

City of Moreno Valley

Fiscal Year 2019/20

Mid-Year Financial Summary

TO: Mayor and City Council

FROM: Marshall Eyerman, Chief Financial Officer/City Treasurer

DATE: March 3, 2019

INTRODUCTION

On May 7, 2019, the City Council adopted the Two-Year Operating Budget for Fiscal Years (FY) 2019/20 – 2020/21. 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 the Mid-Year of FY 2019/20 (July 2019 – December 2019, 50% of the fiscal year).

CITYWIDE OPERATING EXPENDITURE SUMMARY

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

Table 1. Citywide Operating Expenditures

Fund/Component Unit	FY 2019/20 Adopted Budget	FY 2019/20 Amended Budget	Actuals as of 12/31/19 (unaudited)	% of Amended Budget
General Fund	\$ 112,921,104	\$ 116,481,760	\$ 48,803,145	41.9%
Community Services District (CSD)	21,441,802	22,113,437	8,867,277	40.1%
Successor Agency	5,089,728	5,089,728	1,350,441	26.5%
Housing Fund	250,000	250,000	96,586	38.6%
Special Revenue Funds	59,938,214	82,885,630	20,915,232	25.2%
Capital Projects Funds	5,407,512	22,590,450	5,998,235	26.6%
Electric Utility Funds	36,191,318	48,704,412	19,658,587	40.4%
Internal Service Funds	12,847,625	15,547,521	6,980,211	44.9%
Debt Service Funds	4,332,843	4,332,853	2,675,331	61.7%
Total	\$ 258,420,146	\$ 317,995,791	\$ 115,345,044	36.3%

Actions taken by the City Council subsequent to the May 7, 2019 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.
- The majority of this Mid-Year 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 2019/20 Adopted Budget	FY 2019/20 Amended Budget	Actuals as of 12/31/19 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 16,101,900	\$ 16,101,900	\$ 4,968,276	30.9%
Property Tax in-lieu	20,730,000	20,730,000	-	0.0%
Utility Users Tax	16,000,000	16,000,000	6,775,512	42.3%
Sales Tax	20,988,000	20,988,000	7,198,155	34.3%
Other Taxes	13,330,000	13,330,000	3,790,262	28.4%
Licenses & Permits	5,127,536	5,127,536	2,334,474	45.5%
Intergovernmental	313,000	336,480	199,543	59.3%
Charges for Services	12,771,480	13,040,021	6,720,198	51.5%
Use of Money & Property	4,945,806	4,945,806	1,576,924	31.9%
Fines & Forfeitures	599,500	599,500	200,285	33.4%
Miscellaneous	165,000	165,000	176,137	106.7%
Total Revenues	\$ 111,072,222	\$ 111,364,243	\$ 33,939,766	30.5%
Expenditures:				
Personnel Services	\$ 24,372,055	\$ 24,279,255	\$ 11,745,963	48.4%
Contractual Services	74,718,236	75,707,345	29,924,031	39.5%
Material & Supplies	3,044,358	5,749,154	1,540,570	26.8%
Fixed Charges	5,933,338	5,933,338	2,815,594	47.5%
Fixed Assets	50,000	5,878	-	0.0%
Total Expenditures	\$ 108,117,987	\$ 111,674,970	\$ 46,026,158	41.2%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	\$ 2,954,235	\$ (310,727)	\$ (12,086,392)	
Transfers:				
Transfers In	\$ 1,857,812	\$ 3,621,494	\$ 1,149,444	31.7%
Transfers Out	4,803,117	4,806,790	2,776,987	57.8%
Net Transfers	\$ (2,945,305)	\$ (1,185,296)	\$ (1,627,543)	
Total Revenues & Transfers In	\$ 112,930,034	\$ 114,985,737	\$ 35,089,210	30.5%
Total Expenditures & Transfers Out	112,921,104	116,481,760	48,803,145	41.9%
Net Change of Fund Balance	\$ 8,930	\$ (1,496,023)	\$ (13,713,935)	

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. Each of these is affected by different economic activity cycles and pressures.

Table 3. General Fund Operating Revenues

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Charges for Services	12,771,480	13,040,021	6,720,198	51.5%
Use of Money & Property	4,945,806	4,945,806	1,576,924	31.9%
Fines & Forfeitures	599,500	599,500	200,285	33.4%
Miscellaneous	165,000	165,000	176,137	106.7%
Total Revenues	\$ 111,072,222	\$ 111,364,243	\$ 33,939,766	30.5%

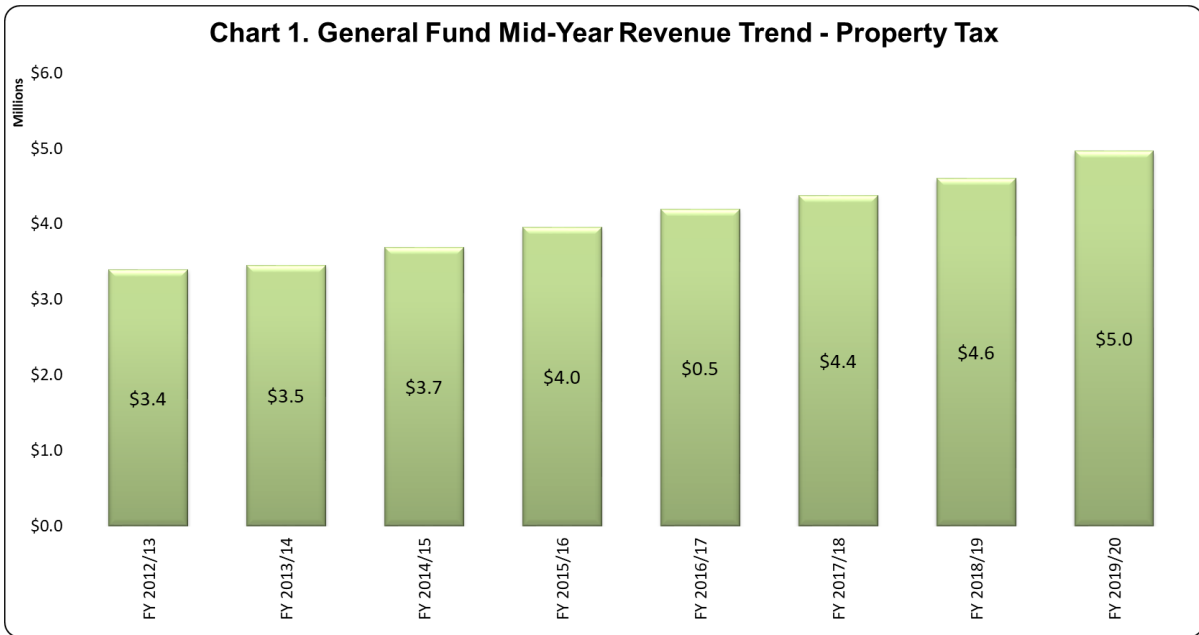
Property Taxes/Property Taxes In-Lieu

Property taxes were budgeted to increase by 7% from the FY 2018/19 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:

Secured Property Tax Payment Dates

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 up to 14% of the budgeted property tax revenue through Mid-Year. The City has currently received 14% through Mid-Year. 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.

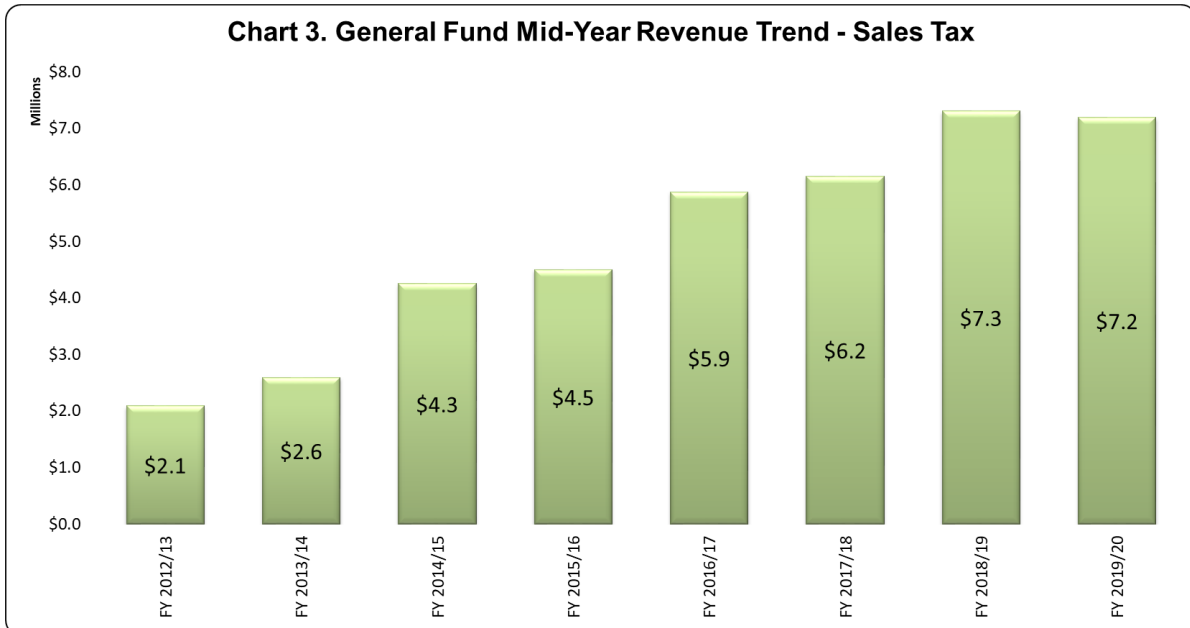


Note: FYs 2014/15, 2017/18 and 2019/20 did not receive any property tax revenues in the Mid-Year.

Sales Taxes

Sales taxes were budgeted to increase by 5% from the FY 2018/19 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 26% of the budgeted sales tax revenue through Mid-Year. The City has currently received 34% through Mid-Year.

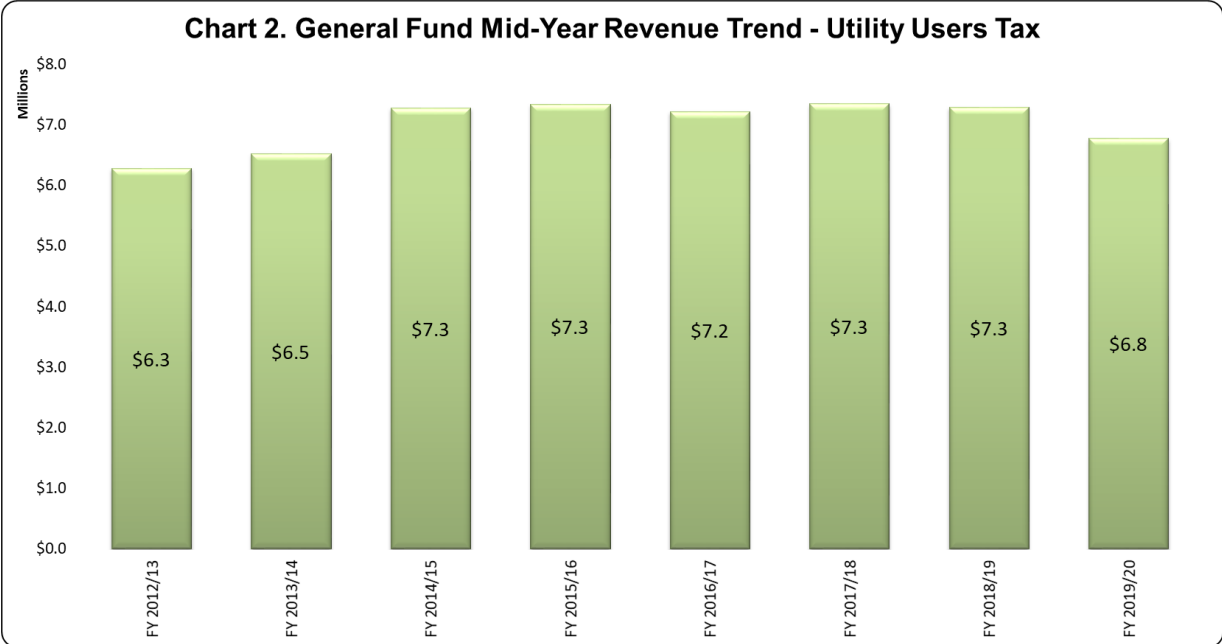


Note: For FY 2017/18, the reversal of revenues accrued to the prior fiscal year in accordance with the Government Accounting Standards Board (GASB) did not occur until the second quarter.

Utility Users Tax

Utility Users taxes were budgeted to decrease less than 1% from the FY 2018/19 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.

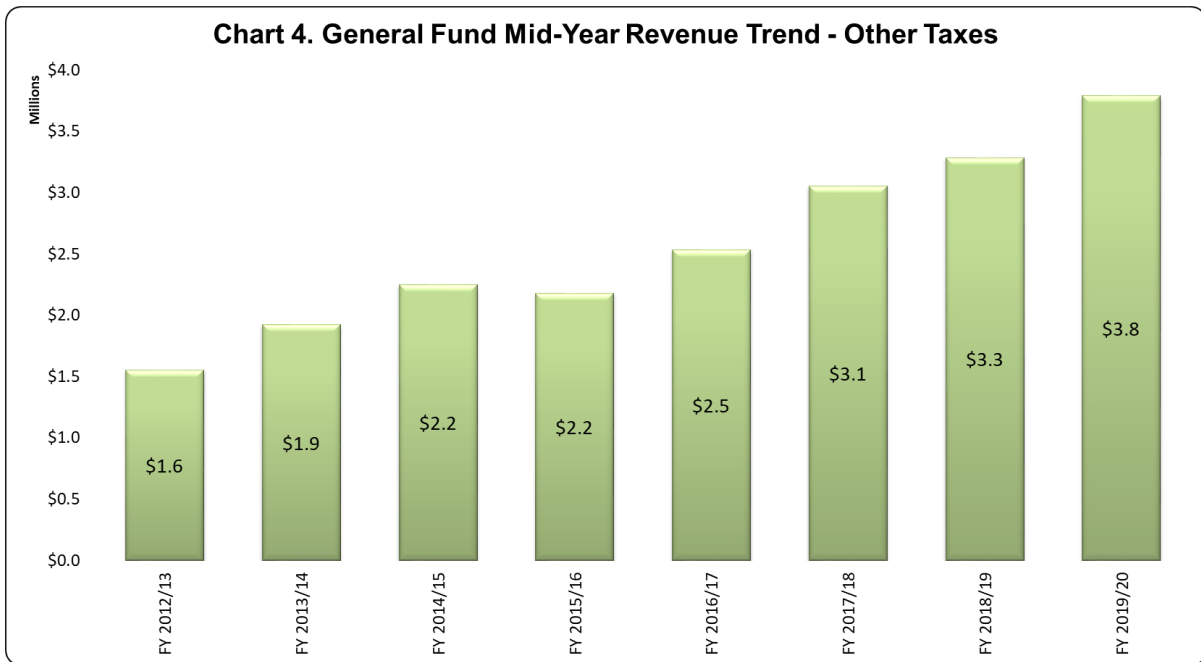
Based on historical averages of actual receipts, the City is estimated to receive 44% of the budgeted utility users tax revenue through Mid-Year. The City has currently received 42% through Mid-Year.



Other Taxes

Other taxes are primarily composed of Business Gross Receipts, Transient Occupancy Tax, Documentary Transfer Tax, and Franchise Fees. Collectively, other taxes were budgeted to increase 6% from the FY 2018/19 Amended Budget.

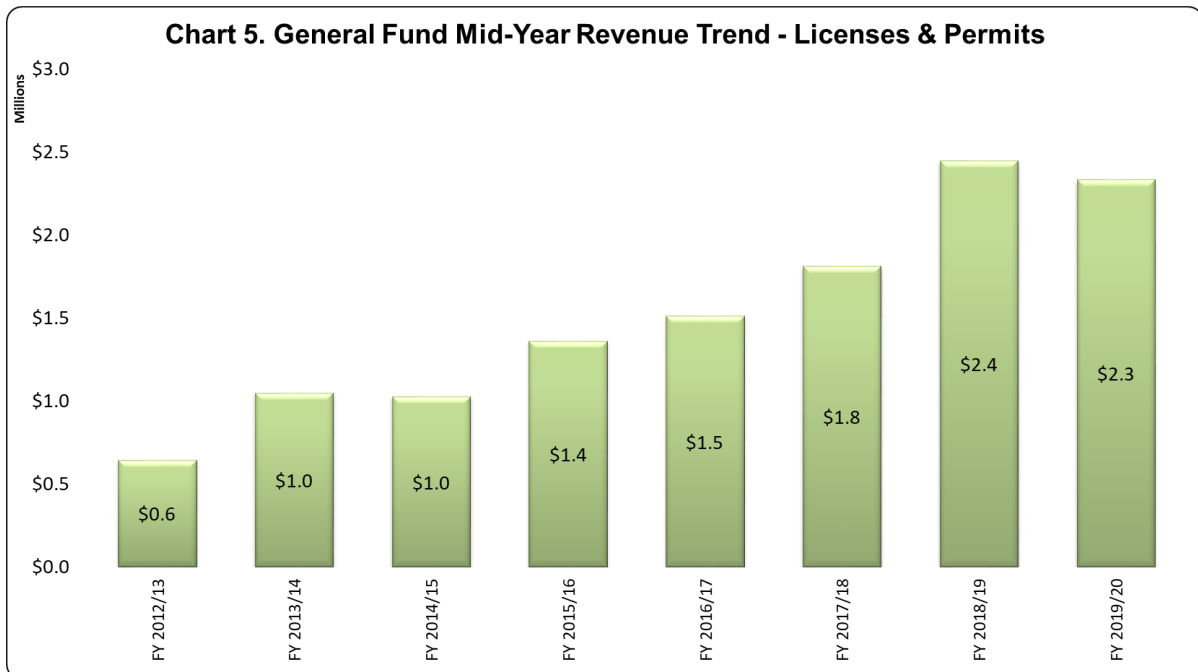
Based on historical averages of actual receipts, the City is estimated to receive 25% of the budgeted Other Taxes revenue through Mid-Year. The City has currently received 28% through Mid-Year.



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 9% from the FY 2018/19 Amended Budget. This increase reflects increases due to Commercial Cannabis Business Permits. This budget will be monitored for a possible future increase.

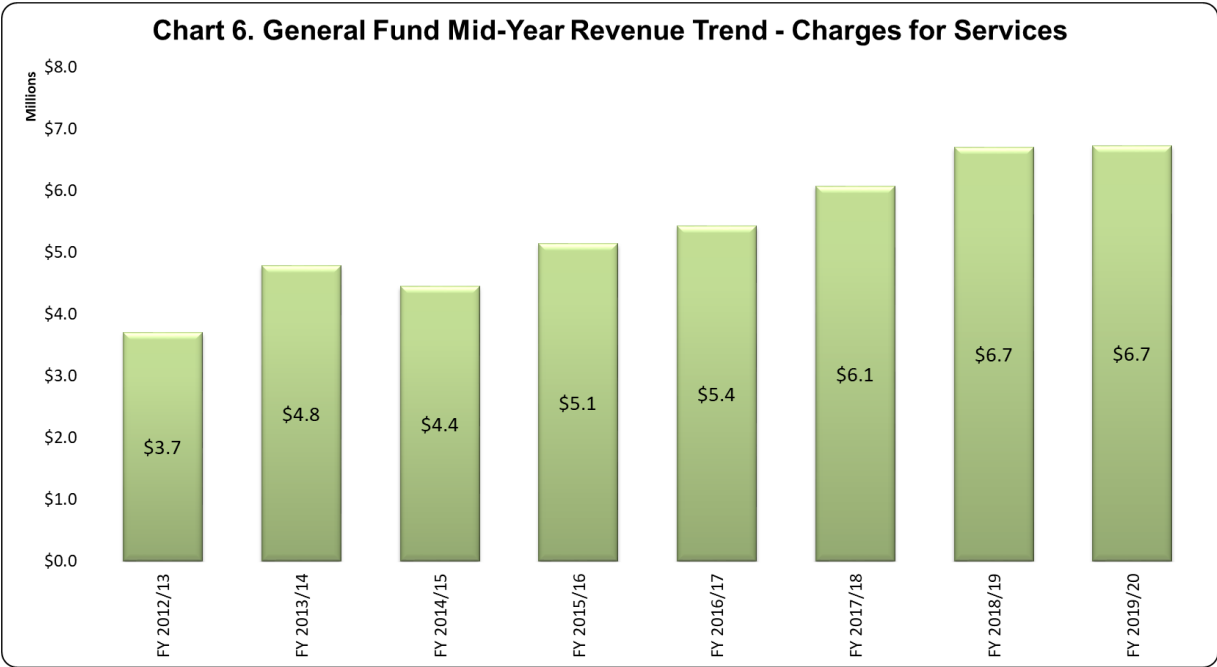
Based on historical averages of actual receipts, the City is estimated to receive 54% of the budgeted Licenses & Permits revenue through Mid-Year. The City has currently received 46% through Mid-Year. The collection rate is related primarily to the recent building and business license permit activities.



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 decrease by 3% from the FY 2018/19 Amended Budget.

Based on historical averages of actual receipts, the City is estimated to receive 49% of the budgeted Charges for Services revenue through Mid-Year. The City has currently received 52% through Mid-Year.



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 (FOMC). The investments achieved a Yield to Maturity (YTM) for December 2019 of 2.12%. In addition, the City maintained funds in the State Local Agency Investment Fund Pool (LAIF) with a YTM of 2.04%. In the past four months, the FOMC have decreased the federal funds target rate by 75 basis points to 1.5% - 1.75%. 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 2019/20 Adopted Budget	FY 2019/20 Amended Budget	Actuals as of 12/31/19 (unaudited)	% of Amended Budget
Department				
City Council	\$ 1,018,424	\$ 1,156,399	\$ 451,620	39.1%
City Clerk	720,072	720,072	280,102	38.9%
City Manager	1,962,633	2,012,633	988,622	49.1%
City Attorney	1,049,324	1,049,324	476,715	45.4%
Community Development	10,304,411	10,429,411	4,485,383	43.0%
Economic Development	2,378,885	2,378,885	990,952	41.7%
Financial & Management Services	11,415,727	11,712,804	4,415,306	37.7%
Human Resources	1,512,487	1,512,487	646,881	42.8%
Public Works	8,659,994	10,298,160	4,184,269	40.6%
Non-Departmental	5,878,117	5,806,790	4,233,287	72.9%
Non-Public Safety Subtotal	\$ 44,900,074	\$ 47,076,965	\$ 21,153,138	44.9%
Public Safety				
Police	\$ 44,920,102	\$ 45,053,455	\$ 16,775,474	37.2%
Fire	23,100,928	24,351,340	10,874,533	44.7%
Public Safety Subtotal	\$ 68,021,030	\$ 69,404,795	\$ 27,650,007	39.8%
Total	\$ 112,921,104	\$ 116,481,760	\$ 48,803,145	

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

	FY 2019/20 Adopted Budget	FY 2019/20 Amended Budget	Actuals as of 12/31/19 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 5,359,370	\$ 5,359,370	\$ 1,681,069	31.4%
Other Taxes	6,719,200	6,724,724	65,174	1.0%
Charges for Services	5,371,479	5,603,784	607,175	10.8%
Use of Money & Property	1,009,729	1,031,788	508,059	49.2%
Fines & Forfeitures	30,000	30,000	6,597	22.0%
Miscellaneous	18,010	42,710	49,187	115.2%
Transfers In	1,971,927	1,978,278	995,473	50.3%
Total Revenues	\$ 20,479,715	\$ 20,770,654	\$ 3,912,734	18.8%
Expenditures:				
Library Services Fund (5010)	\$ 2,453,182	\$ 2,509,699	\$ 1,153,308	46.0%
Zone A Parks Fund (5011)	10,061,021	10,164,512	4,582,718	45.1%
LMD 2014-01 Residential Street Lighting Fund (5012)	1,468,459	1,468,459	765,489	52.1%
Zone C Arterial Street Lighting Fund (5110)	850,324	850,324	342,119	40.2%
Zone D Standard Landscaping Fund (5111)	1,318,995	1,720,543	350,303	20.4%
Zone E Extensive Landscaping Fund (5013)	313,691	329,086	94,632	28.8%
5014 LMD 2014-02	2,806,060	2,810,512	847,366	30.1%
Zone M Median Fund (5112)	439,412	542,728	85,330	15.7%
CFD No. 1 (5113)	1,661,762	1,648,622	626,456	38.0%
Zone S (5114)	68,896	68,952	19,556	28.4%
Total Expenditures	\$ 21,441,802	\$ 22,113,437	\$ 8,867,277	40.1%
Net Change or Adopted Use of Fund Balance	\$ (962,087)	\$ (1,342,783)	\$ (4,954,543)	

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 2019/20 Adopted Budget	FY 2019/20 Amended Budget	Actuals as of 12/31/19 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 2,812,910	\$ 2,812,910	\$ 865,463	30.8%
Other Taxes	4,977,000	4,977,000	59,541	1.2%
Charges for Services	1,148,683	1,156,483	524,088	45.3%
Use of Money & Property	925,659	947,718	458,800	48.4%
Miscellaneous	18,000	42,700	48,052	112.5%
Transfers In	528,237	540,915	276,798	51.2%
Total Revenues	\$ 10,410,489	\$ 10,477,726	\$ 2,232,742	21.3%
Expenditures:				
35010 Parks & Comm Svcs - Admin	\$ 716,422	\$ 716,422	\$ 317,489	44.3%
35210 Park Maintenance - General	3,826,779	3,820,509	1,632,028	42.7%
35211 Contract Park Maintenance	465,744	465,744	149,827	32.2%
35212 Park Ranger Program	349,828	359,238	176,297	49.1%
35213 Golf Course Program	474,059	474,059	252,233	53.2%
35214 Parks Projects	217,978	217,978	63,048	28.9%
35310 Senior Program	574,045	575,045	274,251	47.7%
35311 Community Services	484,124	484,124	228,784	47.3%
35312 Community Events	277,678	292,478	172,259	58.9%
35313 Conf & Rec Cntr	416,926	464,426	223,698	48.2%
35314 Conf & Rec Cntr - Banquet	374,311	377,925	165,131	43.7%
35315 Recreation Programs	1,176,088	1,179,788	571,138	48.4%
35317 July 4th Celebration	111,990	111,990	58,473	52.2%
35318 Sports Programs	565,899	591,925	260,483	44.0%
35319 Towngate Community Center	29,150	29,150	9,235	31.7%
95011 Non-Dept Zone A Parks	-	3,711	28,342	763.7%
Total Expenditures	\$ 10,061,021	\$ 10,164,512	\$ 4,582,718	45.1%
Net Change or Adopted Use of Fund Balance	\$ 349,468	\$ 313,214	\$ (2,349,976)	

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 6,770 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 2019/20 Adopted Budget	FY 2019/20 Amended Budget	Actuals as of 12/31/19 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Charges for Services	\$ 34,221,040	\$ 34,221,040	\$ 18,475,853	54.0%
Use of Money & Property	156,000	156,000	188,087	120.6%
Miscellaneous	150,000	150,000	783,562	522.4%
Total Revenues	\$ 34,527,040	\$ 34,527,040	\$ 19,447,501	56.3%
Expenditures:				
45510 Electric Utility - General	\$ 25,248,274	\$ 26,559,422	\$ 12,870,008	48.5%
45511 Public Purpose Program	1,694,007	2,174,325	643,742	29.6%
45512 SCE Served Street Lights	800,000	800,000	381,070	47.6%
80005 CIP - Electric Utility	4,115,000	14,826,905	2,723,885	18.4%
96010 Non-Dept Electric	0	9,674	18,170	187.8%
96030 Non-Dept 2005 Lease Revenue Bonds	2,049,081	2,049,081	991,275	48.4%
96021 Non-Dept 2016 Tax LRB of 07 Tax	848,900	848,900	426,238	50.2%
96031 Non-Dept 2013 Refunding 05 LRB	29,106	29,106	165,523	568.7%
96032 Non-Dept 2014 Refunding 2005 LRB	119,227	119,276	59,828	50.2%
96040 Non-Dept 2015 Taxable LRB	453,751	453,751	435,541	96.0%
96050 Non-Dept 2018 Streetlight Fin	833,972	833,972	591,532	70.9%
96060 Non-Dept 2019 Taxable LRB	0	0	351,778	0.0%
Total Expenditures	\$ 36,191,318	\$ 48,704,412	\$ 19,658,587	40.4%
Net Change or Adopted Use of Fund Balance	\$ (1,664,278)	\$ (14,177,372)	\$ (211,085)	

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

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 2018/19 and through the Mid-Year of FY 2019/20, 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.