

**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**

March 29, 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 March 29, 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 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 PROPOSED THREE-YEAR DEFICIT ELIMINATION PLAN (THREE YEAR DEFICIT ELIMINATION PLAN TO BE PROVIDED UNDER SEPARATE COVER) (Financial & Administrative Services Department)
- 2 CITY COUNCIL REQUESTS AND COMMUNICATIONS

❖ Oral Presentation only – No written material provided

***Materials related to an item on this Agenda submitted to the City Council/Community Services District or the Community Redevelopment Agency 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

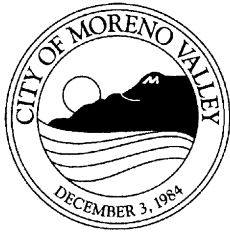
- 2 SECTION 54956.9(c) - CONFERENCE WITH LEGAL COUNSEL - INITIATION OF LITIGATION

Number of Cases: 5

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

ADJOURNMENT

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APPROVALS	
BUDGET OFFICER	<i>CAF</i>
CITY ATTORNEY	<i>Paul</i>
CITY MANAGER	<i>MB</i>

Report to City Council

TO: Mayor and City Council

FROM: Henry Garcia, City Manager

AGENDA DATE: March 29, 2011

TITLE: PROPOSED THREE-YEAR DEFICIT ELIMINATION PLAN

RECOMMENDED ACTION

Staff recommends that the City Council review the Proposed Three-Year Deficit Elimination Plan, provide direction regarding modifications to the plan, and direct staff to return with a final plan for Council approval on April 12, 2011.

BACKGROUND

The City of Moreno Valley continues to reel from the impacts of the Great Recession, the worst economic crisis since the Great Depression 80 years ago. City operations rely on revenues that are generated through economic stability, activity, and, ideally, growth. During the recession, the City's General Fund revenue base declined from a high of \$97.8 million budgeted in FY 07/08 to a low of \$68.0 million in FY 10-11, representing a reduction of \$29.8 million or 30.4% in just three years.

The encouraging news is that the recession has been declared over, having experienced several quarters of positive economic growth. The City is seeing the effects of the end of the recession in the form of stable and slightly growing revenues. This stabilization of the City's revenue base now provides an opportunity to focus on aligning the City's General Fund expenditures to the stable, albeit lower, revenue base.

City staff is projecting an ongoing expenditure budget of approximately \$84 million for FY 11-12, while revenues are projected to grow from the current low point of \$68 million to \$70 million in the General Fund. While we initially started our deficit elimination process with a working projection of a \$15.4 million structural deficit in the General Fund, this \$2 million growth in revenue reduces the structural deficit to \$14 million.

DISCUSSION

The economic recovery has begun, but it is the consensus of regional and national economists that the recovery will be slow and gradual. The Deficit Elimination Plan (DEP) presented focuses primarily on bringing the City's budget into balance by reducing expenditures, since this is the area where the City Council has the greatest control. However, it is important to maintain an aggressive focus on increasing the City's revenue base from every angle possible to minimize reductions in programs and services. With a stronger revenue base, as the recovery begins to pick up steam within the next few years the City will be able to restore and enhance valuable services.

The City's Executive Management Team has devoted significant effort to identify every possible cost reduction. The City's expenditure budget just three years ago was at a peak of \$97.8 million. Since FY 2007-08, General Fund budgeted expenses have been reduced by \$14 million, including the elimination of 70 positions in the General Fund representing 25% of the work force (a total of 124 positions have been eliminated overall). We need to continue reductions at this same rate, lowering expenditures by another \$14 million over the next three years. The proposed DEP eliminates a total of 46 positions (32 are General Fund supported), of which 41 are filled. The choices that the City Council will be presented in this Deficit Elimination Plan will be very difficult to make, as many of the proposed cuts and reductions included in the Deficit Elimination Plan will impact programs and service levels. Unfortunately, there are few alternatives to reducing \$14 million in expenditures without impacting important services. Our challenge is to maintain core services with an emphasis on retaining as much public safety services as financially possible.

The net result of the Deficit Elimination Plan is to bring the revenues and expenses nearly into balance by the third year of the plan. The most critical aspects are the reductions in the first two years. These make very significant progress in bringing expenditures in line with the stable revenue base. Staff is recommending that the City Council approve the plan as a framework for balancing the budget over a three fiscal year period, and direct staff to include the first two years of the plan into a two-year proposed budget for the City for Fiscal Years 11-12 and 12-13. The third year of the plan comes just short of reaching the final cuts necessary to get the budget into balance, based on today's estimates. Staff recommends that these reductions be reviewed and discussed as options, and be revisited in 12 months. At that time we will have better information on the strength of the economic recovery and the actual extent of further expenditure reductions that may be needed to complete the budget balancing challenge.

ALTERNATIVES

Staff recommends that the City Council review the Proposed Three-Year Deficit Elimination Plan with the following alternatives:

1. Provide staff direction regarding modifications to the proposed plan, and direct staff to return with a final plan for Council approval on April 12, 2011.

2. Provide staff direction regarding modifications to the proposed plan, and direct staff to return with a second draft plan for further Council review and discussion, and return with a final plan for Council approval on April 19, 2011 (would require a special meeting) or April 26, 2011.
3. Provide staff direction to pursue a different approach to eliminating the City's ongoing structural budget deficit.

FISCAL IMPACT

Based on the current status of the General Fund "fund balance" and the cost pressures of rising CalPERS and Public Safety contract cost increase, it is imperative that the City Council and City Staff address the current \$14 million structural deficit in a timely manner. Not addressing the deficit within the framework presented will result in fund balance reaching an extremely low level after two years and will likely result in a "going concern" comment by the auditors, raising the concern of the City's fiscal insolvency.

In consideration of these facts, staff has presented the deficit elimination framework with potential reductions to virtually eliminate the deficit in a three year period. Staff strongly encourages City Council to adopt a plan that reduces expenses within the structure of this framework to balance the City's budget within a three year period.

In addition, with the stabilization of revenues, staff is recommending adopting the first two years of the plan in the form of a two year budget. This will allow staff and the Council to focus on implementing the approved reductions. Staff will return with updated revenue projections on a quarterly basis. Any increases in revenues above a 3% level may allow the City to reconsider some of the reductions proposed in the third year of the plan.

CITY COUNCIL GOALS

Revenue Diversification and Preservation

Develop a variety of City revenue sources and policies to create a stable revenue base and fiscal policies to support essential City services, regardless of economic climate.

Public Safety

Provide a safe and secure environment for people and property in the community, control the number and severity of fire and hazardous material incidents, and provide protection for citizens who live, work and visit the City of Moreno Valley.

Positive Environment

Create a positive environment for the development of Moreno Valley's future.

SUMMARY

The goal of this plan is to eliminate the structural deficit over the next three years, focusing on aligning ongoing expenses with the projected revenue stream. Using the proposed combination of significantly reduced expenditures with the strategic use of available reserves, staff believes the implementation of the 3-Year Deficit Elimination Plan will result in a balanced budget by June 2014. Upon receiving City Council approval, staff will apply the approved budget reductions identified in the first two years of the plan to the proposed two-year base budget covering Fiscal Years 11-12 and 12-13. Council approval of the 3-Year Deficit Elimination Plan will mitigate the need to revisit and recreate a new deficit reduction plan every year. Reductions identified in year three of the plan will be revisited in 12 months when we have further information on the strength of the economic recovery. To that end, the City Council, City Manager's Office, Community and Economic Development Department, Public Works Department, and related staff are focusing tremendous effort to achieve significant economic development and job creation within our City. Making Moreno Valley the place to do business is our objective and the catalyst to full economic recovery for our community.

NOTIFICATION

Publication of the agenda

ATTACHMENTS/EXHIBITS

Attachment – Three Year Deficit Elimination Plan

Prepared By:
Richard Teichert
Financial and Administrative Services Director

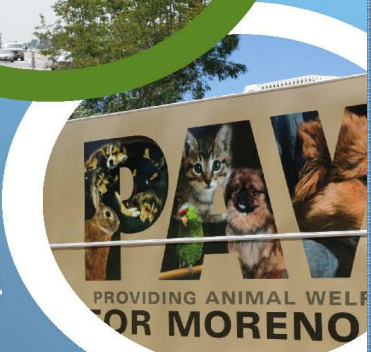
Department Head Approval:
Henry Garcia
City Manager

Concurred By:
Michelle Dawson
Acting Assistant City Manager

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

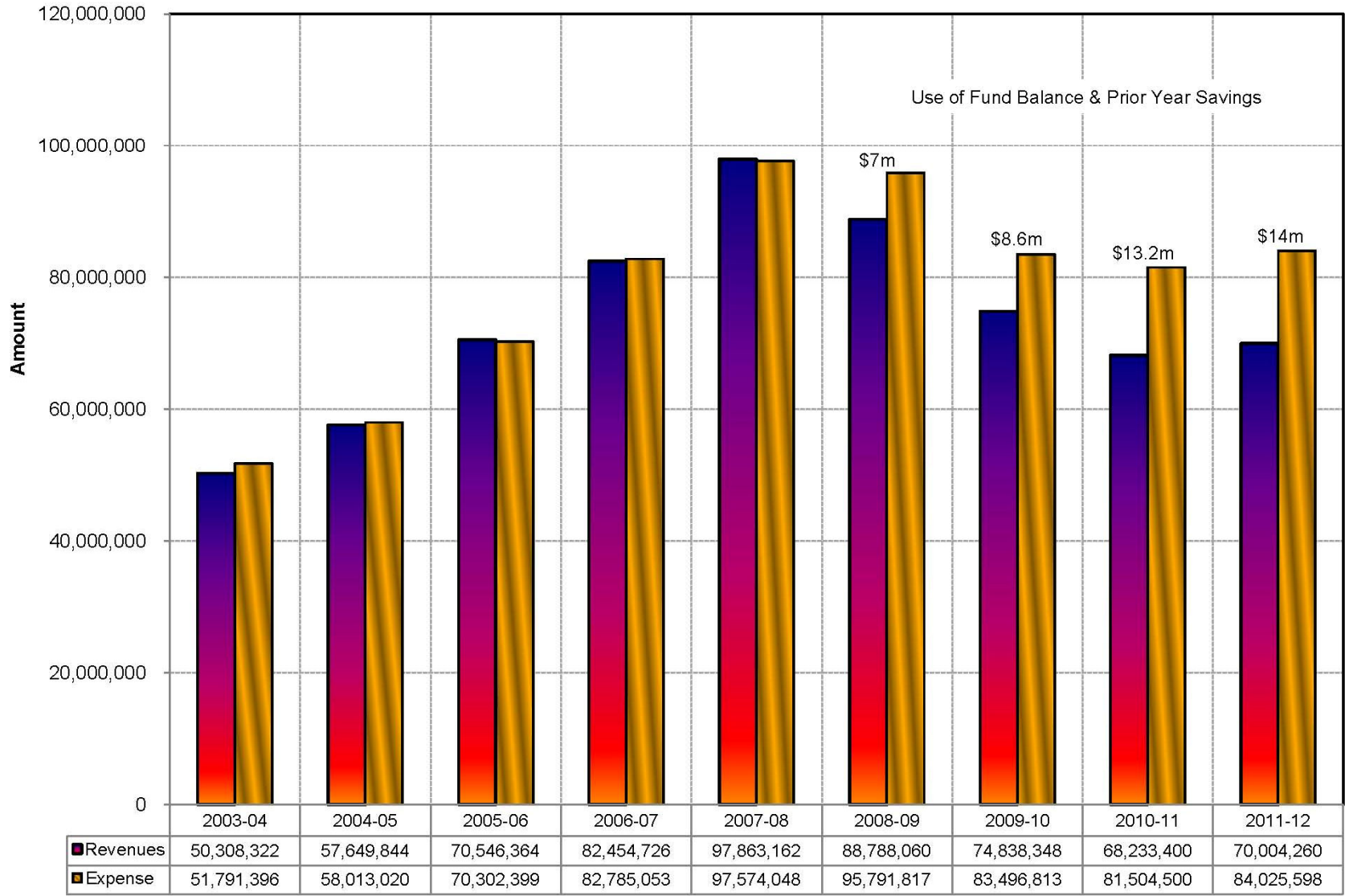
City of Moreno Valley

DEFICIT ELIMINATION PLAN



Fiscal Years 2011/12-2013/14

City of Moreno valley General Fund Revenue & Expense Budget



Cost Pressures on the City

- PERS Employer Contributions increasing by 3% per year for at least 4 Years
- Unfunded Liability for Retiree Medical is \$9.4 million
- Unfunded Liability for Compensated Absences (Vacation/Leave Balances) is \$4.1 million
- Public Safety Contract Increases
 - Police Services Rate Increase 3 - 5% annually is about \$1.5 - \$1.7 million each year
 - Fire Services Rate Increase 2 - 4% annually is \$200,000 - \$400,000 each year
- Bond Rating Agencies monitor City's Financial Position
- General Fund "Fund Balance" is declining

Framework of the Plan

	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
Beginning Fund Balance Available	\$27,000,000	\$19,100,000	\$15,600,000
Projected Deficit	\$14,000,000	\$8,100,000	\$4,100,000
Proposed Use of Fund Balance	7,900,000	3,500,000	800,000
Proposed General Fund DROs	6,100,000	4,600,000	3,300,000
Note - One-time savings included:	200,000	600,000	600,000

Summary of Reductions by Department

Department	FY 2011-12	FY 2012-13	FY 2013-14	Total
General Fund - Revenue Enhancements:				
Community & Economic Development	\$ 355,000	\$ 337,000	\$ 497,000	\$ 1,189,000
Financial & Administrative Services	114,200	-	-	114,200
Fire	426,996	106,793	-	533,789
Public Works	149,408	-	-	149,408
	<u>1,045,604</u>	<u>443,793</u>	<u>497,000</u>	<u>1,986,397</u>
General Fund - Deficit Reduction Options:				
City Council/City Clerk	27,900	43,660	43,413	114,973
City Manager	269,352	64,633	-	333,985
City Attorney	108,879	-	90,260	199,139
Community & Economic Development	456,564	93,530	1,170	551,264
Financial & Administrative Services	1,016,283	255,000	247,400	1,518,683
Fire	140,477	1,287,429	-	1,427,906
Human Resources	232,946	82,970	-	315,916
Police	1,000,000	2,000,000	2,000,000	5,000,000
Public Works	2,026,219	-	-	2,026,219
Non-Department	1,010,000	450,000	450,000	1,910,000
	<u>6,288,620</u>	<u>4,277,222</u>	<u>2,832,243</u>	<u>13,398,085</u>
DRO Offsets:				
Fire	(31,680)	(31,680)	-	(63,360)
Public Works	(496,000)	-	-	(496,000)
Non-Department	(675,000)	-	-	(675,000)
	<u>(1,202,680)</u>	<u>(31,680)</u>	<u>-</u>	<u>(1,234,360)</u>
Total General Fund	<u>\$ 6,131,544</u>	<u>\$ 4,689,335</u>	<u>\$ 3,329,243</u>	<u>\$ 14,150,122</u>

City of Moreno Valley



DEFICIT
ELIMINATION PLAN
Fiscal Years 2011/12-2013/14