

CITY OF RIVERSIDE

July 1, 2004

The Honorable Mayor and City Council
City of Riverside, California

I am pleased to submit the City of Riverside's Final Budget for fiscal year 2004/05, which was formally adopted by the City Council on June 22, 2004. This budget serves not only as a spending plan for the immediate future, but also as a management and communications document outlining the City's commitment to provide accountability, strategic planning, and performance evaluation for all that we do. The final budget totals \$557,817,211, which represents a 1.4 percent decrease from the previous fiscal year. The General Fund portion of the total budget is \$158,726,357, which represents a 9.1 percent increase over the previous fiscal year.

The budget process is a nearly yearlong endeavor, involving an in-depth analysis of the City's continuing and emergent fiscal needs. FY 2004/05 issues addressed in this final budget include adjustments for revenue losses resulting from the State's budget crisis, and efforts to keep General Fund expenditures in pace with available General Fund revenues. This final budget differs from the preliminary budget presented to City Council last May in that it includes final 2004/05 cost allocation charges, the method by which the cost of administrative and internal services are distributed across other funds, as well as the various funding proposals approved by City Council during the budget review and reconciliation process.

SIGNIFICANT CHANGES TO FINAL BUDGET

Significant changes from the preliminary budget to the final budget include the following funding adjustments:

General Fund (101)

City Clerk:

- Added \$60,000 to City Clerk – Election Services for November 2, 2004 Special Election.

City Manager:

- Added \$25,000 for 311 Call Center operations.

Economic Development:

- Added \$537,154 to enhance economic development program.

General Services:

- Added \$140,000 for Payment in Advance - Energy Retrofit debt service.

Information Systems:

- Removed \$85,000 for Public Works Desktop and Network Support.

Museum:

- Added \$31,387 to fund 0.75 full-time equivalent positions for the Harada House.

Non Departmental:

- Added \$32,000 collections inventory grant to Mission Inn Foundation.
- Added \$27,360 to Riverside Arts Council for 60 percent of grantwriter salary and benefits.
- Added \$50,000 to fund Riverside Youth Council.
- Removed \$25,000 funding for Arlington Heights Citrus Project.
- Added \$22,000 for procurement of eCivics Grants Locator.
- Added \$145,141 to shift funding source for Economic Development Manager position.

Police:

- Added \$682,583 in ongoing maintenance for CAD system.
- Added \$150,000 for Project Bridge to cover external funding reductions.
- Added \$300,000 to cover funding reductions to Local Law Enforcement Block Grant.
- Added \$115,920 to cover new fiber optic data line charges.

Planning:

- Added \$103,712 to fund a new 1.0 FTE Annexation Program Coordinator

Various Departments:

- Added \$13,062 in accordance with Human Resources Department recommendations to reclassify various positions.

All Other Funds

Development – Fund 170:

- Added \$171,532 to fund 1.0 FTE Development Director position.

Various Departments:

- Added \$225,140 in accordance with Human Resources Department recommendations to reclassify various positions.

The table below illustrates by expense category how the final budget figures differ from the preliminary budget.

Summary of Changes by Category

Expense Category	Preliminary	Change	Final
<i>Personnel Services</i>	\$ 176,666,388	\$ 706,288	\$ 177,372,676
<i>Non-Personnel Expenses</i>	233,372,577	974,113	234,346,690
<i>Special Projects</i>	28,161,448	273,375	28,434,823
<i>Equipment Outlay</i>	6,410,564	(47,585)	6,362,979
<i>Capital Improvements</i>	66,699,118	0	66,699,118
<i>Debt Service</i>	60,234,509	142,966	60,377,475
<i>Charges From Others</i>	60,595,341	914,291	61,509,632
<i>Charges to Others</i>	(76,386,765)	(899,417)	(77,286,182)
Total	\$555,753,180	\$ 2,064,031	\$ 557,817,211

Attached to this letter is an updated summary of approved funding for specific operating funds and a summary for all funds by category (Attachment A).

CONCLUSION

As a 2004 recipient of the prestigious America’s Most Livable Communities award, Riverside is nationally recognized as a great place to live, work, and conduct business. This final budget provides not only the resources necessary to maintain our enviable quality of life, but also includes enhancements in areas of high priority to the City Council, including economic development and public safety. Through the City Council’s oversight throughout the budget development process, the City is well-positioned fiscally to meet all ongoing challenges and opportunities.

Respectfully submitted,

Thomas P. Evans
Interim City Manager

Attachment A

Table of changes in proposed funding for specific funds:

FUND	2003-04	2004-05	CHANGE	% CHANGE
General Fund	145,446,039	158,726,357	13,280,318	9.1%
Development	24,356,904	26,548,601	2,191,697	8.9%
Library	7,057,763	7,582,219	651,576	7.4%
Comm Dev Blk Grant	4,213,000	4,060,000	(153,000)	-3.6%
Electric*	271,111,891	232,865,805	(38,246,086)	-14.2%
Water	41,311,192	51,246,058	9,934,866	24.0%
Refuse	14,546,849	15,047,751	500,902	3.4%
Sewer Service	22,702,373	24,181,550	1,479,177	6.5%
Sewer Projects	4,256,650	4,978,635	721,985	16.9%
Airport Funds	978,177	1,036,406	58,229	5.9%

Changes in proposed funding by various categories Citywide, all funds:

EXPENSE CATEGORY	2003-04	2004-05	CHANGE	% CHANGE
Personnel	170,296,997	177,372,676	7,075,679	8.3%
Non-Personnel	218,012,207	234,346,690	16,334,483	-0.6%
Equipment Outlay	4,953,892	6,362,979	1,409,087	-7.9%
Capital Outlay	110,234,305	66,699,118	(43,535,187)	82.0%
Special Projects	22,619,608	28,434,823	5,815,215	-14.4%
Debt Service	54,940,014	60,377,475	5,437,461	3.3%
Charges From Others	57,304,097	61,509,632	4,205,535	7.0%
Charges to Others	(72,407,087)	(77,286,182)	(4,879,095)	8.0%
TOTALS	565,954,033	557,817,211	(8,136,822)	-1.4%

*Includes Fund 511 for Public Benefits Surcharge Fund

May 11, 2004

The Honorable Mayor and City Council
City of Riverside, California

The City of Riverside has achieved a tremendous amount of success and growth over the past few years and has effectively positioned itself to continue this trend for many years to come. In recent years, the City of Riverside has seen an increase in jobs, private investment and sales tax revenues. These economic successes have allowed the City of Riverside to make improvements on public safety, playgrounds and parks, build learning centers, improve our infrastructure and develop affordable housing. These accomplishments will serve as inspiration as we continue to build on our success and strive to improve the quality of life for all residents of Riverside.

As City Manager, part of my responsibilities includes the preparation of a financially responsible budget. The budget is developed in concert with Mayor and City Council goals and objectives, all which support the overall mission of the organization and provide the highest level of service for residents. I am able to fulfill this important responsibility thanks to the support and guidance extended to me by the Mayor and City Council over the past year. I am also appreciative of the hard work and cooperation of the City of Riverside employees who continually strive to enhance the community and are dedicated to its continued success.

I am honored to present to you the preliminary Annual Budget for the 2004/05 Fiscal Year. The budget serves not only as a spending plan for the immediate future, but also as a management and communications document that outlines the City's commitment to providing accountability, strategic planning, and performance evaluation for all that we do. I am confident this preliminary budget contains the tools and resources necessary to enhance vital programs, maintain a high quality of life for our residents, and take advantage of opportunities for growth and development, while addressing the immediate and future fiscal issues affecting our City.

FY 2004/05 BUDGET DIRECTIVE

Given the unstable current economic climate, the FY 2004/05 budget directive was aimed at ensuring the ability for revenues and managed savings to support expenditures, particularly in the General Fund. Department heads and budget coordinators were asked to submit a budget with no dollar increases over FY 2003/04 except for those accounts related to previously negotiated salary and benefit increases.

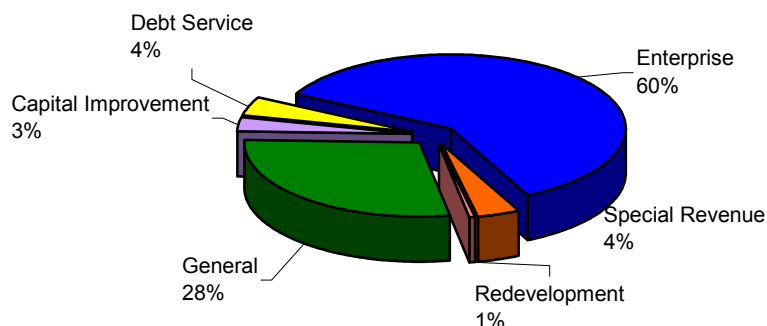
The end result is a budget that is both a realistic spending plan for providing essential city services and accomplishing numerous capital projects, as well as a proactive strategy to address a structural deficit in an uncertain economic climate.

CITYWIDE BUDGET OVERVIEW

The FY 2004/05 budget reflects the current economic conditions throughout the region and the State, as well as the needs of the community. Overall, the City's total combined annual budget for FY 2004/05 decreased by 1.8% to a total of \$555,753,180 due in large part to completion of the \$55 million, 50 megawatt peaking generation plant. Figure 1 below illustrates the total combined budget by Fund.

While the Citywide budget decreased as a whole, the General Fund experienced a 7.8 % growth over the prior fiscal year. Of the nearly 8% growth, 3% is directly contributable to increases in PERS costs (\$4,308,478); 2 % is due to liability insurance increases (\$2,751,378); 2% due to a combination of workers compensation (\$1,103,935), previously negotiated salary and benefit increases (\$1,158,397). Growth in direct operating expenses constitutes approximately 1% of the General Fund increases, a figure kept to a minimum by consistent denial of requests for additional personnel, vehicles and equipment, computer software and equipment, and resources for training.

Figure 1. Total Budget by Fund Type



Fund Type	Proposed 2004/05
General	156,802,387
Capital Improvement	18,232,618
Debt Service	22,869,205
Enterprise	333,867,374
Special Revenue	20,488,685
Redevelopment	3,492,911
Grand Total	555,753,180

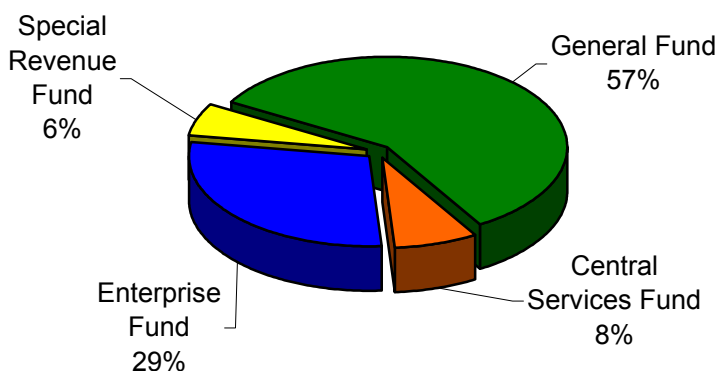
Given the precarious nature of the budget situation facing the City, the tradition of individual department reviews was replaced with a single, inclusive dialogue session with department heads with the goal of reducing ongoing operating expenses. Through a collaborative effort, the departments were successful in achieving citywide reductions totaling approximately \$2.9 million and increased revenue sources potentially generating an additional one million dollars annually for the General Fund.

It may be helpful to think of the different city funds as multiple businesses. Just as businesses vary by size and revenue, so do the various city funds, with some performing better financially than others. There is a tendency to equate the City's General Fund with the City's financial status as a whole, but it is important to remember that the General Fund is just one of many funds, or places of city business.

Personnel Resources

The FY 2004/05 Budget includes a combined total of 2,180.93 full-time equivalent (FTE) positions. Of the total FTE figure, 1,255.66, or 57%, of the positions are budgeted in the General Fund. For FY 2004/05, a total of 9.02 positions were eliminated from the General Fund. These positions were either deleted altogether or were shifted off of the General Fund to another fund. Figure 2 depicts the share of personnel by city fund.

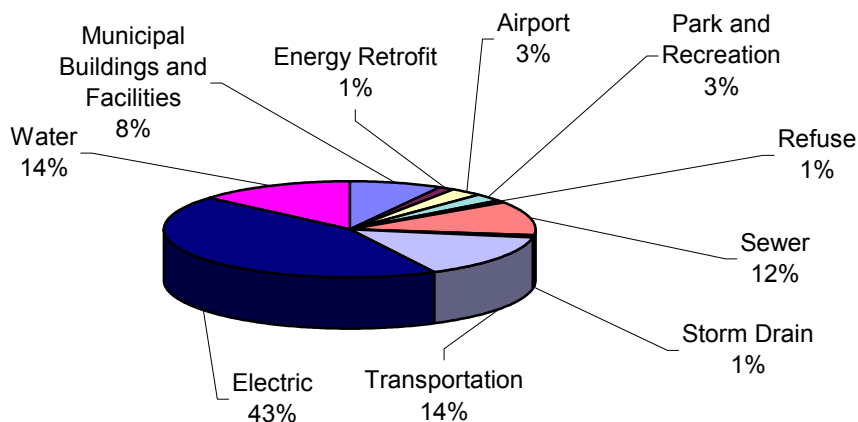
Figure 2. Share of Personnel Resources by Fund



Capital Budget

The FY 2004/05 capital budget includes improvements totaling \$83,655,763. The six-year Capital Improvement Program (CIP) (illustrated in more detail in a separate publication) is partitioned into nine sections: Airport, Municipal Buildings and Facilities, Park and Recreation, Refuse, Sewer, Storm Drain, Transportation (streets and traffic signals), Electric, and Water. The relative distribution of projects proposed for FY 2004/05 is demonstrated in Figure 3.

Figure 3. Capital Project by Service Area for FY 2004/05



With a combined 71% of the six-year CIP expenditure requirements, the Electric, Water, and Transportation programs can be considered to be the main drivers of the CIP. Major projects include the major and minor street rehabilitation and construction program; the construction of two new power generation plants to meet increased future demand, and water main replacements.

ECONOMIC OUTLOOK

Riverside and San Bernardino, commonly known as the “Inland Empire”, is home to sixteen four-year institutions of higher education, which are important to businesses seeking new graduates, professional growth opportunities, and cutting edge research. Riverside alone is home to four colleges and universities, including the fastest growing UC campus – the University of California, Riverside. These assets combined with other factors such as affordable housing and an influx of industry, have helped the economy grow in the Inland Empire.

Rising housing prices in the coastal regions (Orange, San Diego, Ventura, Los Angeles Counties) has led to a migration of professionals into our region seeking high quality, affordable housing. According to Inland Empire Quarterly Economic Report, Riverside County recorded 5,748 new homes sales, an increase of 35.8% during the third quarter. The region has experienced a rapid growth in high paying professions demonstrated by the creation of 1,801 jobs in the scientific and technical sector alone.

But the rosy outlook appears to be a mirage as other sectors of the economy have slowed due to the national recession and changes in state energy and labor laws. According to Economist John Husing, PhD, job growth within the Inland Empire region has decreased from an average of 36,300 per year during the period 1993-2000 to 28,018 per year from 2002-2003. The manufacturing industry alone lost 2,500 jobs between 2000-2003.

STATE BUDGET

The Governor’s January Budget Proposal contained significant impacts for Californians, as cities and counties were asked to carry the burden of the State’s multi-billion dollar deficit. The Governor’s Budget proposal contained three significant items impacting Riverside. Riverside is currently paying the State nearly \$4 million annually through the existing ERAF shift (Educational Revenue Augmentation Fund), which began a decade ago, Riverside is now being asked to contribute an additional \$1 million for an annual total of \$5 million.

A second component of the Governor’s Budget proposal was the permanent shift of over \$800,000 from the City’s Redevelopment Agency to the State. These are funds that enable the City to stimulate private investment and job creation in blighted or aging areas of the City.

The last major component of the Governor’s budget proposal is the full suspension of Proposition 42, a measure approved by the voters dedicating a portion of the gas tax to transportation funding for state and local projects. Riverside would have received over \$750,000 from this source annually to repair and rehabilitate roads in the City. The

reduction of funds in this area will serve to lengthen the time between improvements to City infrastructure thus reducing the quality of roads and increasing traffic congestion.

The good news is that the City is well positioned, more so than at any point in its history, to weather the State's budget crisis. The City of Riverside, through sensible planning in good economic times, grew an operating reserve from \$2 million in FY 1999/00 to an estimated \$23.5 million in FY 2004/05. This reserve was created not only to deal with possible future state takeaways, but also to do great things in the City, such as invest in infrastructure, parks, libraries, public safety and transportation. While we are currently experiencing a structural deficit of our own due mainly to Public Employees Retirement System (PERS) increases, liability insurance increases and labor-related increases, we are taking appropriate measures to manage these financial issues before they become a problem.

LOOKING FORWARD

As we look to the future, we are well positioned to meet the challenges facing us. We will continue to monitor State budget developments, and develop proactive strategies to deal with possible revenue losses. We will aggressively explore all avenues for revenue enhancement and service efficiencies, while maintaining exceptional service levels. We will continue to manage the General Fund structural deficit and not allow it to become an uncontrollable burden.

Our investment in community groups, governmental agencies, and the promotion of our youth and children will yield an expanded model of Youth Violence Prevention, comprehensive marketing of youth programs throughout the City, and an increase in vocational training and job preparation programs. Moving forward through the recommendations set forth in the Eastside Strategic Actions and by the Homeless Advisory Committee will take us far in addressing Riverside's social concerns with community involvement, as will the successful establishment and launch of the Arlanza Family and Neighborhood Resource Center.

Our City will be more beautiful thanks to the gateway projects we are embarking upon, major improvements being made to medians, including Market Street, and a concerted focus on trash mitigation. Cleaning up Riverside is a priority in FY 2004/05. Expansion of the C.U.R.E. (Clean Up Riverside's Environment) program and the City's newly adopted Illegal Dumping ordinance will provide citizens with resources to aid in keeping their neighborhoods and business districts free of debris. The Program promises to unite community and city staff through City sponsored clean up events to wipe out waste and graffiti.

Adding to the livability of our City, we will have made significant steps towards completion of the Riverside Plaza, the expansion of the Galleria at Tyler and continued development of the downtown region including the Villagio project and the creation of new Class A office space. Work will continue on various enhancements to parks and libraries throughout the City to further meet the needs of the community. Additionally, public safety facility enhancements will help improve our quality of life as Riverside continues to grow.

Efforts to reduce transportation congestion and improve traffic flow will include work on major street widening projects, such as La Sierra, Van Buren and portions of Orangecrest/Mission Grove, and traffic signal synchronization projects. The updated General Plan will provide a plan to achieve practical, manageable improvements to neighborhoods, business districts, and infrastructure.

To capitalize on all this progress, we will have expanded our marketing efforts of the City to raise awareness beyond our boundaries of economic development and tourism opportunities here in the City. Riverside's designation as one of "America's Most Livable Communities" by the group, Partners for Livable Communities, will allow us to showcase our efforts in the national arena with recognition from national publications as well as the local press.

CONCLUSION

There has never been a better time to be in Riverside. While cognizant of the State budget crisis and regional economy concerns, we have a measure of financial stability afforded by our healthy economic contingency reserve. Because of our prudent fiscal planning, we need not fear the future, and instead, can focus our attention to achieving the results we want. We have the talent, roadmap, and budget necessary to achieve great things for the residents of Riverside.

We thank the Office of Management and Budget, the Finance Department, and the departmental budget coordinators for their dedicated teamwork, excellent budgeting skills, and long hours worked to coordinate and produce this budget document.

Respectfully submitted,

George A. Carvalho
City Manager

CITYWIDE ORGANIZATIONAL CHART

Total FTE: 2,194.18

