



Report to City Council

TO: Mayor and City Council

FROM: Marshall Eyerman, Chief Financial Officer
Michelle Dawson, City Manager

AGENDA DATE: December 5, 2017

TITLE: FISCAL YEAR 2017/18 FIRST QUARTER BUDGET
REVIEW

RECOMMENDED ACTION

Recommendation:

1. Receive and file the Fiscal Year 2017/18 First Quarter Financial Summary Report.

SUMMARY

This report provides the First Quarter Financial Summary Report which updates the Mayor and City Council regarding current year financial trends and provides the Fiscal Year 2017/18 first quarter budget review through September 30, 2017.

This item was presented to the Finance Subcommittee on November 28, 2017 for review and discussion.

DISCUSSION

On May 2, 2017, the City Council adopted the Two-Year Operating Budget for Fiscal Years 2017/18 – 2018/19. The budget included all component units of the City, including the General Fund, Community Services District, Housing Authority and Successor Agency. During the two-year budget period, the City Council will be kept informed of the City's financial condition through the process of quarterly budget reviews. This ongoing process ensures a forum to review expenditure and revenue changes from the estimates made in the budget document. Additionally, any significant changes in projected revenue or unanticipated expenditures will be shared with the City Council should they occur. This report provides the FY 2017/18 first quarter review for the first three months of FY 2017/18, July through September. The first quarter budget

review will focus primarily on the City's General Fund. This review will also present three-month operational results from other key funds.

FISCAL YEAR 2017/18 FIRST QUARTER FINANCIAL SUMMARY REPORT:

This First Quarter Financial Summary Report updates the Mayor and City Council regarding current year financial trends and provides the opportunity for the City Council to review the recommended actions as they relate to revenues and expenditures.

General Fund Revenue Update

Revenue receipts do not follow an even schedule. Although 25% of the fiscal year has elapsed, based on historic trends revenues are estimated to be at approximately 10% of the budgeted amount. Actual revenues received are currently 11% of budget. Revenue amounts continue to be stable. Although there will be variances in some of the amounts budgeted, the total is expected to remain within 1% of the amended budget for the year. Total General Fund revenue is estimated to be \$100.8 million. It should be noted that the lag in timing of revenue receipts is one reason an operating cash reserve is necessary.

General Fund Expenditure Update

Although not all expenditures follow a straight-line spending pattern, operating expenditures should track close to within 25% of budget for the year at the end of the first three months. As of September 30, 2017, total General Fund expenditures were at 25%. This pace is within expectations for most activities in the General Fund.

ALTERNATIVES

1. Recommend approval of proposed Recommended Action as set forth in this staff report. The approval of this item will allow for ongoing activities to be carried out in the current fiscal year. *Staff recommends this alternative.*
2. Do not recommend approval of proposed Recommended Action as set forth in this staff report. *Staff does not recommend this alternative.*

FISCAL IMPACT

The City's Operating and Capital Budgets provide the funding and expenditure plan for all funds. As such, they serve as the City's financial plan for the fiscal year. There are no fiscal impacts.

NOTIFICATION

Publication of the agenda.

PREPARATION OF STAFF REPORT

Prepared By:
Stephanie Cuff
Management Analyst

Department Head Approval:
Marshall Eyerman
Chief Financial Officer/City Treasurer

Concurred By:
Brian Mohan
Financial Resources Division Manager

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 Facilities and Capital Projects. Ensure that needed public facilities, roadway improvements, and other infrastructure improvements are constructed and maintained.

CITY COUNCIL STRATEGIC PRIORITIES

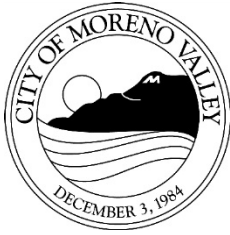
1. Economic Development
2. Public Safety
3. Library
4. Infrastructure
5. Beautification, Community Engagement, and Quality of Life
6. Youth Programs

ATTACHMENTS

1. FY17-18 First Quarter Financial Summary Report

APPROVALS

Budget Officer Approval	<u>✓ Approved</u>	11/17/17 10:38 AM
City Attorney Approval	<u>✓ Approved</u>	11/22/17 11:56 AM
City Manager Approval	<u>✓ Approved</u>	11/22/17 12:02 PM



City of Moreno Valley

Fiscal Year 2017/18

First Quarter Financial Summary

TO: Mayor and City Council

FROM: Marshall Eyerman, Chief Financial Officer/City Treasurer

DATE: December 5, 2017

INTRODUCTION

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

This report provides a review of the unaudited financial results at the first quarter of FY 2017/18 (July 2017 – September 2017, 25% of the fiscal year).

CITYWIDE OPERATING EXPENDITURE SUMMARY

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

Table 1. Citywide Operating Expenditures

Fund/Component Unit	FY 2017/18 Adopted Budget	FY 2017/18 Amended Budget	Actuals as of 9/30/17 (unaudited)	% of Amended Budget
General Fund	\$ 100,679,474	\$ 100,775,931	\$ 25,719,454	25.5%
Community Services District (CSD)	19,684,286	19,684,286	4,126,066	21.0%
Successor Agency	4,772,867	4,772,867	43,049,662	902.0%
Housing Fund	250,000	250,000	8,416	3.4%
Special Revenue Funds	28,708,442	46,203,620	6,264,791	13.6%
Capital Projects Funds	5,704,618	12,679,241	352,314	2.8%
Electric Utility Funds	34,193,565	41,860,219	9,187,645	21.9%
Internal Service Funds	13,798,372	14,073,016	3,587,079	25.5%
Debt Service Funds	6,461,310	6,461,310	2,000	0.0%
Total	\$ 214,252,934	\$ 246,760,490	\$ 92,297,429	37.4%

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

- Capital Improvement Plan included \$29,747,946 of carryover budget from the prior fiscal year.
- Refunding of the Successor Agency 2007 RDA Tax Allocation Bonds. The associated budget amendments are in process and will be reflected in the next quarterly review.
- Throughout the fiscal year there are also budget amendments to reflect the acceptance of grants and adjustments to contractual services and material/supplies. The individual amendments are reviewed as part of separate City Council agenda items.
- As a subsequent event, the first quarter carryover and budget adjustments were approved on the November 7, 2017 Council meeting which will be reflected in the next quarterly review.

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

GENERAL FUND OPERATING

Table 2. General Fund Operations

	FY 2017/18 Adopted Budget	FY 2017/18 Amended Budget	Actuals as of 9/30/2017 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 13,930,000	\$ 13,930,000	\$ -	0.0%
Property Tax in-lieu	18,300,000	18,300,000	-	0.0%
Utility Users Tax	16,200,000	16,200,000	3,168,040	19.6%
Sales Tax	18,200,000	18,200,000	1,364,272	7.5%
Other Taxes	12,133,500	12,133,500	1,201,967	9.9%
Licenses & Permits	2,674,824	2,674,824	793,663	29.7%
Intergovernmental	463,000	463,000	468,764	101.2%
Charges for Services	11,756,141	11,756,141	2,987,022	25.4%
Use of Money & Property	3,157,862	3,157,862	961,231	30.4%
Fines & Forfeitures	662,050	662,050	85,680	12.9%
Miscellaneous	70,197	70,197	94,034	134.0%
Total Revenues	\$ 97,547,574	\$ 97,547,574	\$ 11,124,672	11.4%
Expenditures:				
Personnel Services	\$ 17,003,887	\$ 17,003,887	\$ 4,800,299	28.2%
Contractual Services	68,600,590	68,555,969	17,157,658	25.0%
Material & Supplies	3,628,015	3,628,015	764,062	21.1%
Fixed Charges	5,739,869	5,839,869	1,403,530	24.0%
Fixed Assets	120,000	161,078	3,758	2.3%
Total Expenditures	\$ 95,092,361	\$ 95,188,818	\$ 24,129,306	25.3%
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	\$ 2,455,213	\$ 2,358,756	\$ (13,004,634)	
Transfers:				
Transfers In	\$ 3,259,850	\$ 3,259,850	\$ 718,316	22.0%
Transfers Out	5,587,113	5,587,113	1,590,148	28.5%
Net Transfers	\$ (2,327,263)	\$ (2,327,263)	\$ (871,832)	
Total Revenues & Transfers In	\$ 100,807,424	\$ 100,807,424	\$ 11,842,988	11.7%
Total Expenditures & Transfers Out	100,679,474	100,775,931	25,719,454	25.5%
Net Change of Fund Balance	\$ 127,950	\$ 31,493	\$ (13,876,467)	

General Fund Operating Revenues

The General Fund is comprised of several revenue types. However, the main sources include property tax, utility users tax, and sales tax. Each of these is affected by different economic activity cycles and pressures.

Table 3. General Fund Operating Revenues

	FY 2017/18 Adopted Budget	FY 2017/18 Amended Budget	Actuals as of 9/30/2017 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 13,930,000	\$ 13,930,000	\$ -	0.0%
Property Tax in-lieu	18,300,000	18,300,000	-	0.0%
Utility Users Tax	16,200,000	16,200,000	3,168,040	19.6%
Sales Tax	18,200,000	18,200,000	1,364,272	7.5%
Other Taxes	12,133,500	12,133,500	1,201,967	9.9%
Licenses & Permits	2,674,824	2,674,824	793,663	29.7%
Intergovernmental	463,000	463,000	468,764	101.2%
Charges for Services	11,756,141	11,756,141	2,987,022	25.4%
Use of Money & Property	3,157,862	3,157,862	961,231	30.4%
Fines & Forfeitures	662,050	662,050	85,680	12.9%
Miscellaneous	70,197	70,197	94,034	134.0%
Total Revenues	\$ 97,547,574	\$ 97,547,574	\$ 11,124,672	11.4%

Property Taxes/Property Taxes In-Lieu

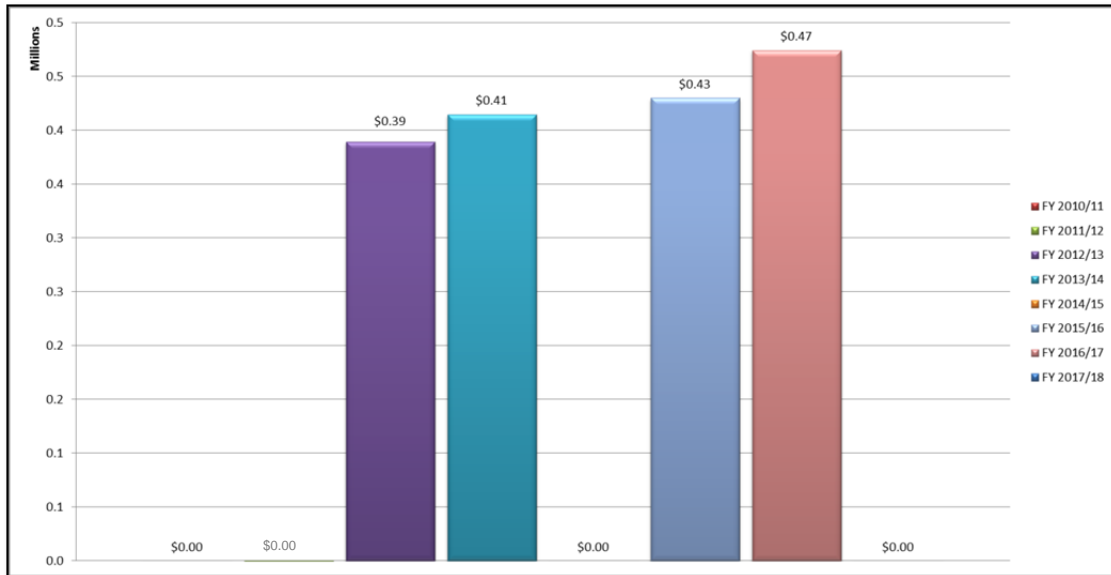
Property taxes were budgeted to increase by 6% from the FY 2016/17 Amended Budget. The annual schedule of property tax payments from the County of Riverside will provide payments to the City based on the following estimated schedule:

Secured Property Tax Payment Dates

Settlement 1	January
Settlement 2	May
Settlement 3	August
Teeter Settlement	October

Based on historical averages of actual receipts, the City is estimated to receive 1% of the budgeted property tax revenue through first quarter. The City has currently received 0% through first quarter. Property taxes will continue to be monitored as property valuations may adjust through the year based on property sales and assessment appeals filed with the County.

Chart 1. General Fund First Quarter Revenue Trend – Property Taxes



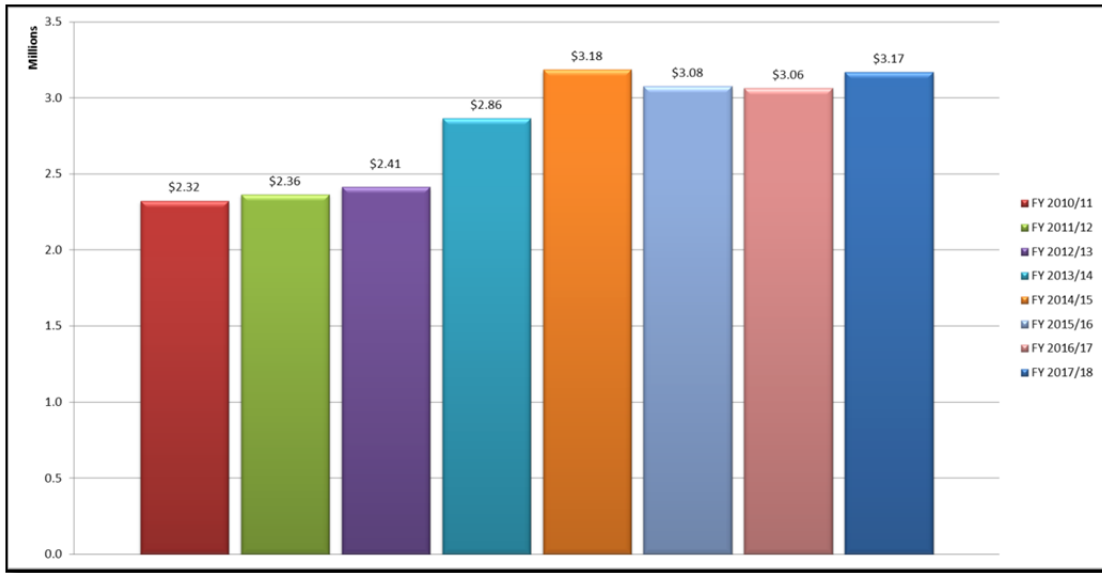
Note: FYs 2010/11, 2011/12, 2014/15 and 2017/18 did not receive any property tax revenues in the first quarter.

Utility Users Tax

Utility Users taxes were budgeted to remain flat from the FY 2016/17 Amended Budget. This projection is primarily due to competitive forces within the communications markets. Both the wireless and wired markets experienced downturns year over year. Based on our discussions with utility tax experts, there are a couple of causes for this trend. First is competition and bundling practices within the market as more small players continue to join the market. Second is the migration of customers from contract plans to prepaid plans.

Based on historical averages of actual receipts, the City is estimated to receive 17% of the budgeted utility users tax revenue through first quarter. The City has currently received 20% through first quarter.

Chart 2. General Fund First Quarter Revenue Trend – Utility Users Taxes

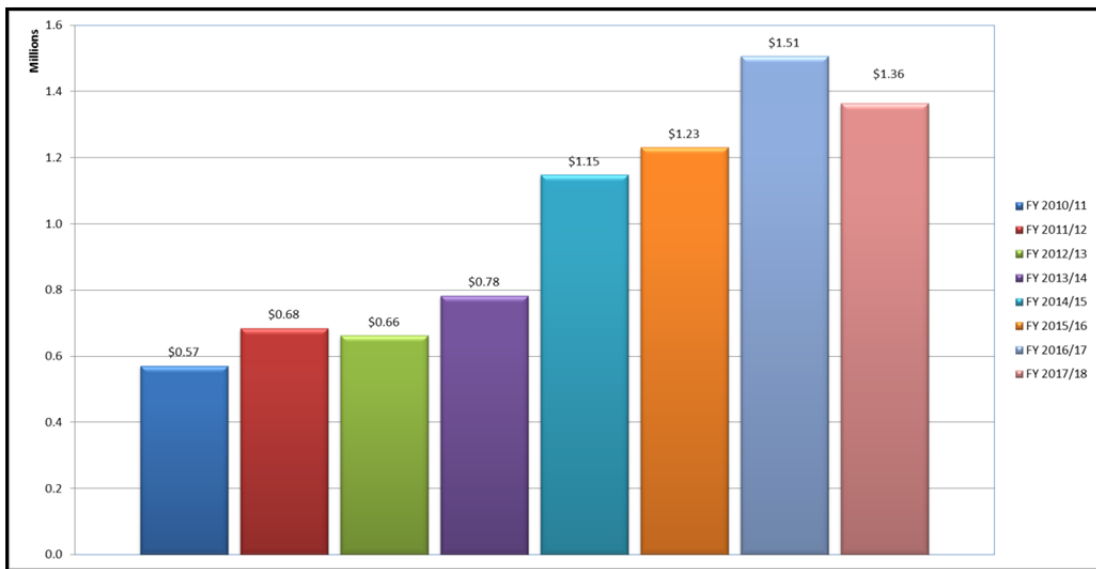


Sales Taxes

Due to the receipt of one-time taxes in the amount of \$2.287M related to the ending of the States “Triple Flip” in FY 2016/17, the FY 2017/18 sales tax budget was increased by only 1%. Sales tax receipts will need to be continually monitored through the year to determine if current trends begin to plateau or begin to decrease.

Based on historical averages of actual receipts, the City is estimated to receive 6% of the budgeted sales tax revenue through first quarter. The City has currently received 8% through first quarter.

Chart 3. General Fund First Quarter Revenue Trend – Sales Taxes

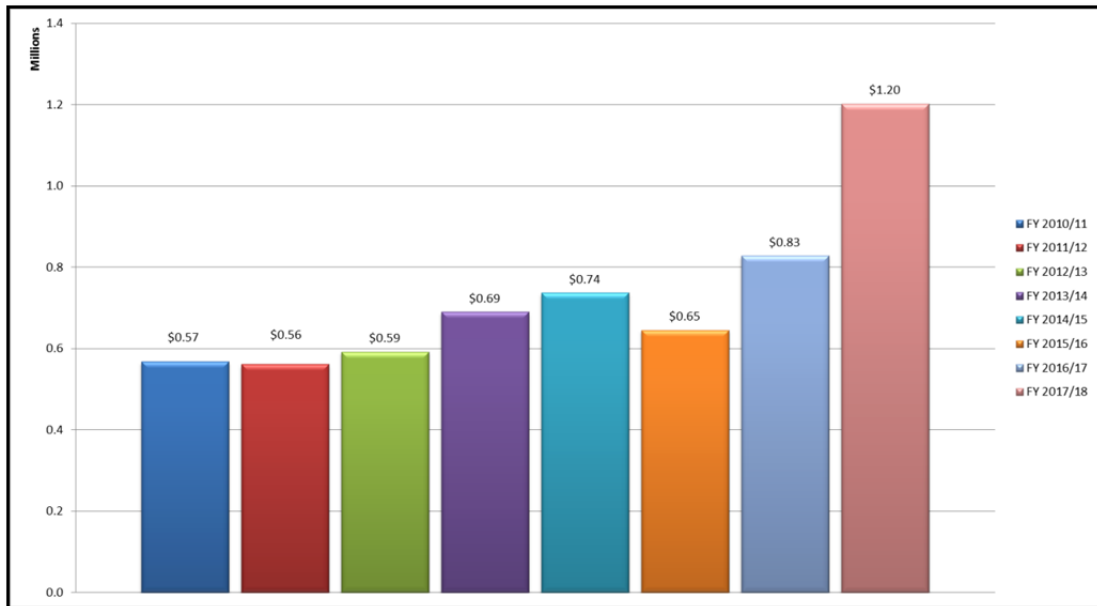


Other Taxes

Other taxes are primarily composed of Business Gross Receipts, Transient Occupancy Tax, Documentary Transfer Tax, and Franchise Fees. Collectively, other taxes were budgeted to increase 19% from the FY 2016/17 Amended Budget.

Based on historical averages of actual receipts, the City is estimated to receive 8% of the budgeted Other Taxes revenue through first quarter. The City has currently received 10% through first quarter.

Chart 4. General Fund First Quarter Revenue Trend – Other Taxes

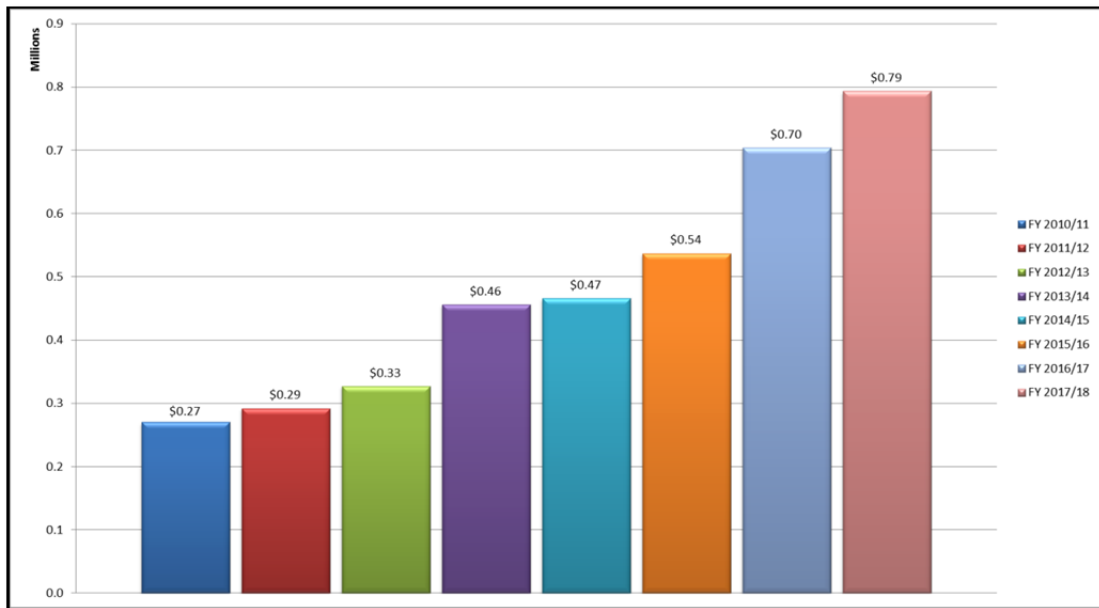


Licenses & Permits

Licenses & Permits are primarily composed of Business and Animal Licenses, along with Building, Electrical, Mechanical, Plumbing and other permits. Collectively, Licenses & Permits were budgeted to decreased 3% from the FY 2016/17 Amended Budget.

Based on historical averages of actual receipts, the City is estimated to receive 23% of the budgeted Licenses & Permits revenue through first quarter. The City has currently received 30% through first quarter. The higher growth rate is related primarily to the recent building permit activities.

Chart 5. General Fund First Quarter Revenue Trend – Licenses & Permits

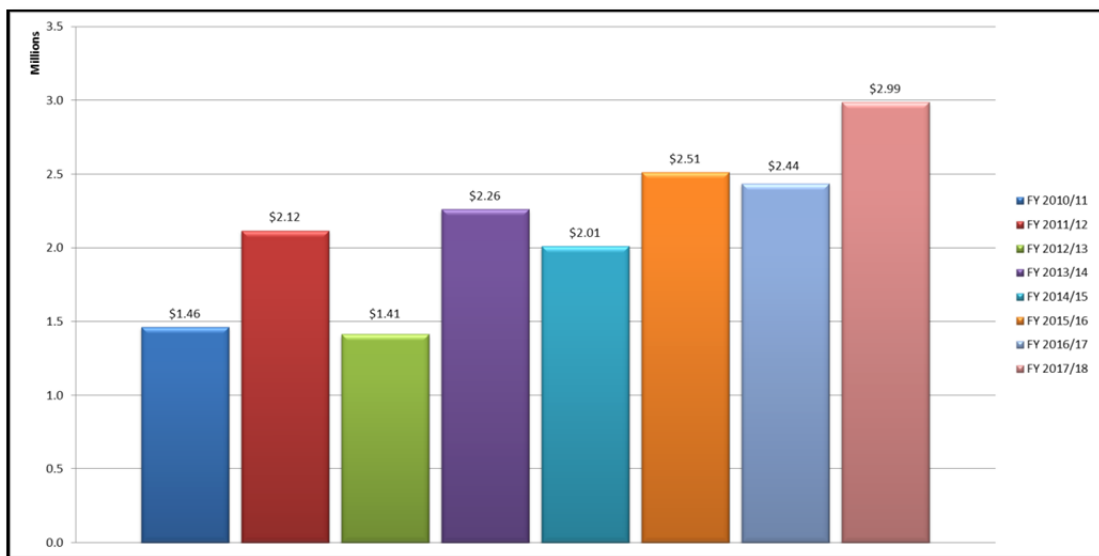


Charges for Services

Charges for Services are primarily composed of Plan Check Fees, Inspection Fees, Administrative Charges to other funds, and Parking Control Fines. Collectively, Charges for Services were budgeted to increase 2% from the FY 2016/17 Amended Budget.

Based on historical averages of actual receipts, the City is estimated to receive 22% of the budgeted Charges for Services revenue through first quarter. The City has currently received 25% through first quarter.

Chart 6. General Fund First Quarter Revenue Trend – Charges for Services



Use of Money and Property

Investment income continues to remain low due to extremely low rates of return for fixed income investments. The investments managed by Chandler Asset Management totaled \$84,681,990 at par and achieved a Yield to Maturity (YTM) for September 2017 of 1.68%. This compares to a YTM in September 2016 of 1.49% and a YTM in June 2016 of 1.49%. The investments managed by Insight Investments totaled \$55,327,685 at par and achieved a Yield to Maturity (YTM) for September 2017 of 1.38%. This compares to a YTM in September 2016 of 1.10% and a YTM in June 2016 of 1.09%. In addition, the City maintained \$37,148,019 in the State Local Agency Investment Fund Pool (LAIF) with a YTM of 1.11%. This is a very low rate of return compared to historical experience, but is indicative of how investment income is performing everywhere, which is the reason the City utilizes the active management approach.

General Fund Expenditures

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

Table 4. General Fund Expenditures

Department	FY 2017/18 Adopted Budget	FY 2017/18 Amended Budget	Actuals as of 9/30/17 (unaudited)	% of Amended Budget
City Council	\$ 995,390	\$ 1,051,269	\$ 209,194	19.9%
City Clerk	575,432	574,932	95,571	16.6%
City Manager	5,856,908	5,856,908	1,306,663	22.3%
City Attorney	881,672	881,672	176,724	20.0%
Community Development	8,897,511	9,022,645	2,001,772	22.2%
Economic Development	1,752,456	1,752,456	362,859	20.7%
Financial & Management Services	4,207,263	4,207,263	901,130	21.4%
Human Resources	1,051,088	1,051,088	298,268	28.4%
Public Works	8,409,115	8,450,193	1,705,101	20.2%
Non-Departmental	6,085,510	6,085,510	2,508,363	41.2%
Non-Public Safety Subtotal	\$ 38,712,345	\$ 38,933,936	\$ 9,565,644	24.6%
Public Safety				
Police	\$ 41,914,996	\$ 41,914,996	\$ 10,994,693	26.2%
Fire	20,052,133	19,926,999	5,159,118	25.9%
Public Safety Subtotal	\$ 61,967,129	\$ 61,841,995	\$ 16,153,811	26.1%
Total	\$ 100,679,474	\$ 100,775,931	\$ 25,719,454	

OTHER KEY FUNDS

The following summaries describe other major funds in the City.

Moreno Valley Community Services District

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

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

Table 5. CSD Operations

	FY 2017/18 Adopted Budget	FY 2017/18 Amended Budget	Actuals as of 9/30/17 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 4,510,094	\$ 4,510,094	\$ -	0.0%
Other Taxes	6,548,241	6,548,241	-	0.0%
Charges for Services	5,956,700	5,956,700	363,814	6.1%
Use of Money & Property	812,701	812,701	269,527	33.2%
Fines & Forfeitures	50,000	50,000	8,471	16.9%
Miscellaneous	13,500	13,500	6,641	49.2%
Transfers In	2,223,064	2,223,064	545,766	24.6%
Total Revenues	\$ 20,114,300	\$ 20,114,300	\$ 1,194,218	5.9%
Expenditures:				
Library Services Fund (5010)	\$ 2,332,043	\$ 2,332,043	\$ 458,435	19.7%
Zone A Parks Fund (5011)	9,387,656	9,387,656	2,168,005	23.1%
LMD 2014-01 Residential Street Lighting Fund (5012)	1,524,949	1,524,949	352,723	23.1%
Zone C Arterial Street Lighting Fund (5110)	865,014	865,014	188,425	21.8%
Zone D Standard Landscaping Fund (5111)	1,126,769	1,126,769	168,972	15.0%
Zone E Extensive Landscaping Fund (5013)	321,318	321,318	45,550	14.2%
5014 LMD 2014-02	2,358,181	2,358,181	399,682	16.9%
Zone M Median Fund (5112)	259,652	259,652	38,369	14.8%
CFD No. 1 (5113)	1,331,234	1,331,234	298,195	22.4%
Zone S (5114)	66,470	66,470	7,710	11.6%
5211 Zone A Parks - Restricted Assets	111,000	111,000	-	0%
Total Expenditures	\$ 19,684,286	\$ 19,684,286	\$ 4,126,066	21.0%
Net Change or Adopted Use of Fund Balance	\$ 430,014	\$ 430,014	\$ (2,931,848)	

Community Services District Zone A – Parks & Community Services

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

Table 6. CSD Zone A Operations

	FY 2017/18 Adopted Budget	FY 2017/18 Amended Budget	Actuals as of 9/30/17 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Property Tax	\$ 2,250,887	\$ 2,250,887	\$ -	0.0%
Other Taxes	4,930,000	4,930,000	-	0.0%
Charges for Services	1,114,350	1,114,350	327,647	29.4%
Use of Money & Property	681,200	677,001	197,938	29.2%
Miscellaneous	7,150	7,150	6,374	89.1%
Transfers In	521,021	524,084	131,022	25.0%
Total Revenues	\$ 9,504,608	\$ 9,503,472	\$ 662,981	7.0%
Expenditures:				
35010 Parks & Comm Svcs - Admin	\$ 500,638	\$ 506,984	\$ 81,341	16.0%
35210 Park Maintenance - General	3,472,640	3,424,895	762,941	22.3%
35211 Contract Park Maintenance	502,650	505,023	79,442	15.7%
35212 Park Ranger Program	386,369	386,369	80,225	20.8%
35213 Golf Course Program	278,757	343,214	96,576	28.1%
35214 Parks Projects	207,700	207,700	45,688	22.0%
35310 Senior Program	571,615	571,615	118,909	20.8%
35311 Community Services	189,741	157,611	53,345	33.8%
35312 Community Events	82,767	103,767	20,648	19.9%
35313 Conf & Rec Cntr	492,927	542,896	125,589	23.1%
35314 Conf & Rec Cntr - Banquet	343,393	346,456	74,001	21.4%
35315 Recreation Programs	1,344,500	1,344,500	378,660	28.2%
35317 July 4th Celebration	134,594	134,594	52,870	39.3%
35318 Sports Programs	676,447	652,317	145,776	22.3%
35319 Towngate Community Center	66,053	66,053	14,613	22.1%
95011 Non-Dept Zone A Parks	-	-	37,381	0.0%
Total Expenditures	\$ 9,250,791	\$ 9,293,994	\$ 2,168,005	23.3%
Net Change or Adopted Use of Fund Balance	\$ 253,817	\$ 209,478	\$ (1,505,024)	

Electric Utility

The Moreno Valley Utility (MVU) manages the operation, maintenance and business planning of the City's electric utility. MVU's basic purpose is to purchase and distribute electricity to customers in newly developed areas of the City. The City began serving new customers in February 2004, and now serves more than 6,200 customers. As it reaches fiscal and operational maturity, MVU will continue to be a key component of the City's economic development strategy. The City Council has established special tiered rates for electric utility customers based upon factors such as the number of jobs created.

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

Table 7. MVU Operations

	FY 2017/18 Adopted Budget	FY 2017/18 Amended Budget	Actuals as of 9/30/2017 (unaudited)	% of Amended Budget
Revenues:				
Taxes:				
Charges for Services	\$ 30,585,700	\$ 30,585,700	\$ 9,922,911	32.4%
Use of Money & Property	155,500	155,500	80,385	51.7%
Fines & Forfeitures	-	-	-	0.0%
Miscellaneous	141,500	141,500	26,292	18.6%
Total Revenues	\$ 30,882,700	\$ 30,882,700	\$ 10,029,588	32.5%
Expenditures:				
45510 Electric Utility - General	\$ 21,511,326	\$ 21,511,326	\$ 6,351,328	29.5%
45511 Public Purpose Program	1,920,039	1,920,039	137,921	7.2%
80005 CIP - Electric Utility	7,191,700	14,858,354	2,611,462	17.6%
96010 Non-Dept Electric	300,000	300,000	86,934	29.0%
96030 Non-Dept 2005 Lease Revenue Bonds	1,430,000	1,430,000	-	0.0%
96021 Non-Dept 2016 Tax LRB of 07 Tax	879,700	879,700	-	0.0%
96031 Non-Dept 2013 Refunding 05 LRB	177,500	177,500	-	0.0%
96032 Non-Dept 2014 Refunding 2005 LRB	119,300	119,300	-	0.0%
96040 Non-Dept 2015 Taxable LRB	664,000	664,000	-	0.0%
Total Expenditures	\$ 34,193,565	\$ 41,860,219	\$ 9,187,645	21.9%
Net Change or Adopted Use of Fund Balance	\$ (3,310,865)	\$ (10,977,519)	\$ 841,943	

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

SUMMARY

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

Although the City has experienced positive results in some areas through FY 2016/17 and through the first quarter of FY 2017/18, the City should remain cautiously optimistic as we proceed through the fiscal year.

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