaining position vacancies.
- The largest impact to the City's long-term financial stability relates to pension costs from CalPERS.

The cost increases are mainly due to investment losses by CalPERS during the Great Recession as well as demographic changes, which impacted all 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.
- Increased contributions resulting from the CalPERS anticipated discount rate, or assume rate of return, over the past 15 years.
- CalPERS expects retirees to live longer.

As of June 30, 2021, CalPERS reported a preliminary 21.3% net return on investments in the 12-month period, which lagged behind the fiscal year total fund benchmark of 21.7%.

Under the Funding Risk Mitigation Policy, approved by the CalPERS Board of Administration in 2015, the double-digit return will trigger a reduction in the discount rate used to calculate employer and Public Employees' Pension Reform Act (PEPRA) member contributions. The discount rate, or assumed rate of return, will drop to 6.8% from its current level of 7%.

The Funding Risk Mitigation Policy lowers the discount rate in years of good investment returns. This is the first time it has been triggered.

The 21.3% fiscal year return for the Public Employees' Retirement Fund (PERF) were driven by Private Equity and Public Equity, with net returns of 43.8% and 36.3%, respectively.

Based on these preliminary fiscal year returns, the funded status of the overall PERF is an estimated 82%. This estimate is based on a 7% discount rate. Under the new 6.8% discount rate, however, the funded status of the overall PERF drops to 80%. This is because existing assets are assumed to grow at a slightly slower rate annually into the future. As intended under the Funding Risk Mitigation Policy, the lower discount rate increases the likelihood CalPERS can reach its target over the longer term.

This year's return brings total fund performance to 10.3% for the five-year time period, 8.5% for the 10-year time period, and 6.9% for the 20-year time period. Over the past 30 years, the PERF returned annualized return of 8.4%.



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, 2018. Additionally, in the FY 2019/20, The City issued a pension obligation bond to help reduce future pension contributions. The following lists the required unfunded liability contribution component per plan for FY 2021/22:

- Miscellaneous Plan – Unfunded Liability Payment of \$10,825
- Safety Plan – Unfunded Liability Payment of \$10,749

On June 22, 2021, the City Council adopted the City's Fiscal Year 2021-22 Annual Budget comprised of \$1.2 billion in funding for citywide operations and \$116 million for capital projects. The FY 2021-22 one-year budget is a bridge between the FY 2020-21 Emergency Budget developed during the pandemic and the upcoming FY 2022-24 Biennial Budget which will embrace the concepts of Priority Based Budgeting (PBB) to align City resources more closely with the strategic priorities outlined in the City's Strategic Plan 2025.

The General Fund Budget for fiscal year 2021-22 of approximately \$287 million was adopted. It represents an increase from the prior year of approximately 6.6%.

### **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.