

**NOTICE AND CALL OF SPECIAL MEETING (STUDY SESSION) OF THE
CITY COUNCIL OF THE CITY OF MORENO VALLEY
MORENO VALLEY COMMUNITY SERVICES DISTRICT
COMMUNITY REDEVELOPMENT AGENCY OF THE
CITY OF MORENO VALLEY**

December 6, 2011 - 6:00 PM

NOTICE IS HEREBY GIVEN that a special meeting (Study Session) of the City Council of the City of Moreno Valley, Moreno Valley Community Services District and the Community Redevelopment Agency of the City of Moreno Valley will be held on December 6, 2011 commencing at 6:00 PM, in the City Council Chamber, City Hall, located at 14177 Frederick Street, Moreno Valley, California.

Said special meeting shall be for the purpose of:

AGENDA

CALL TO ORDER

PLEDGE OF ALLEGIANCE

INVOCATION

ROLL CALL

INTRODUCTIONS

**PUBLIC COMMENTS ON MATTERS ON THE SPECIAL MEETING AGENDA
UNDER THE JURISDICTION OF THE CITY COUNCIL**

There is a three-minute time limit per person. Please complete and submit a LAVENDER speaker slip to the Bailiff. All remarks and questions shall be addressed to the presiding officer or to the City Council and not to any individual Council Member, staff member or other person.

SPECIAL ORDER OF BUSINESS

- 1 FIRST QUARTER BUDGET REVIEW - FISCAL YEAR 2011-12 (FASD/15 Min.)
- 2 CITY COUNCIL REQUESTS AND COMMUNICATIONS

(Times shown are only estimates for staff presentation. Items may be deferred by Council if time does not permit full review.)

❖ Oral Presentation only – No written material provided

***Materials related to an item on this Agenda submitted to the City Council/Community Services District/Community Redevelopment Agency or the Board of Library Trustees after distribution of the agenda packet are available for public inspection in the City Clerk's office at 14177 Frederick Street during normal business hours.**

CLOSED SESSION

A Closed Session of the City Council, Community Services District and Community Redevelopment Agency of the City of Moreno Valley will be held in the City Manager's Conference Room, Second Floor, City Hall. The City Council will meet in Closed Session to confer with its legal counsel regarding the following matter(s) and any additional matter(s) publicly and orally announced by the City Attorney in the Council Chamber at the time of convening the Closed Session.

- **PUBLIC COMMENTS ON MATTERS ON THE CLOSED SESSION AGENDA UNDER THE JURISDICTION OF THE CITY COUNCIL**

There is a three-minute time limit per person. Please complete and submit a BLUE speaker slip to the City Clerk. All remarks and questions shall be addressed to the presiding officer or to the City Council and not to any individual Council member, staff member or other person.

The Closed Session will be held pursuant to Government Code:

1 **SECTION 54956.9(b)(1) - CONFERENCE WITH LEGAL COUNSEL - SIGNIFICANT EXPOSURE TO LITIGATION**

Number of Cases: 5

2 **SECTION 54956.9(c) - CONFERENCE WITH LEGAL COUNSEL - INITIATION OF LITIGATION**

Number of Cases: 5

REPORT OF ACTION FROM CLOSED SESSION, IF ANY, BY CITY ATTORNEY

ADJOURNMENT

This page intentionally left blank.



MEMORANDUM

To: Mayor and City Council

From: Kathy Gross, Executive Assistant I

Date: December 6, 2011

Subject: City Council Special Study Session Agenda of December 6, 2011, Item No. 1. FIRST QUARTER BUDGET REVIEW – Fiscal Year 2011-12 (Report of: Financial & Administrative Services Department)

Attached is a corrected staff report for the above-mentioned subject item. Please note that the changes are reflected on pages 1-3 and 15 and are highlighted in yellow.

c: Henry Garcia, City Manager
Michelle Dawson, Assistant City Manager
Bob Hansen, City Attorney



APPROVALS	
BUDGET OFFICER	
CITY ATTORNEY	
CITY MANAGER	

Report to City Council

TO: Mayor and City Council
FROM: Rick Teichert, Financial & Administrative Services Director
AGENDA DATE: December 6, 2011
TITLE: FIRST QUARTER BUDGET REVIEW – Fiscal Year 2011-12

RECOMMENDED ACTION

Staff recommends that the City Council receive and file this report.

BACKGROUND

The City Council is provided updates on the City's financial status through both a First Quarter and a Mid-Year Budget Review. These reviews occur in December and February, respectively. The First Quarter Review reflects operational results for the first three months of the fiscal year, from July through September. The report focuses on the City's General Fund, which is of greatest concern with respect to the slow revenue growth due to the weak economy, but also provides financial summaries for other key funds such as Parks, Library, Gas Tax, and the Electric Utility.

This report provides a review of the results of the recently completed fiscal year that ended June 30, 2011. In addition, it briefly addresses the progress to eliminate the remaining structural deficit through the Deficit Elimination Plan (DEP) and the efforts to align ongoing expenses with the projected revenue stream. A more comprehensive review of the DEP will be provided with the Mid-Year Budget Update and the update to the FY 2012-13 base budget in March/April 2012.

DISCUSSION

Year-end Financial Position for FY 2010-11 General Fund

The approved FY 2010-11 budget projected General Fund revenues totaling \$68.5 million including transfers in and expenditures of \$83 million inclusive of transfers out of the General Fund. This budget planned for a total use of General Fund reserves to balance the budget in the amount of \$14.4 million. The actual use of fund balance for the year was reduced to about \$7 million or half of the amount planned. This difference reflects stronger revenues in certain primary tax sources and significantly reduced expenses compared to the approved budget.

Revenues

Revenues exceeded budget in the amount of \$2.9 million or 4.3%. This is a result of budgeting for the worst case scenario in light of rapidly declining revenues impacted by the economy as the budget was being developed in early 2010. The reality was that the benefit of the economic recovery (albeit slow) impacting property, sales tax and other taxes caused the overall revenues to exceed the worst case scenario budget.

Property taxes were budgeted to decline by 14% from the previous year. Actual assessed values decreased only 4%, resulting in a much lower decrease in revenues than anticipated. The impact was \$2.1 million more in property taxes than budgeted.

Sales taxes also were budgeted to be flat from FY 2009-10 to FY 2010-11 at \$9.7 million for the General Fund. However, based on the recovering economy and new businesses that began operating in the City, sales taxes increased during the year to \$11.2 million. This resulted in an increase over budget of \$1.5 million. This increase is reflective of the City's sales tax revenues increasing by 15% above budget and the Property Tax in lieu of Sales Tax received from the State increasing by 18% from the budgeted amount. The stabilizing of the economic environment will allow staff to more closely project sales tax revenues for FY 2011/12.

Other taxes, such as Transient Occupancy Tax (TOT), Business License Tax and Franchise Fees all increased over the prior year. This resulted in a net increase in other taxes of \$650,000 or 10% above the total budget for other taxes.

Intergovernmental revenues increased by \$500,000, which was primarily the result of Motor Vehicle License Fees increasing by over \$400,000 as a result of the State of California reconciling four years of prior distributions and processing the catch-up reconciliation payments to cities. Total VLF fees for FY 2010-11 were in excess of \$800,000 compared to a budgeted amount of \$400,000 for FY 2010-11.

Expenses

Expenses were under budget by \$4.4 million or 5.5%. This is driven by three departments that were 6.5% or more under budget; including Police, Fire and Community and Economic Development Departments (CEDD). The Police Department budget was \$2.7 million (6.5%) under budget driven by \$2.5 million or 6.8% below budget for contract police services with the Riverside County Sheriff. The Fire Department Budget was \$1.2 million (7.0%) under budget. The savings were due to contract fire service finishing the year \$700k (5.0%) under budget. Materials/supplies were \$500k under budget due to the Morrison Park Fire Engine approved in May 2011 being purchased and paid in August 2011; this budget was carried over to FY 2011/12. The CEDD was 8.5% below budget or \$450,000. This was a result of budget savings in contract services. Staff will review these budgets closely in preparation for adjusting both the FY 2011-12 budget at mid-year and for the update of the FY 2012-13 budget.

Summary

The results for FY 2010-11 were surprisingly positive. This is a result of revenues exceeding budget by \$2.9 million, while expenditures finished under-budget by \$4.4 million. The net result was a use of fund balance of about \$7 million instead of the planned \$14.4 million. Audited results for FY 2010-11 will be presented to Council with the Mid-Year Budget and in the Comprehensive Annual Financial Report (CAFR).

**City of Moreno Valley
General Fund
FY 2010-11 Year-end Revenues and Expenditures**

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actuals (Unaudited)</u>	<u>% of Adjusted Budget</u>
Revenues:				
Taxes:				
Property Taxes	\$8,596,100	\$8,596,100	\$9,431,578	109.7%
Property taxes in lieu	11,773,400	11,773,400	13,055,796	110.9%
Utility taxes	15,200,000	15,200,000	15,317,439	100.8%
Sales taxes	9,735,100	9,735,100	11,283,435	115.9%
Other taxes	6,556,500	6,556,500	7,209,262	110.0%
Licenses and permits	1,260,600	1,260,600	1,309,381	103.9%
Intergovernmental	608,500	608,500	1,112,761	182.9%
Charges for services	8,344,600	8,348,256	7,102,425	85.1%
Use of money and property	4,562,900	4,562,900	3,524,594	77.2%
Fines and forfeitures	1,160,000	1,160,000	770,904	66.5%
Miscellaneous	172,700	172,700	770,942	446.4%
Total Revenues	<u>\$67,970,400</u>	<u>\$67,974,056</u>	<u>\$70,888,517</u>	104.3%
Expenditures:				
Current:				
General government				
City council	579,922	581,564	513,214	88.2%
City manager	1,279,359	1,325,138	1,083,674	81.8%
City clerk	634,286	521,486	507,399	97.3%
City attorney	1,015,407	1,090,407	1,034,442	94.9%
Financial and administrative services	5,396,202	5,426,293	5,301,107	97.7%
Human resources	958,505	958,505	923,963	96.4%
Non-departmental	2,694,500	2,571,046	3,150,604	122.5%
Public safety				
Police	41,291,771	41,870,739	39,142,156	93.5%
Fire	16,271,701	16,567,455	15,419,808	93.1%
Community and economic development	5,065,357	5,121,649	4,686,821	91.5%
Public works				
	4,134,750	4,145,531	3,981,489	96.0%
Total Expenditures	<u>\$79,321,760</u>	<u>\$80,179,813</u>	<u>\$75,744,677</u>	94.5%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	(11,351,360)	(12,205,757)	(4,856,160)	0
Other Financing Sources (Uses):				
Transfers in	263,000	558,754	773,051	138.4%
Transfers out	1,582,740	2,513,040	2,520,611	100.3%
Total Other Financing Sources (Uses)	<u>(1,319,740)</u>	<u>(1,954,286)</u>	<u>(1,747,560)</u>	89.4%
Net Balance	<u>(\$12,671,100)</u>	<u>(\$14,160,043)</u>	<u>(\$6,603,720)</u>	46.6%

FY 2011-12 First Quarter Results

General Fund Revenues

Due to the uneven schedule of revenue receipts, combined with the year-end accrual process, revenues received through the first quarter of the fiscal year are historically only 8.8% of the annual budget, even though 25% of the fiscal year has elapsed. Through the first quarter of FY 2011-12, 9.6% of budgeted revenues have been received, as shown in the table on page 7.

General Fund revenues through September typically exceed the expected level based on historical receipts. Revenues will be carefully monitored each month. Current economic reports indicate that factors impacting the City's primary revenue base are stable and staff anticipates gradual revenue growth through the balance of FY 2011-12. Staff has analyzed and reviewed the budgeted revenues for FY 2011-12 compared to data that is becoming available regarding these revenues. Staff is seeing important changes in four specific revenue sources and will recommend adjustments based on these changes as part of the Mid-Year Budget actions.

Property Tax

Property Tax was assumed to drop by 0.5% from previous year levels. The data from the County Assessor's office indicate that the actual assessed value will increase in Moreno Valley by about 0.5%. This change will add about \$200,000 in additional revenue to the current base budget. Adjusting to actual property tax receipts for the prior fiscal year will add another \$300,000 to the revenue budget. Staff will monitor this information and recommend appropriate adjustments as part of the mid-year budget update, which will occur after the first installment of property tax receipts are received in January 2012.

Sales Tax

While sales tax data for the first quarter of FY 2011/12 is not yet available, sales tax was up 6.25% for the quarter ended June 30, 2011 (Q2 of 2011) compared to the same quarter in the prior year. This is the most recent quarter of data available. Accounting for one-time adjustments, according to our sales tax advisors, The HdL Companies, the ongoing gain is about 4 to 5%. This is the result of new businesses that have been recruited to the City through Economic Development efforts, along with improvements in some business categories. The increase for the two previous quarters was 10.4% for Q4 of 2010 and 11.1% for Q1 of 2011.

Staff will monitor the first quarter results for FY 2011-12 sales taxes (Q3 of 2011) to determine if this trend is holding. A four percent increase was assumed in the current budget estimate of \$10.95 million in sales tax revenue for the General Fund. Adjusting for the increase in the prior year actual amount would add about \$750,000 to the current year budget.

Investment Income

Investment income continues to remain low due to extremely low rates of return for fixed income investments. Currently, the Five-year Treasury Note is yielding only 1.05%. Through a professional money management firm, the City's portfolio is achieving a yield of about 1.6% with a duration of just over 2 years. This is a very low rate of return

compared to historical experience, but is indicative of how investment income is performing everywhere. As a result, the budgeted revenue from the City's portfolio was reduced from the prior year budget to \$3.9 million. The first quarter results indicate that revenues are coming in on track to meet this reduced budget amount; however, there is a strong potential for this revenue to decrease during the remainder of the year, impacted by the efforts of the Federal Reserve Board to keep rates low to energize the economy.

Intergovernmental Revenues

Intergovernmental Revenues total \$647,000 in FY 2011-12. This budget includes Motor Vehicle License Fees (VLF) funds of \$400,000. These funds have been diverted through the State Budget process by an eleventh hour action of the Legislature to shift all remaining VLF revenues currently going to cities to counties to provide funding for the Governor's public safety realignment plan. The impact to the City of Moreno Valley is a net loss of \$400,000 with no benefit from the realignment concept. Riverside County will receive these funds to cover costs and services shifted from the State.

Development Services Revenues and Fees

The actual revenues from development service fees for FY 2010-11 were about \$1.1 million below the budgeted amount of \$3.6 million. Staff reduced the base budget for FY 2011-12 based on this experience; however, added back about \$700,000 in expected new revenue based on anticipated development activity as an element of the Deficit Elimination Plan. Staff will continue to closely monitor this activity level and recommend any adjustments at mid-year.

Development revenue activity in the first quarter has increased significantly in certain areas. Specifically, Plan Check Fees for Building & Safety, Fire, Engineering and Transportation are significantly exceeding the budgeted amounts for the first quarter. Also exceeding budget are electrical and mechanical permit fees. Planning Fees and Building Permits are the only two significant development fee categories that are slightly below budget.

Fines and Forfeitures

The Fines and Forfeiture revenues budgeted in the amount of \$1.2 million for FY 2010-11 finished the year over 30% below budget. It appears that this may also be the case for FY 2011-12 based on first quarter activity. This revenue may end up about \$200,000 - \$300,000 under budget.

General Fund Expenditures

The following table shows the General Fund expenditure results through the first quarter of the fiscal year.

Although not all expenditures have a straight-line spending pattern, operating expenditures should generally be within 25% of the annual budget at the end of the first quarter, since 25% of the fiscal year has elapsed. As shown in the following table, General Fund expenditures through September are at 24.8% of the adjusted budget. Costs are generally in line with expectations.

**City of Moreno Valley
General Fund
FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures**

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actuals as of 09/30/11</u>	<u>% of Adjusted Budget</u>
Revenues:				
Taxes:				
Property Taxes	\$9,086,000	\$9,086,000	\$0	0.0%
Property taxes in lieu	13,000,000	13,000,000	0	0.0%
Utility taxes	15,700,000	15,700,000	2,249,745	14.3%
Sales taxes	10,949,760	10,949,760	684,356	6.2%
Other taxes	7,201,208	7,201,208	540,583	7.5%
Licenses and permits	1,464,700	1,464,700	291,906	19.9%
Intergovernmental	647,000	647,000	140,784	21.8%
Charges for services	7,813,896	7,913,896	1,859,682	23.5%
Use of money and property	3,868,800	3,868,800	912,733	23.6%
Fines and forfeitures	1,173,000	1,173,000	97,148	8.3%
Miscellaneous	293,450	293,450	60,667	20.7%
Total Revenues	<u>\$71,197,814</u>	<u>\$71,297,814</u>	<u>\$6,837,602</u>	9.6%
Expenditures:				
Current:				
General government				
City council	573,450	573,450	128,664	22.4%
City manager	1,153,113	1,177,113	266,889	22.7%
City clerk	529,007	529,007	109,371	20.7%
City attorney	918,169	918,169	184,855	20.1%
Financial and administrative services	5,115,862	5,115,862	1,096,014	21.4%
Human resources	784,510	784,510	169,062	21.6%
Non-departmental	1,914,500	1,890,500	589,457	31.2%
Public safety				
Police	41,261,770	41,261,770	10,077,095	24.4%
Fire	15,641,664	15,641,664	4,271,780	27.3%
Community and economic development	4,572,103	4,572,103	1,207,758	26.4%
Public works				
	3,882,001	3,848,445	809,266	21.0%
Total Expenditures	<u>\$76,346,149</u>	<u>\$76,312,593</u>	<u>\$18,910,211</u>	24.8%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	(5,148,335)	(5,014,779)	(12,072,609)	(0)
Other Financing Sources (Uses):				
Transfers in	402,496	402,496	100,626	25.0%
Transfers out	1,978,900	1,978,900	494,727	25.0%
Total Other Financing Sources (Uses)	<u>(1,576,404)</u>	<u>(1,576,404)</u>	<u>(394,101)</u>	25.0%
Net Balance	<u>(\$6,724,739)</u>	<u>(\$6,591,183)</u>	<u>(\$12,466,710)</u>	189.1%

First Quarter Summaries of Other Major Funds

Community Services District (CSD) Zone A – Parks & Community Services

Moreno Valley Community Services District
Zone A - Parks and Community Services
FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actuals (Unaudited)</u>	<u>% of Adjusted Budget</u>
Revenues:				
Taxes:				
Property Taxes	1,695,100	1,695,100	732	0.0%
Charges for services	6,005,900	6,005,900	274,247	4.6%
Use of money and property	214,000	214,000	86,624	40.5%
Miscellaneous	10,500	10,500	3	0.0%
Total Revenues	<u>7,925,500</u>	<u>7,925,500</u>	<u>361,605</u>	4.6%
Expenditures:				
Current:				
Community and cultural				
Senior Program	530,129	530,129	119,921	22.6%
Parks and recreation administration	531,894	531,894	89,927	16.9%
Park ranger program	349,721	349,721	79,168	22.6%
Recreation programs	1,637,920	1,637,920	362,129	22.1%
Park maintenance	2,750,826	2,750,826	656,809	23.9%
Park maintenance - contract	452,347	452,347	96,419	21.3%
Golf course program	289,608	289,608	75,526	26.1%
Recreation and conference	551,830	551,830	133,963	24.3%
Recreation and conference - banquets	272,728	272,728	61,877	22.7%
Parks projects	162,140	162,140	35,605	22.0%
Community services	188,285	188,285	51,117	27.1%
Community events	62,652	62,652	9,947	15.9%
Non-departmental	250,300	250,300	62,574	25.0%
Capital outlay	5,000	5,000	0	0.0%
Total Expenditures	<u>8,035,380</u>	<u>8,035,380</u>	<u>1,834,982</u>	22.8%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	(109,880)	(109,880)	(1,473,377)	1340.9%
Other Financing Sources (Uses):				
Transfers in	307,500	307,500	76,875	25.0%
Transfers out	160,000	160,000	39,999	25.0%
Total Other Financing Sources (Uses)	<u>147,500</u>	<u>147,500</u>	<u>36,876</u>	25.0%
<i>Net Balance</i>	<u>37,620</u>	<u>37,620</u>	<u>(1,436,501)</u>	3818.4%

Community Services District (CSD) Zone A – Parks & Community Services

The revenues are meeting expectations for the first quarter. The largest revenue sources are property tax and parcel fees, which are collected and remitted twice annually. The first distribution of property tax and parcel fees should be received in January 2012. Fees and charges for programs and services are in line for first quarter expectations. Expenses are slightly lagging expectation at 22.8 percent of the total budget for FY 2011-12 as a result of controlling costs.

▪ **Community Services District (CSD) Zone L – Library**

**Moreno Valley Community Services District
Zone L - Library
FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures**

	Adopted Budget	Adjusted Budget	Actuals as of 09/30/11	% of Adjusted Budget
Revenues:				
Taxes:				
Property Taxes	1,244,800	1,244,800	0	0.0%
Charges for services	11,000	11,000	4,337	39.4%
Use of money and property	0	0	0	
Fines and forfeitures	60,600	60,600	10,363	17.1%
Miscellaneous	2,000	4,310	2,684	62.3%
Total Revenues	<u>1,318,400</u>	<u>1,320,710</u>	<u>17,384</u>	1.3%
Expenditures:				
Current:				
Community and cultural				
Library	1,966,376	1,968,686	416,331	21.1%
Total Expenditures	<u>1,966,376</u>	<u>1,968,686</u>	<u>416,331</u>	21.1%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	(647,976)	(647,976)	(398,947)	61.6%
Other Financing Sources (Uses):				
Transfers in	506,800	506,800	126,699	25.0%
Transfers out	0	0	0	
Total Other Financing Sources (Uses)	<u>506,800</u>	<u>506,800</u>	<u>126,699</u>	25.0%
Net Balance	<u>(141,176)</u>	<u>(141,176)</u>	<u>(272,248)</u>	192.8%

Community Services District (CSD) Zone L – Library

The revenues are tracking slightly ahead of expectations. The largest revenue source is property taxes, which are collected and remitted twice annually. The first distribution should be received in January 2012. Charges for services are exceeding the budget reflecting 39.4% of budgeted revenues already collected in the first quarter. Expenses are slightly lagging expectation at 21.1 percent of the total budget for FY 2011-12 as a result of controlling costs and monitoring expenditures.

▪ **Gas Tax Fund**

City of Moreno Valley
State Gasoline Tax Special Revenue Fund
FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures

	Adopted Budget	Adjusted Budget	Actuals as of 09/30/11	% of Adjusted Budget
Revenues:				
Taxes:				
Intergovernmental (gas tax)	5,093,169	5,093,169	246,320	4.8%
Use of money and property	5,000	5,000	(582)	-11.6%
Miscellaneous	11,000	11,000	6,240	56.7%
Total Revenues	5,109,169	5,109,169	251,978	4.9%
Expenditures:				
Current:				
Public works:				
Infrastructure project engineering	329,050	329,050	189,081	57.5%
Street maintenance	1,796,084	1,796,084	378,162	21.1%
Graffiti removal	362,547	362,547	72,424	20.0%
Tree trimming	412,078	412,078	92,650	22.5%
Concrete maintenance	387,737	387,737	68,504	17.7%
Sign/stripping	975,957	975,957	164,523	16.9%
Crossing Guards	517,279	517,279	95,353	18.4%
Capital outlay	0	0	76,475	
Total Expenditures	4,780,732	4,780,732	1,137,171	23.8%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	328,437	328,437	(885,193)	-269.5%
Other Financing Sources (Uses):				
Transfers in	160,000	160,000	39,999	25.0%
Transfers out	0	0	0	
Total Other Financing Sources (Uses)	160,000	160,000	39,999	25.0%
Net Balance	488,437	488,437	(845,194)	-173.0%

Gas Tax Fund

The revenues are on track with expectations. Collected and remitted by the State of California, distributions are delayed as reflected by only 4.9% of the revenues being received in the first quarter of the fiscal year. Expenses are slightly lagging expectation at 23.8 percent of the total budget for FY 2011-12 as a result of controlling costs and monitoring expenditures.

- **Electric Utility**

City of Moreno Valley				
Electric Utility				
FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures				
	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actuals as of 09/30/11</u>	<u>% of Adjusted Budget</u>
Revenues:				
Charges for services				
Generation	10,066,000	10,066,000	2,493,066	24.8%
Distribution	5,084,000	5,084,000	1,080,909	21.3%
Transmission	812,300	812,300	63,477	7.8%
Special Charges	144,100	144,100	22,777	15.8%
Public Purpose	877,200	877,200	289,622	33.0%
Electricity fee refunds	(95,000)	(95,000)	(7,130)	7.5%
Other charges for services	104,000	104,000	37,451	36.0%
Use of money and property	80,500	80,500	6,418	8.0%
Miscellaneous	169,000	169,000	11,509	6.8%
Total Operating Revenues	<u>17,242,100</u>	<u>17,242,100</u>	<u>3,998,099</u>	23.2%
Expenditures:				
Operating Expenditures:				
Electricity purchased	8,483,300	8,483,300	1,966,550	23.2%
Services and supplies	3,542,283	3,542,283	481,102	13.6%
Distribution share	2,076,700	2,076,700	433,746	20.9%
Rate stabilization reserve	379,200	379,200	91,102	24.0%
Public purpose program:				
Electricity purchased	0	0	0	
Services and supplies	130,000	130,000	73,061	56.2%
Total Operating Expenditures	<u>14,611,483</u>	<u>14,611,483</u>	<u>3,045,562</u>	20.8%
Operating Income (Loss)	<u>2,630,617</u>	<u>2,630,617</u>	<u>952,537</u>	36.2%
Non-operating Revenues (Expenses)				
Debt Service:				
Principal retirement	569,000	569,000	2,482	0.4%
Interest expense and fiscal charges	1,630,241	1,630,241	18	0.0%
Capital outlay	132,900	132,900	24,245	18.2%
Total Non-operating Revenues (Expenses)	<u>2,332,141</u>	<u>2,332,141</u>	<u>26,745</u>	1.1%
Net Balance	<u>298,476</u>	<u>298,476</u>	<u>925,792</u>	310.2%

Electric Utility

The revenues are on track with expectations. The largest revenue source is charges for Electricity Generation, which totals \$2.5 million for the quarter or 24.8% of budget. Total revenues are 23.2% of budget, which is normal for the first quarter of the fiscal year. Expenses are slightly lagging expectation at 20.8 percent of the total budget for FY 2011-12 as a result of controlling costs and monitoring expenditures. The first quarter financial position indicates a positive outcome, with net operating income achieving 36.2% of the net income anticipated for the entire year.

Financial Outlook & Action Plan

Although it is early in the fiscal year, revenue and expenditure results through the first quarter of FY 2011-12 are positive and indicate a stable outlook for the remainder of the fiscal year. Therefore, no actions are recommended with respect to workforce reduction or other expenditure reductions, beyond the prudent cost-control measures already being implemented through the City Council approved Deficit Elimination Plan and the current adopted budget.

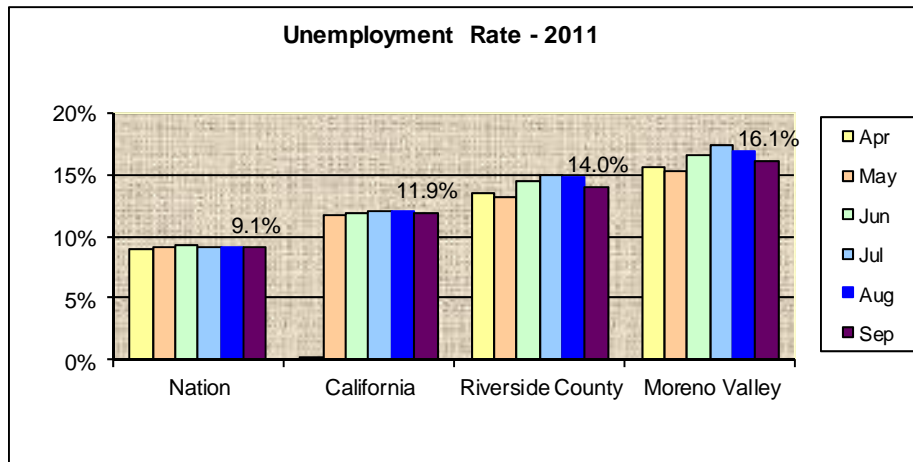
Staff is in the process of preparing a Long Range Business Plan focusing on the General Fund. This plan will establish a ten-year projection into the future, identifying the potential revenue base for the City over an extended period of time. Staff will also project the known ongoing expenditures, with the intent to highlight the long term expected service levels and certain financial challenges and policy decisions that will face the City Council during this period. This will be a valuable tool to communicate the long term fiscal outlook for the City to the citizens of Moreno Valley. This will also provide significant direction to staff to plan and budget for the long term.

Economic Indicators for FY 2011-12

The Great Recession ended with the third quarter of 2009, when the national Gross Domestic Product (GDP) grew by 3.5%. This was the first positive growth in GDP since the recession started in 2007. However, recent GDP data indicates a slow, gradual recovery is occurring, with 2nd and 3rd quarter 2011 GDP numbers reflecting 1.0% and 1.3% increases respectively. Recently, global factors, including concerns over the ability of European government's ability to repay debt has contributed to the slowing of economic recovery.

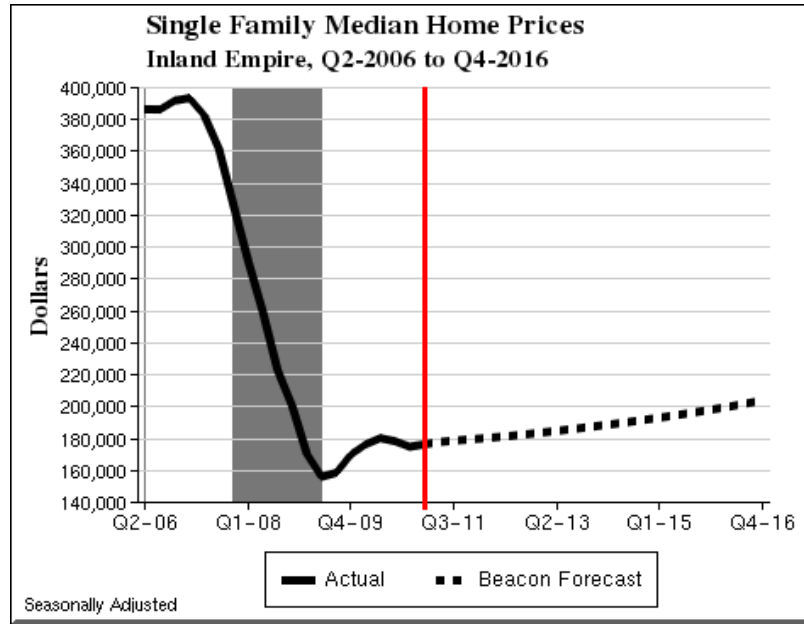
The State, Inland Empire Region, and our local economies continue to be harder hit than the national economy due to more dramatic reductions in property values, employment and consumer spending during the recession. Although unemployment dropped slightly in recent months, it remains high in Moreno Valley at 16.1% in September 2011. Overall, Riverside County had a 14.0% unemployment rate in September 2011.

The following graph presents unemployment data for the past six months from April through September 2011.

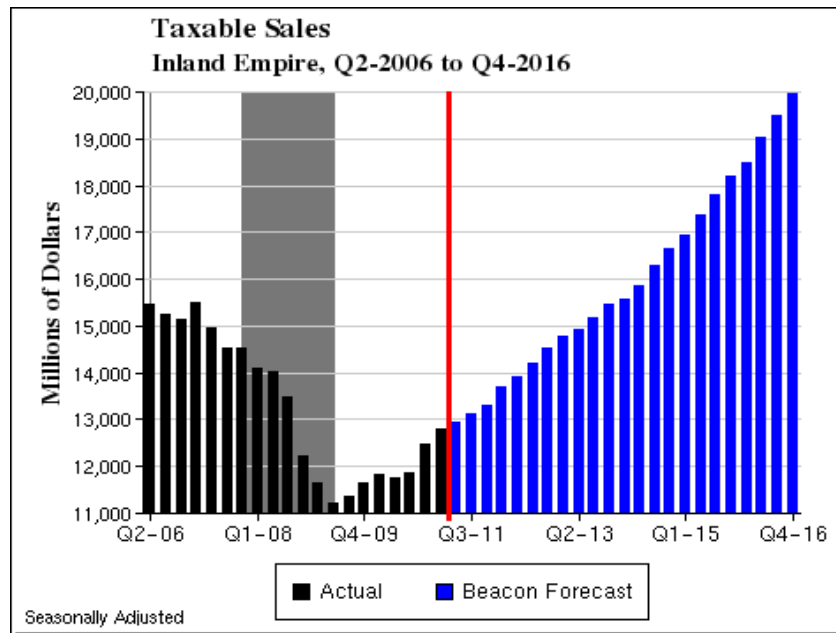


The current consensus of economists is that the U.S. will experience a slow and gradual growth for the next several years. Also, California and the Inland Empire region will grow more slowly than the national economy through this recovery. The benefit to the City of Moreno Valley from the recession ending has been the stabilizing and recent growth of a few of its revenue sources.

Property tax is a major component of local revenues and assessed valuation (AV) has stopped decreasing in the City of Moreno Valley in FY 2011-12. Information released by the County Assessor's office indicates that AV has actually increased by about 0.5% for the current fiscal year. Modest increases in property tax revenues are anticipated for the next few years. The real estate and housing market remains very soft and is not expected to experience any significant recovery in the near future. The following chart reflects information provided by Beacon Economics regarding trends in the median price of homes in the Inland Empire region.



Employment is also expected to recover slowly, as employers will be very cautious in hiring back workers, which will directly impact consumer spending and sales tax. The City has seen increases in sales tax revenue, on a quarter to quarter comparison, for the past three quarters. This is an impact of new businesses coming to the City, along with sales recovery in some business categories. Staff expects these trends to continue and will monitor these revenues, which are expected to grow about 4-5% for the next two years. Following is a chart reflecting the retail sales trends for the Inland Empire region prepared by Beacon Economics.



Major Changes Since the Adoption of the Three-Year Deficit Elimination Plan and Approval of the Current Two-Year Budget

The following are the highlights of significant changes since the adoption of the DEP in April 2011 and the two-year budget in June 2011:

- The State Budget approved in late June 2011 included actions to eliminate Redevelopment Agencies, with a caveat that the Redevelopment Agencies could continue to operate if they agreed to pay a voluntary large payment to the County Auditor Controller that would be distributed to the government agencies that receive the normal 1% property tax distribution in the Tax Rate Area. The City's RDA has calculated the lump sum payment amount to be about \$6.2 million to be paid in two installments in 2012. The law also states that the City's RDA would be required to make a similar annual payment in the amount of \$1.5 million to continue to operate in the future. Staff presented this complex issue to the City Council in July 2011 and City Council has chosen to make the lump sum payment, pending the outcome of a lawsuit being heard by the State Supreme Court regarding this issue. A decision from the Court is expected in January 2012.
- The State Budget actions also included the elimination of the remaining Vehicle License Fee (VLF) funds that have been dedicated to cities. The City's budget for FY 2011-12 includes \$400,000 in VLF fees supporting the General Fund. These funds are being redirected by the State to counties to help fund the realignment of certain public safety functions from the State to counties. The City will receive no benefit from the redirection of these funds. The loss of these funds will increase the General Fund deficit by a significant \$400,000. Staff will present the impacts of this change in the Long Range Business Plan and the Mid-Year budget review.
- The State realignment of public safety costs has not been designed to shift adequate funding to counties to pay for the shift in costs. Staff believes that the County will seek new and creative ways to try to push many of these costs to local agencies. Staff will continue to monitor the impacts of this State policy action and will advise City Council of any negative impacts that may be forthcoming.
- The City has unsuccessfully attempted to increase the parcel fees to generate sufficient revenue to cover the costs of operating the City's residential and arterial street lights. The budget for FY 2011-12 includes \$650,000 in General Fund subsidies to maintain the current street light service levels. It is now clear that subsidies will be required for the second year of the two-year budget in an amount estimated at \$1 million to include residential and arterial street light services. Staff anticipates at mid-year we will be proposing to use a portion of the savings from FY 2010-11 for this budget modification.

Proposed Budget Update Schedule for FY 2011-12 and FY 2012-13 Budgets

Staff will update both the Mid-Year FY 2011-12 Budget and the Approved FY 2012-13 Budget based on current economic data and new financial information. A comprehensive update of revenue projections will be completed by late January 2012. Staff will be requested to review any changed operating conditions and new financial information that may significantly impact the expenditure budgets. Staff will be requested to provide input regarding known financial needs and only the most critical requests will be considered for modification of the current two-year approved budget structure. Since the budget still contains a structural imbalance, staff continues to search for ways to reduce the embedded budget deficit. This information will be compiled by February 2012 and presented to the City Council for review and consideration in March/April 2012.

SUMMARY

The results for FY 2010-11 were surprisingly positive. This is a result of revenues outperforming budget by \$2.9 million or 4.3%, while expenditures finished under-budget by \$4.4 million or 5.5%. The net result was a use of fund balance of about \$7 million instead of the planned \$14.4 million.

General Fund revenues received through September 30th are meeting expectations based on historical experience. There are strong economic signs that certain key revenues will exceed expectations, but due to the periodic nature of the receipt of tax revenues, it is difficult to gauge this during the first three months of the fiscal year. Generally, expenditures are slightly below the expected expenditure pace for FY 2011-12. Therefore, although early in the fiscal year, results through the first quarter of FY 2011-12 are positive and indicate a stable outlook for the remainder of the fiscal year. As a result, no actions are recommended with respect to workforce reduction or other expenditure reductions, beyond the actions already approved and implemented through the Deficit Reduction Plan and the adopted FY 2011-12 Budget.

Despite the positive results thus far in FY 2011-12, significant challenges remain in adopting a balanced General Fund budget for FY 2012-13 and beyond. Key challenges exist to maintaining the path approved through the Three-Year Deficit Elimination Plan approved April 26, 2011. These challenges include the lack of a permanent solution to fund residential and arterial street lights that will impact the General Fund negatively by about \$1 million in FY 2012/13 and beyond. The unexpected loss of \$400,000 in Motor Vehicle License Fees is another significant factor. Several adjustments are required as a result of conflicts in implementing several DEP approved actions, causing net increases to the deficit of about \$250,000. Additional long term considerations not yet addressed will be the absorption of the cost of opening and operating the Morrison Park Fire Station (first year costs of about \$800,000 are reserved). Staff will present these issues in the context of the Long Range Business Plan and the Mid-Year Budget Review.

Staff will prepare and present a comprehensive update to the Mid-Year FY 2011-12 Budget and the second year of the two-year budget, FY 2012-13. Since the budget still contains a structural imbalance, staff continues to search for ways to reduce the

embedded budget deficit. This comprehensive update will be presented to the City Council for review and consideration in the March/April 2012 timeframe.

Prepared By:
 Richard Teichert
 Financial & Administrative Services Director

Council Action	
Approved as requested:	Referred to:
Approved as amended:	For:
Denied:	Continued until:
Other:	Hearing set for:

This page intentionally left blank.



CITY OF MORENO VALLEY

FIRST QUARTER BUDGET
REVIEW

December 6, 2011

Presentation Overview

Overview of FY 2010-11 Results

FY 2011-12 First Quarter Results:

General Fund (main emphasis)

Other key funds

Economic Update

Significant Events Since Budget Adoption

Upcoming City Council Actions:

Adopt Long Range Business Plan

Update FY 2011-12 Mid-Year and FY 2012-13 Budgets

Continued Focus on Council Goals and Economic Action Plan







Overview of FY 2010-11 Results

- Planned to use \$14.2 million in fund balance to absorb the FY 2010-11 deficit**
- Actual use of fund balance was only \$7 million**
- Revenues finished \$3 million or 4.3% above budget**
- Expenditures were \$4 million or 5% under budget**
- Audited results will be included in Mid-Year Budget Review & Comprehensive Annual Financial Report (CAFR).**

FY 2011-12 First Quarter Results - General Fund

- ✦ **YTD historical revenue receipts at 1Q: 8.8%.**
- ✦ **Actual 1Q revenues: 9.6%; on track with projections.**
- ✦ **YTD expenditures: 24.8%, with 25% of fiscal year elapsed; a small but important favorable variance.**
- ✦ **Results are generally positive and indicate a stable outlook for remainder of the fiscal year.**
- ✦ **No actions recommended with respect to workforce or other expenditure reductions, other than ongoing cost control**

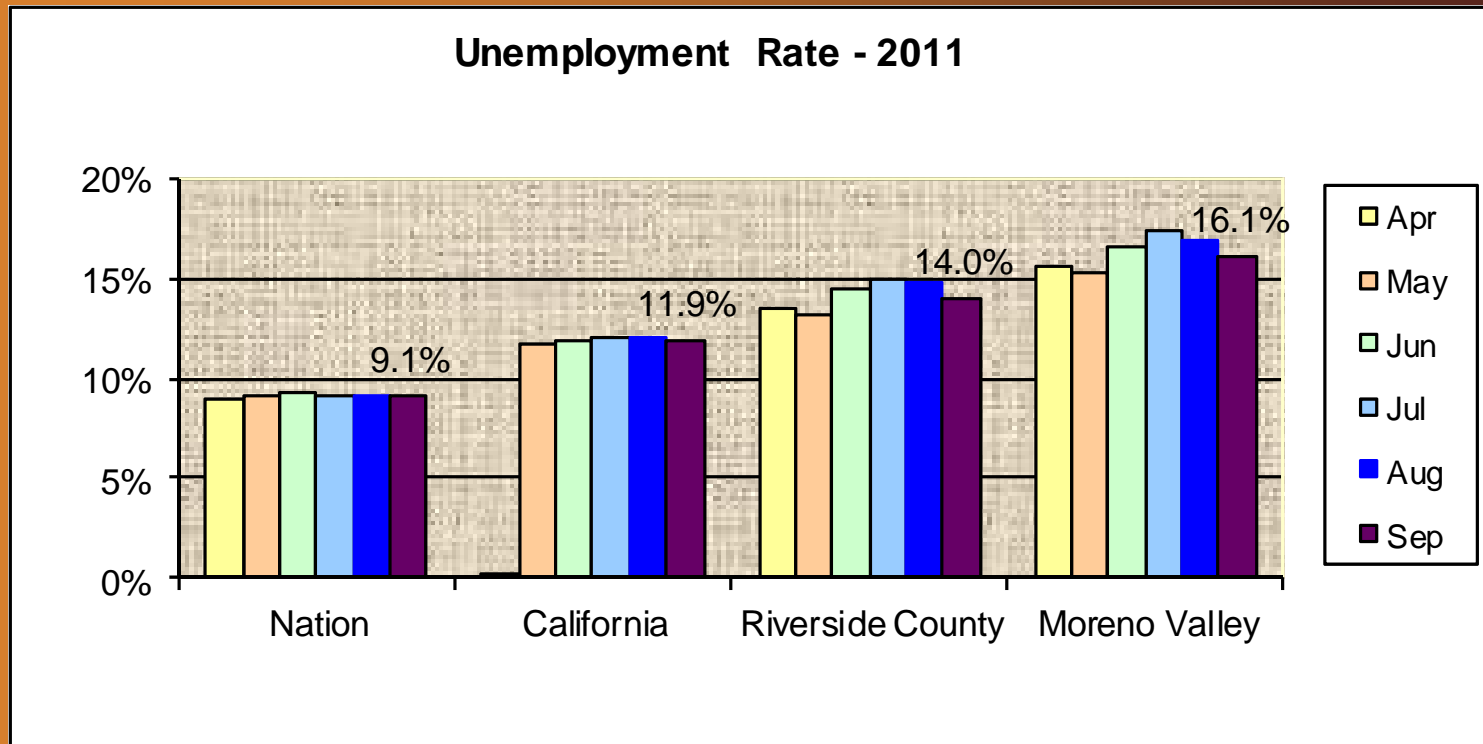
FY 2011-12 First Quarter Results - Other Key Funds

-  **CSD Zone A – Parks**
-  **CSD Zone L – Library**
-  **Gas Tax**
-  **Electric Utility**
-  **All 1Q results are positive and indicate stable outlook for remainder of fiscal year**
-  **No actions recommended with respect to workforce or other expenditure reductions, other than ongoing cost control**

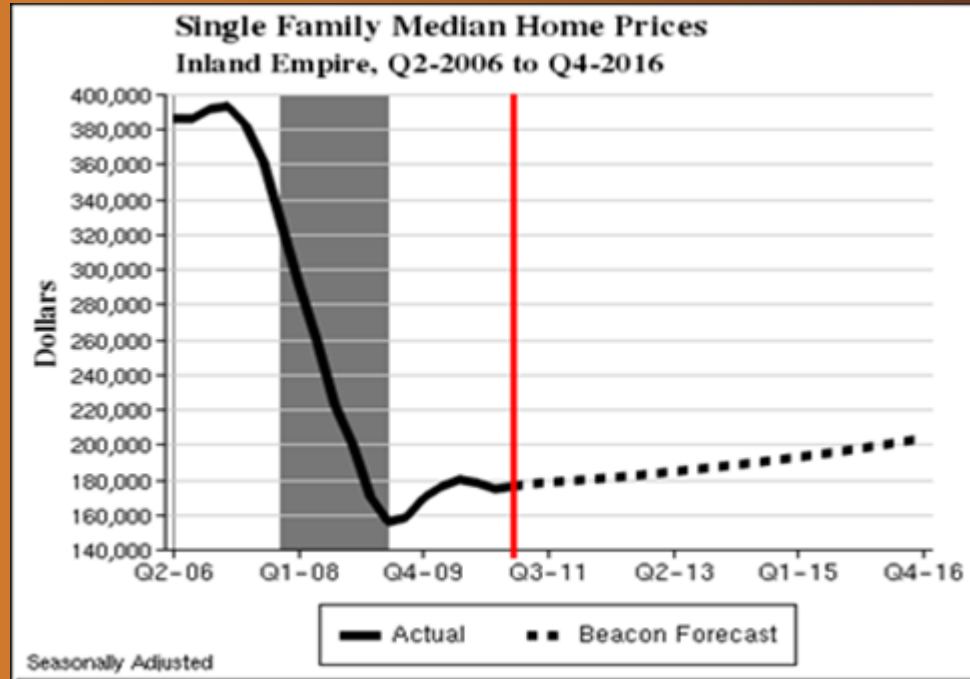
Economic Update

- The recession ended with positive GDP growth in Q3 of 2009**
- GDP growth was 3.0% at the end of 2010**
- GDP first 3 quarters of 2011: 1.0%, 1.3% and 2.5%**
- City revenues have generally begun to increase, following the slow growing economy**
- State, region and local impacts of recession more severe than national, but have been recovering**
- Economists anticipate a very slow recovery; General Fund operating revenues will follow the economic recovery and experience gradual growth**

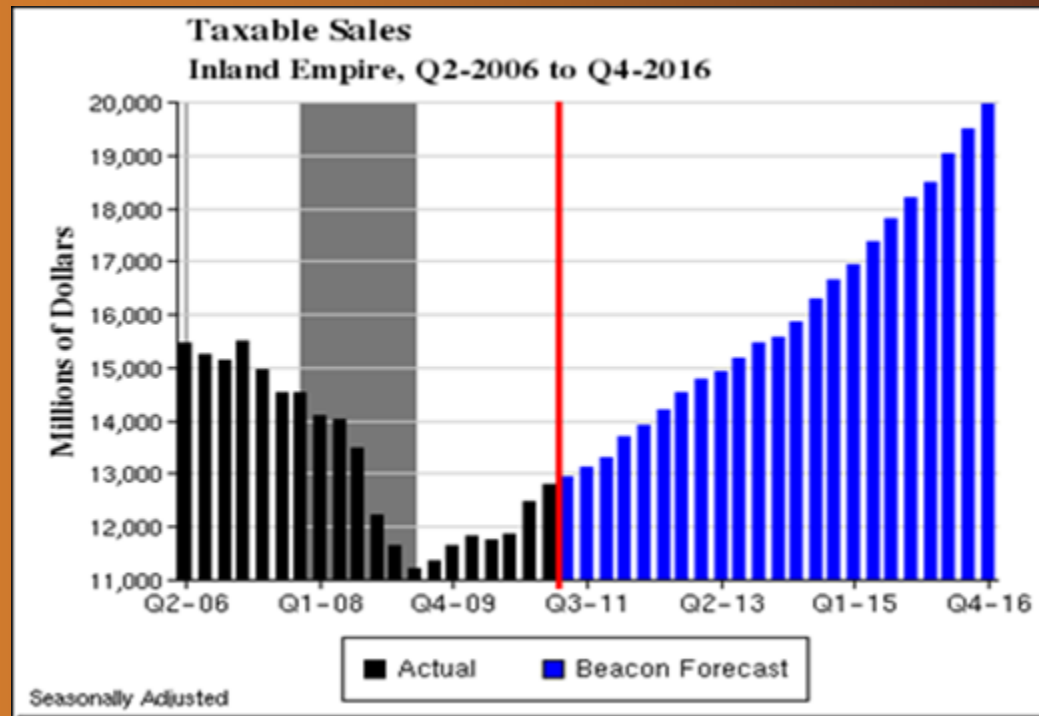
Unemployment Rate - 2011



Median Home Prices – Beacon Economics



Taxable Sale – Beacon Economics



Significant Events Since Budget Adoption

Impacts of the approved State Budget:

- ☑ **Redevelopment Agencies eliminated or forced to pay large ransom payments to continue to exist**

This action will reduce the funding available to provide infrastructure improvements or assist economic development in blighted areas

- ☑ **Eliminated \$400,000 in Vehicle License Fee revenues from the General Fund**

Shifts all remaining VLF fees to Riverside County to assist in paying for Public Safety Realignment with no benefit to the City of Moreno Valley

- ☑ **State Budget realignment of Public Safety is not funded, likely forcing cost shifts from cities to the County in the future to offset these unfunded costs**

No solution to General Fund subsidy of Residential/Arterial Street Light services

- ☑ **General Fund subsidy for these services will grow to \$1 million annually for FY 2012-13**

Upcoming City Council Actions

Staff will present a Long Range Business Plan (LRBP) for the General Fund within 60 days

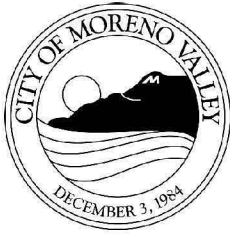
- ☑ Review of this plan will give Council a framework for revenue/resources through 2020
- ☑ Conceptual perspective of base expenditures and when the General Fund budget will be structurally balanced
- ☑ The City's financial position will be compared to other local cities in the 100,000 – 200,000 population range
- ☑ Major expenditure choices related to existing and needed City services will be framed as policy considerations for Council through this document

Council will review the Update of the Mid-year FY 2011-12 and the FY 2012-13 Budgets by March/April 2011

- ☑ Ongoing and one-time revenues/resources will be evaluated and updated
- ☑ Expenditure changes from plan will be reviewed
- ☑ Staff will recommend potential/required adjustments
- ☑ Policy direction from the LRBP will be presented for possible action

Summary

- 1. Better than expected results for FY 2010-11**
- 2. The first quarter results for FY 2011-12 are on track with expectations, no actions required**
- 3. Staff will present the General Fund portion of the Long Range Business Plan in January 2012**
- 4. The update of the Mid-year FY 2011-12 and the FY 2012-13 Budgets will occur in March/April 2012**
- 5. Continued focus on the adopted City Council Goals and the Economic Development Action Plan**



APPROVALS	
BUDGET OFFICER	<i>caf</i>
CITY ATTORNEY	<i>SMB</i>
CITY MANAGER	<i>MSD</i>

Report to City Council

TO: Mayor and City Council

FROM: Rick Teichert, Financial & Administrative Services Director

AGENDA DATE: December 6, 2011

TITLE: FIRST QUARTER BUDGET REVIEW – Fiscal Year 2011-12

RECOMMENDED ACTION

Staff recommends that the City Council receive and file this report.

BACKGROUND

The City Council is provided updates on the City's financial status through both a First Quarter and a Mid-Year Budget Review. These reviews occur in December and February, respectively. The First Quarter Review reflects operational results for the first three months of the fiscal year, from July through September. The report focuses on the City's General Fund, which is of greatest concern with respect to the slow revenue growth due to the weak economy, but also provides financial summaries for other key funds such as Parks, Library, Gas Tax, and the Electric Utility.

This report provides a review of the results of the recently completed fiscal year that ended June 30, 2011. In addition, it briefly addresses the progress to eliminate the remaining structural deficit through the Deficit Elimination Plan (DEP) and the efforts to align ongoing expenses with the projected revenue stream. A more comprehensive review of the DEP will be provided with the Mid-Year Budget Update and the update to the FY 2012-13 base budget in March/April 2012.

DISCUSSION

Year-end Financial Position for FY 2010-11 General Fund

The approved FY 2010-11 budget projected General Fund revenues totaling \$68.5 million including transfers in and expenditures of \$82.7 million inclusive of transfers out of the General Fund. This budget planned for a total use of General Fund reserves to balance the budget in the amount of \$14.2 million. The actual use of fund balance for the year was reduced to about \$7.1 million or half of the amount planned. This difference reflects stronger revenues in certain primary tax sources and significantly reduced expenses compared to the approved budget.

Revenues

Revenues exceeded budget in the amount of \$3 million or 4.3%. This is a result of budgeting for the worst case scenario in light of rapidly declining revenues impacted by the economy as the budget was being developed in early 2010. The reality was that the benefit of the economic recovery (albeit slow) impacting property, sales tax and other taxes caused the overall revenues to exceed the worst case scenario budget.

Property taxes were budgeted to decline by 14% from the previous year. Actual assessed values decreased only 4%, resulting in a much lower decrease in revenues than anticipated. The impact was \$2.1 million more in property taxes than budgeted.

Sales taxes also were budgeted to be flat from FY 2009-10 to FY 2010-11 at \$9.7 million for the General Fund. However, based on the recovering economy and new businesses that began operating in the City, sales taxes increased during the year to \$11.2 million. This resulted in an increase over budget of \$1.5 million. This increase is reflective of the City's sales tax revenues increasing by 15% above budget and the Property Tax in lieu of Sales Tax received from the State increasing by 18% from the budgeted amount. The stabilizing of the economic environment will allow staff to more closely project sales tax revenues for FY 2011/12.

Other taxes, such as Transient Occupancy Tax (TOT), Business License Tax and Franchise Fees all increased over the prior year. This resulted in a net increase in other taxes of \$650,000 or 10% above the total budget for other taxes.

Intergovernmental revenues increased by \$500,000, which was primarily the result of Motor Vehicle License Fees increasing by over \$400,000 as a result of the State of California reconciling four years of prior distributions and processing the catch-up reconciliation payments to cities. Total VLF fees for FY 2010-11 were in excess of \$800,000 compared to a budgeted amount of \$400,000 for FY 2010-11.

Expenses

Expenses were under budget by \$4 million or 5%. This is driven by three departments that were 6.5% or more under budget; including Police, Fire and Community and Economic Development Departments (CEDD). The Police Department budget was \$2.7 million (6.5%) under budget driven by \$2.5 million or 6.8% below budget for contract police services with the Riverside County Sheriff. The Fire Department Budget was \$1.2 million (7.0%) under budget. The savings were due to contract fire service finishing the year \$700k (5.0%) under budget. Materials/supplies were \$500k under budget due to the Morrison Park Fire Engine approved in May 2011 being purchased and paid in August 2011; this budget was carried over to FY 2011/12. The CEDD was 8.5% below budget or \$450,000. This was a result of budget savings in contract services. Staff will review these budgets closely in preparation for adjusting both the FY 2011-12 budget at mid-year and for the update of the FY 2012-13 budget.

Summary

The results for FY 2010-11 were surprisingly positive. This is a result of revenues exceeding budget by \$3 million, while expenditures finished under-budget by \$4 million. The net result was a use of fund balance of about \$7 million instead of the planned \$14.2 million. Audited results for FY 2010-11 will be presented to Council with the Mid-Year Budget and in the Comprehensive Annual Financial Report (CAFR).

**City of Moreno Valley
General Fund
FY 2010-11 Year-end Revenues and Expenditures**

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actuals (Unaudited)</u>	<u>% of Adjusted Budget</u>
Revenues:				
Taxes:				
Property Taxes	\$8,596,100	\$8,596,100	\$9,431,578	109.7%
Property taxes in lieu	11,773,400	11,773,400	13,055,796	110.9%
Utility taxes	15,200,000	15,200,000	15,317,439	100.8%
Sales taxes	9,735,100	9,735,100	11,283,435	115.9%
Other taxes	6,556,500	6,556,500	7,209,262	110.0%
Licenses and permits	1,260,600	1,260,600	1,309,381	103.9%
Intergovernmental	608,500	608,500	1,112,761	182.9%
Charges for services	8,344,600	8,348,256	7,102,425	85.1%
Use of money and property	4,562,900	4,562,900	3,524,594	77.2%
Fines and forfeitures	1,160,000	1,160,000	770,904	66.5%
Miscellaneous	172,700	172,700	770,942	446.4%
Total Revenues	<u>\$67,970,400</u>	<u>\$67,974,056</u>	<u>\$70,888,517</u>	104.3%
Expenditures:				
Current:				
General government				
City council	579,922	581,564	513,214	88.2%
City manager	1,279,359	1,325,138	1,083,674	81.8%
City clerk	634,286	521,486	507,399	97.3%
City attorney	1,015,407	1,090,407	1,034,442	94.9%
Financial and administrative services	5,396,202	5,426,293	5,301,107	97.7%
Human resources	958,505	958,505	923,963	96.4%
Non-departmental	2,694,500	2,571,046	3,650,604	141.9%
Public safety				
Police	41,291,771	41,870,739	39,142,156	93.5%
Fire	16,271,701	16,567,455	15,419,808	93.1%
Community and economic development	5,065,357	5,121,649	4,686,821	91.5%
Public works				
	4,134,750	4,145,531	3,981,489	96.0%
Total Expenditures	<u>\$79,321,760</u>	<u>\$80,179,813</u>	<u>\$76,244,677</u>	95.1%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	<u>(11,351,360)</u>	<u>(12,205,757)</u>	<u>(5,356,160)</u>	0
Other Financing Sources (Uses):				
Transfers in	263,000	558,754	773,051	138.4%
Transfers out	1,582,740	2,513,040	2,520,611	100.3%
Total Other Financing Sources (Uses)	<u>(1,319,740)</u>	<u>(1,954,286)</u>	<u>(1,747,560)</u>	89.4%
Net Balance	<u>(\$12,671,100)</u>	<u>(\$14,160,043)</u>	<u>(\$7,103,720)</u>	50.2%

FY 2011-12 First Quarter Results

General Fund Revenues

Due to the uneven schedule of revenue receipts, combined with the year-end accrual process, revenues received through the first quarter of the fiscal year are historically only 8.8% of the annual budget, even though 25% of the fiscal year has elapsed. Through the first quarter of FY 2011-12, 9.6% of budgeted revenues have been received, as shown in the table on page 7.

General Fund revenues through September typically exceed the expected level based on historical receipts. Revenues will be carefully monitored each month. Current economic reports indicate that factors impacting the City's primary revenue base are stable and staff anticipates gradual revenue growth through the balance of FY 2011-12. Staff has analyzed and reviewed the budgeted revenues for FY 2011-12 compared to data that is becoming available regarding these revenues. Staff is seeing important changes in four specific revenue sources and will recommend adjustments based on these changes as part of the Mid-Year Budget actions.

Property Tax

Property Tax was assumed to drop by 0.5% from previous year levels. The data from the County Assessor's office indicate that the actual assessed value will increase in Moreno Valley by about 0.5%. This change will add about \$200,000 in additional revenue to the current base budget. Adjusting to actual property tax receipts for the prior fiscal year will add another \$300,000 to the revenue budget. Staff will monitor this information and recommend appropriate adjustments as part of the mid-year budget update, which will occur after the first installment of property tax receipts are received in January 2012.

Sales Tax

While sales tax data for the first quarter of FY 2011/12 is not yet available, sales tax was up 6.25% for the quarter ended June 30, 2011 (Q2 of 2011) compared to the same quarter in the prior year. This is the most recent quarter of data available. Accounting for one-time adjustments, according to our sales tax advisors, The HdL Companies, the ongoing gain is about 4 to 5%. This is the result of new businesses that have been recruited to the City through Economic Development efforts, along with improvements in some business categories. The increase for the two previous quarters was 10.4% for Q4 of 2010 and 11.1% for Q1 of 2011.

Staff will monitor the first quarter results for FY 2011-12 sales taxes (Q3 of 2011) to determine if this trend is holding. A four percent increase was assumed in the current budget estimate of \$10.95 million in sales tax revenue for the General Fund. Adjusting for the increase in the prior year actual amount would add about \$750,000 to the current year budget.

Investment Income

Investment income continues to remain low due to extremely low rates of return for fixed income investments. Currently, the Five-year Treasury Note is yielding only 1.05%. Through a professional money management firm, the City's portfolio is achieving a yield of about 1.6% with a duration of just over 2 years. This is a very low rate of return

compared to historical experience, but is indicative of how investment income is performing everywhere. As a result, the budgeted revenue from the City's portfolio was reduced from the prior year budget to \$3.9 million. The first quarter results indicate that revenues are coming in on track to meet this reduced budget amount; however, there is a strong potential for this revenue to decrease during the remainder of the year, impacted by the efforts of the Federal Reserve Board to keep rates low to energize the economy.

Intergovernmental Revenues

Intergovernmental Revenues total \$647,000 in FY 2011-12. This budget includes Motor Vehicle License Fees (VLF) funds of \$400,000. These funds have been diverted through the State Budget process by an eleventh hour action of the Legislature to shift all remaining VLF revenues currently going to cities to counties to provide funding for the Governor's public safety realignment plan. The impact to the City of Moreno Valley is a net loss of \$400,000 with no benefit from the realignment concept. Riverside County will receive these funds to cover costs and services shifted from the State.

Development Services Revenues and Fees

The actual revenues from development service fees for FY 2010-11 were about \$1.1 million below the budgeted amount of \$3.6 million. Staff reduced the base budget for FY 2011-12 based on this experience; however, added back about \$700,000 in expected new revenue based on anticipated development activity as an element of the Deficit Elimination Plan. Staff will continue to closely monitor this activity level and recommend any adjustments at mid-year.

Development revenue activity in the first quarter has increased significantly in certain areas. Specifically, Plan Check Fees for Building & Safety, Fire, Engineering and Transportation are significantly exceeding the budgeted amounts for the first quarter. Also exceeding budget are electrical and mechanical permit fees. Planning Fees and Building Permits are the only two significant development fee categories that are slightly below budget.

Fines and Forfeitures

The Fines and Forfeiture revenues budgeted in the amount of \$1.2 million for FY 2010-11 finished the year over 30% below budget. It appears that this may also be the case for FY 2011-12 based on first quarter activity. This revenue may end up about \$200,000 - \$300,000 under budget.

General Fund Expenditures

The following table shows the General Fund expenditure results through the first quarter of the fiscal year.

Although not all expenditures have a straight-line spending pattern, operating expenditures should generally be within 25% of the annual budget at the end of the first quarter, since 25% of the fiscal year has elapsed. As shown in the following table, General Fund expenditures through September are at 24.8% of the adjusted budget. Costs are generally in line with expectations.

City of Moreno Valley
General Fund
FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actuals as of 09/30/11</u>	<u>% of Adjusted Budget</u>
Revenues:				
Taxes:				
Property Taxes	\$9,086,000	\$9,086,000	\$0	0.0%
Property taxes in lieu	13,000,000	13,000,000	0	0.0%
Utility taxes	15,700,000	15,700,000	2,249,745	14.3%
Sales taxes	10,949,760	10,949,760	684,356	6.2%
Other taxes	7,201,208	7,201,208	540,583	7.5%
Licenses and permits	1,464,700	1,464,700	291,906	19.9%
Intergovernmental	647,000	647,000	140,784	21.8%
Charges for services	7,813,896	7,913,896	1,859,682	23.5%
Use of money and property	3,868,800	3,868,800	912,733	23.6%
Fines and forfeitures	1,173,000	1,173,000	97,148	8.3%
Miscellaneous	293,450	293,450	60,667	20.7%
Total Revenues	<u>\$71,197,814</u>	<u>\$71,297,814</u>	<u>\$6,837,602</u>	9.6%
Expenditures:				
Current:				
General government				
City council	573,450	573,450	128,664	22.4%
City manager	1,153,113	1,177,113	266,889	22.7%
City clerk	529,007	529,007	109,371	20.7%
City attorney	918,169	918,169	184,855	20.1%
Financial and administrative services	5,115,862	5,115,862	1,096,014	21.4%
Human resources	784,510	784,510	169,062	21.6%
Non-departmental	1,914,500	1,890,500	589,457	31.2%
Public safety				
Police	41,261,770	41,261,770	10,077,095	24.4%
Fire	15,641,664	15,641,664	4,271,780	27.3%
Community and economic development	4,572,103	4,572,103	1,207,758	26.4%
Public works				
	3,882,001	3,848,445	809,266	21.0%
Total Expenditures	<u>\$76,346,149</u>	<u>\$76,312,593</u>	<u>\$18,910,211</u>	24.8%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	<u>(5,148,335)</u>	<u>(5,014,779)</u>	<u>(12,072,609)</u>	(0)
Other Financing Sources (Uses):				
Transfers in	402,496	402,496	100,626	25.0%
Transfers out	1,978,900	1,978,900	494,727	25.0%
Total Other Financing Sources (Uses)	<u>(1,576,404)</u>	<u>(1,576,404)</u>	<u>(394,101)</u>	25.0%
Net Balance	<u>(\$6,724,739)</u>	<u>(\$6,591,183)</u>	<u>(\$12,466,710)</u>	189.1%

First Quarter Summaries of Other Major Funds

Community Services District (CSD) Zone A – Parks & Community Services

Moreno Valley Community Services District
Zone A - Parks and Community Services
FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures

	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actuals (Unaudited)</u>	<u>% of Adjusted Budget</u>
Revenues:				
Taxes:				
Property Taxes	1,695,100	1,695,100	732	0.0%
Charges for services	6,005,900	6,005,900	274,247	4.6%
Use of money and property	214,000	214,000	86,624	40.5%
Miscellaneous	10,500	10,500	3	0.0%
Total Revenues	<u>7,925,500</u>	<u>7,925,500</u>	<u>361,605</u>	4.6%
Expenditures:				
Current:				
Community and cultural				
Senior Program	530,129	530,129	119,921	22.6%
Parks and recreation administration	531,894	531,894	89,927	16.9%
Park ranger program	349,721	349,721	79,168	22.6%
Recreation programs	1,637,920	1,637,920	362,129	22.1%
Park maintenance	2,750,826	2,750,826	656,809	23.9%
Park maintenance - contract	452,347	452,347	96,419	21.3%
Golf course program	289,608	289,608	75,526	26.1%
Recreation and conference	551,830	551,830	133,963	24.3%
Recreation and conference - banquets	272,728	272,728	61,877	22.7%
Parks projects	162,140	162,140	35,605	22.0%
Community services	188,285	188,285	51,117	27.1%
Community events	62,652	62,652	9,947	15.9%
Non-departmental	250,300	250,300	62,574	25.0%
Capital outlay	5,000	5,000	0	0.0%
Total Expenditures	<u>8,035,380</u>	<u>8,035,380</u>	<u>1,834,982</u>	22.8%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	(109,880)	(109,880)	(1,473,377)	1340.9%
Other Financing Sources (Uses):				
Transfers in	307,500	307,500	76,875	25.0%
Transfers out	160,000	160,000	39,999	25.0%
Total Other Financing Sources (Uses)	<u>147,500</u>	<u>147,500</u>	<u>36,876</u>	25.0%
Net Balance	<u>37,620</u>	<u>37,620</u>	<u>(1,436,501)</u>	- 3818.4%

Community Services District (CSD) Zone A – Parks & Community Services

The revenues are meeting expectations for the first quarter. The largest revenue sources are property tax and parcel fees, which are collected and remitted twice annually. The first distribution of property tax and parcel fees should be received in January 2012. Fees and charges for programs and services are in line for first quarter expectations. Expenses are slightly lagging expectation at 22.8 percent of the total budget for FY 2011-12 as a result of controlling costs.

▪ **Community Services District (CSD) Zone L – Library**

Moreno Valley Community Services District
Zone L - Library
FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures

	Adopted Budget	Adjusted Budget	Actuals as of 09/30/11	% of Adjusted Budget
Revenues:				
Taxes:				
Property Taxes	1,244,800	1,244,800	0	0.0%
Charges for services	11,000	11,000	4,337	39.4%
Use of money and property	0	0	0	
Fines and forfeitures	60,600	60,600	10,363	17.1%
Miscellaneous	2,000	4,310	2,684	62.3%
Total Revenues	<u>1,318,400</u>	<u>1,320,710</u>	<u>17,384</u>	1.3%
Expenditures:				
Current:				
Community and cultural				
Library	1,966,376	1,968,686	416,331	21.1%
Total Expenditures	<u>1,966,376</u>	<u>1,968,686</u>	<u>416,331</u>	21.1%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	<u>(647,976)</u>	<u>(647,976)</u>	<u>(398,947)</u>	61.6%
Other Financing Sources (Uses):				
Transfers in	506,800	506,800	126,699	25.0%
Transfers out	0	0	0	
Total Other Financing Sources (Uses)	<u>506,800</u>	<u>506,800</u>	<u>126,699</u>	25.0%
Net Balance	<u>(141,176)</u>	<u>(141,176)</u>	<u>(272,248)</u>	192.8%

Community Services District (CSD) Zone L – Library

The revenues are tracking slightly ahead of expectations. The largest revenue source is property taxes, which are collected and remitted twice annually. The first distribution should be received in January 2012. Charges for services are exceeding the budget reflecting 39.4% of budgeted revenues already collected in the first quarter. Expenses are slightly lagging expectation at 21.1 percent of the total budget for FY 2011-12 as a result of controlling costs and monitoring expenditures.

▪ **Gas Tax Fund**

City of Moreno Valley
State Gasoline Tax Special Revenue Fund
FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures

	Adopted Budget	Adjusted Budget	Actuals as of 09/30/11	% of Adjusted Budget
Revenues:				
Taxes:				
Intergovernmental (gas tax)	5,093,169	5,093,169	246,320	4.8%
Use of money and property	5,000	5,000	(582)	-11.6%
Miscellaneous	11,000	11,000	6,240	56.7%
Total Revenues	5,109,169	5,109,169	251,978	4.9%
Expenditures:				
Current:				
Public works:				
Infrastructure project engineering	329,050	329,050	189,081	57.5%
Street maintenance	1,796,084	1,796,084	378,162	21.1%
Graffiti removal	362,547	362,547	72,424	20.0%
Tree trimming	412,078	412,078	92,650	22.5%
Concrete maintenance	387,737	387,737	68,504	17.7%
Sign/stripping	975,957	975,957	164,523	16.9%
Crossing Guards	517,279	517,279	95,353	18.4%
Capital outlay	0	0	76,475	
Total Expenditures	4,780,732	4,780,732	1,137,171	23.8%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>				
	328,437	328,437	(885,193)	-269.5%
Other Financing Sources (Uses):				
Transfers in	160,000	160,000	39,999	25.0%
Transfers out	0	0	0	
Total Other Financing Sources (Uses)	160,000	160,000	39,999	25.0%
Net Balance	488,437	488,437	(845,194)	-173.0%

Gas Tax Fund

The revenues are on track with expectations. Collected and remitted by the State of California, distributions are delayed as reflected by only 4.9% of the revenues being received in the first quarter of the fiscal year. Expenses are slightly lagging expectation at 23.8 percent of the total budget for FY 2011-12 as a result of controlling costs and monitoring expenditures.

- **Electric Utility**

City of Moreno Valley Electric Utility FY 2011-12 1st Quarter ending Sept. 30, 2011 Revenues and Expenditures				
	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actuals as of 09/30/11</u>	<u>% of Adjusted Budget</u>
Revenues:				
Charges for services				
Generation	10,066,000	10,066,000	2,493,066	24.8%
Distribution	5,084,000	5,084,000	1,080,909	21.3%
Transmission	812,300	812,300	63,477	7.8%
Special Charges	144,100	144,100	22,777	15.8%
Public Purpose	877,200	877,200	289,622	33.0%
Electricity fee refunds	(95,000)	(95,000)	(7,130)	7.5%
Other charges for services	104,000	104,000	37,451	36.0%
Use of money and property	80,500	80,500	6,418	8.0%
Miscellaneous	169,000	169,000	11,509	6.8%
Total Operating Revenues	<u>17,242,100</u>	<u>17,242,100</u>	<u>3,998,099</u>	23.2%
Expenditures:				
Operating Expenditures:				
Electricity purchased	8,483,300	8,483,300	1,966,550	23.2%
Services and supplies	3,542,283	3,542,283	481,102	13.6%
Distribution share	2,076,700	2,076,700	433,746	20.9%
Rate stabilization reserve	379,200	379,200	91,102	24.0%
Public purpose program:				
Electricity purchased	0	0	0	
Services and supplies	130,000	130,000	73,061	56.2%
Total Operating Expenditures	<u>14,611,483</u>	<u>14,611,483</u>	<u>3,045,562</u>	20.8%
Operating Income (Loss)	<u>2,630,617</u>	<u>2,630,617</u>	<u>952,537</u>	36.2%
Non-operating Revenues (Expenses)				
Debt Service:				
Principal retirement	569,000	569,000	2,482	0.4%
Interest expense and fiscal charges	1,630,241	1,630,241	18	0.0%
Capital outlay	132,900	132,900	24,245	18.2%
Total Non-operating Revenues (Expenses)	<u>2,332,141</u>	<u>2,332,141</u>	<u>26,745</u>	1.1%
Net Balance	<u>298,476</u>	<u>298,476</u>	<u>925,792</u>	310.2%

Electric Utility

The revenues are on track with expectations. The largest revenue source is charges for Electricity Generation, which totals \$2.5 million for the quarter or 24.8% of budget. Total revenues are 23.2% of budget, which is normal for the first quarter of the fiscal year. Expenses are slightly lagging expectation at 20.8 percent of the total budget for FY 2011-12 as a result of controlling costs and monitoring expenditures. The first quarter financial position indicates a positive outcome, with net operating income achieving 36.2% of the net income anticipated for the entire year.

Financial Outlook & Action Plan

Although it is early in the fiscal year, revenue and expenditure results through the first quarter of FY 2011-12 are positive and indicate a stable outlook for the remainder of the fiscal year. Therefore, no actions are recommended with respect to workforce reduction or other expenditure reductions, beyond the prudent cost-control measures already being implemented through the City Council approved Deficit Elimination Plan and the current adopted budget.

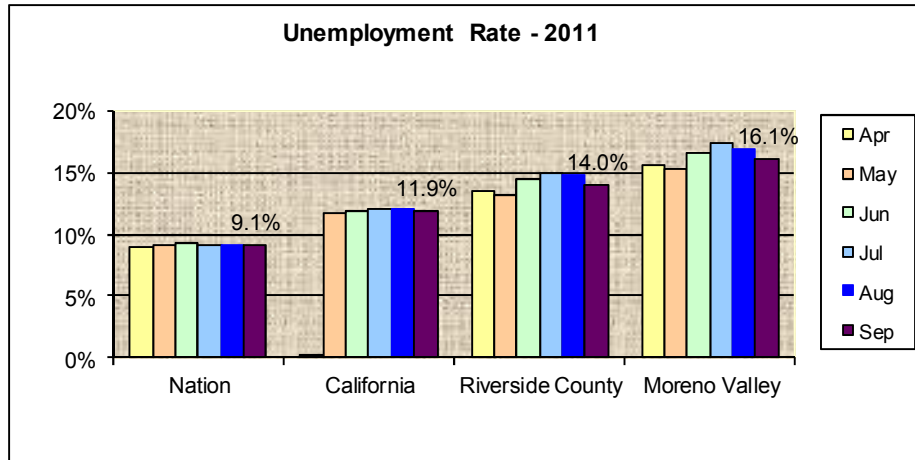
Staff is in the process of preparing a Long Range Business Plan focusing on the General Fund. This plan will establish a ten-year projection into the future, identifying the potential revenue base for the City over an extended period of time. Staff will also project the known ongoing expenditures, with the intent to highlight the long term expected service levels and certain financial challenges and policy decisions that will face the City Council during this period. This will be a valuable tool to communicate the long term fiscal outlook for the City to the citizens of Moreno Valley. This will also provide significant direction to staff to plan and budget for the long term.

Economic Indicators for FY 2011-12

The Great Recession ended with the third quarter of 2009, when the national Gross Domestic Product (GDP) grew by 3.5%. This was the first positive growth in GDP since the recession started in 2007. However, recent GDP data indicates a slow, gradual recovery is occurring, with 2nd and 3rd quarter 2011 GDP numbers reflecting 1.0% and 1.3% increases respectively. Recently, global factors, including concerns over the ability of European government's ability to repay debt has contributed to the slowing of economic recovery.

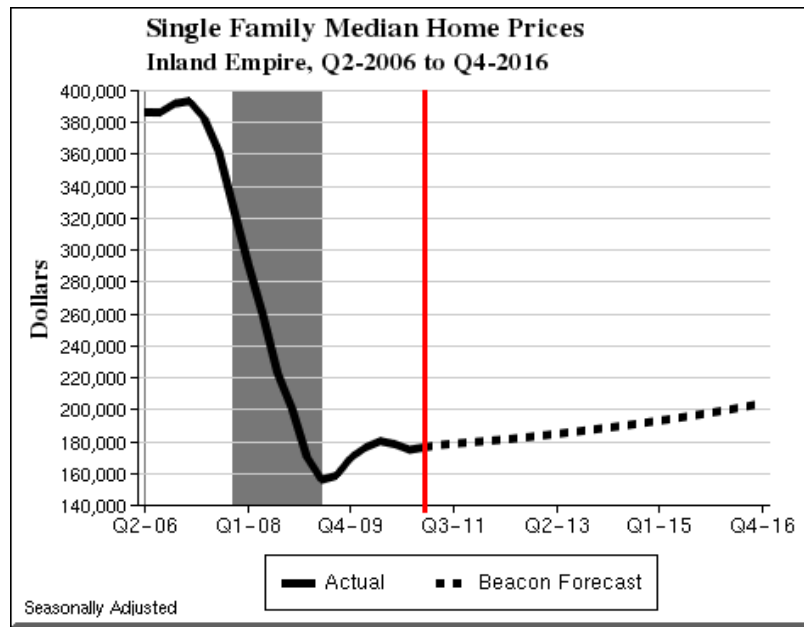
The State, Inland Empire Region, and our local economies continue to be harder hit than the national economy due to more dramatic reductions in property values, employment and consumer spending during the recession. Although unemployment dropped slightly in recent months, it remains high in Moreno Valley at 16.1% in September 2011. Overall, Riverside County had a 14.0% unemployment rate in September 2011.

The following graph presents unemployment data for the past six months from April through September 2011.

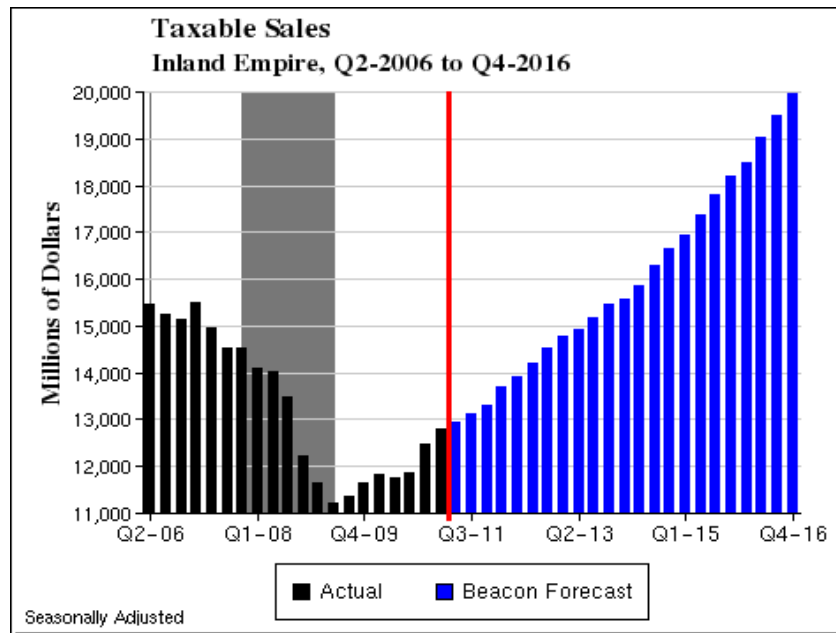


The current consensus of economists is that the U.S. will experience a slow and gradual growth for the next several years. Also, California and the Inland Empire region will grow more slowly than the national economy through this recovery. The benefit to the City of Moreno Valley from the recession ending has been the stabilizing and recent growth of a few of its revenue sources.

Property tax is a major component of local revenues and assessed valuation (AV) has stopped decreasing in the City of Moreno Valley in FY 2011-12. Information released by the County Assessor's office indicates that AV has actually increased by about 0.5% for the current fiscal year. Modest increases in property tax revenues are anticipated for the next few years. The real estate and housing market remains very soft and is not expected to experience any significant recovery in the near future. The following chart reflects information provided by Beacon Economics regarding trends in the median price of homes in the Inland Empire region.



Employment is also expected to recover slowly, as employers will be very cautious in hiring back workers, which will directly impact consumer spending and sales tax. The City has seen increases in sales tax revenue, on a quarter to quarter comparison, for the past three quarters. This is an impact of new businesses coming to the City, along with sales recovery in some business categories. Staff expects these trends to continue and will monitor these revenues, which are expected to grow about 4-5% for the next two years. Following is a chart reflecting the retail sales trends for the Inland Empire region prepared by Beacon Economics.



Major Changes Since the Adoption of the Three-Year Deficit Elimination Plan and Approval of the Current Two-Year Budget

The following are the highlights of significant changes since the adoption of the DEP in April 2011 and the two-year budget in June 2011:

- The State Budget approved in late June 2011 included actions to eliminate Redevelopment Agencies, with a caveat that the Redevelopment Agencies could continue to operate if they agreed to pay a voluntary large payment to the County Auditor Controller that would be distributed to the government agencies that receive the normal 1% property tax distribution in the Tax Rate Area. The City's RDA has calculated the lump sum payment amount to be about \$6.2 million to be paid in two installments in 2012. The law also states that the City's RDA would be required to make a similar annual payment in the amount of \$1.5 million to continue to operate in the future. Staff presented this complex issue to the City Council in July 2011 and City Council has chosen to make the lump sum payment, pending the outcome of a lawsuit being heard by the State Supreme Court regarding this issue. A decision from the Court is expected in January 2012.
- The State Budget actions also included the elimination of the remaining Vehicle License Fee (VLF) funds that have been dedicated to cities. The City's budget for FY 2011-12 includes \$400,000 in VLF fees supporting the General Fund. These funds are being redirected by the State to counties to help fund the realignment of certain public safety functions from the State to counties. The City will receive no benefit from the redirection of these funds. The loss of these funds will increase the General Fund deficit by a significant \$400,000. Staff will present the impacts of this change in the Long Range Business Plan and the Mid-Year budget review.
- The State realignment of public safety costs has not been designed to shift adequate funding to counties to pay for the shift in costs. Staff believes that the County will seek new and creative ways to try to push many of these costs to local agencies. Staff will continue to monitor the impacts of this State policy action and will advise City Council of any negative impacts that may be forthcoming.
- The City has unsuccessfully attempted to increase the parcel fees to generate sufficient revenue to cover the costs of operating the City's residential and arterial street lights. The budget for FY 2011-12 includes \$650,000 in General Fund subsidies to maintain the current street light service levels. It is now clear that subsidies will be required for the second year of the two-year budget in an amount estimated at \$1 million to include residential and arterial street light services. Staff anticipates at mid-year we will be proposing to use a portion of the savings from FY 2010-11 for this budget modification.

Proposed Budget Update Schedule for FY 2011-12 and FY 2012-13 Budgets

Staff will update both the Mid-Year FY 2011-12 Budget and the Approved FY 2012-13 Budget based on current economic data and new financial information. A comprehensive update of revenue projections will be completed by late January 2012. Staff will be requested to review any changed operating conditions and new financial information that may significantly impact the expenditure budgets. Staff will be requested to provide input regarding known financial needs and only the most critical requests will be considered for modification of the current two-year approved budget structure. Since the budget still contains a structural imbalance, staff continues to search for ways to reduce the embedded budget deficit. This information will be compiled by February 2012 and presented to the City Council for review and consideration in March/April 2012.

SUMMARY

The results for FY 2010-11 were surprisingly positive. This is a result of revenues outperforming budget by \$3 million or 4.3%, while expenditures finished under-budget by \$4 million or 5%. The net result was a use of fund balance of about \$7 million instead of the planned \$14.2 million.

General Fund revenues received through September 30th are meeting expectations based on historical experience. There are strong economic signs that certain key revenues will exceed expectations, but due to the periodic nature of the receipt of tax revenues, it is difficult to gauge this during the first three months of the fiscal year. Generally, expenditures are slightly below the expected expenditure pace for FY 2011-12. Therefore, although early in the fiscal year, results through the first quarter of FY 2011-12 are positive and indicate a stable outlook for the remainder of the fiscal year. As a result, no actions are recommended with respect to workforce reduction or other expenditure reductions, beyond the actions already approved and implemented through the Deficit Reduction Plan and the adopted FY 2011-12 Budget.

Despite the positive results thus far in FY 2011-12, significant challenges remain in adopting a balanced General Fund budget for FY 2012-13 and beyond. Key challenges exist to maintaining the path approved through the Three-Year Deficit Elimination Plan approved April 26, 2011. These challenges include the lack of a permanent solution to fund residential and arterial street lights that will impact the General Fund negatively by about \$1 million in FY 2012/13 and beyond. The unexpected loss of \$400,000 in Motor Vehicle License Fees is another significant factor. Several adjustments are required as a result of conflicts in implementing several DEP approved actions, causing net increases to the deficit of about \$250,000. Additional long term considerations not yet addressed will be the absorption of the cost of opening and operating the Morrison Park Fire Station (first year costs of about \$800,000 are reserved). Staff will present these issues in the context of the Long Range Business Plan and the Mid-Year Budget Review.

Staff will prepare and present a comprehensive update to the Mid-Year FY 2011-12 Budget and the second year of the two-year budget, FY 2012-13. Since the budget still contains a structural imbalance, staff continues to search for ways to reduce the

embedded budget deficit. This comprehensive update will be presented to the City Council for review and consideration in the March/April 2012 timeframe.

Prepared By:
Richard Teichert
Financial & Administrative Services Director

Council Action	
Approved as requested:	Referred to:
Approved as amended:	For:
Denied:	Continued until:
Other:	Hearing set for: