

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, 2019. 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, Civic Entertainment, Refuse, Public Parking, Airport and Transportation services.

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 20-21 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 77-83 in this report.

The City adopted an annual appropriated budget for its General Fund for the Year ended June 30, 2019. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 22-26 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, Civic Entertainment, Airport, Refuse, Transportation, and Public Parking 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 85-94 in this report.

The basic proprietary fund financial statements can be found on pages 27-31 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 32-33 of this report, and the combining statement for the agency fund can be found on page 96.

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 34 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	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 377,554	\$ 284,312	\$ 786,344	\$ 698,172	\$ 1,163,898	\$ 982,484
Capital assets, net	1,254,650	1,305,799	1,975,974	1,914,775	3,230,624	3,220,574
Total assets	1,632,204	1,590,111	2,762,318	2,612,947	4,394,522	4,203,058
Deferred Outflows of Resources	114,079	139,335	77,646	84,789	191,725	224,124
Current liabilities	59,495	54,472	86,463	125,417	145,958	179,889
Long-term liabilities	780,068	817,358	1,619,227	1,462,028	2,399,295	2,279,386
Total liabilities	839,563	871,830	1,705,690	1,587,445	2,545,253	2,459,275
Deferred Inflows of Resources	33,672	16,037	44,543	30,204	78,215	46,241
Net position:						
Net investment in capital assets	1,102,837	1,093,896	867,206	800,227	1,970,043	1,894,123
Restricted	126,551	112,183	67,057	80,717	193,608	192,900
Unrestricted	(356,340)	(364,500)	155,468	199,143	(200,872)	(165,357)
Total net position	\$ 873,048	\$ 841,579	\$ 1,089,731	\$ 1,080,087	\$ 1,962,779	\$ 1,921,666

The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,962,779 at June 30, 2019, an increase of \$41,113 from June 30, 2018.

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 10% 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, \$155,468 is held by the business-type activities and \$(356,340) net deficit is held by the governmental activities.

Unrestricted net position in the amount of \$(200,872), a net position decrease of 21% 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 increased the City's net position by \$31,469 to \$873,048 for the year ended June 30, 2019.

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, 2019 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	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues:						
Charge for services	\$ 45,225	\$ 38,117	\$ 539,676	\$ 544,164	\$ 584,901	\$ 582,281
Operating Grants and Contributions	23,966	22,548	3,093	3,374	27,059	25,922
Capital Grants and Contributions	27,450	18,039	10,607	26,957	38,057	44,996
General Revenues:						
Sales taxes	130,645	120,338	-	-	130,645	120,338
Property taxes	69,478	63,515	-	-	69,478	63,515
Other taxes and fees	40,428	39,263	-	-	40,428	39,263
Investment income	7,500	5,187	19,488	3,939	26,988	9,126
Other	156	4,450	10,322	12,901	10,478	17,351
Total Revenues	<u>344,848</u>	<u>311,457</u>	<u>583,186</u>	<u>591,335</u>	<u>928,034</u>	<u>902,792</u>
Expenses:						
General government	51,139	45,360	-	-	51,139	45,360
Public safety	201,942	216,772	-	-	201,942	216,772
Highways and streets	43,770	42,544	-	-	43,770	42,544
Culture and recreation	31,200	38,362	-	-	31,200	38,362
Interest on long-term debt	10,045	12,414	-	-	10,045	12,414
Electric	-	-	347,804	333,061	347,804	333,061
Water	-	-	70,912	68,281	70,912	68,281
Sewer	-	-	70,137	54,136	70,137	54,136
Entertainment	-	-	24,151	19,995	24,151	19,995
Airport	-	-	1,972	2,179	1,972	2,179
Refuse	-	-	24,205	22,082	24,205	22,082
Transportation	-	-	4,493	4,782	4,493	4,782
Public parking	-	-	5,151	6,186	5,151	6,186
Total expenses	<u>338,096</u>	<u>355,452</u>	<u>548,825</u>	<u>510,702</u>	<u>886,921</u>	<u>866,154</u>
Increase (decrease) in net position	6,752	(43,995)	34,361	80,633	41,113	36,638
Transfers, net	<u>37,115</u>	<u>41,459</u>	<u>(37,115)</u>	<u>(41,459)</u>	<u>-</u>	<u>-</u>
Total changes in net position	<u>43,867</u>	<u>(2,536)</u>	<u>(2,754)</u>	<u>39,174</u>	<u>41,113</u>	<u>36,638</u>
Net position - beginning, as previously stated	<u>841,579</u>	<u>845,116</u>	<u>1,080,087</u>	<u>1,041,530</u>	<u>1,921,666</u>	<u>1,886,646</u>
Prior period adjustment	<u>(12,398)</u>	<u>(1,001)</u>	<u>12,398</u>	<u>(617)</u>	<u>-</u>	<u>(1,618)</u>
Net position - beginning, as restated	<u>829,181</u>	<u>844,115</u>	<u>1,092,485</u>	<u>1,040,913</u>	<u>1,921,666</u>	<u>1,885,028</u>
Net position - ending	<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>

Governmental activities. Total change in net position for governmental activities increased by \$31,469 while prior fiscal year decreased by \$(2,536). Key elements of this year's activity in relation to the prior year are as follows:

Revenues:

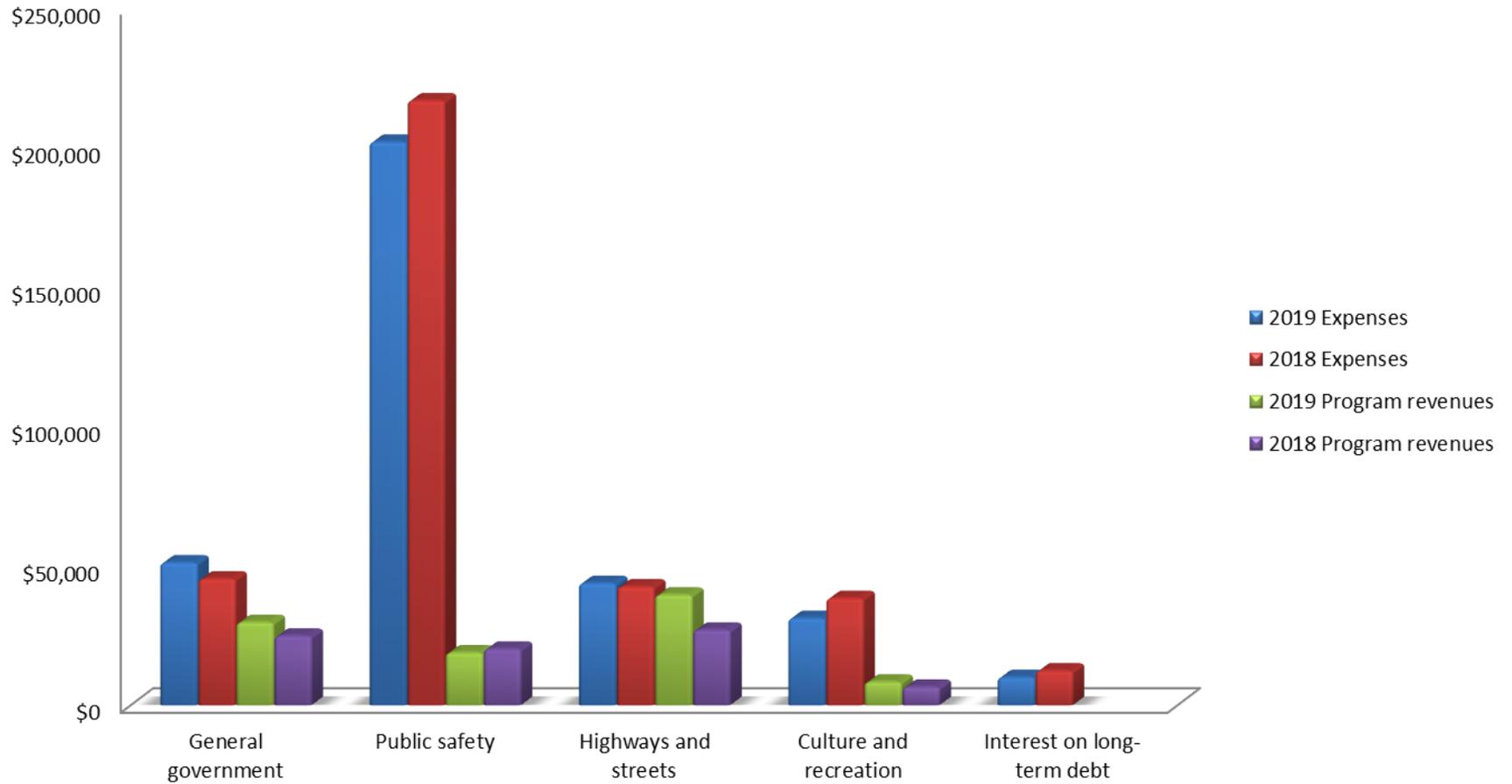
- While variances between years exist for the various revenue categories, the total net increase was approximately \$33.4 million or 11%, which is largely attributable to an increase in capital grants and contributions as well as significant increases in sales tax, property taxes, and charges for services. The increase in capital grants and contributions of 52% is due largely to the City's allocation of Road Maintenance and Rehabilitation funds from the State of California (SB1) with an increase of approximately \$5 million over prior year. These funds are used for local street and road repairs throughout the City.

Expenses:

- While variances between years exist for the various expense functions, the total net decrease was approximately \$(17.4) million or (5%). This is primarily related to a decrease of approximately \$28 million in pension expense related to the annual recording of the City's pension liability; \$21.2 million of the decrease in pension expense was related to public safety.

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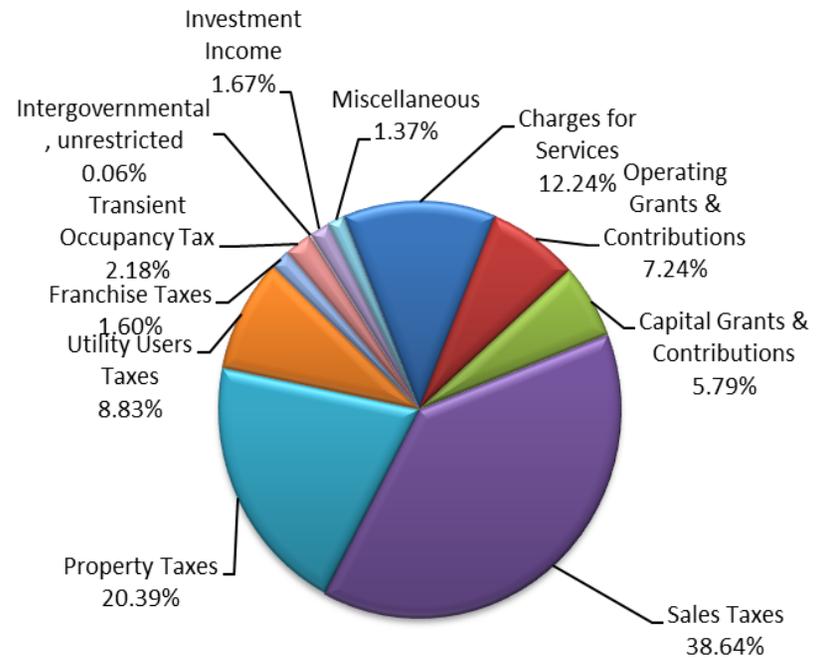
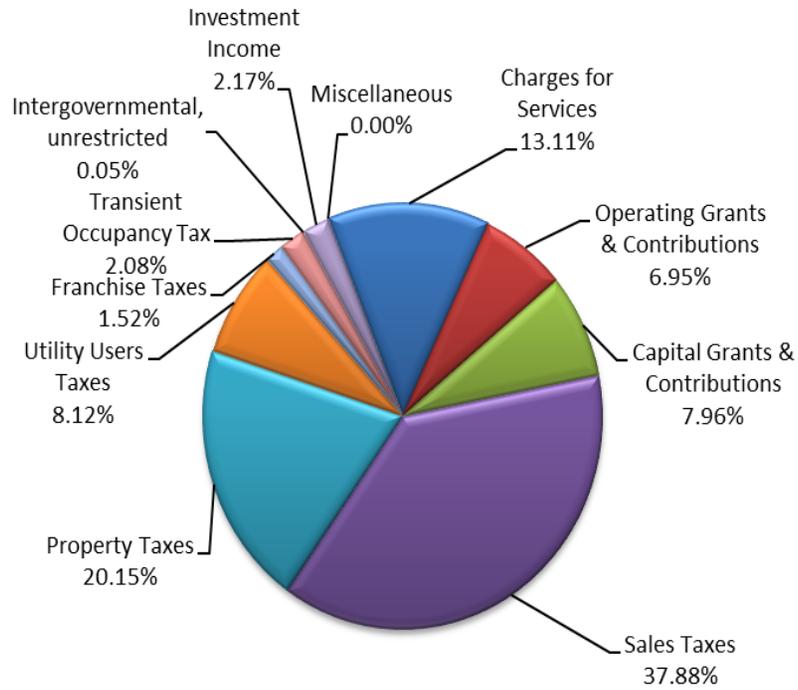
Program Revenues and Expenses – Governmental Activities – Fiscal Year Comparison 2019 vs. 2018



Revenues by Source – Governmental Activities – Fiscal Year Comparison 2019 vs. 2018

2019

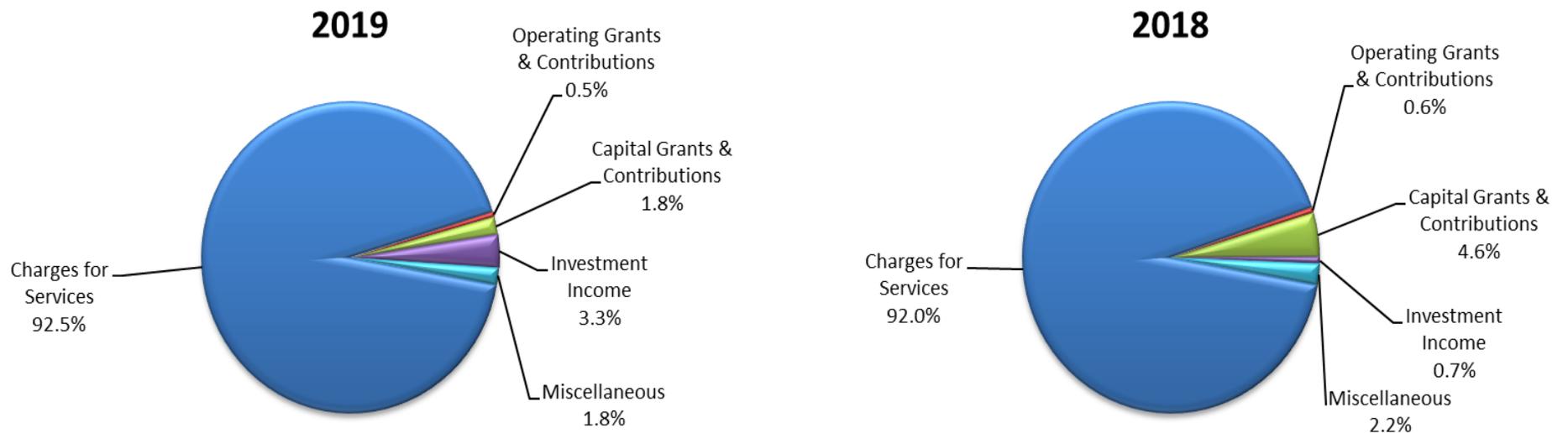
2018



Business-type activities. Total net position for business-type activities increased by \$9,644 while prior fiscal year increased by \$39,174. Key elements of this year’s activity in relation to the prior year are as follows:

- Charges for services slightly decreased from prior year along all service lines resulting in a decrease of \$(4,488) or .8%. Water charges for services decreased \$1,651 due to decreases in consumption and water conveyance revenue and Public Parking Fund charges for services decreased by \$1,654 primarily due to a reduction in parking fines for unplanned street sweeping sign replacement project that began in August 2018.
- Overall expenses increased by \$38,123 or 7.5%. The Electric, Water and Sewer Funds had increased operating expenses of \$13,819, \$654 and \$2,662 respectively. The majority of the increase is due to interest expense on bond debt.

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, Capital Outlay, 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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Total assets	\$ 161,791	\$ 127,266	\$ 73,977	\$ 27,688	\$ 10,856	\$ 14,307	\$ 95,673	\$ 89,501	\$ 342,297	\$ 258,762
Total liabilities	\$ 35,999	\$ 32,957	\$ 3,383	\$ 1,159	\$ 3,997	\$ 2,781	\$ 7,130	\$ 6,565	\$ 50,509	\$ 43,462
Deferred inflows of resources										
Unavailable revenue	4,625	4,685	117	81	34	17	43,908	38,752	48,684	43,535
Fund balances										
Nonspendable	949	1,947	-	-	-	-	1,560	4,855	2,509	6,802
Restricted	3,411	2,991	70,477	26,448	6,825	11,509	43,075	39,329	123,788	80,277
Committed	65,916	53,800	-	-	-	-	-	-	65,916	53,800
Assigned	26,984	23,242	-	-	-	-	-	-	26,984	23,242
Unassigned	23,907	7,644	-	-	-	-	-	-	23,907	7,644
Total fund balance	121,167	89,624	70,477	26,448	6,825	11,509	44,635	44,184	243,104	171,765
Total liabilities, deferred inflows and fund balances	\$ 161,791	\$ 127,266	\$ 73,977	\$ 27,688	\$ 10,856	\$ 14,307	\$ 95,673	\$ 89,501	\$ 342,297	\$ 258,762

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$243,104 an increase of \$71,339 compared to the prior year. Additionally, 1% of the fund balance \$2,509 is *nonspendable*, which comprises the portion of fund balance that cannot be spent due to form. \$123,788 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 \$65,916 or 27% of the fund balance was set aside for economic contingencies (\$61,000) and for unfunded accrued liabilities (\$4,916). Committed for economic contingencies consists of 20% of the 2019-20 General Fund adopted expenditure budget of \$280,000 or \$56,000 and \$5,000 for General Fund – Measure Z. \$26,984 or 11% 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 \$23,907 or 10% is *unassigned*, meaning it is available for spending at the City's discretion. The City's governmental funds

reported combined total assets of \$342,297 at June 30, 2019, an increase of \$83,535 compared to the prior year. Liabilities and deferred inflows of resources amounted to \$99,193, an increase of \$12,196.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, total fund balance equaled \$121,167, in comparison to \$89,624 in the prior year. The increase in fund balance is due to increased sales tax revenues, property tax revenues, utility users tax revenue, and the cost saving efforts by departments during 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 \$206,963, \$1,358, and \$42,101 respectively. The unrestricted net position for the Electric, Water and Sewer Funds in the prior year was \$189,276, \$5,349, and \$46,821, respectively. The increase in unrestricted net position of the Electric Fund was primarily attributable to the use of bond proceeds to fund capital projects and positive operating results. The decrease in unrestricted net position of the Water Fund was primarily attributable to a decrease in cash provided by operating activities, offset by use of bond proceeds to fund capital projects. The decrease in unrestricted net position for the Sewer Fund is primarily a result of operating activities as described below.

Electric Fund operating results experienced a decrease in charges for services of \$946 due to a slight decrease in consumption and investment income increased by \$10,805 due to an increase in cash balances as a result of the 2019 Electric Revenue Refunding Bonds and a higher overall interest rate in the current fiscal year.

The Water Fund operating results experienced a decrease of \$613 in Retail Sales. Retail sales (residential, commercial, industrial, and other sales) represent 88.5% of total revenues. Retail sales, net of reserve/recovery were \$57,603 and \$58,216 for the years ended June 30, 2019 and 2018, respectively. The decrease in retail sales was primarily due to a decrease in consumption. Overall expenses were higher due to an increase in interest and fiscal charges as a result of the 2019 Water Revenue Refunding Bonds issue, an increase in depreciation and an increase in general operations and maintenance costs.

Net position of the Sewer Fund increased by \$3,390 for the year ended June 30, 2019 and increased \$12,655 for the year ended June 30, 2018. Operating revenues decreased slightly during the year partially due to refunds owed to Jurupa, Rubidoux, Edgemont Community Service Districts for overpayments on wastewater service agreements.

Interest expense and fiscal charges increased by \$13,339 as a result of the current year issuance of refunding sewer bonds.

General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	262,924	269,824	279,819	\$9,995
Expenditures:				
General Government	20,327	29,859	10,004	19,855
Public Safety	184,654	191,214	186,863	4,351
Highways & Streets	20,242	22,122	20,289	1,833
Culture & Recreation	30,397	33,218	29,806	3,412
Capital Outlay	231	3,414	1,815	1,599
Debt Service	0	-	0	0
Total Expenditures	255,851	279,827	248,777	31,050
Excess (deficiency) of revenues over (under) expenditures	7,073	(10,003)	31,042	41,045
Other financing sources	(591)	(1,769)	501	2,270
Net change in fund balances	6,482	(11,772)	31,543	43,315
Fund balance - beginning, as previously stated	89,624	89,624	89,624	0
Prior period adjustment	0	0	0	0
Fund balance - ending	96,106	77,852	121,167	\$43,315

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 \$31.0 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, 2019 amounted to \$3,230,624 (net of accumulated depreciation). This investment includes land, intangibles, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was \$10,050 (a decrease of \$51,149 for governmental activities and an increase of \$61,199 for business-type activities).

Major capital improvements during the current fiscal year included ongoing projects: consisting primarily of roads of \$19 million; fire equipment and vehicles of \$12 million; sewer tertiary treatment plant of \$8 million; \$27 million in Water Utility upgrades primarily related to system expansion and improvements, and continued pipeline replacement programs; and \$36 million in Electric Utility capital improvements primarily related to improvements to the Electric system in the form of substations, transformers, underground conduit and conductors, neighborhood streetlights, and distribution line extensions and replacements to serve customers.

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

(Amount presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$336,997	\$343,022	\$98,601	\$94,900	\$435,598	\$437,922
Construction in progress	49,288	68,894	114,904	102,579	164,192	171,473
Buildings	76,046	110,802	493,581	466,259	569,627	577,061
Improvements other than Buildings	128,288	146,343	1,199,740	1,177,665	1,328,028	1,324,008
Machinery and equipment	34,655	23,170	32,362	33,888	67,017	57,058
Intangibles	43	87	36,786	39,484	36,829	39,571
Infrastructure	629,333	613,481	-	-	629,333	613,481
Total	<u>\$1,254,650</u>	<u>\$1,305,799</u>	<u>\$1,975,974</u>	<u>\$1,914,775</u>	<u>\$3,230,624</u>	<u>\$3,220,574</u>

Additional information on the City's capital assets can be found in note 5 on page 45 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$1,731,598 which includes bonded debt of \$1,533,335.

City of Riverside's Long-Term Debt

(Amounts presented in Thousands)

	Governmental Activities		Business Type Activities		Total	
	2019	2018	2019	2018	2019	2018
General Obligation Bonds	\$9,179	\$10,388	\$ -	\$ -	\$9,179	\$10,388
Pension Obligation Bonds	50,486	60,883	14,775	18,324	65,261	79,207
Certificates of Participation	99,178	150,800	29,692	-	128,870	150,800
Lease Revenue Bonds	80,416	36,246	7,867	-	88,283	36,246
Revenue Bonds	-	-	1,241,743	1,139,864	1,241,743	1,139,864
Loans Payable	1,329	1,746	-	-	1,329	1,746
Notes Payable	-	-	73,673	78,583	73,673	78,583
Capital Leases	21,422	25,647	5,192	6,821	26,614	32,468
Landfill Capping	-	-	11,136	4,770	11,136	4,770
Water Acquisition Rights	-	-	937	937	937	937
Compensated Absences	27,072	24,985	9,042	8,596	36,114	33,581
Claims liability	48,459	46,232	-	-	48,459	46,232
Total	<u>\$337,541</u>	<u>\$356,927</u>	<u>\$1,394,057</u>	<u>\$1,257,895</u>	<u>\$1,731,598</u>	<u>\$1,614,822</u>

The City's total debt increased by \$116,776 or 7.23% during the current fiscal year. The net increase is primarily related to the issuance of the 2018A Sewer Bonds, 2019A Electric and Water Bonds, 2019A Bonds for Galleria at Tyler for public improvements and the 2019B Bonds for the Main Library Construction project.

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 \$779,945 at June 30, 2019, which applies only to general obligation debt. At June 30, 2019, the City had \$9,179 of general obligation debt, resulting in available legal debt capacity of \$770,766.

Additional information on the City's long-term debt can be found in note 8 beginning on page 48 of this report.

Economic Factors and Next Year's Budget and Rates

- ❑ Unemployment in the City of Riverside is 3.9% as compared to 4.4% for the prior year.
- ❑ The largest impact to the City's long-term financial stability relates to pension costs from CalPERS. Over the next five years, the City's total unfunded accrued liability payments will increase 48% from \$42 million in FY 2019-20 to approximately \$62 million in FY 2025-26.

The cost increases are mainly due to investment losses by CalPERS during the Great Recession, which impacted all of 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 6.7% net return on investments for the 12-month period ending June 30, 2019 from an estimated 7%. This year's return brings total fund performance to 5.8% for the five-year time period, 9.1% for the 10-year time period, and 5.8% for the 20-year time period. Over the past 30 years, the CalPERS fund has returned an average of 8.1% annually)
- Increased contributions resulting from the CalPERS anticipated return-on-investment rate over the past 15 years, which was decreased from 8.25% to 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. As a result, the following lists the two required contribution components per plan for FY 2019/20:

- Miscellaneous Plan – 12.866%. Unfunded Liability Payment of \$21,970
- Safety Plan – 21.363%. Unfunded Liability Payment of \$18,476

At the time of the two-year budget preparation for the fiscal year 2018-19 and 2019-20 budget cycle, the economic outlook for the City was considered to be stable. However, there are significant challenges in the next five years due to pension costs as outlined above. The City will continue to implement operational efficiencies, where possible, to minimize costs and impact to service levels as CalPERS costs increase.

The General Fund Budget for fiscal year 2019/20 of approximately \$282 million was adopted. It represents an increase from the prior year of approximately 4.8%. Expenditure growth is expected to outpace revenue growth due to the rising costs 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, CA 92522.