APPROVALS	
BUDGET OFFICER	
CITY ATTORNEY	
CITY MANAGER	

Report to City Council

TO: Mayor and City Council

FROM: Rick Teichert, Chief Financial Officer

AGENDA DATE: September 2, 2014

TITLE: MANAGING POLICE CONTRACT SERVICES COST INCREASES

RECOMMENDED ACTION

Recommendation:

1. Review and discuss the report addressing the challenge of increased police service contract costs.

BACKGROUND

City Council reviewed and discussed the issue of annual increases in Public Safety Contract Costs at a Study Session dated March 19, 2013. The presentation discussed the City's challenge of supporting projected Police Service rate increases estimated at 5% per year, while the City's revenues are growing at a slower rate. Subsequently, the City has been informed of the intent to cost recover the annual costs of the County's new Police Communication System (PSEC) and we are aware that CalPERS will increase employer rates significantly during the next five years. These two issues make it necessary to revisit the challenge to pay for rapidly rising police service costs. The presentation will highlight that these costs are rising at the same time the City faces other demands on the City's new revenue growth.

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. The CalPERS rate increases not only directly affect the City's cost base, but are also a primary driver to increasing costs for both Public Safety Contracts.

This presentation focuses on the Police contract rate growth, discussing the magnitude and impacts, contrasted against our ability to pay for these costs through growth in General Fund revenues.

The police services provided to the City and our residents are of the highest quality. This fact can be illustrated in numerous ways, including the most recent Uniform Crime Rate statistics indicating that Moreno Valley continues to have one of the lowest Part I crime rates in the County. There are many benefits to contracting for public safety services; however the fact that the City Council has no control over the costs for services (the rate) makes it difficult to reign in costs, particularly during an economic downturn or periods of slow growth. Without any ability to control police contract costs, the City Council's only option to lower costs is to reduce service levels.

Revenue Decline and Slow Recovery

The City's tax revenues decreased dramatically from FY 2008/09 through FY 2013/14. Although some recovery has begun, the total General Fund revenues remain at $17 million below the FY 2008/09 revenues of $96 million.

As previously 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 3% annually for the General Fund. These revenue projections should result in an increase in the overall General Fund from $78.9 million in FY 2013/14 to $81.3 million in FY 2014/15 and to $83.7 in FY 2015/16.

	Actuals	Actuals	Actuals	Actuals	Actuals	Budget
	FY 08/09	**FY 09/10**	**FY 10/11**	**FY 11/12**	**FY 12/13**	**FY 13/14**
General Fund Revenue	96,006,854	77,222,730	71,916,648	74,389,117	75,202,034	78,947,770
Increases ($)	(1,040,871)	(18,784,124)	(5,306,082)	2,472,468	812,918	3,745,736
Increases (%)	-1.1%	-19.6%	-6.9%	3.4%	1.1%	5.0%

	Projected	Projected	Projected	Projected	Projected	Projected
	FY 14/15	**FY 15/16**	**FY 16/17**	**FY 17/18**	**FY 18/19**	**FY 19/20**
General Fund Revenue	81,316,203	83,755,689	86,268,360	88,856,411	91,522,103	94,267,766
Increases ($)	2,368,433	2,439,486	2,512,671	2,588,051	2,665,692	2,745,663
Increases (%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Increasing Police Services Rates/Costs

Police service contract rates continued to increase during the recent recession, and the increases have been projected to be more rapid in the post-recession period. While the City's revenues declined approximately 17% from FY 2008/09 through FY 2013/14, the contracted police service remained flat following a cumulative $8.3 million budget reduction to offset the increases in the Police contract rates. These items resulted in a reduction of 27 sworn officers. The increased contract rate was primarily the result of County approved multi-year labor agreements that became unaffordable to the City as

our revenues decreased. The County has negotiated a labor agreement with its largest public safety labor union which has resulted in contract cost increases that are unsustainable for the City in the foreseeable planning horizon. The FY 2013/14 contract rate increased 4.97%. Based on direction from the County Sheriff's administrative staff and information available from CalPERS, the City is anticipating up to a 7% contract rate increase for FY 2014/15 and a 10% contract rate increase for FY 2015/16.

	Budget	Projected	Projected	Projected	Projected	Projected
	FY 14/15	**FY 15/16**	**FY 16/17**	**FY 17/18**	**FY 18/19**	**FY 19/20**
Police Expenditures	38,500,177	42,350,195	45,738,210	49,397,267	53,349,048	57,616,972
Increases ($)	947,982	3,850,018	3,388,016	3,659,057	3,951,781	4,267,924
Increases (%)	7.0%	10.0%	8.0%	8.0%	8.0%	8.0%

At current levels of service, costs will grow to over $42 million per year by FY 2015/16. This is an increase of $4.8 million over a 2-year period. This extreme swing in the costs of a single public service will require the City to examine all service levels. Projected total General Fund revenue growth of 3% is projected to not be sufficient to cover the projected cost increases in police services.

	Projected	Projected	Projected	Projected	Projected	Projected
	FY 14/15	**FY 15/16**	**FY 16/17**	**FY 17/18**	**FY 18/19**	**FY 19/20**
General Fund Revenue Changes ($)	2,368,433	2,439,486	2,512,671	2,588,051	2,665,692	2,745,663
Police Expenditure Changes ($)	947,982	3,850,018	3,388,016	3,659,057	3,951,781	4,267,924

CONCLUSION

During the past two years, as part of the Budget adoption, the Police and Fire Departments have made efforts to assist the City to balance the General Fund budget. For Fiscal Year 2013/14 the police service reduction was $6 million.

The City Council has directed the City Manager to develop and maintain a balanced General Fund budget. As the City continues to examine revenue projections and future cost increases, the City Council must continue to examine public safety service levels reductions, or the creation of a new source of revenue, to balance the General Fund.

The presentation and discussion on Tuesday, September 2, 2014, will include a PowerPoint presentation that will provide additional data and further context to this issue (see Attachment 1).

ATTACHMENTS

Attachment 1 – PowerPoint Presentation

Prepared By:
Rick Teichert
Chief Financial Officer

Attachment 1

MANAGING POLICE SERVICES COST INCREASES

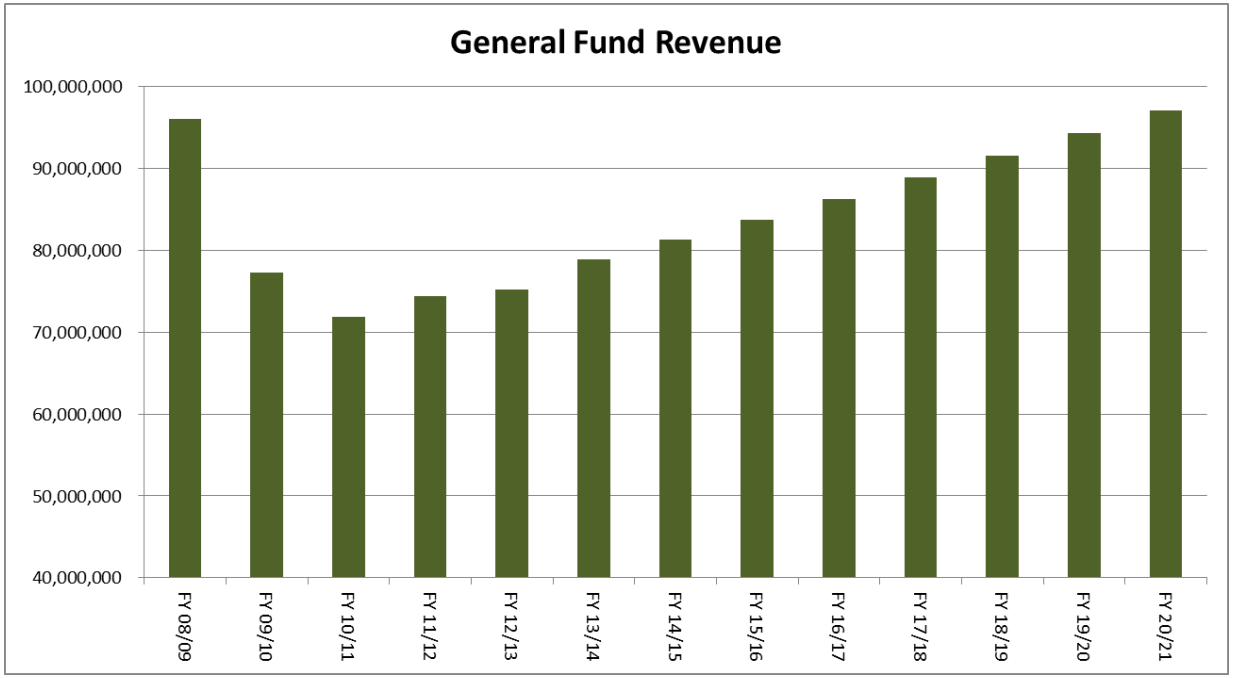
CITY OF MORENO VALLEY - CITY COUNCIL STUDY SESSION

September 2, 2014

MORENO VALLEY
WHERE DREAMS SOAR

GENERAL FUND REVENUE TREND

Actuals	Actuals	Actuals	Actuals	Actuals	Budget	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
FY 08/09	**FY 09/10**	**FY 10/11**	**FY 11/12**	**FY 12/13**	**FY 13/14**	**FY 14/15**	**FY 15/16**	**FY 16/17**	**FY 17/18**	**FY 18/19**	**FY 19/20**	**FY 20/21**	**FY 21/22**
96,006,854	77,222,730	71,916,648	74,389,117	75,202,034	78,947,770	81,316,203	83,755,689	86,268,360	88,856,411	91,522,103	94,267,766	97,095,799	100,008,673
(1,040,871)	(18,784,124)	(5,306,082)	2,472,468	812,918	3,745,736	2,368,433	2,439,486	2,512,671	2,588,051	2,665,692	2,745,663	2,828,033	2,912,874
-1.1%	-19.6%	-6.9%	3.4%	1.1%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

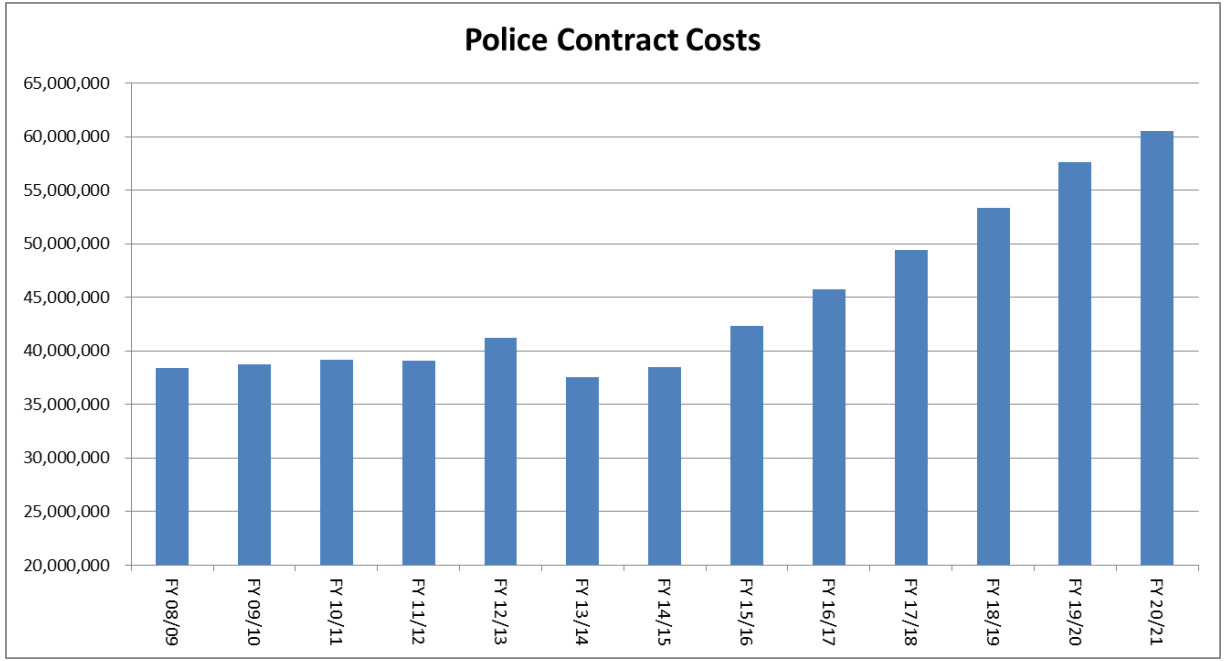


Footnotes

- FY 08/09 deficit of approx. $5M
- Between FYs 08/09 and 13/14
  - GF revenue loss $17M
  - GF Non-Public Safety expenses cut $23M or 50% ($46M to $23M)
  - Citywide 495 or 52% of positions cut (944 to 449)

POLICE SERVICE COST TREND

Actuals	Actuals	Actuals	Actuals	Actuals	Budget	Budget	Projected	Projected	Projected	Projected	Projected	Projected	Projected
FY 08/09	**FY 09/10**	**FY 10/11**	**FY 11/12**	**FY 12/13**	**FY 13/14**	**FY 14/15**	**FY 15/16**	**FY 16/17**	**FY 17/18**	**FY 18/19**	**FY 19/20**	**FY 20/21**	**FY 21/22**
38,370,806	38,726,541	39,157,265	39,099,718	41,243,246	37,552,195	38,500,177	42,350,195	45,738,210	49,397,267	53,349,048	57,616,972	60,497,821	63,522,712
2,789,072	355,734	430,725	(57,547)	2,143,527	(3,691,051)	947,982	3,850,018	3,388,016	3,659,057	3,951,781	4,267,924	2,880,849	3,024,891
7.3%	0.9%	1.1%	-0.1%	5.2%	-9.8%	7.0%	10.0%	8.0%	8.0%	8.0%	8.0%	5.0%	5.0%



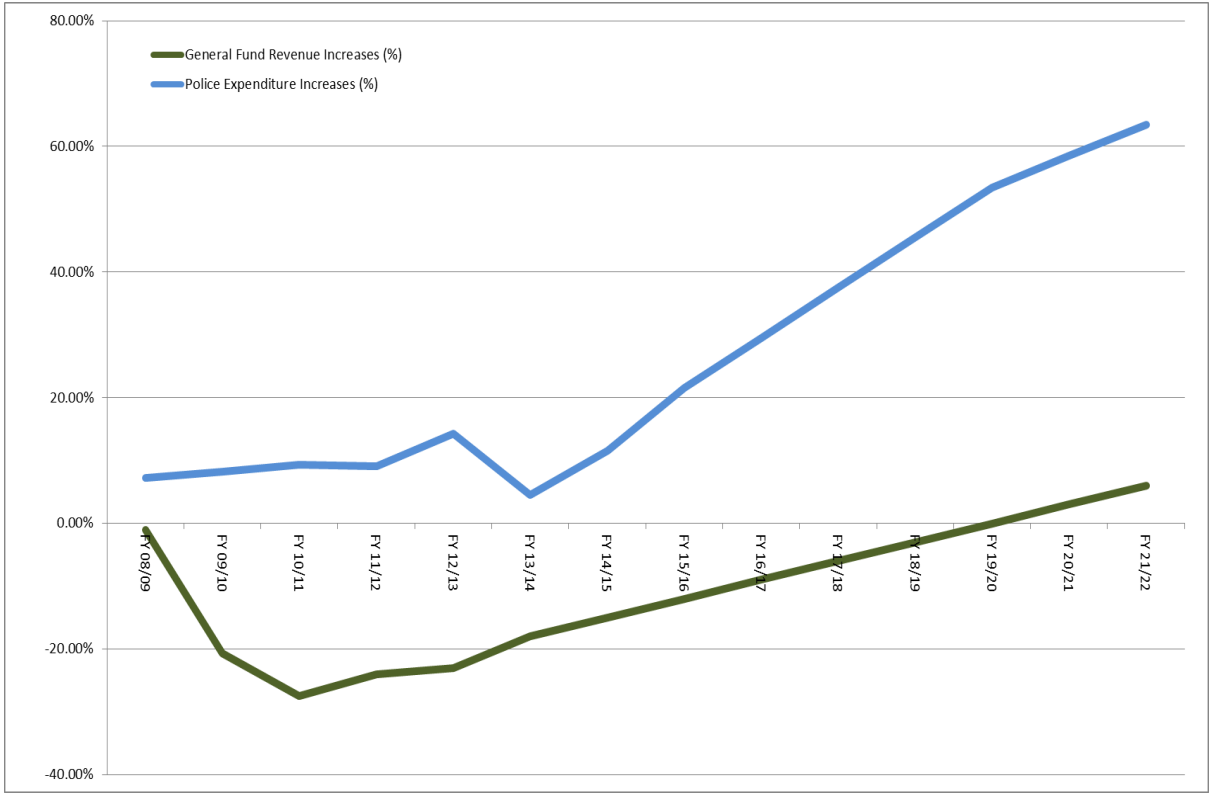
Footnotes

Cumulative reductions through FY 2014/15:

DRO reductions (FY 11/12)	(1,000,000)
DRO reductions (FY 12/13)	(2,000,000)
DRO reductions (FY 13/14)	(2,000,000)
+/- other changes (FY 13/14)	(2,044,461)
DRO reductions (FY 14/15)	(1,000,000)
+/- other changes (FY 14/15)	(299,421)
Total Reductions	**$ (8,343,882)**

FY 14/15 – Additional $700,000 radio/communication system (PSEC) increase absorbed

GENERAL FUND REVENUE VERSUS POLICE SERVICE COST TRENDS



Footnotes

Cumulative percent change since 2007/08

PRIOR EFFORTS TO REDUCE POLICE COST

- **Reduced Police Service Contract by $1 million in FY 2011/12**
  - **Equivalent of 4 sworn officers reduced**

- **Reduced Police Service Contract by $6 million in FY 2013/14**
  - **Equivalent of 27 sworn officers reduced**
  - **General Fund Budget Balanced**

- **Reduced Police Budget by $1 million in FY 2014/15**
  - **Reduced spending an additional 2% or $700,000 anticipated rate increase**
  - **Equivalent of 1 sworn officers reduced (No impact on patrol levels)**
  - **General Fund Budget Balanced**

GENERAL FUND REVENUE VERSUS POLICE SERVICE COST ANNUALLY

Historical/Current

	Actuals	Actuals	Actuals	Actuals	Budget	Projected
	FY 09/10	**FY 10/11**	**FY 11/12**	**FY 12/13**	**FY 13/14**	**FY 14/15**
General Fund Revenue Changes ($)	(18,784,124)	(5,306,082)	2,472,468	812,918	3,745,736	2,368,433
Police Expenditure Changes ($)	355,734	430,725	(57,547)	2,143,527	(3,691,051)	947,982

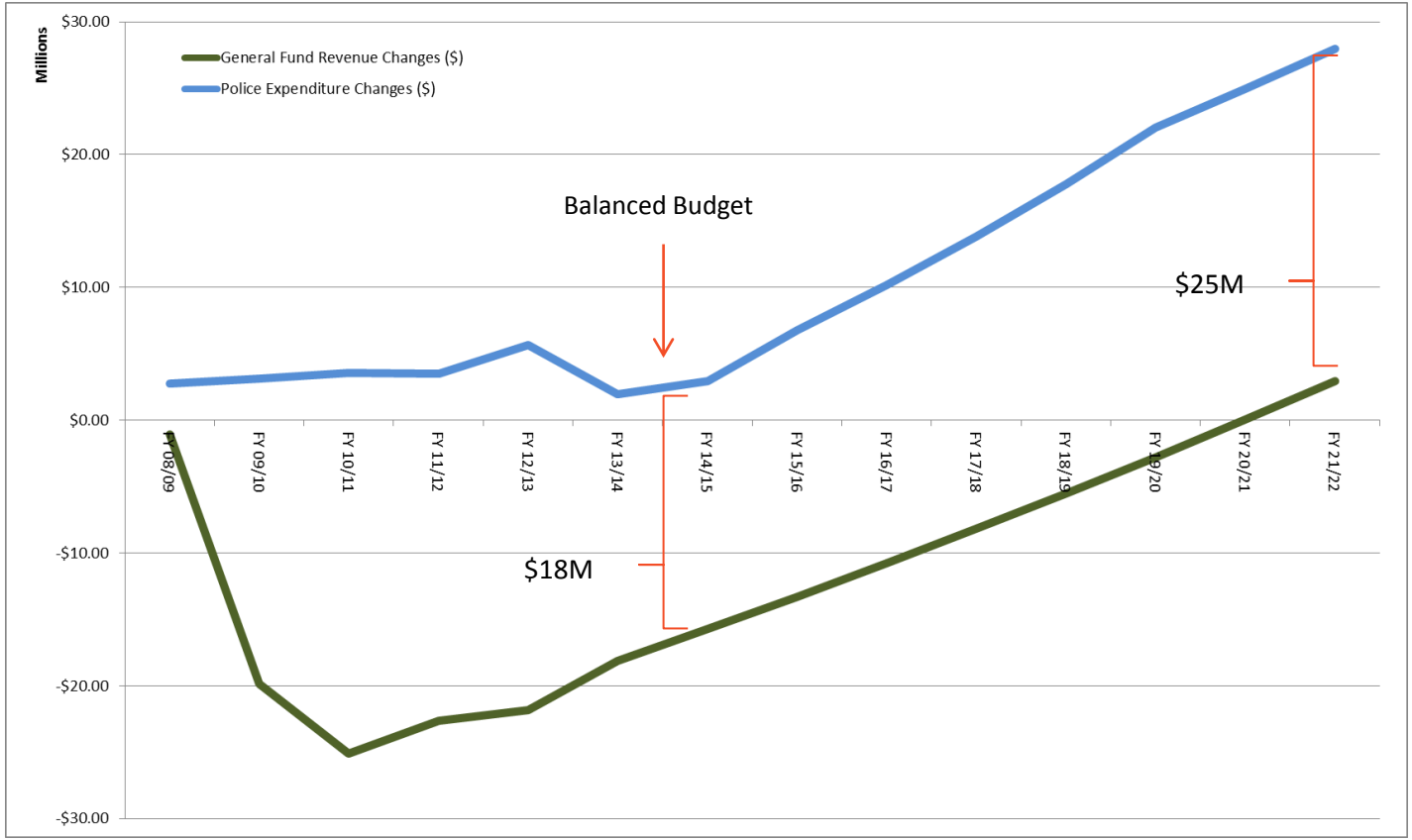
Balanced Budget

Projected

	Projected	Projected	Projected	Projected	Projected	Projected	Projected
	FY 15/16	**FY 16/17**	**FY 17/18**	**FY 18/19**	**FY 19/20**	**FY 20/21**	**FY 21/22**
General Fund Revenue Changes ($)	2,439,486	2,512,671	2,588,051	2,665,692	2,745,663	2,828,033	2,912,874
Police Expenditure Changes ($)	3,850,018	3,388,016	3,659,057	3,951,781	4,267,924	2,880,849	3,024,891

- 100% of General Fund revenue growth not sufficient to cover increased police expenditures.

GENERAL FUND REVENUE CHANGE VERSUS POLICE SERVICE COST CHANGE



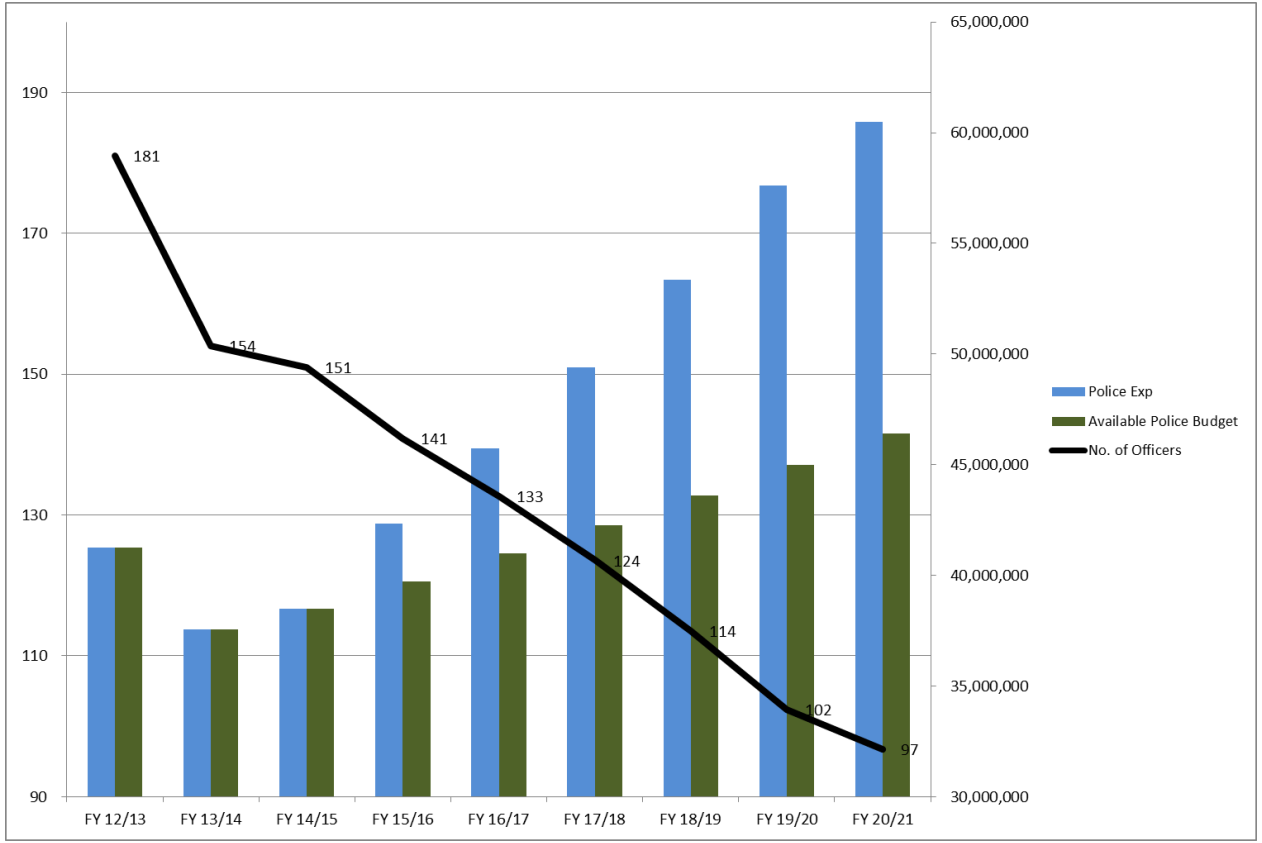
GENERAL FUND REVENUE VERSUS POLICE SERVICE COST

	Projected	Projected	Projected	Projected	Projected
	FY 15/16	**FY 16/17**	**FY 17/18**	**FY 18/19**	**FY 19/20**
General Fund Revenue Increases ($)	2,439,486	4,952,157	7,540,208	10,205,900	12,951,563
Portion allocated to Non-Public Safety and Fire (50%)	(1,219,743)	(2,476,078)	(3,770,104)	(5,102,950)	(6,475,781)
Portion allocated to Police (50%)	1,219,743	2,476,078	3,770,104	5,102,950	6,475,781
Police Expenditure Increases ($)	3,850,018	7,238,033	10,897,090	14,848,871	19,116,795
Shortfall	(2,630,275)	(4,761,955)	(7,126,986)	(9,745,922)	(12,641,014)

Notes

- **50% GF Revenue growth to Police**
- **$12.6M shortfall remains in FY 19/20**
    - **Police reductions continue; or**
    - **Sales Tax Revenue Measure (1%)**

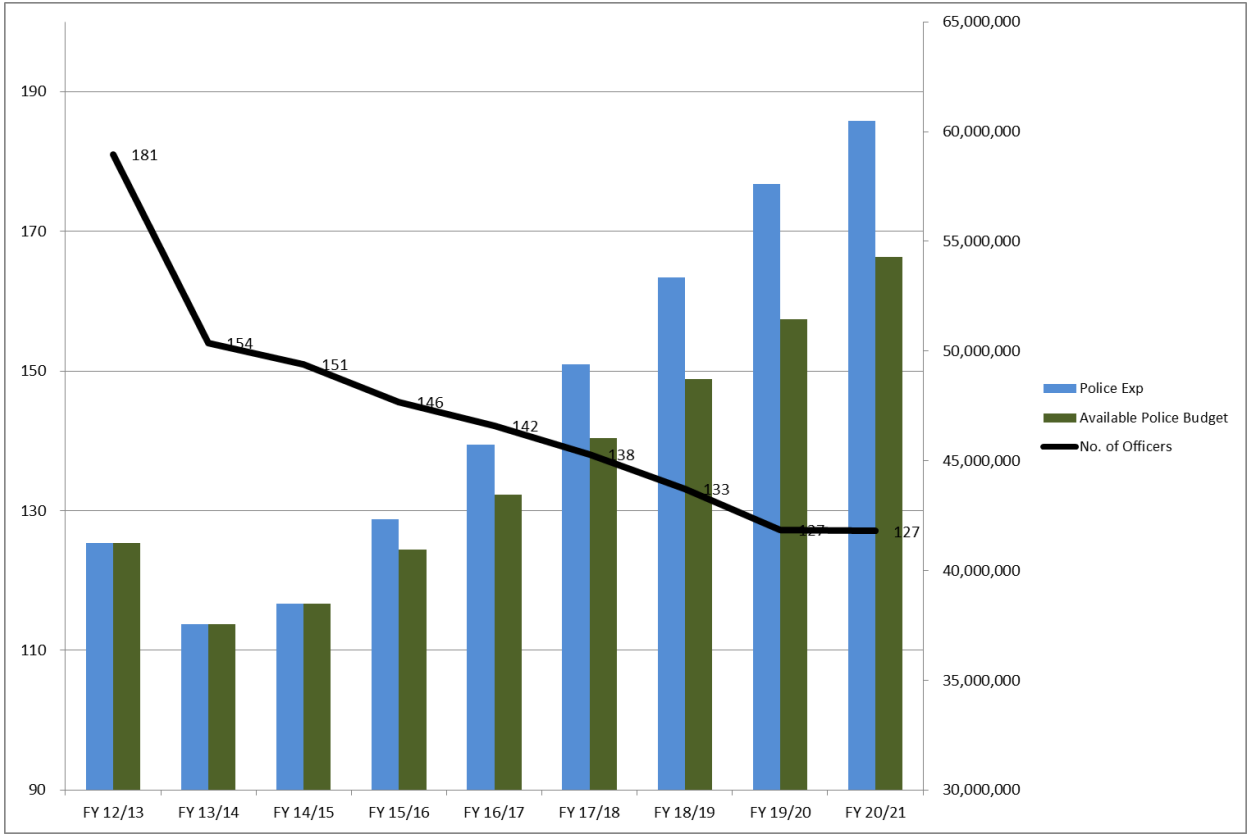
GENERAL FUND POLICE SERVICE CONTROL



Footnotes

- **50% of General Fund revenue growth allocated to police**
- Reduce officers to meet available budget
- Need new revenue to maintain police service levels – If cost % increases realized
- By FY 20/21:
  - Population 211,500
  - Officers ratio .46 per 1000 population
- Reductions in excess of 10% require 1 year advance notice

GENERAL FUND POLICE SERVICE CONTROL



Footnotes

- **100% of General Fund revenue growth allocated to police**
- Reduce officers to meet available budget
- Need new revenue to maintain police service levels – If cost % increases realized
- By FY 20/21:
  - Population 211,500
  - Officers ratio .60 per 1000 population
- Reductions in excess of 10% require 1 year advance notice

ALLOCATE 50% OF FUTURE GENERAL FUND REVENUE GROWTH

- City CalPERS
  - Costs are projected to increase at a minimum 3% of Payroll annually
  - Approx. $300,000 General Fund
  - Approx. $600,000 Citywide

- Fire Contract Costs
  - Increasing due to CalPERS and Labor Agreements
  - Approx. 5% or $750,000 annually

- Negotiations with City Employees will occur in FY 15/16
- Dissolution of the RDA is impacting the General Fund
- Street Light costs are proposed to increase significantly

POLICE SERVICE BUDGET COMPARISON TO OTHER LOCAL AGENCIES

	City	County	FY 14/15 Police Budget	Population	Per Capita	Officer Ratio
1	**Ontario	San Bernardino	66,157,480	167,382	395.25	1.43
2	Pomona	Los Angeles	45,112,031	151,713	297.35	1.07
3	Riverside	Riverside	88,378,601	314,034	281.43	
4	Corona	Riverside	41,402,903	159,132	260.18	0.96
5	San Bernardino	San Bernardino	55,315,951	212,721	260.04	1.47
6	Rialto	San Bernardino	25,716,263	101,429	253.54	1.14
7	Beaumont	Riverside	9,811,000	40,876	240.02	1.08
8	Fontana	San Bernardino	46,481,350	202,177	229.90	0.97
9	Murrieta	Riverside	23,666,310	106,425	222.38	0.79
10	**Colton	San Bernardino	11,701,585	53,057	220.55	
11	**Temecula	Riverside	23,289,729	106,289	219.12	
12	Moreno Valley	Riverside	38,500,177	199,258	193.22	0.76
13	Hemet	Riverside	14,939,025	81,537	183.22	0.88
14	**Rancho Cucamonga	San Bernardino	31,466,100	172,299	182.62	0.78
15	Banning	Riverside	5,491,595	30,325	181.09	0.90

**NOTE: Based on FY 13/14 budget.

UCR CRIME STATISTICS DATA

Year	Jan - Dec % change	Population*	FBI Crime Index Total	VIOLENT CRIMES Total	Homicide	Forcible Rape	Robbery	Aggravated Assault	PROPERTY CRIMES Total	Burglary	Larceny Theft	Motor Vehicle Theft	Arson	Crimes **Per 1000** Population
2008	2008 v. 2007	195,649	7,346	1,082	10	66	538	468	6,264	2,192	3,052	1,020	13	**38**
	% change	2.80%	-0.70%	5.70%	-23.10%	0.00%	16.70%	-3.30%	-1.70%	12.70%	-5.70%	-14.20%	-18.80%	-3.40%
2009	2009 v. 2008	197,114	6,879	921	6	30	467	418	5,958	2,020	3,086	852	16	**35**
	% change	0.70%	-6.40%	-14.90%	-40.00%	-54.50%	-13.20%	-10.70%	-4.90%	-7.80%	1.10%	-16.50%	23.10%	-7.10%
2010	2010 v. 2009	193,365	5,946	724	15	33	373	303	5,222	1,843	2,595	784	10	**31**
	% change	-1.90%	-13.60%	-21.40%	150.00%	10.00%	-20.10%	-27.50%	-12.40%	-8.80%	-15.90%	-8.00%	-37.50%	-11.90%
2011	2011 v. 2010	195,638	6,494	732	7	32	330	363	5,762	2,095	2,767	900	3	**33**
	% change	1.20%	9.20%	1.10%	-53.30%	-3.00%	-11.50%	19.80%	10.30%	13.70%	6.60%	14.80%	-70.00%	7.90%
2012	2012 v. 2011	199,673	7,077	706	5	25	331	345	6,371	2,018	3,456	897	8	**35**
	% change	2.10%	9.00%	-3.60%	-28.60%	-21.90%	0.30%	-5.00%	10.60%	-3.70%	24.90%	-0.30%	166.70%	6.80%
2013	2013 v. 2012	198,129	6,510	638	10	31	312	285	5,872	1,822	3,224	826	4	**33**
	% change	-0.80%	-8.00%	-9.60%	100.00%	24.00%	-5.70%	-17.40%	-7.80%	-9.70%	-6.70%	-7.90%	-50.00%	-7.30%

OBSERVATIONS

- **Public Safety service reductions**
  - **Not sustainable based on number of calls for service experienced**
    - **FY 11/12: 137,186**
    - **FY 12/13: 154,692**
    - **FY 13/14: 150,496**
  - **Risk of long term operations at significantly reduced levels?**

- **The City cannot financially support and sustain the projected contract rates**
  - **County Police Service costs projected to grow from 8% - 10% annually**
  - **Impacting all contract agencies**

- **Solutions**
  - **A Ballot Measure to fund the needed service levels As Soon As Possible to maintain public safety for Moreno Valley Residents**
  - **Approach County Board of Supervisors, County Executive Officer, and Sheriff to achieve cost reductions/control**

ACTIONS TO ADDRESS THE STRUCTURAL IMBALANCE

- **Transient Occupancy Tax**
  - **Adjustment of Hotel Tax to match neighboring communities**
    - **Increase from 8% to 12% = $500,000**
- **Community Services District – Zone A**
  - **Consider increase in parcel tax (currently $87.50 with no CPI)**
- **Sales Tax Measure**
  - **A Ballot Measure to fund the needed Public Safety service levels As Soon As Possible**
  - **Several options should be considered to strategize a possible ballot measure in 2015**
  - **Possible Sales Tax Measure:**
    - **¼ cent = $3.5M**
    - **½ cent = $7M**
    - **1 cent = $14M**

ACTIONS TO ADDRESS THE STRUCTURAL IMBALANCE

- **Sales Tax Measure**
  - **A Ballot Measure is a temporary, but important, solution to sustain Police Service at current levels**
    - **Long Term – cost growth must be controlled at or near CPI (currently at about 2.1%)**
  - **Estimates indicate that a ½ cent sales tax measure would address the cost problem for a 3-4 year period**
- **Once the tax measure revenues are consumed by cost growth rates, we are back in to the same position as today**
- **If cost escalators exceed revenue escalators, shortfalls shall persist long term**
- **Tax growth from commercial developments may extend feasibility for additional year**
- **A Revenue Measure alone does not achieve balance. Costs must eventually be controlled within the rate of revenue growth or CPI**

ACTIONS TO ADDRESS THE STRUCTURAL IMBALANCE

- City Manager
  - Meeting with City Managers representing the Contract Cities to identify critical issues to raise and address with the County Board of Supervisors, the County Executive Officer and the Sheriff emphasizing the need for cost control by the County
- Chief Financial Officer
  - Met with County Sheriff's Admin staff and is leading a meeting of Contract City Finance Officers to identify areas of concern to Cities with the Contract Rate
- County Board of Supervisors/County Executive Officer/Sheriff
  - Contract Cities must get the attention of County Officials to take the financial condition of cities seriously and establish Contract Rate targets that are manageable for both the City and the County

ACTIONS TO ADDRESS THE STRUCTURAL IMBALANCE

- **Long Term Concepts to Control/Impact Public Safety Cost Increases**
  - **Negotiate changes to the Police Services Contract with the County to include some input by Contract Cities and Agencies regarding major cost factors affecting the contract rates**
  - **Review a possible change in service structure**
    - **In-house Police Service**
    - **Regional Joint Powers Authority for provision of Police Service**