



January 26, 2023

To the Honorable Mayor, Members of the City Council and Citizens of the City of Riverside:

It is our pleasure to submit the Annual Comprehensive Financial Report (ACFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2022.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a rational basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Lance, Soll & Lunghard, LLP a firm of certified public accountants. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion on the City's financial statements for the fiscal year ended June 30, 2022. The independent auditor's report is presented as the first component of the financial section of this ACFR.

The independent audit of the financial statements of the City was part of the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on internal controls and compliance with legal requirements, with emphasis on those involving the administration of federal awards/grants. These reports will become available in the City's separately issued Single Audit Report.

Management has provided an overall analysis of the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with this section. The City's MD&A can be found immediately following the independent auditor's report.

Profile of the City of Riverside

The City of Riverside, incorporated on October 11, 1883, is located in the western portion of Riverside County, about 60 miles east of Los Angeles. The City currently occupies a land area of 81.507 square miles.

The City operates under the council-manager form of government, with a seven-member council elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the Council but does not have a vote except in the case of a tie. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney, and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The Council is elected on a non-partisan basis.

The City provides a full range of services which include general government, public safety (police, fire, disaster preparedness and building inspection), construction and maintenance of highways and streets, economic development, culture and recreation, electric, water, airport, refuse, sewer, and senior citizen/handicap transportation. In addition to general City activities, the Council is financially accountable for the Riverside Housing Authority, Riverside Public Financing Authority, Riverside Municipal Improvements Corporation and the Successor Agency, which was formed to hold the assets of the former Redevelopment Agency; therefore, these entities are included as an integral part of the City's financial statements. Additional information on these legally separate entities can be found in Note 1 in the Notes to Basic Financial Statements.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue, and capital project funds. Formal budgets are not employed for debt service funds because debt indenture provisions specify payments. The permanent fund is not budgeted.

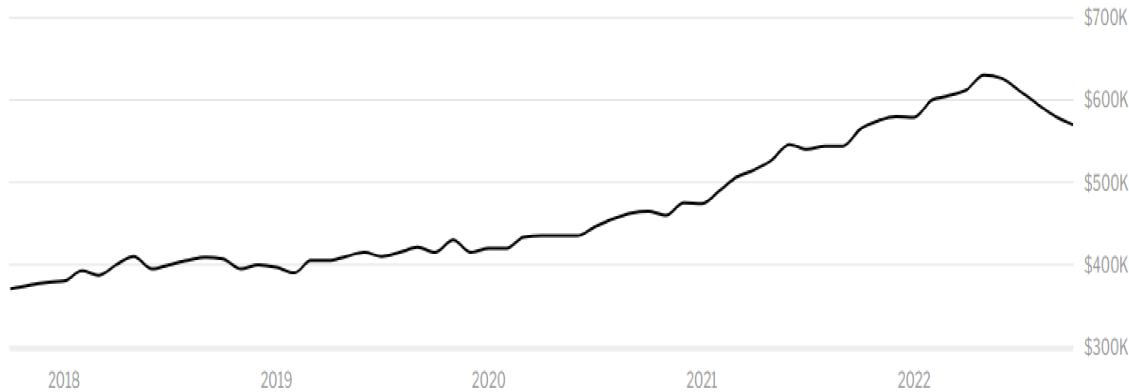
Biennially, during the period December through February, department heads prepare estimates of required appropriations for the following two-year budget cycle. These estimates are compiled into a proposed operating budget that includes a summary of proposed expenditures and financial resources and historical data for the preceding budget cycle. At least thirty-five days prior to the beginning of the fiscal year, City Manager provides the proposed budget, in writing, to the City Council for review. The operating budget is presented by the City Manager to the City Council for review. Following Council review, a public hearing is set to obtain citizen comments. The City Council generally conducts the public hearing and adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department and fund over the course of the fiscal year. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations within a fund. All appropriations shall lapse at the end of the fiscal year to the extent they have not been expended or lawfully encumbered, except for appropriations for capital projects which shall continue to their completion. For the general fund, this comparison is presented on page 24 as part of the basic financial statements for the governmental funds. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which begins on page 90.

Local economy: The City is located in Inland Southern California, which consists of Riverside and San Bernardino Counties (the "MSA"). The population of Inland Southern California, at approximately 4.6 million, is larger than 25 states. The City leads the Inland Southern California in most measures of economic power, including population, income, employment, bank deposits, assessed valuation, office space and college enrollment. The population of the City is 317,847 which places it as the 12th largest in California.

The City of Riverside saw a reduction in the unemployment rate from 5.6% as of September 2021 to 3.2% as of September 2022. The City's unemployment rate remains lower than the State of California (3.7%), the County of Riverside (4%), and the United States (3.3%). The primary drivers for the increase in employment in the Riverside metro area nonfarm payrolls were from the trade, transportation, and utilities; leisure and hospitality; professional and business services; and education and health services industries, which saw increases from September 2021 to September 2022.

Consumer prices continue to increase at levels not seen in decades. The Riverside metro area saw an overall increase in the consumer price index of 8.4% as of September 2022 compared to a 8.2% overall increase in the United States city average. The Riverside metro area saw food prices soar 11.5% and energy prices rise 23.6% as of September 2022 compared with 11.2% and 19.8% for the United States city average, respectively.

In October 2022, Riverside home prices were up 0.9% compared to last year, selling for a median price of \$570,000. However, homes are taking longer to sell and the volume of home sales has decreased. On average, homes in Riverside currently sell after 37 days on the market compared to 28 days last year, and only 203 homes were sold in October 2022, down from 309 last year, a decrease of 34.3%.



Based on Redfin calculations of home data from MLS and/or public records.

Goals and Vision: On October 20, 2020, Council approved the Envision Riverside 2025 Strategic Plan, which is comprised of two components:

1. City Council Strategic Policy, which sets forth the priorities and policy direction of the City Council to advance Riverside’s potential and to frame the work efforts over the next five years including Vision, Cross-Cutting Threads, Strategic Priorities, Indicators and Goals; and
2. Operational Workplan, which sets forth envisioned actions to be carried out by City staff to implement the City Council Strategic Policy, as well as related metrics to track the trendlines of progress toward achieving City Council priorities and includes the Actions and Performance Measures which will be evaluated and updated by the City Manager on an as-needed basis in conjunction with the City’s budget cycle.

Envision Riverside 2025 Strategic Plan Vision: Riverside is a city where every person is respected and cherished, where equity is essential to community well-being, where residents support one another, and where opportunities exist for all to prosper. In Riverside, everyone comes together to help the community, economy and environment reach their fullest potential for the public good.

Cross-Cutting Threads: Major themes that should be reflected in all our outcomes include Community Trust, Equity, Fiscal Responsibility, Innovation, and Sustainability and Resiliency.

Strategic Priorities and Indicators

Arts, Culture and Recreation Indicators:

- Lifelong Learning
- Shared Uses and Partnerships
- Arts and Cultural Opportunities
- Access to Parks, Trails and Open Spaces
- Programs and Amenities

Community Well-Being Indicators:

- Housing Supply and Attainability
- Public Safety
- Public Health
- Placemaking
- Homelessness
- Household Resilience

Economic Opportunity Indicators:

- Workforce Development
- Business Development and Success
- Local Investment
- Regional Partnerships
- Economic Mobility

Environmental Stewardship Indicators:

- Water Quality, Supply, Efficiency and Reliability
- Climate Resiliency, Carbon Footprint and Air Quality
- Usage, Condition and Quality of Public Lands
- Local Food System Vitality
- Environmental Justice
- Renewable Resource Usage and Waste Reduction

High Performing Government Indicators:

- Community Centered Services
- Adaptive Organization
- Financial Health
- Equity in Delivery of City Services
- Civic Engagement
- City Team Engagement

Infrastructure, Mobility, and Connectivity Indicators:

- Access to Transportation Choices
- Infrastructure Quality and Reliability
- Outside Investment
- Smart City Ecosystem
- Greening Facilities, Fleet and Systems

As the City implements Priority Based Budgeting strategies, which will guide the budget development process for future fiscal years, the City Council's Strategic Priorities will play a critical role in helping the City make decisions on how to allocate resources.

Long-term financial planning: The City continues to recover from the COVID-19 pandemic. Sales tax has seen increases in fiscal years 2021 and 2022 following a decrease caused by the pandemic in fiscal year 2020. Service revenues have also seen increases as venues began to fully open throughout the City. However, the increase in revenues have been shadowed by high inflation and corresponding Federal Reserve interest rates hikes used as a tool to reduce the impact of rising prices.

The City proposed the fiscal year 2022-2024 Biennial Budget totals approximately \$1.36 billion in fiscal year 2022/23 and \$1.32 billion in fiscal year 2023/24, including the City's operating budget and planned capital projects. Two primary goals were established for the fiscal year 2022-2024 budget development cycle:

1. Leverage Priority Based Budgeting (PBB) to identify and reallocate funding to critical unfunded needs.

During budget development and departments' evaluation of their operational and financial needs, departments identified additional critical needs. Those needs were described through the lens of PBB, including relating the requests to existing programs and answering fundamental questions to assess the level of criticality of the need:

- How is this a critical unfunded need?
- What is the impact to operations should this budget request not be approved?
- How does this request benefit City stakeholders?

2. Implement a financing strategy of planned contributions and withdrawals to/from the Section 115 Trust to smooth the annual fiscal impact of the combined CalPERS unfunded accrued liability (UAL) and 2020 Pension Obligation Bond payments.

Staff analyzed the unfunded accrued liability (UAL) payment schedule per the CalPERS actuarial report and the pension obligation bond (POB) payment schedule and determined a feasible amount and optimal series of Section 115 Trust contributions and withdrawals to smooth the fiscal impact of the payment obligations.

The proposed smoothing will result in level payments of \$37,925,000 annually for a period of 12 years, from fiscal year 2024/25 through fiscal year 2035/36. The City Council approved a \$10 million contribution to the Section 115 Trust from fiscal year 2020/21 excess reserves. Contributions totaling nearly \$12 million are incorporated into the proposed fiscal year 2022-2024 Biennial Budget, with \$11 million occurring in fiscal year 2023/24 made possible by the payoff of the 2004 Safety POB in fiscal year 2022/23. The combination of current reserves and the proposed contributions will build the Section 115 Trust Fund to a balance of approximately \$40 million which is projected to be sufficient to smooth the volatile required liability payments over the course of 12 years. Contributions totaling \$34.4 million over five years are included in the General Fund Five-Year Financial Plan. It is important to note that the required UAL contributions will vary based on actual CalPERS investment returns; Section 115 Trust contributions will help to smooth the fiscal impact of spikes in the required UAL payments in future years.

American Rescue Plan Act (ARPA): On March 11, 2021, President Biden passed the \$1.9 trillion American Rescue Plan Act (ARPA) sending checks to families and offering small business support to drive up demand and counter the country's high unemployment. The ARPA established the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund, which provide a combined \$350 billion in assistance to eligible state, local, territorial, and Tribal governments to assist in the recovery from economic and health impacts of the COVID-19 pandemic by providing resources to address impacts resulting from the crisis. The City received one-time funding of approximately \$73.5 million from ARPA with the first installment of \$36.7 million received in June 2021 and \$36.8 million received in June 2022. The City may use the funds to best support the needs of the community providing the use of the funds aligns with one of the following four statutory categories:

1. To respond to the COVID-19 public health emergency or its negative economic impacts;
2. To respond to workers performing essential work during COVID-19 public health emergency by providing premium pay to eligible workers of the recipient that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
3. For the provision of government services, to the extent of the reduction in the revenue of such recipients due to the COVID-19 public health emergency, relative to revenues collected in the most recent full fiscal year of the recipient prior to the emergency; or
4. To make necessary investments in water, sewer, or broadband infrastructure.

On November 9, 2021, the City Council approved the ARPA funding Expenditure Category Plan for the first allocation in the amount of \$36.7 million following the Interim Final Rule guidelines. The approval by Council for the ARPA funding Expenditure Category Plan for the second allocation of \$36.7 million is in progress.

1. Public Health	\$ 1,086,250	2.95 %
2. Negative Economic Impacts	12,270,000	33.37
3. Services to Disproportionately Impacted Communities	13,120,000	35.68
4. Premium Pay	-	-
5. Infrastructure	2,500,000	6.80
6. Revenue Replacement	7,525,000	20.47
7. Administration	266,344	0.72
Total	<u>\$ 36,767,594</u>	<u>100.00 %</u>

The Final Rule was issued on January 6, 2022 and became effective on April 1, 2022. Some key changes include:

- The final rule offers a standard allowance for revenue loss of \$10 million, allowing recipients to select between a standard amount of revenue loss or complete a full revenue loss calculation
- In some cases, enumerated eligible uses included in the interim final rule under responding to the public health emergency have been re-categorized in the organization of the final rule to enhance clarity
- In addition to programs and services, the final rule clarifies that recipients can use funds for capital expenditures that support an eligible COVID-19 public health or economic response
- The final rule provides an expanded set of households and communities that are presumed to be “impacted” and “disproportionately impacted” by the pandemic, thereby allowing recipients to provide responses to a broad set of households and entities without requiring additional analysis
- The final rule provides a broader set of uses available for these communities as part of COVID-19 public health and economic response in all impacted communities and making certain community development and neighborhood revitalization activities eligible for disproportionately impacted communities
- The final rule also allows for a broader set of uses to restore and support government employment, including hiring above a recipient’s pre-pandemic baseline, providing funds to employees that experienced pay cuts or furloughs, avoiding layoffs, and providing retention incentives.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (Program) to the City for its annual comprehensive financial report (ACFR) for the fiscal year ended June 30, 2021. This was the sixteenth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized ACFR that satisfied both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements. This award is valid for a period of one year only. We believe that our current ACFR continues to meet the Program’s requirements and we are submitting it to the GFOA again this year.

The Government Finance Officers Association (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City

for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2021. The City received the award for the fifth time for the June 30, 2021 report and has continued to prepare an award-winning report. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. The Award is valid for a period of one year only. We believe that our current PAFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

The City received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2021. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communication device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department and oversight from the City Manager's Office. We would like to express our appreciation to all members of the department who assisted and contributed to its preparation. Credit also must be given to the Budget Engagement Commission and the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Edward Enriquez

Chief Financial Officer/City Treasurer