

November 8, 2023

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

It is our pleasure to submit the Annual Comprehensive Financial Report (ACFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2023.

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 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, 2023. The independent auditors' report is presented as the first component of the financial section of this ACFR.

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 will become 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 auditors' 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.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue, and capital project funds. Formal budgets are not employed for debt service funds because debt indenture provisions specify payments. The permanent fund is not budgeted.

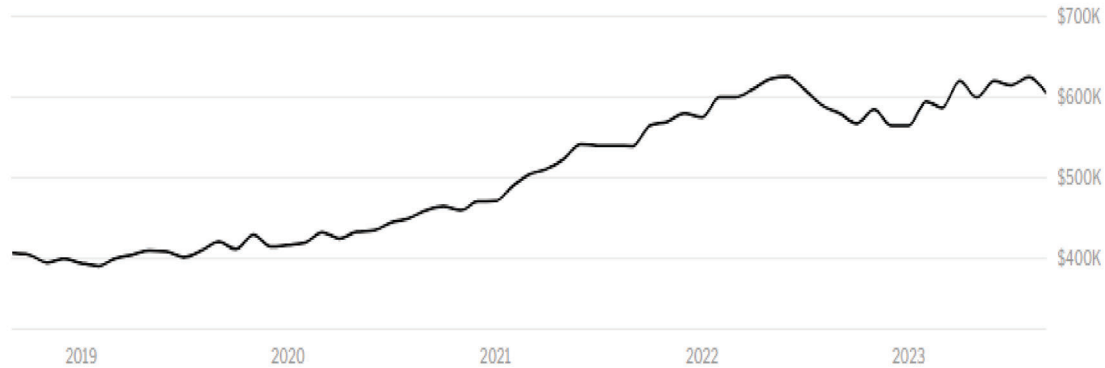
Biennially, during the period December through February, department heads prepare estimates of required appropriations for the following two-year budget cycle. These estimates are compiled into a proposed operating budget that includes a summary of proposed expenditures and financial resources, as well as historical data for the preceding budget cycle. At least thirty-five days prior to the beginning of the fiscal year, the City Manager provides the proposed budget in writing to the City Council for review, followed by presentation at a City Council meeting. Following Council review, a public hearing is set to obtain citizen comments. The City Council generally conducts the public hearing and adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department and fund over the course of the fiscal year. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations within a fund. All appropriations shall lapse at the end of the fiscal year to the extent they have not been expended or lawfully encumbered, except for appropriations for capital projects which shall continue to their completion. 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 92.

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 4.6 million, is larger than 26 states. The population of the City is 313,676 which places it as the 12th largest in California. As one of largest cities in the region, Riverside serves as a major economic hub and driver of growth. Its diverse economy encompasses a wide range of industries, including healthcare, education, manufacturing, and logistics, which not only provides local employment opportunities but also bolsters the broader Southern California economy. Additionally, Riverside's strategic location as a transportation and logistics hub, with access to major highways and distribution centers, demonstrates its critical role in facilitating the movement of goods within the region.

The City of Riverside saw an increase in the unemployment rate from 3.8% as of July 2022 to 4.5% as of July 2023. The City's unemployment rate remains lower than the State of California (4.8%) and the County of Riverside (5.0%), but higher than the United States (3.8%). The primary drivers for the decrease in employment in the Riverside metro area's nonfarm payrolls were in the categories of trade, transportation, and utilities; manufacturing; financial activities; and information, which saw decreases in employment from July 2022 to July 2023.

Consumer prices continue to increase at levels not seen in decades. In the Riverside metro area, there was an overall increase in the consumer price index of 3.4%, with food prices increasing by 5.4%, and energy prices decreasing by 9.1%, compared to the United States city average, which experienced an overall increase of 3.2%, with an increase of 4.9% in food prices, and a decrease of 12.5% in energy prices.

In September 2023, Riverside home prices were up 4.3% compared to last year, selling for a median price of \$605,000. On average, homes in Riverside currently sell after 22 days on the market compared to 39 days last year. There were 151 homes sold in September this year, down from 236 last year.



Based on Redfin calculations of home data from MLS and/or public records.

Goals and Vision: On October 20, 2020, Council approved the Envision Riverside 2025 Strategic Plan, which is comprised of two components:

1. City Council Strategic Policy, which sets forth the priorities and policy direction of the City Council to advance Riverside’s potential and to frame the work efforts over the next five years including the Vision, Cross-Cutting Threads, Strategic Priorities, Indicators, and Goals; and
2. Operational Workplan, which sets forth envisioned actions to be carried out by City staff to implement the City Council Strategic Policy, as well as related metrics to track the trendlines of progress toward achieving City Council priorities and includes the Actions and Performance Measures which will be evaluated and updated by the City Manager on an as-needed basis in conjunction with the City’s budget cycle.

Envision Riverside 2025 Strategic Plan Vision: Riverside is a city where every person is respected and cherished, where equity is essential to community well-being, where residents support one another, and where opportunities exist for all to prosper. In Riverside, everyone comes together to help the community, economy, and environment reach their fullest potential for the public good.

Cross-Cutting Threads: Major themes that should be reflected in all our outcomes include Community Trust, Equity, Fiscal Responsibility, Innovation, and Sustainability and Resiliency.

Strategic Priorities and Indicators

Arts, Culture and Recreation Indicators:

- Lifelong Learning
- Shared Uses and Partnerships
- Arts and Cultural Opportunities
- Access to Parks, Trails and Open Spaces
- Programs and Amenities

Community Well-Being Indicators:

- Housing Supply and Attainability
- Public Safety
- Public Health
- Placemaking
- Homelessness
- Household Resilience

Economic Opportunity Indicators:

- Workforce Development
- Business Development and Success
- Local Investment
- Regional Partnerships
- Economic Mobility

Environmental Stewardship Indicators:

- Water Quality, Supply, Efficiency and Reliability
- Climate Resiliency, Carbon Footprint and Air Quality
- Usage, Condition and Quality of Public Lands
- Local Food System Vitality
- Environmental Justice
- Renewable Resource Usage and Waste Reduction

High Performing Government Indicators:

- Community Centered Services
- Adaptive Organization
- Financial Health
- Equity in Delivery of City Services
- Civic Engagement
- City Team Engagement

Infrastructure, Mobility, and Connectivity Indicators:

- Access to Transportation Choices
- Infrastructure Quality and Reliability
- Outside Investment
- Smart City Ecosystem
- Greening Facilities
- Fleet and Systems

With the adoption of the Priority Based Budgeting methodology, the City Council's Strategic Priorities assume a pivotal role in resource allocation decisions, guiding the budget development process for future fiscal years.

Long-term financial planning: The financial results for fiscal year 2022/23 underscore the City's substantial recovery from the impacts of the COVID-19 pandemic. Key revenue streams that bore the brunt of the pandemic's impact, including transient occupancy tax, recreation revenue, and developer fees, have rebounded to pre-pandemic activity levels. After experiencing a pandemic-induced decline in fiscal year 2019/20, sales tax experienced an unconventional two-year surge in fiscal years 2020/21 and 2021/22, before returning to a more conventional growth rate of 3% in fiscal year 2022/23. Nevertheless, the uptick in revenues has been somewhat overshadowed by the backdrop of persistently high inflation and corresponding interest rate hikes by the Federal Reserve, employed as a measure to mitigate the effects of escalating prices.

Since the pandemic, the City, along with other municipalities, has experienced recruitment and hiring challenges, resulting in substantial personnel savings. As a result of these savings and the increase in sales tax revenue, in mid-2023 the City allocated general fund resources of \$10 million toward street improvement projects; \$5 million to the refuse fund for the purchase of capital equipment; and \$2 million to the parking fund to address deferred maintenance needs. In April 2023, the City Council approved increased parking rates with the aim of achieving financial self-sustainability for the public parking fund.

The City adopted a biennial budget spanning fiscal years 2022/23 and 2023/24. As part of its biennial budget process, the City updates the second year of the budget before the beginning of the fiscal year. An update to the second year of an adopted biennial budget is necessary to ensure the City is proactive and responsive to financial and operational changes. Because the City operates on a biennial budget, amendments to the second fiscal year are typically minor and focus on the following:

- Reviewing and adjusting forecasts of major revenue sources.
- Incorporating the financial impact of City Council actions taken during the fiscal year.
- Addressing new and significant changes in the operating needs of City departments.
- Reviewing and re-prioritizing capital project funding.

The City's amended 2023/24 budget totals \$1.38 billion, including the City's operating budget and planned capital projects. In the general fund, revised revenue estimates based on increased sales tax revenue and updated revenue trends added approximately \$15 million in available resources. This enabled the City to expand library hours, allocate resources toward economic development, increase security at libraries and recreational facilities, and address other critical needs. The City continues to plan for the future with investments in reserves, including an infrastructure reserve balance of \$20.6 million, technology reserve of \$3 million, and budgeted contributions to the Section 115 Trust for the long-term management of retirement costs.

CalPERS investment gains of 21.3% in fiscal year 2020/21 resulted in a decrease in the City's required unfunded accrued liability (UAL) payment for fiscal year 2022/23. The City's independent actuary provided UAL payment projections that incorporated actual and potential CalPERS investment returns for fiscal years 2021/22 and 2022/23. As part of the 2023/24 budget amendment, staff analyzed the actuary's projections and the pension obligation bonds (POB) payment schedule, determining a feasible amount and optimal series of Section 115 Trust contributions and withdrawals to smooth the fiscal impact of the payment obligations. The proposed smoothing is projected to result in level payments in the general fund of \$45 million annually for a period of 12 years, from fiscal year 2023/24 through fiscal year 2035/36. It is important to note that the required UAL contributions will vary based on actual CalPERS investment returns; Section 115 contributions will help to smooth the fiscal impact of spikes in the required UAL payments in future years.

In September 2023, the City Council approved new 5-year rate plans for the electric, water, and refuse funds. The rate increases will enhance the financial stability of each of the enterprise funds, supporting increases in operational costs as well as investment in capital infrastructure. In conjunction with the adoption of the water rate plan, the City Council directed that all future water general fund transfer collections be placed in a reserve account pending the outcome of pending litigation (refer to Note 25 in the Notes to Basic Financial Statements). Staff will consider the impact of the approximate \$8.5 million annual loss of revenue in the general fund during the development of the next biennial budget.

American Rescue Plan Act (ARPA): On March 11, 2021, President Biden passed the \$1.9 trillion American Rescue Plan Act (ARPA), which included sending checks to families and offering small business support to stimulate demand and counter the country's high unemployment. The ARPA established the Coronavirus State and Local Fiscal Recovery Funds (SLFRF), which provide a combined \$350 billion in assistance to eligible state, local, territorial, and Tribal governments to assist in the recovery from economic and health impacts of the COVID-19 pandemic by providing resources to address impacts resulting from the crisis. The City received one-time funding of approximately \$73.5 million from ARPA with the first installment of \$36.7 million received in June 2021 and \$36.8 million received in June 2022. The City may use the funds to best support the needs of the community providing the use of the funds aligns with one of the following four statutory categories:

1. To respond to the COVID-19 public health emergency or its negative economic impacts;
2. To respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the recipient that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
3. For the provision of government services, to the extent of the reduction in the revenue of such recipients due to the COVID-19 public health emergency, relative to revenues collected in the most recent full fiscal year of the recipient prior to the emergency; or
4. To make necessary investments in water, sewer, or broadband infrastructure.

On November 9, 2021, the City Council approved the ARPA spending plan for the first allocation in the amount of \$36.7 million. On February 7, 2023, the City Council approved the ARPA spending plan for the second allocation in the amount of \$36.8 million. On October 10, 2023, the City Council approved the reallocation for various spending plan items based on a review of activity to date and in process, as well as reassessment of needs. Below is a consolidation of the funding breakdown by Expenditure Category

1. Public Health	\$ 2,108,117	2.87 %
2. Negative Economic Impacts	27,675,000	37.64
3. Public Health Negative Economic Impacts: Public Sector Capacity	400,000	0.54
4. Premium Pay	-	-
5. Infrastructure	10,000	0.01
6. Revenue Replacement	43,022,071	58.51
7. Administration	320,000	0.44
Total	<u>\$ 73,535,188</u>	<u>100.00 %</u>

The Final Rule was issued on January 6, 2022 and became effective on April 1, 2022. Some key changes include:

- The final rule offers a standard allowance for revenue loss of \$10 million, allowing recipients to select between a standard amount of revenue loss or complete a full revenue loss calculation.
- In some cases, enumerated eligible uses included in the interim final rule under responding to the public health emergency have been re-categorized in the organization of the final rule to enhance clarity.
- In addition to programs and services, the final rule clarifies that recipients can use funds for capital expenditures that support an eligible COVID-19 public health or economic response.
- The final rule provides an expanded set of households and communities that are presumed to be “impacted” and “disproportionately impacted” by the pandemic, thereby allowing recipients to provide responses to a broad set of households and entities without requiring additional analysis.
- The final rule provides a broader set of uses available for these communities as part of COVID-19 public health and economic response in all impacted communities and making certain community development and neighborhood revitalization activities eligible for disproportionately impacted communities.
- The final rule also allows for a broader set of uses to restore and support government employment, including hiring above a recipient’s pre-pandemic baseline, providing funds to employees that experienced pay cuts or furloughs, avoiding layoffs, and providing retention incentives.

On August 10, 2023, the U.S. Department of Treasury released the 2023 Interim Final Rule that implements three new eligible uses authorized in the Consolidated Appropriations Act, 2023. The new eligible uses allow recipients to use SLFRF funds for emergency relief from natural disasters, community development, and surface transportation projects. The existing eligible uses are generally unchanged, and recipients may continue to use SLFRF funds in accordance with the 2022 Final Rule.

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 annual comprehensive financial report (ACFR) for the fiscal year ended June 30, 2022. This was the seventeenth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized ACFR that satisfied both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements. The award is valid for a period of one year only. We believe that our current ACFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

The City is pending the Government Finance Officers Association (GFOA) Award for Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2022. The City expects to receive this award for the sixth time for the June 30, 2022 report once reviewed and received by the GFOA. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. The Award is valid for a period of one year only. We believe that our current PAFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

The City received the GFOA's Distinguished Budget Presentation Award for its 2022-2024 Biennial Budget document, which covers the fiscal years commencing on July 1, 2022 and concluding June 30, 2024. To earn this distinguished recognition, 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 tool.

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 the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Kristie Thomas

Finance Director/Assistant Chief Financial Officer