

RESOLUTION NO. 17-079

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, FINDING AND DETERMINING A FISCAL CRISIS PURSUANT TO ARTICLE VI, CHAPTER 11, SECTION 61104(e) OF THE CARSON MUNICIPAL CODE

WHEREAS, on January 19, 2016, the City Council of the City of Carson adopted Resolution No. 16-004, declaring a fiscal emergency pursuant to Article XIIC, Section 2(b) of the California State Constitution justifying calling a special municipal election in order to adopt and extend the existing Utility Users Tax intended to address the fiscal emergency; and

WHEREAS, on June 7, 2016, the City's electorate passed Measure C, which extended the two-percent (2%) Utility Users Tax on electric and gas utilities until June 30, 2023; and

WHEREAS, pursuant to Article VI, Chapter 11, Section 61104(e) of the Carson Municipal Code, no service user shall be required to pay more than \$1,000,000 in electricity users tax, or gas users tax, or both combined, for service provided in any one calendar year; provided, however, that the City Council may, by resolution duly adopted at a noticed public meeting, suspend this limitation for a period of 12 consecutive calendar months commencing the day after the effective date of the resolution, upon making written finding(s) that the City of Carson will be required to lay off employees, and/or furlough employees, and/or be unable to fill allocated employee positions due to any fiscal crises as determined by the City Council in its sole discretion; and

WHEREAS, the City continues to be challenged by financial difficulties due to the slow economic recovery and ever-rising costs or providing local services; and

WHEREAS, on June 20, 2017, the City Council adopted Resolution No. 17-068, adopting a balanced general and special revenue fund budget for FY 2017-18; and

WHEREAS, in order to reduce the amount of reserves needed to cover the operating shortfall the City had to make certain budget cuts and also implement a hiring freeze; and

WHEREAS, despite the City's sound management and disciplined control of its financial health, the City's ability to sustain a high level of local services has been seriously eroded and the City is experiencing an existing and immediate funding crisis, which is the result of factors largely outside of its control; and

WHEREAS, the best interests of the residents and businesses of the City of Carson are better served by avoiding further cuts to essential City services; and

WHEREAS, the City's fiscal crisis herein described is of sufficient gravity and severity that the City Council desires to declare a fiscal crisis.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, DOES RESOLVE, DECLARE, DETERMINE AND ORDER AS FOLLOWS:

Section 1. The City Council, in its discretion, makes the following written findings supporting a declaration of a fiscal crisis:

A. The FY 2017-18 Budget for the General Fund includes a net deficit of \$3,452,227, thereby reducing the General Fund balance to \$9,330,935.

B. The City's General Fund is the primary fund of the City and comprises 85% of the City's budget. In the past 7 of the last 10 fiscal years, the General Fund expenditures have exceeded the General Fund revenues. Over the past 5 years, the General Fund revenues have increased at an average of 1.6%. The General Fund expenditures have increased at an average of 3.6%.

C. The City Council has adopted a policy entitled Reserve for Economic Uncertainties whereby it sets a General Fund reserve threshold based on 20% of annual budgeted expenditures. The FY 2017-18 policy reserve threshold is \$15,832,647.

D. The Government Finance Officers Association (GFOA) has issued a best practices recommendation stating that "at a minimum, that general-purpose governments, regardless of size, [should] maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." This recommendation yields a General Fund reserve of \$13,193,873, or 16.7% of annual budgeted expenditures.

E. The estimated General Fund balance of \$9,330,935 is \$6,501,712 below the City's policy reserve threshold amount and is \$3,862,938 below the GFOA best practices balance amount.

F. The FY 2017-18 Budget includes non-recurring items that decrease the General Fund expenditures in an effort to reduce the budget deficit, however, these items are only temporary fixes.

G. The City currently has 291 full-time employees, which is a 6-year all-time low. The FY 2017-18 Budget does not include any employee wage increase. Also, due to the continued need of the hiring freeze, the City will be unable to fill 20 full-time positions. This will save the City approximately \$1,300,000. The most noticeable impacts are in the public safety and public works departments. However, to sustain the current level of full-time employees, the City must consider reorganization and potentially reducing service levels.

H. Notwithstanding the decrease of full-time employees, the City has 2-legacy costs related to employee retirement: (i) the unfunded liability of the employee pension, and (ii) the health insurance costs for retirees. The retiree health insurance cost for FY 2017-18 is expected to be \$2,200,000, which is being reduced by a non-recurring \$1,000,000 transfer from the Internal Revenue Code Section 115 Trust account.

I. Property tax comprises approximately 21% of General Fund revenue. Property values and property tax revenues in the City have been among the slowest to recovery Countywide and have not yet reached the pre-Great Recession levels.

J. Sales tax comprises approximately 32% of General Fund revenue. The City's independent tax consultant estimated that sales tax will decrease by 0.3% for FY 2017-18 primarily due to expected reallocations and audit corrections that were recently detected.

K. The City must maintain and provide safe roadways and public buildings, functioning storm drains, and desirable parks. Based on historical costs, the City's yearly street and infrastructure maintenance costs are around \$8,000,000 and \$15,000,000, respectively. The FY 2017-18 Budget only allocates \$11,900,000 for capital improvement projects that suggests the City's street and infrastructure will continue to deteriorate over the next year.

L. The 5-year financial model indicates that there will be continued erosion of the General Fund balance, until it is extinguished toward the end of 2019. The City Council can avoid this outcome by continuing to make changes to the structural budget.

M. The City Staff recommend temporarily suspending the exemption set forth in Carson Municipal Code 61104(e) by declaring a fiscal crisis. Doing so would generate an additional Utility Users Tax revenue of approximately \$350,000 for FY 2017-18.

Section 2. That the City Council hereby finds and declares that a fiscal crisis, as the term "fiscal crisis" is used in Chapter VI, Chapter 11, Section 61104(e) of the Carson Municipal Code, now exists in the City of Carson.

Section 3. Pursuant to such findings and declaration of a fiscal crisis, and as authorized by Chapter VI, Chapter 11, Section 61104(e) of the Carson Municipal Code, the City Council hereby suspends, for a period of 12 consecutive calendar months commencing the day after the effective date of this resolution, the exemption contained therein.

Section 4. That the City Clerk shall certify to the passage and adoption of this Resolution and enter it into the book of original Resolutions. This Resolution shall be effective immediately upon passage and adoption.

PASSED, APPROVED AND ADOPTED by the City Council of the City of Carson, California, at a regular meeting held on the 20th day of June, 2017.

ATTEST: .

Mayor Albert Robles

City Clerk, Donesia Gause

APPROVED AS TO FORM:

City Attorney Sunny K. Soltani