

October 31, 2017

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

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2017.

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 of 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 Macias Gini & O'Connell 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, 2017. The independent auditor's report is presented as the first component of the financial section of this CAFR.

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 are 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.

The annual budget serves as the foundation for the City's financial planning and control. Consistent with the City's Charter, the City Manager presents the proposed budget to the City Council for review at least thirty-five calendar days prior to the beginning of each fiscal year. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, which is the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the approval of the Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 25 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 75.

**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 4.2 million, is larger than 24 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 326,792 which places it as the 12<sup>th</sup> largest in Southern California.

Unemployment in the MSA is currently at 6.1% down from 6.6% for the same period last year with modest improvements in the real estate and home building sectors.

The MSA is projected to grow in future years because land values continue to remain well below those in Los Angeles, Orange and San Diego Counties. Among the City's challenges is a lack of available space for manufacturing and industrial development within current boundaries.

**Goals and Vision:** Through various strategic planning workshops the City Council identified the following seven strategic priorities for the City:

- **Enhanced Customer Service – Improved quality of life**
- **Economic Development – Continue to develop an economically vibrant City**
- **Community Services – Provide appealing, accessible and safe venues**
- **City Transportation Program – Continue to develop efficient transportation systems and provide affordable options for community mobility**
- **Improve Housing Diversity and Options**
- **Improve Teamwork and Communication**
- **Reduce Taxpayer Liability and Reduce Costs Wherever Possible**

As a result of the development of the seven strategic priorities, the Riverside 2.0 Strategic Plan was formed to implement the vision. The purpose of the Riverside 2.0 Strategic Plan is to advance the City of Riverside's mission statement: *The City of Riverside is committed to providing high quality municipal services to ensure safe, inclusive, and livable community.* Additionally, the Riverside 2.0 Strategic Plan is intended to advance *Seizing Our Destiny* which is Riverside's community-driven campaign that builds on the city's existing strengths to create an even better place to live, work and play for future generations. The Seizing Our Destiny Campaign was developed by City officials and civic leaders and encompasses a 20-year strategic vision that mobilizes the skills and resources of a broad cross-section of Riverside toward one common goal – a better community for us all. The goal, or Vision, has four primary aspects for Riverside:

- **Nurture Intelligent Growth**
- **Catalyst for Innovation**
- **Location of Choice**
- **Evolve as a Unified City**

Riverside 2.0 also includes five effective government principles that are reinforced through management's actions:

- **Accountability**
- **Transparency**
- **Responsiveness**
- **Financial Prudence**
- **Decisiveness**

The City is in the initial implementation phase of the Strategic Plan and provides the City Council with periodic updates until the goals of the Strategic Plan have been fully implemented which is anticipated to be in several years.

**Long-term financial planning:** For the fiscal year (FY) 2016-17 and 2017-18 Budget Cycle, the City's first two-year budget in the context of a five-year financial plan was presented. It is a process designed to bring enhanced transparency to the City's finances, operations and strategic goals both internally with employees and departments, and externally with the residents and businesses. For the first time, the City's budget included a comprehensive Five-Year Capital Improvement Program (CIP) document as a separate section which serves as a framework for policy decisions on the two-year budget as well as in the future. Among other things, the five-year plan allows the City to illustrate fiscal impacts of budget decisions on the General Fund Reserves through June 30, 2021.

The first two years included anticipated funding source for 87 projects in FY 2016-17 and 70 projects in FY 2017-18. The funded CIP projects are incorporated into the City's proposed FY 2016-18 Biennial Budget. The last three years of the CIP plan, from FY 2018-19 through 2020/21, contain projects that are anticipated to be funded during the term of the Five-Year CIP Plan.

The CIP two-year budget is \$93 million for FY 2016-17 and \$65 million for FY 2017-18. The CIP five-year plan presents a \$348 million planned CIP revenue and expenditure budget for FY 2016-17 through FY 2020-21. The proposed CIP responds to the needs of our residents to ensure the streets, public buildings, sewer, water, and electric infrastructure, and parks are well maintained and operated for optimum health and safety, added value, increased efficiency and functionality, enhanced attractiveness and beautification, and compliance to legal mandates. The CIP document places equal emphasis on planning for new projects as well as improving and preserving existing capital assets.

Also for the first time, the City's CIP document includes a list of Unfunded CIP Projects. This is an initial attempt to identify and quantify the City's true CIP needs - not only in the short term, but also in the long term. Although the list is comprehensive and reflects a good assessment of the City's needs, it is by no means a complete list as more work needs to be done in the coming years to refine this list, create guidelines to prioritize projects, and prepare a strategic approach to fund and complete these unfunded projects.

**Measure Z:** Measure Z is a one-cent transaction and use tax, with revenues going directly to the City of Riverside. Measure Z was approved by voters on November 8, 2016 to help pay for critical unfunded City programs and services, such as public safety, prevention of homelessness, road maintenance and tree trimming, recreation and parks, and more. The one-cent increase in sales tax is estimated to generate between \$48 million and \$52 million annually specifically for the City of Riverside's General Fund, which pays for most services.

The City began receiving these revenues in May-June 2017, with the anticipated collection of approximately \$12 million in FY 2016-17 and the entire years' worth of \$50 million in FY 2017-18. On May 16, 2017, the City Council approved a Measure Z Spending Plan, which appropriated \$9.5 million in FY 2016-17 and \$20.5 million in FY 2017-18 to cover the projected General Fund shortfalls and increase the General Fund Reserves to 15% in the first year, and 20% in the second year.

**General Fund Restructuring:** As part of the Mid-Cycle Budget Update, staff analyzed all General Fund activity and determined that restructuring of the General Fund for FY 2017-18 was required in order to provide for greater transparency between true General Fund activity and other financial activity that has historically been in the General Fund. New funds have been established for Civic

Entertainment and Special Districts. While the majority of these items are self-supported by specific revenues, certain operations will require a General Fund operating transfer to ensure expenditures are supported by revenues. These changes reduce the size of the General Fund by approximately \$19.1 million, from \$275.7 million based on projections to \$256.6 million. This may reduce the transfer of Measure Z funds to the General Fund at the end of FY 2017-18 to maintain a 20% reserve

Finally, staff consolidated three separate debt funds into one general government debt fund. While this does not reduce the size or financial requirements of the General Fund, it was a necessary measure to ensure transparency.

**Financial policies:** Fiscal policies establish framework for managing the City's financial resources and safeguarding the City's assets in compliance with relevant regulatory mandates, industry standards, and best practices. Maintaining healthy reserves in the General Fund, and other Funds as well, is a critical component of the City's sound financial management practices. As a result, the City formally adopted a General Fund, Water Fund, Sewer Fund and Electric Fund reserve policy; the City is in the process of adopting a Self-Insurance Trust Fund reserve policy. The policy establishes minimum required reserve balances for each of those funds.

The City's General Fund Reserve Policy, adopted by the City Council on September 6, 2016, requires maintaining the General Fund reserve at 15%. The City Council set an aspiration goal of the General Fund Reserve at 20%; this goal was recently reaffirmed through adoption of the "Responsible Spending Vision Pledge" on October 4, 2016.

**Budget Engagement Commission (BEC):** On January 10, 2017, the City Council adopted the final reading of an ordinance to establish the BEC. The purpose of BEC is to advise the City Council on spending and policy priorities based on the information received through quarterly financial and performance reports, including revenues from Measure Z. The BEC will also work with staff to maximize public engagement on municipal budgetary issues.

The BEC is composed of 18 members, consisting of 1) nine resident members, with seven nominated by each of the Council members to represent each of the City's wards, and two Citywide nominations made by the Mayor; and 2) nine business members, with seven nominated by each of the Council members who own a business in their ward or live in their ward or own a business in any ward, and two Citywide nominations made by the Mayor. BEC members were appointed on February 14, 2017.

### **Awards and Acknowledgements**

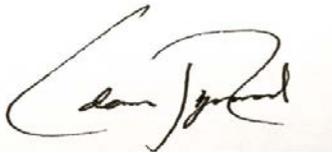
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (Program) to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2016. This was the twenty-eighth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized CAFR 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 CAFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

Budget Presentation Award: The City received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2016. 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 Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam Raymond", is centered on a light-colored rectangular background.

Adam Raymond  
Chief Financial Officer/City Treasurer