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**Report to Mayor and City Council**

Tuesday, May 07, 2019

Discussion

**SUBJECT:**

**FISCAL YEAR 2019-2020 BUDGET WORKSHOP #2 (CITY COUNCIL)**

**I. SUMMARY**

This is the 2<sup>nd</sup> of 3 planned budget workshops, prior to a public hearing in June 2019 to consider adoption of the proposed Fiscal Year 2019-2020 budget. One purpose of this workshop is to receive direction from City Council on the proposals that would change the current budget structure.

The General Fund projected deficit is currently \$4.6 million, or 5% of annual revenue. This report also includes a first look at the 2019-2020 Capital Improvement Plan. The highest priority projects have been matched with available restricted funding sources, for a balanced mix of roadway and park projects. There is no General Fund money in the draft budget for capital projects.

The City has an ongoing General Fund budget deficit. One relatively new revenue source that was anticipated to help close the deficit is the Oil Industry Business License tax, which is expected to generate at least \$4.7 million for Fiscal Year 2019-2020 based on information received to date. Collection of the tax began in January 2018, and the estimated revenue may grow as additional information becomes available, or when audits are concluded. Using the minimum estimate for now, the Fiscal Year 2019-2020 General

Fund deficit may still be about \$4.6 million without further changes to the budget structure.

	2015-16 Adopted Budget	2016-17 Adopted Budget	2017-18 Adopted Budget	2018-19 Adopted Budget	2019-20 Proposed Budget
Revenue	\$74,248,741	\$74,572,223	\$76,167,709	\$86,919,816	\$88,963,112
Expenditures	(\$75,856,102)	(\$76,219,758)	(\$79,163,237)	(\$88,799,813)	(\$93,526,159)
<b>Surplus/(Deficit)</b>	<b>(\$1,607,361)</b>	<b>(\$1,647,535)</b>	<b>(\$2,995,528)</b>	<b>(\$1,879,997)</b>	<b>(\$4,563,047)</b>

- Sales Tax (one-third of General Fund revenue) is expected to increase by 3% compared to Fiscal Year 2018-2019 due mainly to a continued surge in new car sales. An operational change at a local dealer appears to have contributed to the continued sales revenue increase. The Southern California region taxable sales were up 2.6%.
- Property Tax (one-fifth of General Fund revenue) is expected to increase by 2% for most parcels and decrease for the oil refineries.
- Personnel expenditures are expected to increase by 5% (\$1.7 million) for Fiscal Year 2019-2020.
- The Sheriff contract for law enforcement (one-quarter of General Fund expenditures) will increase by 5% (\$1 million) overall based upon the same number of service units.
- The City's CalPERS payment for Fiscal Year 2019-2020 will total \$7,261,952. This is \$2.4 million increase compared to Fiscal Year 2018-2019 and was discussed in the Mid-Year Budget Review.

Although the City's General Fund Reserve for Economic Uncertainties is fully funded, the City is not prepared for the next recession. The structural budget deficit has not yet been cured; and the City's major revenue sources are not increasing as fast as expenditures.

The City must continue to determine which services are necessary or which need reduction. The City Council's decisions at this meeting are not final, as there will be a third budget session to make changes to the draft Fiscal Year 2019-2020 budget prior to June 2019.

## II. RECOMMENDATION

PROVIDE direction for each budget policy question, which will be used to build the draft budget.

**III. ALTERNATIVES**

TAKE another action deemed appropriate by City Council.

**IV. BACKGROUND**

The purpose of the second budget workshop is for the City Council to receive updated information regarding the General Fund Reserve and expectations for the Fiscal Year 2019-2020 budget; and to provide direction for potential changes to the budget structure for Fiscal Year 2019-2020.

Staff will be prepared to provide an overview of updated information, and walk through each policy question during the workshop.

General Fund Reserve

As reported on April 9<sup>th</sup>, the expected General Fund balance at June 30, 2019 is \$25.6 million. As a reminder, the estimate includes one-time monies from the Andeavor Settlement Agreement and General Fund savings as result of higher vacancy rate and other unexpended funds in the prior fiscal year.

The City Council's reserve policy (Resolution 12-014) requires 20% of annual budget expenditures to be set aside as a Reserve for Economic Uncertainty. Another \$1 million has been set aside for self-insurance claims. Another \$0.5 million is non-spendable in form (inventory and prepaid amounts).

Expected June 30, 2019 Balance	\$25.6 million
Less:	
Calculated Reserve for Economic Uncertainties	\$18.7 million
Set Aside for Self-Insurance Claims	\$1.8 million
Non-Spendable in Form (inventory, prepaid amounts)	\$0.5 million
<b>General Fund Balance Surplus</b>	<b>\$4.6 million</b>

The City Council may consider the use of the \$4.6 excess reserve. Staff recommends the following:

1. Reduce the projected Fiscal Year 2019-2020 General Fund budget deficit from \$4.6 million to \$1.3 million
2. Use \$500,000 to supplement high priority street repairs

**Future Planning**

After the Great Recession, the national economy has enjoyed a very long expansion period. By end of the Fiscal Year 2018-2019 (June 30, 2019), the current economic expansion will be the longest in modern United States history. Most economists forecast that there will be a recession within the next year or two with no certainty of its magnitude.

California's economy, in the first part of 2019, remains on steady growth track despite concerns about how long the current expansion will continue. Like the nation, the state economy benefited from expansionary fiscal policy in the form of tax cuts coupled with increases in government spending that pushed the labor market closer to full employment and fueled solid job gains. Tech-related sectors made significant contributions to the state's economic growth, as did a handful of other industries. Still, California faces a huge housing challenge, something that the new governor is addressing head on.

Most predictions are calling for a potential recession in the next two years. Drivers of this pessimism range from the stock market plunge and slow pace of sales in the housing market to fears surrounding the impact of an expanding trade war with China and decelerating global growth. Eventually, the current economic expansion we are experiencing will come to an end. When it does, it will bring a negative impact to the economy.

The City Council may consider reducing the General Fund budget expenditures or support an increase in revenues to eliminate the ongoing structural deficit.

The City is self-insured for dental and unemployment insurance. For the last 2 years, claims payments have averaged \$1.8 million per year. It may be prudent to increase the General Fund balance set-aside for self-insurance from \$1 million to \$2 million.

#### Revenue Expectations for Fiscal Year 2019-2020

General Fund revenue estimates will be refined over the next month. An early estimate for Fiscal Year 2018-2019 is \$89 million, including a minimum Oil Industry Business License Tax of \$4.7 million. Oil Industry Business License tax collection began in January 2018. The City is still unable to establish a solid forecast. The new tax revenue estimate may grow as more information becomes available. It is also too early to provide estimates for potential Cannabis Tax revenue, if any at all.

Sales tax comprises roughly one-third of General Fund revenue. Due to a continued growth auto sales, the revenue is expected to increase by 3% for Fiscal Year 2019-2020, from \$24.7 million to \$25.7 million.

Property tax comprises roughly one-fifth of General Fund revenue. The assessed values are projected to increase by 1.5% for most parcels. However, staff has conservatively assumed a continued erosion of assessed values for the oil refineries. Over the last 5 years, the City's share of property tax revenue from Marathon (formerly Andeavor) has decreased by an average of \$130,000 per year. Over the same period, the City's share of property tax revenue from Phillips 66 has decreased by an average of \$140,000 per year. The assessed values for the refineries:

- Fluctuate with the volume and market price of oil held in the tanks each January; and
- Increase when new equipment is purchased; and
- Decrease when existing equipment is depreciated; and

- Decrease when old equipment is decommissioned.

Finance staff's estimate for the new Oil Industry Business License Tax show an annual revenue of \$4.7 million. The auditor's report has been received and reviews are in process which will help assess the fiscal year 2019-2020 revenue estimate.

Employee Compensation Expectations for Fiscal Year 2019-2020

Employee compensation is approximately 40% of the General Fund budget. Employee compensation includes wages and benefits. In Fiscal Year 2018-19 the City implemented a 3% increase in wages as a result of negotiations with the City's bargaining groups. The primary benefit costs are health insurance (City contribution capped), employee pension costs (PERS), and retiree health insurance. Employee pension and retiree health insurance expectations are discussed below.

Projected Employee Compensation Levels for Fiscal Year 2019-2020					
Department	FTE Filled	Part-Time	FTE Vacant	Overtime	Total
City Clerk	\$750,687	\$5,229		\$18,433	\$774,349
City Council	\$923,417	\$12,348			\$935,765
City Manager	\$4,183,291	\$191,338	\$613,278	\$59,540	\$5,047,447
City Treasurer	\$478,802		\$146,819	\$1,741	\$627,362
Community Deve	\$1,582,063	\$3,104	\$250,130	\$2,287	\$1,837,584
Community Servi	\$5,612,217	\$4,820,534	\$908,717	\$29,692	\$11,371,160
Finance	\$3,147,017	\$374,096	\$195,450	\$8,124	\$3,724,687
Human Resource	\$1,113,505	\$25,614	\$227,670		\$1,366,789
Public Works	\$10,507,254	\$367,785	\$1,241,083	\$128,188	\$12,244,310
<b>Grand Total</b>	<b>\$28,298,253</b>	<b>\$5,800,048</b>	<b>\$3,583,147</b>	<b>\$248,005</b>	<b>\$37,929,453</b>

The personnel expenditures are estimated to increase by 5% in Fiscal Year 2019-2020 (or \$1.8 million) compared to Fiscal Year 2018-2019:

	Fiscal Year 2018-2019	Fiscal Year 2019-2020	Increase
Personnel Expenditures	\$36,147,851	\$37,929,453	\$1,781,602

Employee Pension and Retiree Health Insurance Expectations for Fiscal Year 2019-2020

The City has three major expenditures related to employee retirement: the employer's normal cost contribution to the defined benefit pension system (current cost of continued service); the employer's payment of the unfunded pension liability; and the cost of retiree

health insurance premiums.

The employee pension plan is administered by the California Public Employee Retirement System (CalPERS). In December 2016, the CalPERS Board took action to reduce the assumed rate of return on its investment portfolio from 7.5% to 7.0% over a 3-year period beginning fiscal year 2017-2018. This impacted both the normal cost contribution and payment of the unfunded liability. In February 2018, the CalPERS Board took further action to reduce the amortization period for future additions to the unfunded liability.

An unfunded liability exists when the accrued liability exceeds the market value of plan assets. The City's unfunded liability at June 30, 2017 was \$100.1 million. CalPERS calculates the pension liability for each plan based on assumptions including expected employee wages, expected retirement date, expected mortality, and expected investment returns. Approximately 2/3 of retiree benefit payments are made from investment earnings. When the assumptions are not met, the unfunded liability increases.

Each increase of the unfunded liability has been amortized over 30 years, to minimize the impact on employers. Beginning with the June 30, 2019 valuation which sets contribution rates for Fiscal Year 2021-2022, however, any increase of the unfunded liability will be amortized over 20 years; thereby increasing employer contributions.

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<b>Amortization Schedule and Alternatives</b>						
Date	Current Amortization Schedule*		Alternate Schedules			
			20 Year Amortization		15 Year Amortization	
	Balance	Payment	Balance	Payment	Balance	Payment
6/30/2019	100,090,056	7,261,952	100,090,056	7,480,636	100,090,056	9,101,280
6/30/2020	100,124,177	8,580,793	99,599,521	7,695,704	97,921,156	9,362,942
6/30/2021	99,356,383	9,689,494	98,850,694	7,916,955	95,324,030	9,632,126
6/30/2022	97,840,436	10,665,336	97,818,445	8,144,568	92,259,840	9,909,050
6/30/2023	95,690,903	9,136,852	96,475,640	8,378,724	88,686,710	10,193,935
6/30/2024	93,166,226	9,399,537	94,792,985	8,619,613	84,559,496	10,487,011
6/30/2025	90,186,466	9,159,796	92,738,870	8,867,426	79,829,546	10,788,512
6/30/2026	87,238,955	9,234,833	90,279,191	9,122,365	74,444,435	11,098,682
6/30/2027	84,000,040	9,500,336	87,377,168	9,384,633	68,347,686	11,417,769
6/30/2028	80,251,343	9,773,467	83,993,139	9,654,441	61,478,472	11,746,030
6/30/2029	75,948,008	10,054,456	80,084,350	9,932,006	53,771,287	12,083,729
6/30/2030	71,041,685	10,343,525	75,604,723	10,217,551	45,155,605	12,431,136
6/30/2031	65,480,291	9,610,584	70,504,608	10,511,306	35,555,507	12,788,531
6/30/2032	60,274,740	9,427,295	64,730,518	10,813,506	24,889,277	13,156,201
6/30/2033	54,881,603	8,535,752	58,224,843	11,124,394	13,068,980	13,534,442
6/30/2034	50,020,761	8,153,147	50,925,546	11,444,221		
6/30/2035	45,203,738	7,583,220	42,765,833	11,773,242		
6/30/2036	40,627,708	6,973,778	33,673,801	12,111,723		
6/30/2037	36,351,061	6,852,599	23,572,060	12,459,935		
6/30/2038	31,889,854	6,718,690	12,377,330	12,818,158		
6/30/2039	27,243,886	6,734,578				
6/30/2040	22,244,630	6,928,198				
6/30/2041	16,682,415	5,895,746				
6/30/2042	11,786,164	6,000,257				
6/30/2043	6,426,699	5,505,755				
6/30/2044	1,190,787	1,022,369				
6/30/2045	218,339	226,115				
6/30/2046						
6/30/2047						
6/30/2048						
<b>Totals</b>		<b>204,840,170</b>		<b>198,471,107</b>		<b>167,731,376</b>
<b>Interest Paid</b>		<b>104,750,114</b>		<b>98,381,051</b>		<b>67,641,320</b>
<b>Estimated Savings</b>				<b>6,369,063</b>		<b>37,108,794</b>

A summary of the City's CalPERS contributions follows. The Fiscal Year 2019-2020 payment will total \$7,261,952, which is \$2.4 million higher than Fiscal Year 2018-2019. The City's CalPERS will increase by \$5.8 million from the 2017-18 level by 2022-2023.

	2017-2018	2018-2019	2019-2020	2020-2021
Payment	\$4,869,400	\$5,968,035	\$7,261,952	\$8,580,793
<b>Increase from 2017-2018</b>		<b>\$1,098,635</b>	<b>\$2,392,552</b>	<b>\$3,711,393</b>

The City pays health insurance premiums for eligible retirees (241 currently receiving

benefits). The average age of the City’s workforce is 46.8 years. Due to retirees living longer, an independent actuary expects the number of retirees receiving benefits will continue to increase.

Sheriff Contract Expectations for Fiscal Year 2019-2020

The Sheriff’s contract is approximately 22% of the General Fund budget. The Sheriff has provided rate increases for Fiscal Year 2019-2020. Cost of services will increase by 5%, which includes an increase in the contribution to the liability trust fund, which will increase from a 10.5% surcharge of services to 11%.

	Fiscal Year 2018-2019	Fiscal Year 2019-2020	Increase
<b>Sheriff Contract</b>	<b>\$20,008,576</b>	<b>\$21,034,000</b>	<b>\$1,025,424</b>

The resulting overall increase is expected to be 5% for Fiscal Year 2019-2020. This assumes a status-quo to the number of units.

Status of Hiring Freeze for Full-Time Positions

To help reduce the General Fund budget deficit, 18 vacant full-time positions were frozen in Fiscal Year 2016-2017. Another 20 vacant full-time positions were frozen in Fiscal Year 2017-2018. Work is being deferred, as more than 10% of the City’s full-time positions were subject to the hiring freeze.

In addition to the frozen positions, which are not funded, the total number of vacant positions stands at 30 positions with an estimated cost/savings of \$3.6 million. This under-spending due to vacancies allowed the City to reduce its budget shortfall in Fiscal Year 2017-18, which caused the Fund Balance to increase, but vacant (but not frozen) positions are assumed to be filled and their budgets expended during the fiscal year. Filling vacant positions does not increase the budget deficit, but instead limits the City’s ability to reduce a deficit over the course of a year. This is not an argument for leaving funded positions vacant, but rather an explanation of other budget impacts due to vacancies.

Below are the currently vacant positions, as of the date of this report.

Department	Position Title	FTE
CITY MANAGER	Executive Assistant	1.0
	Computer Systems Support Technician	1.0
	Code Enforcement	1.0
COMMUNITY DEVELOPMENT	Senior Planner	1.0
	Senior Administrative Specialist	1.0
FINANCE	Accounts Payable Specialist I	1.0
HUMAN RESOURCES	Senior Human Resources Analyst	1.0
	Human Resources Specialist	1.0

COMMUNITY SERVICES	Senior Recreation Center Supervisor	1.0
	Event Services Supervisor	1.0
	Human Services Supervisor	1.0
	Early Childhood Director	1.0
	Early Childhood Instructor	1.0
	Human Services Senior Coordinator	1.0
	Human Services Assistant Coordinator	1.0
	Registration, Reservation & Marketing Coordinator	1.0
PUBLIC WORKS	Right of Way Ops and Maintenance Superintendent	1.0
	Landscape and Building & Maintenance Superintendent	1.0
	Principal Administrative Analyst	1.0
	Construction Inspector	2.0
	Traffic Engineer	1.0
	Senior Maintenance Worker II	1.0
	Engineering Technician	1.0
	Senior Clerk	1.0
	Division Secretary	1.0
	Heavy Equipment Operator	1.0
	Custodian	1.0
	Building and Maintenance Supervisor	1.0
<b>Total Vacant FTEs</b>	<b>29.0</b>	

Budget Policy Issue - \$315,000 Add in Community Services

Community Services department is requesting an increase of \$300,000 in budget authority to cover the following:

- Holiday Program \$100,000
- Kids Club \$100,000
- Bus Fuel Cost Increase \$65,000

- Parks and Recreation \$50,000

Budget Policy Issue - \$120,000 Youth Employment Summer Program

The Human Resources Department manages the Summer Youth Employment Program. The Program has an annual cost of \$120,000, which this year would be fully funded by the General Fund. Grant funds for a portion of the Summer Youth program, previously available from the South Bay WIB, are unavailable this year.

Budget Policy Issue - Up to \$150,000 Planner (1.0 FTE)

The Community Development department is requesting adding one additional planner (Senior or Associate) to replace a position lost when an Associate Planner transferred to Public Safety in Fiscal Year 2017-18. It will help support the department's operations and lower the costs of consultants. The Department is recruiting for an existing senior planner position and would recruit for the second position if it became available.

Budget Policy Issue - \$100,000 Citywide Training Program

Human Resources Department is in the process of developing a comprehensive citywide training program to meet the training and development needs of all City of Carson employees. The estimated annual budget is \$100,000.

Budget Policy Issue - \$128,600 Animal Control Program

Public Safety Division proposes the creation of Animal Control services to supplement and eventually replace the contract with the County of Los Angeles Department of Animal Care and Control for animal control services. Under the County, staff shortages are prolonging response times for animal control services and requiring City staff to respond instead.

Bringing animal control services in-house will also allow the City to manage the anticipated significant increase in the new 2019-2020 County Animal Control budget pending County Board of Supervisors' approval. This increase has been placed on temporary hold by the Supervisors due to protests from the Contract Cities Association on behalf of its members, but will come back in some form.

Budget Policy Issue - Stroke Center Non-Resident Monthly Fees

Council had given direction on March 5, 2019 to lower the monthly fees for non-residents of Carson from the \$70/month imposed in November 2017 to "between \$0 and \$20." Further direction included no fee but an understanding that if the Center became oversubscribed, non-resident spots would be replaced by resident spots. Council should confirm this. Center staff have prepared a notice for non-resident members of the City's policy, but the program so far is not close to being over-subscribed.

Budget Policy Issue - City Clerk and City Treasurer Compensation

The Council discussed a proposed increase in compensation at its February 19, 2019 meeting, but no action was taken. Direction was given to staff to bring the item back as part of the Budget Workshop.

### Budget Policy Issue - Special Elections

The Council should consider whether it intends to call any special election for the March 3, 2020 election date and budget accordingly. If the City opts to consider voting by Council districts prior to the 2020 General Election, it should bring an amendment to the Charter at the March 3, 2020 statewide election, plus any other ballot measures.

### **V. FISCAL IMPACT**

There is no immediate fiscal impact. City Council direction will be used to prepare the draft Fiscal Year 2019-2020 budget.

### **VI. EXHIBITS**

A - Fiscal Year 2018-2019 City Events

B - 2018-2019 City Events Insurance Costs

C - 2019 Capital Improvement Projects

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