

REPORT ON THE POTENTIAL IMPACTS OF THE UTILITY USER'S TAX REPEAL MEASURE

EXECUTIVE SUMMARY

The report that follows is an important discussion on the fiscal impact of the proposed ballot measure to repeal the City's utility user's tax. The report includes several exhibits that provide indisputable evidence and support to the analysis of the probable impacts to the City should the utility user's tax be repealed. The loss of \$10.5 million, 21% of City General Fund revenue, will soon lead to major service level reductions in all service areas and threaten the city's ability to be functional.

The utility user's tax is the General Fund's largest revenue source. Based on the state's history and recent action to take away \$1.9 million of the City's vehicle license fees and intention to take away ½ the City's sales tax allocation and replace it with property tax, it is now established that the UUT is the only major revenue source that cannot be taken by the state. When compared to General Fund expenditures of which police and fire represent 61%, there exists a strong correlation of the utility user's tax to public safety funding. Public safety also includes animal services, code enforcement and crossing guards. When these costs are added to police and fire, the total public safety cost approaches \$34 million, or roughly 67% of the budget. By removing \$10.5 million in revenue from the budget, the City is left with less than \$40 million to provide \$34 million in public safety and all state and federally mandated programs (for which costs far exceed \$10 million). The City cannot expect to lose \$10.5 million in revenue without severe cuts to public safety along with other program reductions.

Moreno Valley is very lean in terms of general revenue per capita when compared to 32 other cities of between 100,000 and 200,000 population that provide their own fire services. According to the latest State Controller "Cities Annual Report," the City of Moreno Valley ranks last in this statewide comparison and receives only 51% of the average general revenue per capita of the other 32 cities. Two-thirds of the cities in the comparison have a utility user's tax, which appears to be a common denominator of cities with a strong and reliable revenue base. The City is also lean in public safety expenditures and continues to rank last in both police and fire expenditures per capita. The loss of the utility user's tax will have a devastating impact on police and fire service levels at a time when the City is already struggling to meet acceptable patrol response times.

The Service Level Reduction Plan is the detailed plan for reducing services in nine departments should the utility user's tax be repealed. It is basically the Council-adopted 1996 plan with few adjustments and with a priority given to preserving public safety as much as possible. Even so, the plan calls for severe service level reductions in 9 departments and the elimination of 139 positions, including 21 sworn positions in the fire department and 28 sworn positions in the police department. The plan is still relevant today as it was in 2002 during the previous attempt to repeal the utility user's tax. With

the strong possibility of even further state raids of local revenues, the City's future functional existence would be jeopardized by the repeal of the utility user's tax.

INTRODUCTION

This report is in response to Council action taken on October 14, 2003, at which time Council requested a report on the probable effect that a successful repeal of the Utility User's Tax will have upon the City pursuant to the requirements of California Elections Code §9215. According to the code, the report should address the following as well as any other topics that the Council desires:

1. The fiscal impact.
2. The effect on the internal consistency of the City's general plan and specific plans, including the housing element, the consistency between planning and zoning, and the limitations on City actions under §65008 of the Government Code and chapters 4.2 (commencing with §65913) and 4.3 commencing with §65915) of Division 1 of Title 7 of the Government Code.
3. The effect on the use of land, the impact on the availability and location of housing, and the ability of the City to meet its regional housing needs.
4. The impact on funding for infrastructure of all types, including but not limited to, transportation, schools, parks, and open space. The report may also discuss whether the measure would be likely to result in increased infrastructure costs or savings, including the costs of infrastructure maintenance, to current residents and businesses.
5. The impact on the community's ability to attract and retain business and employment
6. The impact on the uses of vacant parcels of land.
7. The impact on agricultural lands, open spaces, traffic congestion, existing business districts, and developed areas designated for revitalization.

Each of these seven areas of impact is covered in this report.

1. FISCAL IMPACT

The City currently has a balanced General Fund budget of \$51 million. But balancing the FY 03-04 budget was made possible by the first ever use of the Emergency & Contingencies Reserve, which provided funding for the deficit created by the state's takeaway of \$1.9 million in vehicle license fees. Otherwise, General Fund revenues are nearly equal to operating expenditures and although the budget remains tight, the City is generally able to fund the normal inflationary impact on operating costs with annual increases in revenue.

The utility tax, levied at 6%, would generate about \$10.5 million in FY 03/04 and more in future years. The loss of \$10.5 million or more, a 21% reduction from a \$50.3 million General Fund revenue budget, will necessarily affect all General Fund services. In

some cases, the revenue loss will result in the complete elimination of certain services. The City will be unable to maintain service levels commensurate with the population and economic growth the City is certain to undergo. It will also result in no future capital projects being funded by the General Fund.

By any measure, Moreno Valley is a "lean" city. The best objective, verifiable indication of the City's financial situation is contained in the State of California Cities Annual Report for FY 2000-01 (the latest report available) prepared by the State Controller. Moreno Valley's \$257 of general revenues per capita ranks 33rd of 33 California cities with a population of between 100,000 and 200,000 that provide their own fire services. It is the second consecutive year Moreno Valley has ranked last, having been ranked next to last in both 1997-98 and 1998-99. Two-thirds of these comparison cities in this statewide ranking have a utility tax. The average general revenue per capita is \$504, which means Moreno Valley receives only 51% of the revenues of the average city, down from the 58% figure for 1997-98. The loss of the utility user's tax would mean Moreno Valley would receive only 39% of the average city general revenue per capita.

Based upon the same State of California Cities Annual Report for FY 2000-01, Moreno Valley ranks last in both police and fire expenditures per capita – 33rd of 33 cities with populations between 100,000 and 200,000 which provide their own fire service. This means that the City of Moreno Valley currently spends only 59% of the average city's police expenditures per capita, and 47% of the average city's fire expenditures per capita. This is evidence that Moreno Valley operates at a lean level. It is also a strong indication that police and fire expenses are constrained by the tax revenues available to the Council, especially in light of the high priority they place on those services.

For purposes of this report and its analysis, it is assumed that the City Council will maintain its current practice and require the adoption of a balanced operating budget where revenue will be equal to or exceed expenses. The utility tax, once repealed, may never be reinstated once the voters remove it. Its reinstatement would require the voters who repealed it to change their minds about the tax, so it is prudent to assume that the tax will be gone forever. In any event, by law it could not be voted in again until the next general election, which will occur in November 2006. With the state's recent takeaway of \$1.9 million of the City's vehicle license fees, it is estimated that the designated Emergency & Contingency reserve will be less than \$7 million at June 30, 2004, well below the Council-approved policy of 15% of the General Fund operating budget. It could be drawn down over two years to offset only a small portion of the utility user's tax cuts, but that would be fiscally imprudent. This would expose the City to unacceptable risk should there be an emergency or economic catastrophe, and only temporarily mask the full impact of the revenue loss with which the City would have to live. Other cities that have failed to maintain adequate reserves, such as Perris and Desert Hot Springs, have dallied with insolvency and can now barely provide the most limited public services. Neither of these cities serves an urban population base anywhere near the size of Moreno Valley's.

For purposes of this analysis, the figure of \$10.5 million is used because it is the current revenue projection. In reality, the actual utility tax revenue available in FY 05/06 when the tax would expire if repealed will likely be slightly over \$11 million.

For FY 96/97, with the utility tax set to expire at the end of December 1996, the City Council adopted a "roll-over" budget extending the FY 95/96 budget into FY 96/97, with no new resources added. Shortly thereafter, the Council approved (but did not implement) a so-called "Service Level Reduction Plan." This plan, which was an alternative budget, was intended to take effect if the tax was not reinstated in the November 1996 election. It identified specific service level reductions or cuts that would be implemented beginning in January 1997. The plan was formulated with the following guiding principles:

1. Protecting the basic security of the community is the top priority.
2. The reductions to the non-public safety services and support services were considered under the concept that optional service levels would be reduced or eliminated first and support services would be reduced to the minimum level that would ensure: 1) that the City's liability expose will be limited; 2) that there is enough management depth and expertise to lead the organization, and 3) that the fiscal integrity of the City would not be compromised to unacceptable levels.
3. Services that are paid by user fees or other revenues were not reduced since that would have no effect on the general fund bottom line.
4. Though the service levels are unacceptable, the organization should retain the capability to rebuild its services should sufficient revenues be restored in the future.

The plan was relevant during the attempted repeal of the tax in 2002 and remains relevant today. Like today, the 1996 City Council placed its highest priority upon public safety, but it is still simply not possible to avoid making deep cuts into police, fire and other public safety programs. In 1996, 57% of the budget was police and fire, and that percentage has risen to 61% in FY 03/04. The remaining 39%, or \$19.9 million, cannot be cut by \$10.5 million or more without experiencing a complete breakdown that would make the city government non-functional and expose the City to significant liability. Of this \$19.9 million, more than \$10 million is comprised of user fees, grants, and other revenues for which expenses cannot be cut, such as mandated costs. In other words, there are not \$10.5 million in non-police/fire discretionary cuts that are available even if all other discretionary programs were eliminated entirely. In addition, it should be noted that other public safety program costs, including animal control, emergency services coordination, code enforcement and crossing guards, are also funded from this \$19.9 million.

When the staff and City Council update the Service Level Reduction Plan to determine the cuts necessary if this tax repeal initiative passes, there will likely be some adjustments made to the plan, but it is the City Manager's best judgment that the plan submitted to the City Council would be roughly similar to the 2002 plan, which is basically the same as the 1996 plan. In summary, the following cuts would be necessary.

Examples of Projected Service Level Impacts

1. The reduction of about 28 sworn and 18 non-sworn police department positions and other costs will have several negative impacts for police services. This will result in significantly longer response times to critical calls for service. The traffic enforcement program will be reduced considerably. Crime prevention activities will be reduced. The public will have considerably less police protection, well below municipal and even county standards. The crime rate and case closure rate of the City will likely be adversely affected by these cuts in service levels.
2. The reduction of about 21 of the 67 sworn firefighters will require a complete revamping of the fire services. The City will close one and perhaps two of the existing six stations and cover with a standard of two people per engine, not three. The delayed response times will result in greater risk to the community for emergency medical and fire services provided by the Fire Department.
3. The animal services program will lose about 6 staff. The shelter will be open limited hours and response to service calls will deteriorate. No after hours emergency pickup service will be available.
4. Code enforcement will lose about 3 staff. No proactive code enforcement will be possible. Response to calls for service will be deteriorated, and only high priority calls will be handled. Code enforcement calls will have reduced capacity to deal with neighborhood blight and dangerous conditions.
5. The crossing guard program will be eliminated entirely. This will result in more dangerous conditions around elementary schools unless the school district assumes the responsibility for the program
6. Planning activities will be almost exclusively directed to the processing of development applications. The City will have little capacity to handle strategic and advance planning issues. The planning activities will be reactive, not proactive. The Planning Commission will be eliminated entirely, with City Council acting as the approval agency.
7. Economic development will be severely affected. General fund support for economic development will be gone. Outside of the Redevelopment area,

- there will be little capability to promote and assist potential businesses. Fast tracking would be impossible without developer financial support.
8. Public Works' ability to maintain the streets, traffic signals and traffic signs will be diminished. As a result, the streets and roadways will become more dangerous and the infrastructure will deteriorate. City liability will increase.
 9. The reduction in staffing in administrative support functions: finance, city clerk, human resources, general administration and legal, will have many profound impacts upon the city's ability to conduct routine business. The staff support to the City Council will be decreased and it will take longer to process everything – payments, staff reports, citizen requests, information requests, etc. The staff will be unable to engage in much intergovernmental activity.
 10. Internal services support will be diminished considerably. The technology network will experience a marked decline. The city government's infrastructure of support services will deteriorate considerably. Building maintenance and equipment maintenance will deteriorate.

Future Expansion of Services

While some may disagree over the type of cuts that would be necessary if the utility tax revenue is lost, there could be no credible argument against the reality that the loss of the revenue will prevent the City from meeting its needed growth in staffing and other resources to address the growth in the community. These needs are most notable in police and fire, but they include virtually all City services. The following represent areas where service expansion needs are especially acute now.

Fire. Construction and staffing was completed earlier this year for the City's sixth fire station, College Park. This much-needed station was built and staffed to bring response times to an acceptable municipal standard. It will no longer be possible to staff six stations if the tax is lost. The likelihood is that two stations will close, and there will be no new staffing to meet the growth and the demand it places on response times.

Police. Per capita, the sworn staffing in the department is falling below municipal standards. Response times in patrol need improvement and the traffic enforcement unit has additional needs. But with the loss of the tax, no new staffing will be possible to meet future demand and response times will increase even further.

Library. By all standards, the existing library is inadequate to serve the needs of a community of 150,000. The current library is about the size that usually serves a community of 20,000 or so. No more service expansion is possible without continued collection of this tax.

Capital Projects

The City Council has adopted a policy that specifies that any budget savings would be designated to a capital expenditure reserve. This policy has enabled the City to provide funding for several important capital projects, including the public safety building, animal shelter, community center, two fire stations (including a ladder truck), and the library. The loss of the utility tax will result in no money being available for such projects since there will be an intense demand for operational funds given the huge cuts that will be necessary to accommodate the tax loss.

Credit Rating

The General Fund currently services the annual debt of the 1997 Certificates of Participation for City Hall and the 1997 Lease Revenue Bonds for the Public Safety Building. It also guarantees that the annual debt on the 1993 Certificates of Participation for Capital Projects will be serviced in the event of any shortfall in certain impact fees pledged to this debt. The City's current credit rating with Moody's Investors Service is BAA1, and is considered adequate investment grade. With the loss of the utility user's tax, it is likely that rating agencies will immediately downgrade the City's credit rating and place the City on credit watch. This will have a wide range of devastating impacts to the City's future borrowing needs, and unfortunately, would probably undue all the efforts of the past several years to improve the City's financial image with rating agencies, investors and the general public.

Property Values

Since 1998, property values in Moreno valley have been improving steadily. This helps residents improve their personal wealth and the growth in assessed values adds tax revenues. The impact of the cuts in public services, particularly public safety, will unfavorably affect property values in the City.

2. THE EFFECT ON THE INTERNAL CONSISTENCY OF THE CITY'S GENERAL AND SPECIFIC PLANS, INCLUDING THE HOUSING ELEMENT, THE CONSISTENCY BETWEEN PLANNING AND ZONING, AND THE LIMITATIONS ON CITY ACTIONS UNDER §65008 OF THE GOVERNMENT CODE AND CHAPTERS 4.2 (COMMENCING WITH §65913) AND 4.3 (COMMENCING WITH §65915) OF DIVISION 1 OF TITLE 7 OF THE GOVERNMENT CODE

The second area of analysis relates to the City's planning function. The City is close to completing its General Plan revision. Once the new General Plan is adopted, there will be a need to review the zoning atlas (modifying zoning for 800 parcels), the municipal code, and the six existing specific plans to determine what revisions are needed. State law mandates these activities. If the zoning atlas were not updated in a reasonable time, the City would be liable for civil suits requiring consistency with the General Plan. Pursuant to the previous service level reduction plan, advanced general planning would

be very limited and meeting these mandates on a timely basis would be extremely difficult. Future discretionary land use and development standards amendments would be difficult to accomplish. Changes in land use and development standards would likely be a reflection of developer-initiated applications rather than Council or staff initiated.

3. THE EFFECT ON THE USE OF LAND, THE IMPACT ON THE AVAILABILITY AND LOCATION OF HOUSING, AND THE ABILITY OF THE CITY TO MEET ITS REGIONAL HOUSING NEEDS

The third area of analysis involves land use and housing needs. Based on the previous Plan, planning activities not directly related to project processing would be sharply reduced or eliminated. Cost cutting actions include the elimination of the Planning Commission, which would result in all cases being heard by the City Council, the elimination of the pre-application review process, and sharply reduced involvement in regional issues. These actions would dramatically increase processing times for applications and reduce the City's ability to respond to changes in the housing market. Reductions in Planning and Land Development could easily create an uncertainty in the market, as developers will be unsure of the timeframes required to process a project. Longer approval periods and more inflexible development standards will result in higher development costs for housing potentially making it economically difficult or impossible for developers to build affordable housing.

4. THE IMPACT ON FUNDING FOR INFRASTRUCTURE OF ALL TYPES, INCLUDING, BUT NOT LIMITED TO, TRANSPORTATION, SCHOOLS, PARKS, AND OPEN SPACE. THE REPORT MAY ALSO DISCUSS WHETHER THE MEASURE WOULD BE LIKELY TO RESULT IN INCREASED INFRASTRUCTURE COSTS OR SAVINGS, INCLUDING THE COSTS OF INFRASTRUCTURE MAINTENANCE, TO CURRENT RESIDENTS AND BUSINESSES

The fourth area of analysis deals with the City's infrastructure needs. With potential reductions of 18% in Public Works programs as identified in the previous Plan, the City would be unable to seek federal funding for projects outside the public right-of-way. It is also likely that Public Works staff could no longer assist in the design and construction administration of any City facilities located outside the public right-of-way. The City would experience the loss of enhanced capability and efficiency in performing design and project administration of State, Federal, Gas Tax and Measure A funded street improvement projects. There would be a deferment of needed capital improvements and amenities available to the public. Furthermore, Public Works staff would focus their attention on Gas Tax and Measure A projects, since the penalty for extended delays and not completing these projects on time, is the loss of State, Federal, Gas Tax and Measure A funds. Many of these funding sources have mandatory "use it or lose it" provisions.

5. THE IMPACT ON THE COMMUNITY'S ABILITY TO ATTRACT AND RETAIN BUSINESS AND EMPLOYMENT

The fifth area of analysis is related to attraction and retention of businesses and jobs. With major reductions in Community and Economic Development, business attraction marketing would be significantly reduced or eliminated. This would include advertising, trade shows, marketing materials, and the economic development web site. Other services that would be severely impacted or eliminated could include site selection assistance and ombudsman/liaison services. The City would need to cancel its contracts with the Moreno Valley Chamber of Commerce and the Hispanic Chamber of Commerce and financial incentives outside RDA project areas (e.g. Walgreen's) would be eliminated. Furthermore, the lack of adequate public services will negatively impact the desirability of the city as a good place to live and work.

Lack of economic development activities results in fewer new businesses being aware of the city as a business location and fewer resources to assist businesses in finding a suitable location. If businesses cannot obtain needed information to make a site selection, the business will not locate in the city. The overall impact is a loss to the tax base and employment.

6. THE IMPACT ON THE USES OF VACANT PARCELS OF LAND

The sixth area of analysis relates to vacant parcels of land. With the reductions being suggested in the previous plan, developers and residents will experience extended review times. There would be no pre-application process, no City initiated code amendments, and no special customer service provided to applicants. Currently, approximately half of the cost for counter service and a major portion of the meetings with developers to resolve project issues are provided by general tax revenues. Fast track processing, as we know it today would cease to exist, and the City's Helen Putnam Award-winning one-stop counter service would be a casualty as well. Discretionary advanced planning would be non-existent. Zoning of vacant parcels would not be updated for consistency with the General Plan and Specific Plans and periodic re-zoning of land would not be accomplished by staff as an advanced planning activity. The cost of re-zoning would need to be borne by developers if project development occurs sooner than staff's ability to complete the consistency changes

7. THE IMPACT ON AGRICULTURAL LANDS, OPEN SPACES, TRAFFIC CONGESTION, EXISTING BUSINESS DISTRICTS, AND DEVELOPED AREAS DESIGNATED FOR REVITALIZATION

The seventh and final area of analysis involves a mix of land use concerns including traffic congestion and revitalization. As the City does not have any remaining agricultural zoning, the impact on agricultural lands would be minimal. The ability to maintain open spaces free from trash and debris would be reduced due to the reduction in code enforcement services supported by general tax revenues. These reductions

would likely result in increased safety hazards and a reduction in the economic viability of sites due to poor appearance. Discretionary land use efforts and changes in development standards to encourage revitalization, similar to the recently approved Village Plan and flexible standards for re-use of existing properties, would cease, resulting in limited incentive to improve declining business districts.

8. SUMMARY AND CONCLUSIONS

The loss of the utility user's tax will require budget cuts and position cuts to balance the General Fund budget such that many services provided to the Moreno Valley residents and businesses will not be deemed acceptable, and many of the services affected may not be sustainable in the long term.

In no sense of the word would the service levels being provided to the citizens of Moreno Valley be deemed "normal." All departments will struggle to provide a basic service level, including those that are mandated by state and federal laws, and the City's Municipal Code. Unless another major source of revenue becomes available to replace the utility user's tax, the remaining staff will have little chance of providing even the adequate level of service that other similar sized cities provide to their residents.

Public safety will experience significant budget cuts and community safety could be jeopardized. These cuts will be unavoidable since the City must maintain its ability to perform all necessary and mandated services.

One must also seriously consider the potentially devastating impact that the utility tax repeal initiative would have should the State decide to take away or eliminate any or all of the General Fund's \$10.5 million in motor vehicle license fees (VLF), which are now considered a State subvention. The loss of a major portion of the VLF is now a reality given the recent state action to take \$1.9 million of the City's VLF to balance its budget, and requiring the City to utilize for the first time its Emergency & Contingency reserve to meet the shortfall. The Governor-elect is toying with the idea of eliminating the VLF. If that comes to pass and if there are no replacement monies from the State General Fund, this action coupled with the loss of the utility user's tax, would result in a loss of 40% of the City's General Fund revenue.

The 1996 Service Level Reduction Plan described the service level reductions as placing the City in a "life support" mode that will prolong the life of the City, rather than sustain a healthy city. The analogy still holds true today. Even with the utility user's tax, Moreno Valley city government's funding and operations are lean by comparison with others. The utility user's tax has enabled the City to achieve its short-term goals and pursue its long-term vision.

The loss of the revenues will result in a virtual meltdown of the city government as we now know it. Repeal of the utility tax would result in the unraveling of the financial

structure of the City government and result in a prolonged period of instability of the City government.

List of Exhibits:

Exhibit "A" - General Fund Fiscal Year 03-04 Budgeted Revenues

Exhibit "B" - General Fund Fiscal Year 03-04 Budgeted Operating Expenses

Exhibit "C" - 2000-01 Ranking of General Revenue Per Capita for Cities 100,000 to 200,000 Population Which Provide Their Own Fire Services

Exhibit "D" - 2000-01 Ranking of Police Expenditures Per Capita for Cities 100,000 to 200,000 Population Which Provide Their Own Fire Services

Exhibit "E" - 2000-01 Ranking of Fire Expenditures Per Capita for Cities 100,000 to 200,000 Population Which Provide Their Own Fire Services

Exhibit "F" - Service Level Reduction Plan