

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, 2020. 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, Refuse.

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 81-84 in this report.

The City adopted an annual appropriated budget for its General Fund for the Year ended June 30, 2020. 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, and the combining statement for the agency fund can be found on page 102.

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 presented in Thousands)

	Governmental Activities		Business type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 403,430	\$ 377,554	\$ 768,306	\$ 786,344	\$ 1,171,736	\$ 1,163,898
Capital assets, net	1,250,038	1,254,650	1,971,688	1,975,974	3,221,726	3,230,624
Total assets	1,653,468	1,632,204	2,739,994	2,762,318	4,393,462	4,394,522
Deferred outflows of resources	434,386	114,079	192,756	77,646	627,142	191,725
Current liabilities	57,827	59,495	55,635	86,463	113,462	145,958
Long-term liabilities	1,140,370	780,068	1,743,630	1,619,227	2,884,000	2,399,295
Total liabilities	1,198,197	839,563	1,799,265	1,705,690	2,997,462	2,545,253
Deferred inflows of resources	23,082	33,672	33,674	44,543	56,756	78,215
Net Position						
Net investment in capital assets	1,081,991	1,102,837	751,865	867,206	1,833,856	1,970,043
Restricted	153,806	126,551	75,170	67,057	228,976	193,608
Unrestricted	(369,222)	(356,340)	272,776	155,468	(96,446)	(200,872)
Total net position	\$ 866,575	\$ 873,048	\$ 1,099,811	\$ 1,089,731	\$ 1,966,386	\$ 1,962,779

The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,966,386 at June 30, 2020, an increase of \$3,607 from June 30, 2019.

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 11% 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, \$272,776 is held by the business-type activities and \$(369,222) net deficit is held by the governmental activities.

Unrestricted net position in the amount of \$(96,446), a net position increase of 52% 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 \$6,473 to \$866,575 for the year ended June 30, 2020.

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, 2020 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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(Amount presented in Thousands)

	Governmental Activities		Business type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charge for services	\$ 38,060	\$ 45,225	\$ 546,945	\$ 539,676	\$ 585,005	\$ 584,901
Operating Grants and Contributions	21,779	23,966	3,473	3,093	25,252	27,059
Capital Grants and Contributions	19,945	27,450	13,979	10,607	33,924	38,057
General Revenues:						
Sales taxes	128,653	130,645	-	-	128,653	130,645
Property taxes	72,609	69,478	-	-	72,609	69,478
Other taxes and fees	40,446	40,428	-	-	40,446	40,428
Investment income	10,185	7,500	19,838	19,488	30,023	26,988
Other	9,802	156	8,211	10,322	18,013	10,478
Total Revenues	<u>341,479</u>	<u>344,848</u>	<u>592,446</u>	<u>583,186</u>	<u>933,925</u>	<u>928,034</u>
Expenses:						
General government	63,651	51,139	-	-	63,651	51,139
Public safety	222,061	201,942	-	-	222,061	201,942
Highways and streets	46,983	43,770	-	-	46,983	43,770
Culture and recreation	37,400	31,200	-	-	37,400	31,200
Interest on long-term debt	13,181	10,045	-	-	13,181	10,045
Electric	-	-	350,667	347,804	350,667	347,804
Water	-	-	73,742	70,912	73,742	70,912
Sewer	-	-	62,961	70,137	62,961	70,137
Airport	-	-	2,304	1,972	2,304	1,972
Refuse	-	-	26,549	24,205	26,549	24,205
Transportation	-	-	4,607	4,493	4,607	4,493
Public Parking	-	-	4,628	5,151	4,628	5,151
Civic Entertainment	-	-	21,584	24,151	21,584	24,151
Total expenses	<u>383,276</u>	<u>338,096</u>	<u>547,042</u>	<u>548,825</u>	<u>930,318</u>	<u>886,921</u>
Increase (decrease) in net position	(41,797)	6,752	45,404	34,361	3,607	41,113
Transfers, net	<u>35,324</u>	<u>37,115</u>	<u>(35,324)</u>	<u>(37,115)</u>	<u>-</u>	<u>-</u>
Total changes in net position	<u>(6,473)</u>	<u>43,867</u>	<u>10,080</u>	<u>(2,754)</u>	<u>3,607</u>	<u>41,113</u>
Net position - beginning, as previously stated	<u>873,048</u>	<u>841,579</u>	<u>1,089,731</u>	<u>1,080,087</u>	<u>1,962,779</u>	<u>1,921,666</u>
Prior period adjustment	<u>-</u>	<u>(12,398)</u>	<u>-</u>	<u>12,398</u>	<u>-</u>	<u>-</u>
Net position - beginning, as restated	<u>873,048</u>	<u>829,181</u>	<u>1,089,731</u>	<u>1,092,485</u>	<u>1,962,779</u>	<u>1,921,666</u>
Net position - ending	<u>\$ 866,575</u>	<u>\$ 873,048</u>	<u>\$ 1,099,811</u>	<u>\$ 1,089,731</u>	<u>\$ 1,966,386</u>	<u>\$ 1,962,779</u>

Governmental activities. Total change in net position for governmental activities decreased by \$(6.5) million while prior fiscal year increased by \$31.5 million. Key elements of this year's activity in relation to the prior year are as follows:

Revenues:

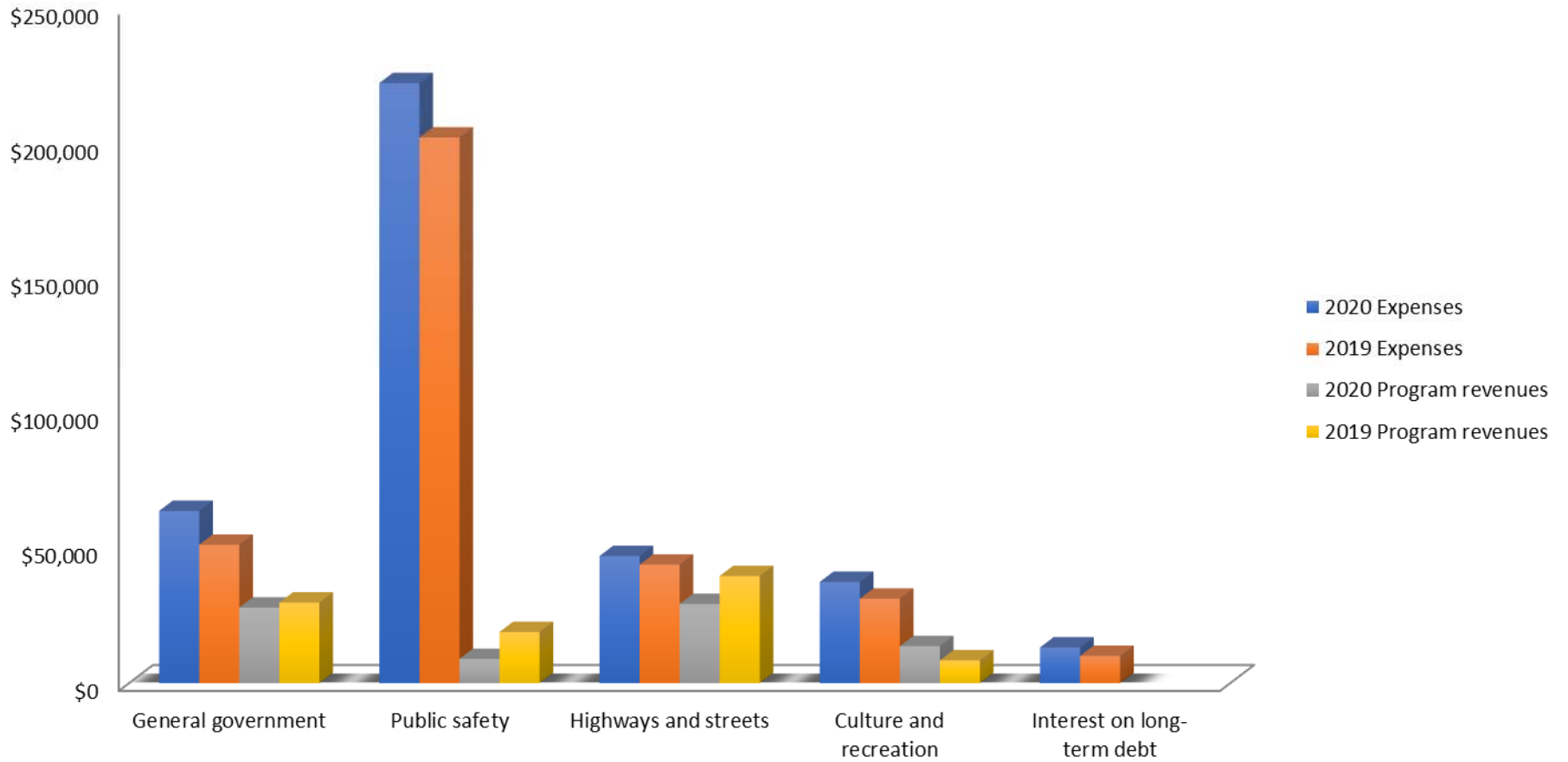
- While variances between years exist for the various revenue categories, the total net decrease was approximately \$(3.4) million or (1%), which is largely attributable to a decrease in charges for services, capital grants and contributions, as well as a decrease in sales tax. The decrease in capital grants and contributions of (27%) is largely due to a decrease of revenue for housing development projects compared to prior year.

Expenses:

- While variances between years exist for the various expense functions, the total net increase was approximately \$45.2 million or 12%. This is primarily related to an increase of approximately \$18.6 million in pension expense related to the annual recording of the City's pension liability; \$14.4 million of the increase in pension expense was related to public safety. In addition, a \$12.2 million increase is related to noncapitalized equipment and supplies expenses.

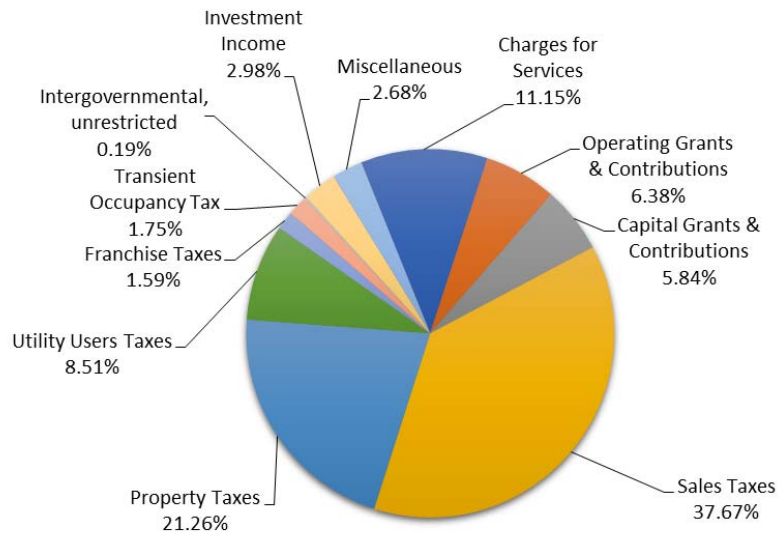
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Program Revenues and Expenses – Governmental Activities – Fiscal Year Comparison 2020 vs. 2019

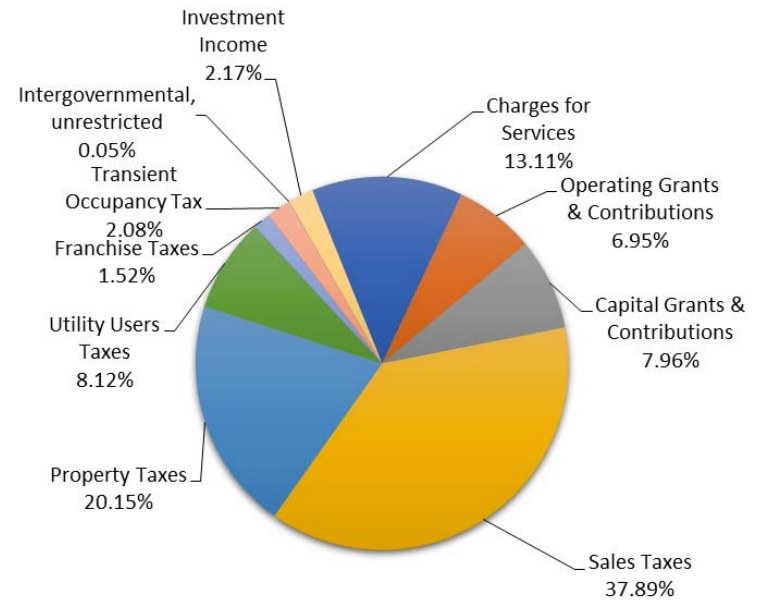


Revenues by Source – Governmental Activities – Fiscal Year Comparison 2020 vs. 2019

2020



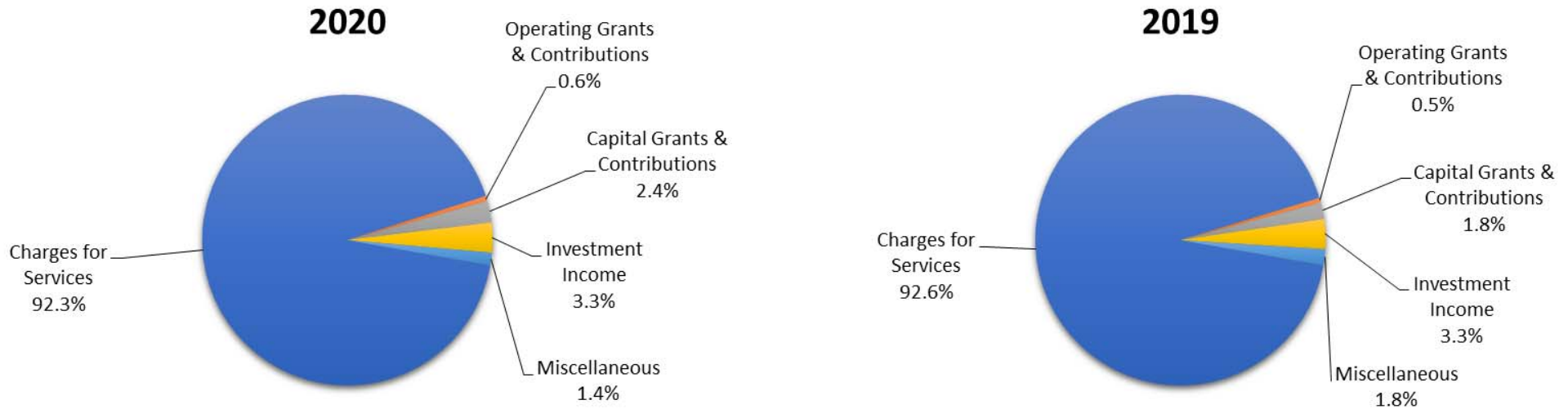
2019



Business-type activities. Total net position for business-type activities increased by \$10.1 million while prior fiscal year increased by \$9.6 million. 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 \$7.3 million or 1.4%. Water charges for services increased \$5 million due to increases in consumption and water conveyance revenue and Electric Fund charges for services increased by \$5.4 million primarily due to an increase in consumption of electricity. Conversely, the Civic Entertainment Fund charges for services decreased by \$4.7 million due to the COVID-19 pandemic and the entertainment venues inability to hold events given the Governor’s orders.
- Overall expenses decreased by \$(1.8) million or (0.3%). The Electric and Water Funds had increased operating expenses of \$2.9 million and \$2.8 million, respectively. While the Sewer Fund showed a decrease of \$(7.2) million. The majority of the decreases are due to interest expense on bond debt and the majority of the increases are due to increased personnel services 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.

(Amounts presented in Thousands)

	General Fund		Capital Outlay Fund		General Debt Service		Other Governmental Funds		Total Governmental Funds	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Total assets	\$ 172,931	\$ 161,791	\$ 64,886	\$ 73,977	\$ 13,421	\$ 10,856	\$ 105,538	\$ 95,673	\$ 356,776	\$ 342,297
Total liabilities	\$ 35,513	\$ 35,999	\$ 5,657	\$ 3,383	\$ 2,211	\$ 3,997	\$ 13,167	\$ 7,130	\$ 56,548	\$ 50,509
Deferred inflows of resources										
Unavailable revenue	3,549	4,625	211	117	-	34	42,898	43,908	46,658	48,684
Fund balances										
Nonspendable	1,446	949	-	-	-	-	1,510	1,560	2,956	2,509
Restricted	10,699	3,411	59,018	70,477	11,210	6,825	47,990	43,075	128,917	123,788
Committed	59,280	65,916	-	-	-	-	-	-	59,280	65,916
Assigned	21,260	26,984	-	-	-	-	-	-	21,260	26,984
Unassigned	41,184	23,907	-	-	-	-	(27)	-	41,157	23,907
Total fund balance	133,869	121,167	59,018	70,477	11,210	6,825	49,473	44,635	253,570	243,104
Total liabilities, deferred inflows and fund balances	\$ 172,931	\$ 161,791	\$ 64,886	\$ 73,977	\$ 13,421	\$ 10,856	\$ 105,538	\$ 95,673	\$ 356,776	\$ 342,297

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$253,570 an increase of \$10,466 compared to the prior year. Additionally, 1% of the fund balance \$2,956 is *nonspendable*, which comprises the portion of fund balance that cannot be spent due to form. \$128,917 or 51% 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 \$59,280 or 23% of the fund balance was set aside for economic contingencies. Committed for economic contingencies consists of 20% of the 2020-21 General Fund adopted expenditure budget of \$271,400 or \$54,280 and \$5,000 for General Fund – Measure Z. \$21,260 or 8% 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 \$41,157 or 16% is *unassigned*, meaning it is

available for spending at the City's discretion. The City's governmental funds reported combined total assets of \$356,776 at June 30, 2020, an increase of \$14,479 compared to the prior year. Liabilities and deferred inflows of resources amounted to \$103,206, an increase of \$4,013 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 \$133,869, in comparison to \$121,167 in the prior year. The increase in fund balance is due to increased property tax revenues, utility users tax revenue, and the cost saving efforts by departments during the current year. The Capital Outlay Fund is used to account for the acquisition or construction of major capital facilities. The total fund balance was \$59,018, compared to \$70,477 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 \$11,210, compared to \$6,825 in prior year. The increase was due to payments made on long-term bonds. The Other Governmental Funds are made up of various non-major funds. The fund balance was \$49,473, compared to \$44,635 in prior year. The increase was mainly due to the increase in the Gas Tax Special Revenue Fund of \$4,227 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 \$221,466, \$(1,210), and \$57,371 respectively. The unrestricted net position for the Electric, Water and Sewer Funds in the prior year was \$206,963, \$1,358, and \$42,101, respectively. The increase in unrestricted net position of the Electric Fund was primarily attributable to the positive operating results. The decrease in unrestricted net position of the Water Fund was primarily attributable to interest expenses and fiscal charges. The increase in unrestricted net position for the Sewer Fund is primarily a result of operating activities as described below.

Electric Fund retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$308,823, a \$4,651 (1.5%) increase. Retail sales continue to be the primary revenue source for the Electric Utility. The increase in sales was primarily due to an increase in residential sales and rate plan increases, offset by a decrease in commercial and industrial sales. Transmission revenues of \$34,817 decreased by \$913 (2.6%), primarily due to a slight decrease in the load requirements and a decrease in the average Transmission Revenue Requirement rate of \$0.32 per megawatt hour. Investment income of \$14,032 increased by \$660 (4.9%) due to a higher overall interest rate in the current fiscal year.

The Water Fund retail sales (residential, commercial, industrial, and others), net of uncollectibles/recovery, totaled \$61,683, an increase of \$4,078 (7.1%) from prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility. The increase was due to a 1.5% increase in consumption.

Net position of the Sewer Fund increased by \$6,956 for the year ended June 30, 2020 and increased \$3,390 for the year ended June 30, 2019. The increase was mainly due to decreased interest expense and fiscal chargers from prior year of \$7,111.

General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	<u>\$268,630</u>	<u>\$270,136</u>	<u>\$277,428</u>	<u>\$7,292</u>
Expenditures:				
General Government	22,412	34,865	10,740	24,125
Public Safety	196,814	205,564	193,768	11,796
Highways & Streets	21,466	21,898	21,536	362
Culture & Recreation	32,121	34,637	28,078	6,559
Capital Outlay	264	1,179	761	418
Debt Service	-	-	98	(98)
Total Expenditures	<u>273,077</u>	<u>298,143</u>	<u>254,981</u>	<u>43,162</u>
Excess (deficiency) of revenues over (under) expenditures	(4,447)	(28,007)	22,447	50,454
Other financing sources	<u>575</u>	<u>(7,075)</u>	<u>(9,745)</u>	<u>(2,670)</u>
Net change in fund balances	(3,872)	(35,082)	12,702	47,784
Fund balance - beginning	<u>121,167</u>	<u>121,167</u>	<u>121,167</u>	<u>-</u>
Fund balance - ending	<u>\$117,295</u>	<u>\$86,085</u>	<u>\$133,869</u>	<u>\$47,784</u>

The primary reason for final budgeted revenues and expenditures increasing from the Original Budget is a result of grant and project related appropriations.

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

Actual expenditures were less than final budgeted amounts by approximately \$43.2 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, 2020 amounted to \$3,221,726 (net of accumulated depreciation). This investment includes land, intangibles, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City's net capital assets for the current fiscal year was \$(8,898); a decrease of \$(4,612) for governmental activities and a decrease of \$(4,286) for business-type activities.

Major capital improvements during the current fiscal year included ongoing projects: consisting primarily of roads of \$12 million; sewer mains of \$20 million; \$16.5 million in Water Utility projects primarily related to main replacements, distribution system facilities replacement, system expansion, well projects and pump station replacements and meters; and \$40.3 million in Electric Utility capital improvements primarily related to transformer replacements, improvements to the city-wide communications network, new 230 kV station expenditures, transformer additions and substation upgrades, advanced metering infrastructure, and major streetlight projects.

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

(Amount presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$338,504	\$336,997	\$99,985	\$98,601	\$438,489	\$435,598
Construction in progress	68,398	49,288	104,990	114,904	173,388	164,192
Buildings	72,053	76,046	482,697	493,581	554,750	569,627
Improvements other than Buildings	117,693	128,288	1,218,014	1,199,740	1,335,707	1,328,028
Machinery and equipment	34,825	34,655	32,091	32,362	66,916	67,017
Intangibles	3	43	33,911	36,786	33,914	36,829
Infrastructure	618,562	629,333	-	-	618,562	629,333
Total	\$1,250,038	\$1,254,650	\$1,971,688	\$1,975,974	\$3,221,726	\$3,230,624

Additional information on the City’s capital assets can be found in note 5 on page 46 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$2,108,982 which includes bonded debt of \$1,911,768.

City of Riverside's Long-Term Debt

(Amounts presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenue bonds	\$ -	\$ -	\$ 1,212,914	\$ 1,241,743	\$ 1,212,914	\$ 1,241,743
General obligation bonds	7,874	9,179	-	-	7,874	9,179
Pension obligation bonds	364,633	50,486	119,625	14,775	484,258	65,261
Certificates of participation	94,802	99,178	28,483	29,692	123,285	128,870
Lease revenue bonds	75,964	80,416	7,473	7,867	83,437	88,283
Loans payable	899	1,329	-	-	899	1,329
Notes payable	-	-	69,519	73,673	69,519	73,673
Contracts payable	-	-	1,019	937	1,019	937
Capital leases	18,207	21,422	3,633	5,192	21,840	26,614
Compensated absences	29,228	27,072	10,105	9,042	39,333	36,114
Claims liability	53,828	48,459	-	-	53,828	48,459
Landfill capping	-	-	10,776	11,136	10,776	11,136
Total	\$ 645,435	\$ 337,541	\$ 1,463,547	\$ 1,394,057	\$ 2,108,982	\$ 1,731,598

The City's total debt increased by \$377,384 or 21.8% during the current fiscal year. The net increase is primarily related to the issuance of the 2020 Pension Obligation Bond.

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+" and "AA-" ratings for the variable rate bond 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 \$823,682 at June 30, 2020, which applies only to general obligation debt. At June 30, 2020, the City had \$7,874 of general obligation debt, resulting in available legal debt capacity of \$815,808.

Additional information on the City's long-term debt can be found in note 8 beginning on page 49 of this report.

Economic Factors and Next Year's Budget and Rates

- Unemployment in the City of Riverside is 14.8% compared to 3.9% for the prior year as of June 30, 2020. Unemployment increased due to the shutdown caused by the COVID 19 pandemic.

- The largest impact to the City’s long-term financial stability relates to pension costs from CalPERS. It is currently anticipated that the City’s pension costs will increase by approximately 28% by Fiscal Year 2024/25 and continue to grow through FY 2030/31.

The cost increases are mainly due to investment losses by CalPERS during the Great Recession, 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 (e.g. CalPERS reported a 4.7% net return on investments for the 12-month period ending June 30, 2020 from an estimated 7%. This year’s return brings total fund performance to 6.3% for the five-year time period, 8.5% for the 10-year time period, and 5.5% for the 20-year time period. Over the past 30 years, the CalPERS fund has returned an average of 8.0% annually.
- Increased contributions resulting from the CalPERS anticipated return-on-investment rate over the past 15 years, which is currently at 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, 2018. Additionally, in the FY 2019/20, The City issued a pension obligation bond to help reduce future pension contributions. The new bond issuance led to a reduced unfunded liability payment for FY 2020/21. As a result, the following lists the two required contribution components per plan for FY 2020/21:

- Miscellaneous Plan – Unfunded Liability Payment of \$9,189
- Safety Plan – Unfunded Liability Payment of \$7,936

- As a result of the COVID-19 Pandemic, the City adopted a one-year emergency budget on June 16, 2020 for FY 2020-21. The emergency budget addressed the potential impacts of the COVID-19 pandemic, incorporating a 10% reduction in General Fund and Measure Z revenue projections, increasing Measure Z contributions to the General Fund, and adopting a variety of balancing measures to balance the General Fund budget. All City funds will be monitored closely during the FY 2020-21, and intracycle adjustments proposed on a quarterly basis will be presented to the respective board or commission for recommendations to the City Council as more information and data becomes available.

The City intends to adopt a one-year budget for FY 2021-22 before returning to a two-year budget cycle for FY 2022-24. Adopting a one-year budget will allow the City to focus on immediate fiscal challenges and balancing measures while working to transition to a priority-based budgeting (PBB) process for FY 2022-2024. The PBB budgeting methodology is expected to result in targeted and high-impact actions that will better align the City’s limited resources with the City’s strategic goals.

The General Fund Budget for fiscal year 2020-21 of approximately \$271.4 million was adopted. It represents a decrease from the prior year of approximately 3.8%. Expenditure growth is expected to outpace revenue growth due to the rising cost 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, California 92522.