



November 7, 2019

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, 2019.

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 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, 2019. 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 biennial 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 the 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 26 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 81.

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 4.5 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 328,101 which places it as the 12th largest in California. The Inland Empire—consisting of Riverside and San Bernardino Counties—continues a slow rebound from the trough of the Great Recession in terms of employment, income, and population growth. Gains in population have been due in part to the ongoing quest for affordable housing—the Inland Empire is one of the most affordable regions in the state.

The industry driving the most growth in the Inland Empire from May 2018 to May 2019 was Education and Healthcare, with an addition of 11,400 positions. The number two and three growth industries, Government (+5,400 positions) and Leisure and Hospitality (+4,100 positions) saw significantly less growth.

Home prices continue their climb with a combination of space, amenities, and affordability has helped drive continued home price gains in the Inland Empire. The median price for an existing single-family home is \$358,900 as of the first quarter of 2019, a 2.0% annual increase and a greater gain than occurred in Los Angeles (0.8%), San Diego County (1.8%), or Orange County, where prices fell (-0.1%). Still, the Inland Empire's median home price remains 9% below its pre-recession peak of \$393,400.

Rental market demands are strong, and renters still enjoy affordability advantage in the Inland Empire compared to surrounding regions. The average asking rent is \$1,370/month as of the first quarter of 2019, compared to \$2,029 in Los Angeles, \$1,961 in Orange County, and \$1,830 in San Diego County. The rental vacancy rate, however, is lower in the Inland Empire than in any of these other regions.

Warehousing stock added as demand continues. The Inland Empire's expanding Logistics sector is driving demand for warehouse and distribution space. Despite recent increases in new stock, and a resulting rise in the vacancy rate to 8.0%, asking rents increased 4.2% year-to-year in the first quarter of 2019.

Goals and Vision: In 2017, Council approved a revision to the Riverside 2.0 Strategic Plan, which established City Council Strategic Goals that aligned with the four pillars of "Seizing our Destiny". After more than a year of working towards Riverside 2.0 goals, the plan was re-examined and updated to remove goals that were accomplished, revise existing goals to better reflect priorities, and add goals consistent with new priorities. The new Riverside 2.1 strategic goals reflected seven areas of strategic priority along with five effective government principles. 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 2.1 Strategic Plan was formed to implement the vision. The purpose of the Riverside 2.1 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 2.1 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 2.1 also includes five effective government principles that are reinforced through management’s actions:

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

The City provides the City Council with quarterly updates until the goals of the Strategic Plan have been fully implemented which is anticipated to be in several years. Visit the City’s Strategic Performance Reports website to view the most current performance measure update.

Long-term financial planning: For the fiscal year (FY) 2018-19 and 2019-20 Budget Cycle, the City’s second two-year budget in the context of a five-year financial plan was presented. It is a process designed to bring continued 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 second 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, 2023.

The CIP provides funding for the City’s critical and essential infrastructure projects in the amount of \$82 million for Fiscal Year (FY) 2018/19 and an additional \$73 million for FY 2019/20. Over the course of five years (FY 2018/19 through FY 2022/23), the City anticipates investing a total of \$408 million in our essential assets.

The 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.

The City’s CIP document includes a list of Unfunded CIP Projects. This is an 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.

Additionally, the City has embarked on formulating a 10-year financial forecast model as part of providing a longer-term outlook on City finances.

Major initiatives: The City effectively utilizes its resources to provide quality services to the community and grow its contingency reserve. The following strategic goals set priorities for City operations.

- Maintain essential services, including public safety, community aesthetics, infrastructure, and human service programs;
- Increase the City's contingency reserve to 20 percent of General Fund adopted operating budget over the next year;
- Address the Homeless situation;
- Fund infrastructure rehabilitation;
- Create an Innovation District to provide for entrepreneurship, employment, entertainment and housing, all in one place; and
- Reduce the City's unfunded pension liability.

The City established the Office of Homeless Solutions (OHS) to address what is seemingly a national epidemic. OHS develops public and private partnerships and provides direct outreach services that coordinates services directed towards reducing and preventing homelessness by providing a wide-range of services and resources for homeless persons and increasing permanent supportive housing opportunities for very low income and long-term homeless persons to end their homelessness in the City of Riverside. As the City embarks on addressing those who are homeless, our Public Safety Engagement Team (PSET) within OHS was developed and plays a vital role in addressing the complexity of this issue. PSET is working collaboratively with other agencies and community-based organizations in a multi-pronged approach to mitigate the impacts of homelessness and promote solutions to finding long-term, supportive housing for the homeless population in Riverside.

Measure Z: Measure Z is a one-cent transaction and use tax, with revenues going directly to the City of Riverside. The collection of an additional one-cent sales tax authorized by voters through Measure Z began on April 1, 2017. After hearing recommended Measure Z spending options from City staff and the Budget Engagement Commission, on May 16, 2017, the City Council approved a five-year Measure Z Spending Plan for 33 initiatives that has since increased to 39 initiatives covering public safety, financial discipline/responsibility, critical operating needs, facility capital needs, quality of life, and technology. For the purposes of this Measure Z Five-Year Financial Plan, the tenets of the original spending plan have been carried through two additional years, FY 2021/22 and FY 2022/23. The one-cent increase in sales tax was estimated to generate between \$48 million and \$52 million annually; however, at the end of fiscal June 30, 2019, the second full year of Measure Z revenue, the revenue continues to outperform expectations and was approximately \$62 million.

General Fund Restructuring: The Grants and Restricted Programs Fund was created in 2018-19 to account for grants and programs that have historically been recorded in the General Fund. This fund was created as part of the City's General Fund Restructuring Plan to provide for greater transparency between true General Fund activity and other financial activity. Grants, by their very nature, are self-supporting activities

In addition to the creation of the new Grants Fund, the City completed the allocation of the remaining non-General Fund debt to the appropriate funds to properly reflect their proportional share of the obligations. The intent and impact of the restructuring was to right

size the General Fund to include only true operating activity of the City within the fund while creating better transparency of City finances.

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.

In February 2018, the City adopted a Long-Term Financial Planning Policy to assist City leaders (elected officials and City management) in making prudent and informed financial decisions regarding economic development, tax policy and labor negotiations. Credit rating agencies encourage long-term financial planning, and generally favor government entities with such plans when assigning bond ratings.

The policy requires the City to adopt long-term financial plans spanning at least five years for all major City funds (e.g., General, Electric, Water, Sewer, etc.) in conjunction with the biennial (two-year) budget. The long-term financial plan should incorporate the following elements as relevant and appropriate:

- An analysis of economic and demographic data at the national, state and local level;
- Past revenue and expenditure trends;
- Forecast assumptions;
- Forecasts of major revenues and expenditures based on known data, documented assumptions, and input from subject matter experts, and various internal and external stakeholders; and
- Compliance with existing City fiscal policies.

The City’s key budgetary themes include financial accuracy, financial responsibility/discipline, maintaining essential services/infrastructure, and ensuring a transparent/participatory budget process. This CIP document builds on the City’s recent financial successes, by incorporating best practices offered by the Government Finance Officers Association (GFOA) and the California Society of Municipal Financial Officers (CSMFO). Based on recommendations developed by the City Manager’s Office and Finance Department, the City Council adopted two new policies to establish the framework for future capital budgets. The first policy, Multi-Year Capital Planning, establishes guidelines that help the City identify and prioritize expected capital needs based on strategic priorities and operational needs, establish project scope and cost, detail estimated amounts of funding from various sources, and project future operating and maintenance costs. The second policy, Prioritization of CIP, establishes an objective process of prioritizing capital improvement projects to ensure consistency with the General Plan, in conjunction with the biennial budget process, or otherwise as capital funding becomes available.

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. As of June 30, 2019 the General Fund reserve is currently at its aspirational goal of 20% or \$56 million.

In a continued effort of fiscal discipline and accountability, the City established a Measure Z reserve policy which was adopted by the City Council on April 2, 2019. The policy requires maintaining a Measure Z reserve of \$5 million. With the Measure Z revenue continuing

to outperform expectations this reserve requirement has been satisfied.

One of the biggest challenges to the City's long-term financial sustainability is the long-term unfunded pension obligations for City employees under CalPERS. Pension costs make up 8% of the City's total budget and 16% of the operating budget, and to a large extent are outside staff's direct control. Recent projections indicate that pension costs are expected to rise by as much as 73% by FY 2029/30. The City has consistently taken steps to mitigate the impacts of increases in pension costs including adopting a two-tier retirement system, pre-paying the annual unfunded accrued liability payment, and increasing employee contributions towards their pensions. In an effort to address the growing pension challenges facing states and local governments nationwide, the City adopted a Pension Funding Policy

The City will create a Pension Stabilization Fund that will deploy resources in the following manner:

- Establish a Section 115 Pension Trust to realize greater investment returns than what is currently available through the City's cash pool investments. An outside investment advisor shall be hired to administer the trust.
- Pre-pay the City's annual Unfunded Accrued Liability (UAL) payment to save on interest costs. On July 1 of each year, the City receives its annual CalPERS UAL invoice. By pre-paying the entire balance due by July 31 the City can save over a million dollars annually. As such, every effort should be made to pre-pay the UAL upon receipt of the annual invoice.
- Unanticipated one-time revenues or settlements shall be prioritized at a rate of 50% of the revenue alongside other critical needs to make a one-time payments to CalPERS to pay-off a portion of the City's UAL to save on interest payments, reduce annual payments, and lower annual operating expenses. Payments would be incorporated into the City's annual budget for City Council consideration and will only be utilized if the general fund is not projected to end the year at a deficit.

In addition to establishing a Pension Stabilization Fund, this policy provides the following guidance:

- As part of the annual budget process, City staff shall set aside a portion of any projected year-end increase in fund balance to manage increases in pension contributions. Actual one-time transfers made to the Pension Stabilization Fund will vary on a year-to-year basis depending upon the actual fiscal year end audited reserve balance.
- City staff shall work with its financial and other advisors to refinance its debt obligation bonds when it can achieve savings consistent with the City's Debt Management Policy and redirect any savings to the Pension Stabilization Fund.
- Upon maturity of General Fund Debt Obligation, staff will present a plan to reallocate all or a portion of debt service payments that have matured to the Pension Stabilization program as long as there is no general fund deficit at the time of debt maturity.

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, 2018. This was the thirtieth 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.

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, 2018. The City received the award for the second time for the June 30, 2018 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 for a period of one year only. The City will continue to participate in the program.

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, 2018. 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,



Edward Enriquez
Chief Financial Officer/City Treasurer