

City of Moreno Valley Fiscal Year 2018/19 Third Quarter Financial Summary

TO: Mayor and City Council
FROM: Marshall Eyerman, Chief Financial Officer/City Treasurer
DATE: June 4, 2019

INTRODUCTION

On May 2, 2017, the City Council adopted the Two-Year Operating Budget for Fiscal Years (FY) 2017/18 – 2018/19. During the two-year budget period, the City Council will be kept apprised of the City's financial condition through the process of First Quarter, Mid-Year Budget and Third Quarter Reviews. This ongoing process ensures a forum to look at expenditure and revenue deviations from the estimates made in the budget document. Additionally, any significant changes in projected revenue or unanticipated expenditures that may occur will be shared with the City Council.

This report provides a review of the unaudited financial results at Third Quarter of FY 2018/19 (July 2018 – March 2019, 75% of the fiscal year).

CITYWIDE OPERATING REVENUE FY2016/17

The City ended FY 2016/17 with a budget surplus due to annual savings and reduction of expenses. The surplus reflects that the Operating Budget is being effectively managed and allows for the use of the funds for one-time expenditure. City Council appropriated the remaining \$1,100,000 surplus for street improvements in FY 2018/19.

CITYWIDE OPERATING EXPENDITURE SUMMARY

The following table contains a summary of the adopted budget, amended budget and the Third Quarter expenditures. The totals represent each major fund type and component unit of the City.

Table 1. Citywide Operating Expenditures

	FY 2018/19 Adopted Budget	FY 2018/19 Amended Budget	Actuals as of 3/31/19 (unaudited)	% of Amended Budget
Fund/Component Unit				
General Fund	\$ 104,746,641	\$ 112,096,781	\$ 70,875,736	63.2%
Community Services District (CSD)	20,009,590	21,146,121	13,102,917	62.0%
Successor Agency	4,773,517	4,286,389	2,834,553	66.1%
Housing Fund	250,000	250,000	177,667	71.1%
Special Revenue Funds	34,495,673	66,942,370	28,205,720	42.1%
Capital Projects Funds	3,316,702	19,511,416	4,680,618	24.0%
Electric Utility Funds	27,409,823	67,574,939	31,818,640	47.1%
Internal Service Funds	13,368,800	15,969,644	8,465,746	53.0%
Debt Service Funds	6,538,420	4,327,000	2,645,697	61.1%
Total	\$ 214,909,166	\$ 312,104,660	\$ 162,807,294	52.2%

Actions taken by the City Council subsequent to the May 2, 2017 adoption of the two-year budget and included in the Amended Budget are:

- Throughout the fiscal year, there are also budget amendments to reflect the acceptance of grants and adjustments to contractual services and material/supplies. The individual amendments are reviewed as part of separate City Council agenda items.
 - Remaining \$1.1M of the FY 16/17 General Fund surplus was appropriated for street improvements.
- On June 19, 2018, Council approved lease/purchase agreement and the financing associated with the streetlight purchase from Southern California Edison.

The majority of this Third Quarter update will focus on the General Fund, as it supports all basic services provided to City residents. Highlights for other key component funds will be discussed at a summary level as well.

GENERAL FUND OPERATING

Table 2. General Fund Operations

	FY 2018/19 Adopted Budget	FY 2018/19 Amended Budget	Actuals as of 3/31/2019 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 14,422,000	\$ 14,760,000	\$ 8,567,346	58.0%
Property Tax in-lieu	19,000,000	19,920,000	9,788,818	49.1%
Utility Users Tax	16,400,000	16,000,000	11,087,279	69.3%
Sales Tax	18,746,000	19,918,810	12,720,989	63.9%
Other Taxes	12,526,500	12,339,000	7,636,696	61.9%
Licenses & Permits	2,799,824	4,402,072	3,849,812	87.5%
Intergovernmental	463,000	1,009,001	355,332	35.2%
Charges for Services	12,079,871	13,239,463	10,297,382	77.8%
Use of Money & Property	4,220,862	3,497,858	4,719,264	134.9%
Fines & Forfeitures	662,050	662,050	482,295	72.8%
Miscellaneous	69,647	69,647	146,479	210.3%
Total Revenues	\$ 101,389,754	\$ 105,817,901	\$ 69,651,692	65.8%
Expenditures:				
Personnel Services	\$ 17,623,387	\$ 21,226,497	\$ 16,507,135	77.8%
Contractual Services	73,725,763	74,536,650	44,210,978	59.3%
Material & Supplies	3,705,509	5,421,077	2,338,203	43.1%
Fixed Charges	5,739,869	5,824,611	4,269,547	73.3%
Fixed Assets	120,000	74,680	3,157	4.2%
Total Expenditures	\$ 100,914,528	\$ 107,083,515	\$ 67,329,019	62.9%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	\$ 475,226	\$ (1,265,614)	\$ 2,322,673	
Transfers:				
Transfers In	\$ 3,426,691	\$ 5,316,826	\$ 2,815,184	52.9%
Transfers Out	3,832,113	5,013,266	3,546,717	70.7%
Net Transfers	\$ (405,422)	\$ 303,560	\$ (731,532)	
Total Revenues & Transfers In	\$ 104,816,445	\$ 111,134,727	\$ 72,466,876	65.2%
Total Expenditures & Transfers Out	104,746,641	112,096,781	70,875,736	63.2%
Net Change of Fund Balance	\$ 69,804	\$ (962,054)	\$ 1,591,141	

General Fund Operating Revenues

The General Fund is comprised of several revenue types. However, the main sources include property tax, utility users tax, and sales tax. Different economic activity cycles and pressures affect each of these.

Table 3. General Fund Operating Revenues

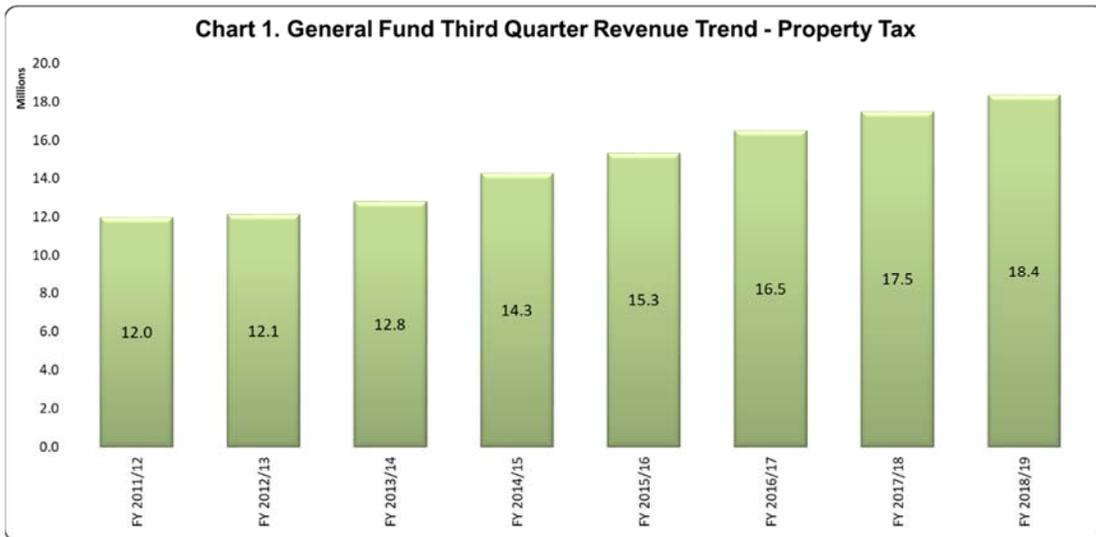
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Total Revenues	\$ 101,389,754	\$ 105,817,901	\$ 69,651,692	65.8%

Property Taxes/Property Taxes In-Lieu

Property taxes were budgeted to increase by 4% from the FY 2017/18 Amended Budget. The annual schedule of property tax payments from the County of Riverside will provide payments to the City based on the following estimated schedule:

<u>Secured Property Tax Payment Dates</u>	
Settlement 1	January
Settlement 2	May
Settlement 3	August
Teeter Settlement	October

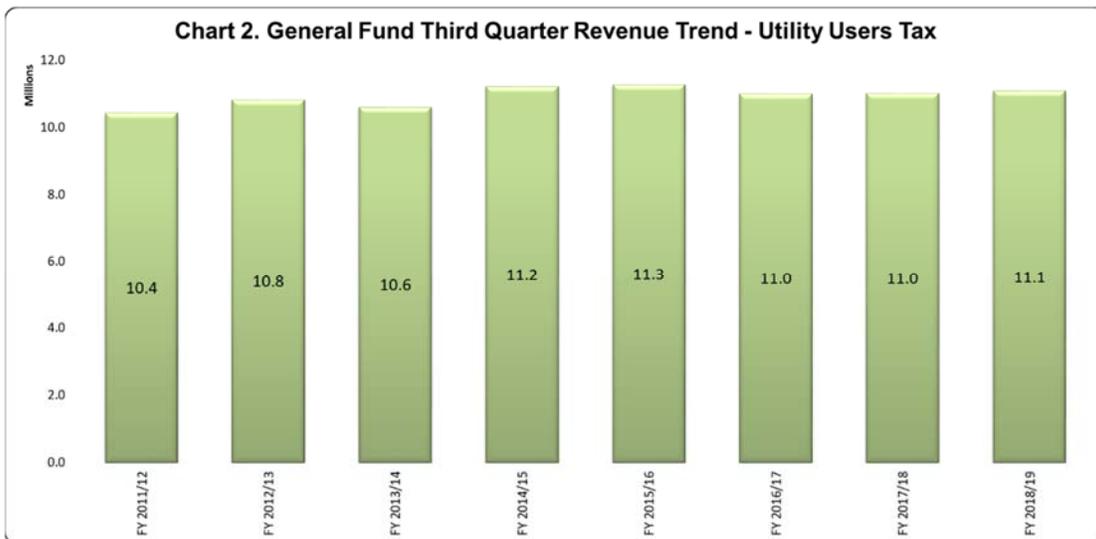
Based on historical averages of actual receipts, the City is estimated to receive 54% of the budgeted property tax revenue through Third Quarter. The City has currently received 53% through Third Quarter. Property taxes will continue to be monitored as property valuations may adjust through the year based on property sales and assessment appeals filed with the County.



Utility Users Tax

Utility Users taxes were budgeted to increase by 1% from the FY 2017/18 Amended Budget. This projection is primarily due to competitive forces within the communications markets. Both the wireless and wired markets experienced downturns year over year. Based on our discussions with utility tax experts, there are a couple of causes for this trend. First is competition and bundling practices within the market as more small players continue to join the market. Second is the migration of customers from contract plans to prepaid plans.

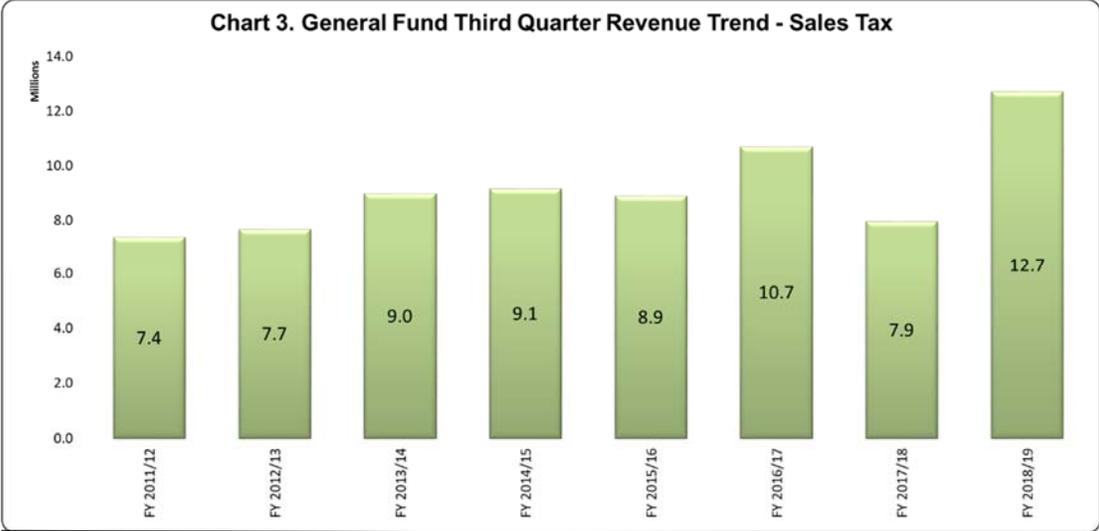
Based on historical averages of actual receipts, the City is estimated to receive 68% of the budgeted utility users tax revenue through Third Quarter. The City has currently received 69% through Third Quarter.



Sales Taxes

Sales taxes were budgeted to increase by 3% from the FY 2017/18 Amended Budget Sales tax receipts will need to be continually monitored through the year to determine if current trends begin to plateau or begin to decrease.

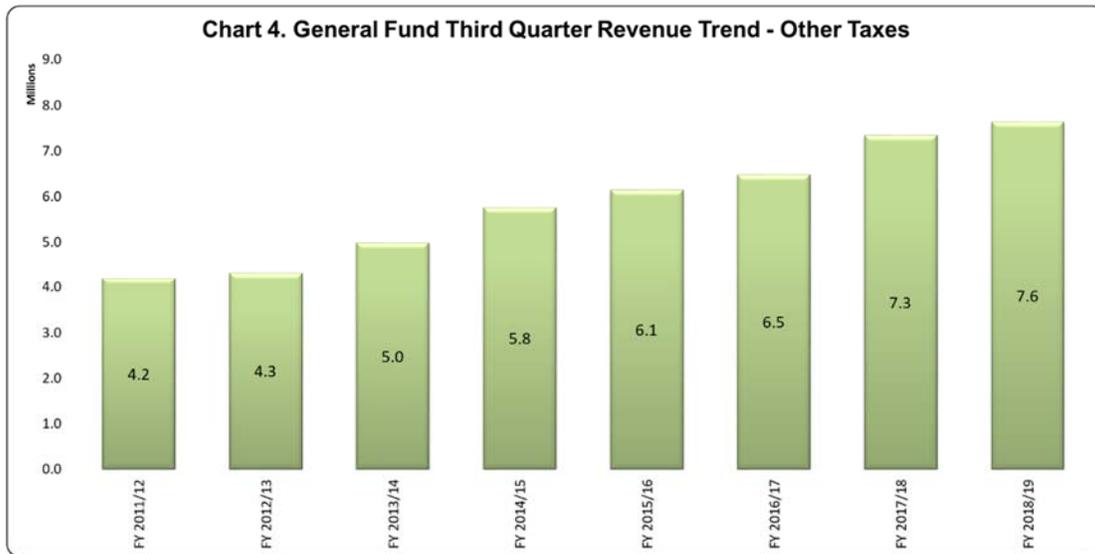
Based on historical averages of actual receipts, the City is estimated to receive 53% of the budgeted sales tax revenue through Third Quarter. The City has currently received 64% through Third Quarter.



Other Taxes

Other taxes are primarily composed of Business Gross Receipts, Documentary Transfer Tax, Transient Occupancy Tax and Franchise Fees. Collectively, other taxes were budgeted to increase 3% from the FY 2017/18 Amended Budget.

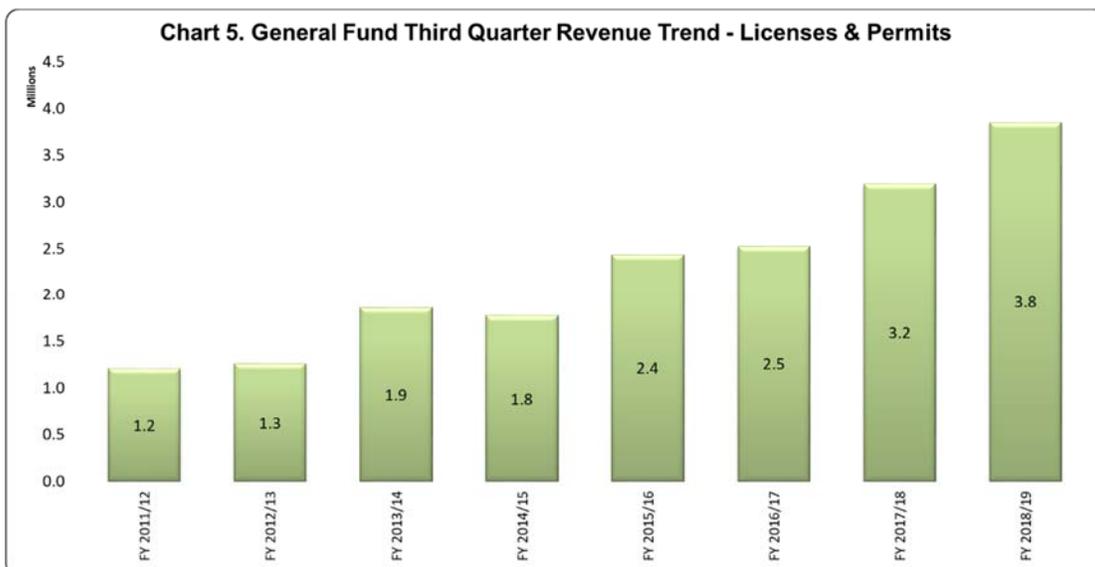
Based on historical averages of actual receipts, the City is estimated to receive 62% of the budgeted Other Taxes revenue through Third Quarter. The City has currently received 62% through Third Quarter.



Licenses & Permits

Licenses & Permits are primarily composed of Business and Animal Licenses, along with Building, Electrical, Mechanical, Plumbing and other permits. Collectively, Licenses & Permits were budgeted to increase by 5% from the FY 2017/18 Amended Budget. This increase reflects increases due to Commercial Cannabis Business Permits. This budget will be monitored for a possible future increase.

Based on historical averages of actual receipts, the City is estimated to receive 93% of the budgeted Licenses & Permits revenue through Third Quarter. The City has currently received 87% through Third Quarter. The higher growth rate is related primarily to the recent building and business license permit activities.

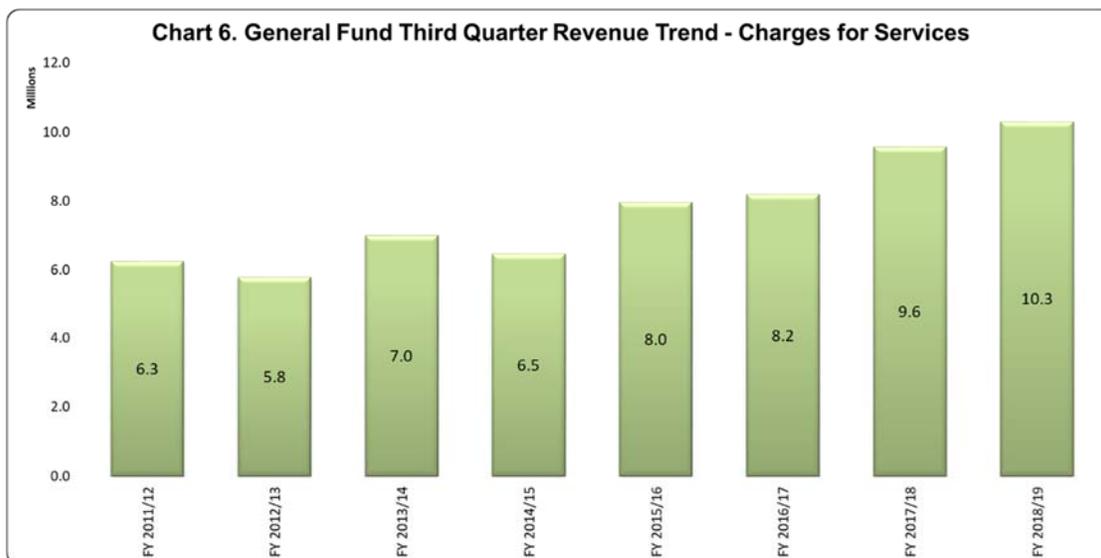


Charges for Services

Charges for Services are primarily composed of Plan Check Fees, Inspection Fees, Administrative Charges to other funds, and Parking Control Fines. Collectively, Charges for

Services were conservatively budgeted to increase by 3% from the FY 2017/18 Amended Budget. This budget will be monitored for a possible future increase.

Based on historical averages of actual receipts, the City is estimated to receive 76% of the budgeted Charges for Services revenue through Third Quarter. The City has currently received 78% through Third Quarter.



Use of Money and Property

Investment income continues to remain low due to extremely low rates of return for fixed income investments, but has increased over the last year due to actions taken by the Federal Open Market Committee. The investments managed by Chandler Asset Management achieved a Yield to Maturity (YTM) for March 2019 of 2.21%. This compares to a YTM in March 2018 of 1.82%. The investments managed by Insight Investments achieved a Yield to Maturity (YTM) for March 2019 of 2.11%. This compares to a YTM in March 2018 of 1.57%. In addition, the City maintained funds in the State Local Agency Investment Fund Pool (LAIF) with a YTM of 2.44%. This is a very low rate of return compared to historical experience, but is indicative of how investment income is performing everywhere, which is the reason the City utilizes the active management approach.

General Fund Expenditures

Expenditures are being spent in-line with prior year expenditures. Each Department's activities will be monitored throughout the year as they may be impacted by different operational activities and project timelines.

Table 4. General Fund Expenditures

	FY 2018/19 Adopted Budget	FY 2018/19 Amended Budget	Actuals as of 3/31/2019 (unaudited)	% of Amended Budget
Department				
City Council	\$ 1,019,127	\$ 1,252,156	\$ 643,832	51.4%
City Clerk	958,242	968,805	412,882	42.6%
City Manager	6,038,211	6,079,382	4,453,580	73.3%
City Attorney	899,961	893,528	587,853	65.8%
Community Development	9,170,762	10,000,029	6,592,123	65.9%
Economic Development	1,933,827	1,928,168	1,312,967	68.1%
Financial & Management Services	4,370,601	6,378,999	2,999,114	47.0%
Human Resources	1,080,522	1,211,758	940,005	77.6%
Public Works	7,293,505	9,350,294	5,941,276	63.5%
Non-Departmental	4,019,955	5,201,108	5,178,736	99.6%
Non-Public Safety Subtotal	\$ 36,784,713	\$ 43,264,227	\$ 29,062,369	67.2%
Public Safety				
Police	\$ 44,523,283	\$ 45,063,385	\$ 25,517,073	56.6%
Fire	23,438,645	23,769,169	16,296,293	68.6%
Public Safety Subtotal	\$ 67,961,928	\$ 68,832,554	\$ 41,813,367	60.7%
Total	\$ 104,746,641	\$ 112,096,781	\$ 70,875,736	

OTHER KEY FUNDS

The following summaries describe other major funds in the City.

Moreno Valley Community Services District

The Moreno Valley Community Services District (CSD) was formed by the voters in 1984 to collect fees and certain taxes to provide an array of services including parks, recreation and community services, streetlights, landscaping and ongoing maintenance. The CSD provides these services through separate “zones” that define the services that are provided.

For certain zones, the primary revenue source used to provide services to properties is parcel fees or taxes levied on properties via their annual tax bill. Proposition 218, passed by California voters in November 1996, and has posed a serious challenge to managing the future operation of the CSD zones. Prop. 218 requires any revenue increase to be addressed through a voting process by affected property owners. For a period following the initial implementation of Prop. 218, the CSD was successful in receiving approval for some new or increased revenues. There were also revenue increases due to the growth of developed parcels within the zones. However, due to cost increases that exceed any offsetting increases in the revenues over the past years,

and the recent economic downturn slowing new parcel growth, property owners have been resistant to efforts to fully fund service levels.

Table 5. CSD Operations

Community Services District

	FY 2018/19 Adopted Budget	FY 2018/19 Amended Budget	Actuals as of 3/31/2019 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 4,610,427	\$ 4,610,427	\$ 2,910,103	63.1%
Other Taxes	6,649,406	6,654,039	3,482,714	52.3%
Charges for Services	6,046,400	5,489,733	3,034,242	55.3%
Use of Money & Property	822,701	893,369	1,013,044	113.4%
Fines & Forfeitures	50,000	50,000	20,992	42.0%
Miscellaneous	13,500	32,700	48,497	148.3%
Transfers In	2,153,113	1,934,475	1,056,647	54.6%
Total Revenues	\$ 20,345,547	\$ 19,664,743	\$ 11,566,239	58.8%
Expenditures:				
Library Services Fund (5010)	\$ 2,433,229	\$ 2,494,590	\$ 1,699,674	68.1%
Zone A Parks Fund (5011)	9,563,447	9,893,481	6,563,380	66.3%
LMD 2014-01 Residential Street Lighting Fund (5012)	1,589,879	1,601,729	957,582	59.8%
Zone C Arterial Street Lighting Fund (5110)	901,354	913,854	542,524	59.4%
Zone D Standard Landscaping Fund (5111)	1,137,750	1,356,695	592,338	43.7%
Zone E Extensive Landscaping Fund (5013)	320,547	335,826	214,212	63.8%
5014 LMD 2014-02	2,389,330	2,723,254	1,480,080	54.3%
Zone M Median Fund (5112)	242,528	330,778	156,717	47.4%
CFD No. 1 (5113)	1,364,358	1,361,821	843,611	61.9%
Zone S (5114)	67,168	68,093	39,444	57.9%
5211 Zone A Parks - Restricted Assets	0	66,000	13,356	20%
Total Expenditures	\$ 20,009,590	\$ 21,146,121	\$ 13,102,917	62.0%
Net Change or Adopted Use of Fund Balance	\$ 335,957	\$ (1,481,378)	\$ (1,536,678)	

Community Services District Zone A – Parks & Community Services

The largest Zone within the CSD is Zone A. It accounts for the administration and maintenance of the Parks & Community Services facilities and programs. Funding sources for these services come from a combination of property taxes, fees for service and smaller amounts from other City funds.

Table 6. CSD Zone A Operations

	FY 2018/19 Adopted Budget	FY 2018/19 Amended Budget	Actuals as of 3/31/2019 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 2,403,800	\$ 2,403,800	\$ 1,488,815	61.9%
Other Taxes	4,930,000	4,930,000	2,621,514	53.2%
Charges for Services	1,182,900	1,215,500	777,486	64.0%
Use of Money & Property	761,601	832,269	711,398	85.5%
Miscellaneous	11,500	30,700	43,410	141.4%
Transfers In	524,084	714,222	582,165	81.5%
Total Revenues	\$ 9,813,885	\$ 10,126,491	\$ 6,224,788	61.5%
Expenditures:				
35010 Parks & Comm Svcs - Admin	\$ 472,792	\$ 472,792	\$ 359,473	76.0%
35210 Park Maintenance - General	3,500,190	3,717,353	2,373,418	63.8%
35211 Contract Park Maintenance	508,471	508,471	253,097	49.8%
35212 Park Ranger Program	375,038	375,038	252,542	67.3%
35213 Golf Course Program	389,707	389,707	273,243	70.1%
35214 Parks Projects	211,309	211,309	153,021	72.4%
35310 Senior Program	571,579	575,779	402,533	69.9%
35311 Community Services	199,496	215,957	149,313	69.1%
35312 Community Events	98,937	151,533	106,976	70.6%
35313 Conf & Rec Cntr	557,610	593,095	398,265	67.2%
35314 Conf & Rec Cntr - Banquet	361,414	365,567	257,016	70.3%
35315 Recreation Programs	1,466,791	1,419,193	945,467	66.6%
35317 July 4th Celebration	132,183	132,183	64,443	48.8%
35318 Sports Programs	645,805	693,379	484,151	69.8%
35319 Towngate Community Center	72,125	72,125	48,919	67.8%
95011 Non-Dept Zone A Parks	-	-	41,502	0.0%
Total Expenditures	\$ 9,563,447	\$ 9,893,481	\$ 6,563,380	66.3%
Net Change or Adopted Use of Fund Balance	\$ 250,438	\$ 233,010	\$ (338,592)	

Electric Utility

The Moreno Valley Utility (MVU) manages the operation, maintenance and business planning of the City's electric utility. MVU's basic purpose is to purchase and distribute electricity to customers in newly developed areas of the City. The City began serving new customers in February 2004, and now serves more than 6,674 customers. As it reaches fiscal and operational maturity, MVU will continue to be a key component of the City's economic development strategy. The City Council has established special tiered rates for electric utility customers based upon factors such as the number of jobs created.

The main revenue source for this fund is derived from charges for services. The customer base includes residential, commercial and industrial customers. The growth in customer base will continue to provide for the ability to create rate stabilization and replacement reserve funding.

Table 7. MVU Operations

	FY 2018/19 Adopted Budget	FY 2018/19 Amended Budget	Actuals as of 3/31/2019 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Charges for Services	\$ 31,641,643	\$ 31,641,643	\$ 23,397,952	73.9%
Use of Money & Property	155,500	155,500	335,798	215.9%
Miscellaneous	141,500	141,500	1,163,479	822.2%
Transfers In	-	8,030,892	8,030,892	100.0%
Total Revenues	\$ 31,938,643	\$ 39,969,535	\$ 32,928,121	82.4%
Expenditures:				
45510 Electric Utility - General	\$ 21,963,138	\$ 31,758,853	\$ 16,029,910	50.5%
45511 Public Purpose Program	2,060,185	2,060,185	847,286	41.1%
45512 SCE Served Street Lights	-	-	42,092	0.0%
80005 CIP - Electric Utility	5,000	22,605,155	5,195,924	23.0%
96010 Non-Dept Electric	-	5,354	18,334	342.4%
96030 Non-Dept 2005 Lease Revenue Bonds	1,550,000	1,550,000	478,341	30.9%
96021 Non-Dept 2016 Tax LRB of 07 Tax	867,700	867,700	435,588	50.2%
96031 Non-Dept 2013 Refunding 05 LRB	179,500	37,500	162,291	432.8%
96032 Non-Dept 2014 Refunding 2005 LRB	119,300	119,300	59,886	50.2%
96040 Non-Dept 2015 Taxable LRB	665,000	460,000	438,097	95.2%
96050 Non-Dept 2018 Streetlight Fin	-	8,110,892	8,110,892	100.0%
Total Expenditures	\$ 27,409,823	\$ 67,574,939	\$ 31,818,640	47.1%
Net Change or Adopted Use of Fund Balance	\$ 4,528,820	\$ (27,605,404)	\$ 1,109,481	

MVU's revenues and expenses will fluctuate annually based on energy demands.

- On June 19, 2018, Council approved lease/purchase agreement and the financing associated with the streetlight purchase from Southern California Edison (96050).

SUMMARY

The City of Moreno Valley is experiencing certain levels of growth and continues to maintain a structurally balanced Budget without the use of reserves.

Although the City has experienced positive results in some areas through FY 2017/18 and through the Third Quarter of FY 2018/19, the City should look toward the future with constrained optimism as we proceed through the fiscal year.

As positive fund balances begin to grow, we will bring back to the City Council for discussion options to address the other challenges and unfunded liabilities.