

AGENDA

**CITY COUNCIL OF THE CITY OF MORENO VALLEY
MORENO VALLEY COMMUNITY SERVICES DISTRICT
CITY AS SUCCESSOR AGENCY FOR THE
COMMUNITY REDEVELOPMENT AGENCY OF THE
CITY OF MORENO VALLEY
MORENO VALLEY HOUSING AUTHORITY**

March 19, 2013

STUDY SESSION – 6:00 P.M.

City Council Study Sessions

First & Third Tuesdays of each month – 6:00 p.m.

City Council Meetings

Second & Fourth Tuesdays – 6:00 p.m.

City Council Closed Sessions

*Immediately following Regular City Council Meetings and
Study Sessions, unless no Closed Session Items are Scheduled*

City Hall Council Chamber - 14177 Frederick Street

Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities, in compliance with the Americans with Disabilities Act of 1990. Any person with a disability who requires a modification or accommodation in order to participate in a meeting should direct such request to Mel Alonzo, ADA Coordinator at 951.413.3705 at least 48 hours before the meeting. The 48-hour notification will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

Tom Owings, Mayor

Marcelo Co, Mayor Pro Tem
Jesse L. Molina, Council Member

Richard A. Stewart, Council Member
Victoria Baca, Council Member

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***THE CITY COUNCIL RECEIVES A SEPARATE STIPEND FOR CSD MEETINGS**

**STUDY SESSION - 6:00 PM
MARCH 19, 2013**

CALL TO ORDER

PLEDGE OF ALLEGIANCE

INVOCATION

ROLL CALL

INTRODUCTIONS

PUBLIC COMMENTS ON MATTERS 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.

SPECIAL ORDER OF BUSINESS

1. PRESENTATION OF LONG TERM FINANCIAL CHALLENGES – ANNUAL INCREASES IN PUBLIC SAFETY CONTRACTS (Staff Report) (PowerPoint to be provided under separate cover) (FMS/20 mins)
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

AGENDA
March 19, 2013

***Materials related to an item on this Agenda submitted to the City Council/Community Services District/City as Successor Agency for the Community Redevelopment Agency/Housing Authority 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, City as Successor Agency for the Community Redevelopment Agency of the City of Moreno Valley or Housing Authority 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

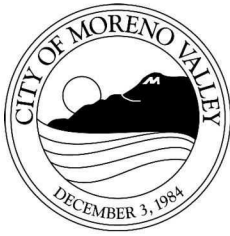
Number of Cases: 5

- 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



APPROVALS	
BUDGET OFFICER	<i>[Signature]</i>
CITY ATTORNEY	<i>[Signature]</i>
CITY MANAGER	<i>[Signature]</i>

Report to City Council

TO: Mayor and City Council

FROM: Rick Teichert, Financial and Management Services Director

AGENDA DATE: March 19, 2013

TITLE: PRESENTATION OF LONG TERM FINANCIAL CHALLENGES – ANNUAL INCREASES IN PUBLIC SAFETY CONTRACTS

RECOMMENDED ACTION

Recommendation: That the City Council:

1. Review and discuss the report addressing the challenge of increased public safety contract costs.

BACKGROUND

City Council has requested a series of discussion topics related to long term financial issues impacting the City's General Fund. The topics have been scheduled to occur at City Council Study Sessions over the next several months. The intent is to review and discuss details and related impacts for each issue. Information presented on these topics will be posted on the City's web site following each presentation at Study Session.

- | | |
|----------------|---|
| March 5, 2013 | Slow Growth in Major General Fund Revenue Sources (presented) |
| March 19, 2013 | Annual Increases in Public Safety Contracts |
| April 2, 2013 | Unfunded Liabilities – Public Employees Retirement System and Retiree Medical |
| April 16, 2013 | Employee Compensation Issues |
| June 4, 2013 | Increased Demands on General Fund Reserves |
| June 18, 2013 | Unfunded Liabilities – Compensated Absences and Others |

DISCUSSION

The City of Moreno Valley is party to three agreements over which it does not control the contract rates. Two of these agreements are with the County of Riverside for the provision of police and fire services and these contracts are the subject of this report. The third agreement is with CalPERS for funding and management of employee retirement benefits. Discussion of the ongoing impact of the PERS rates is scheduled for the April 2 Study Session.

The police and fire service provided to the City and our residents is of the highest quality. This fact can be illustrated in numerous ways, including the most recent Uniform Crime Rate statistics indicating that Moreno Valley has one of the lowest Part I crime rates in the City's history. However, the statistics are on the upswing. There are many benefits to contracting for public safety services. While the City does not control the rate for the contracts, the dynamic of contracting for services provides for the City Council to control overall cost through service levels requested from the contracting partner. The City Council has no control over the demand for police and fire services; however they do bear the responsibility of responding to that demand.

Revenue Decline and Slow Recovery

The City's tax revenues decreased dramatically during the 3-year period from FY 2007-08 through FY 2010-11. During this relatively short period, total General Fund revenues decreased a total of \$18 million or 20%.

As reported during the Study Session on March 5, 2013, the City's General Fund tax revenue growth is slow and gradual with no swift revenue recovery projected. Staff anticipates overall revenue growth of approximately 2.0% - 2.5% annually for the General Fund, with the most rapid growth occurring in Sales Tax revenues (7-8% growth is projected). Property Taxes are expected to reflect very slow growth and recovery in the real estate market and housing process. These revenue projections should result in an increase in the overall General Fund from \$74.1 million in the current fiscal year to \$76.4 million in FY 2013-14, a 3.2% growth rate; and to \$78.2 in FY 2014-15, a rate of growth of 2.2%.

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
	Actual	Actual	Actual	Actual	Actual	Est. Actual	Budget	Budget
GENERAL FUND								
TOTAL REVENUE AND TAXES	89,989,297	83,651,791	77,222,730	71,916,648	73,907,365	74,118,230	76,461,397	78,150,597
		(6,337,506)	(6,429,061)	(5,306,082)	1,990,717	210,865	2,343,167	1,689,200
		-7.0%	-7.7%	-6.9%	2.8%	0.3%	3.2%	2.2%

Increasing Police Services Rates/Costs

Police service contract rates continued to increase every year during the recent recession, and the increases have been more rapid in the post-recession period. While the City's

revenues were declining by about 7% per year from FY 2008-09 to FY 2010-11, the police service contract continued to increase by about 3% or more each year. County approved multi-year labor agreements contributed to the contract rate increases; however, in FY 2011-12, the County Board of Supervisors imposed a 10% reduction on their largest public safety labor union; which was made permanent the following year when they agreed to pay the employee share of retirement funding. This 10% reduction resulted in a 1.10% increase in the contract rate in FY 2011-12 (the lowest contract rate increase experienced). A recent three-year labor agreement has resulted in contract cost increases that are having a significant impact for the City in the foreseeable planning horizon. The current year contract rate increased 4.69%. The County Sheriff's administrative staff has advised the City to anticipate 5% rate increases during each of the next two budget years. The following table reflects the historical growth and changes in the Police Service contract rates:

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
	Actual	Actual	Actual	Actual	Actual	Est. Actual	Budget	Budget
HISTORY OF POLICE CONTRACT RATES								
Police Contract Rate	111.88	117.3	121.97	125.37	126.74	132.69	139.32	146.29
Change - Dollars	5.36	5.42	4.67	3.40	1.37	5.95	6.63	6.97
Change - Percent	5.03%	4.84%	3.98%	2.79%	1.10%	4.69%	5.00%	5.00%

At current levels of service, costs will grow to over \$46 million per year by FY 2014-15. This is an increase of \$10.6 million over the 7-year period, or an average increase of \$1.5 million each year. This represents an average increase of 4.05% each year over the 8 year period. Putting this \$10 million cost increase into context, during that same period the City's General Fund revenues saw a \$11 million decrease. Although this appears to be a large swing in the costs of a single public service, it actually represents a gradual increase to recover the cost of providing service that the City has requested. Also of note is that the major factor in this "swing" is the decline in economically volatile General Fund revenues.

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
	Actual	Actual	Actual	Actual	Actual	Est. Actual	Budget	Budget
HISTORY OF POLICE SERVICE COSTS								
Police Contract Costs	32,400,997	34,807,852	35,288,448	35,743,686	35,227,060	37,050,972	39,878,973	42,031,213
Total Police Costs	35,581,734	38,370,806	38,726,541	39,157,265	39,099,718	41,171,615	43,984,194	46,255,845
		2,789,072	355,734	430,724	(57,547)	2,071,897	2,812,579	2,271,651
		8.6%	1.0%	1.2%	-0.2%	5.9%	7.6%	5.7%

Increasing Fire Services Rates/Costs

Although the fire service contract rates experienced a brief period of reductions, the total contract rates have increased and are projected to continue to increase in the future. The following table reflects the historical growth and changes in the Fire Service contract rates:

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
HISTORY OF FIRE CONTRACT RATES								
Fire Rate Exhibit A	13,678,745	14,417,477	13,971,396	13,535,639	12,667,575	13,917,615	14,681,953	15,122,412
Change - Dollars		738,732	-446,081	-435,757	-868,064	1,250,040	764,338	440,459
Change - Percent		5.40%	-3.09%	-3.12%	-6.41%	9.87%	5.49%	3.00%

At the current levels of service, contract costs will grow to about \$15.2 million per year by FY 2014-15. This is an increase of \$2.7 million over the 7-year period, or an average increase of \$380,000 each year. This represents an average increase of 3.1% each year. It is important to note that the contract cost increases include requests in increased service levels. In addition, the calls for service during this 8 year period have increased significantly. The largest contract cost increase has been the opening of the Morrison Park Fire Station in October 2012. Discounting this added cost, the average contract cost increase is 1.7% per year. Additionally, the City requested the upgrade to paramedic fire trucks in the most recent contract period and absorbed the hazard abatement service in FY 2008/09. Also of importance is the recognition that fire safety staff have only had one pay increase in the past 7 years, and now pay the employee share of CalPERS costs during this period.

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
	Actual	Actual	Actual	Actual	Actual	Est. Actual	Budget	Budget
HISTORY OF FIRE SERVICE CONTRACT COSTS								
Fire Contract Costs	12,513,741	12,535,469	12,940,527	12,822,977	11,606,535	13,849,349	14,789,341	15,233,021
		21,728	405,058	(117,550)	(1,216,442)	2,242,814	939,992	443,680
		0.2%	3.2%	-0.9%	-9.5%	19.3%	6.8%	3.0%

Summary of Public Safety Costs as a percent of General Fund

The impact of the combination of the two public safety service contracts has been dramatic. Total police and fire services expenditures were \$51.5 million in FY 2007-08, which required 57.3% of the General Fund revenues to support the service levels. The projected costs of the two services in FY 2014-15 is \$64.9 million. As the cost of services increased during a recessionary period, these services now consume 83% of the General Fund revenues projected for FY 2014-15.

	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
	Actual	Actual	Actual	Actual	Actual	Est. Actual	Budget	Budget
TOTAL REVENUE AND TAXES	89,989,297	83,651,791	77,222,730	71,916,648	73,907,365	74,118,230	76,461,397	78,150,597
Total Police Costs	35,581,734	38,370,806	38,726,541	39,157,265	39,099,718	41,171,615	43,984,194	46,255,845
Total Fire Costs	15,977,860	15,746,591	15,767,054	15,399,595	15,121,130	17,105,247	18,283,681	18,648,686
Total Public Safety Costs	51,559,594	54,117,397	54,493,595	54,556,860	54,220,848	58,276,862	62,267,875	64,904,531
Percent of General Fund Revenues	57.3%	64.7%	70.6%	75.9%	73.4%	78.6%	81.4%	83.1%

Conclusion

During the past two years, as part of the Council-approved Deficit Elimination Plan (DEP), the Police and Fire Departments have made efforts to assist the City to reduce the draw on General Fund reserves. For Fiscal Year 2011-12 these contributions included a police service reduction of \$1,000,000 and the elimination of a truck company for fire service

along with other cuts to staffing and operations. Although these cuts were impactful, the City's General Fund continues to operate at a deficit.

The City Council has directed the City Manager to develop a plan to balance the General Fund budget in FY 2013-14 to eliminate the draw on General Fund reserves that has occurred over the past five years. The Council-approved DEP identifies cuts that will further impact City services, and still does not close the projected deficit of \$6.3 million for FY 2013-14. As a last resort, the City Council must look to public safety service level reductions, or the creation of a new source of revenue, to balance the General Fund. The reductions to both police and fire services will have to be significant because there are no alternatives left to reduce or eliminate costs.

The problem is two-fold. One is the rising rate of contract cost recovery charged by our contract service partners. The second is the low tax base of the City, aggravated by the economic volatility of the tax revenues themselves and losses of revenues due to the State eliminating Redevelopment and Vehicle License Fee revenues. The low per capita tax base will be solved over time, as the City continues to build-out and builds its commercial/retail base, and focuses on bringing jobs into the City. Until that goal is achieved, the City MUST consider a new revenue source, such as a revenue measure to be placed before the voters. This will provide the resources needed to meet the demand for public safety services, until longer term solutions may be realized.

Specific expenditure reductions in public safety will be discussed within the context and the process of the upcoming scheduled budget meetings, where City Council will review and discuss the City Manager's plan to balance the General Fund revenue and expenditure budget in one year.

The presentation and discussion on Tuesday, March 19, 2013, will include a PowerPoint presentation that will provide additional data and further context to this issue.

ATTACHMENTS

None.

Prepared By:
Rick Teichert
Financial and Management Services Director

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