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**Attachments:** 1. ALL EXHIBITS 1-11 - BUDGET WORKSHOP NO 1 - FINANCE DEPARTMENT, 2. EXHIBIT 12 - Special Event Proposed Budget - Final - 5-7-24 CC Meeting, 3. EXHIBIT 13 - 5-Year CIP Prototype, 4. EXHIBIT 14 - FY 24-25 5-Year CIP Unfunded-High Priority Projects

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5/7/2024	1	City Council		

**Report to Mayor and City Council**

Tuesday, May 07, 2024

Discussion

**SUBJECT:**

**FISCAL YEAR 2024-2025 BUDGET WORKSHOP NO. 1**

**I. SUMMARY**

This marks the commencement of the first of two budget workshops scheduled ahead of a public hearing on June 18, 2024, aimed at deliberating the adoption of the proposed Fiscal Year 2024-2025 budget. At this workshop, there will be an overview of the General Fund Reserve status and the anticipated revenues for Fiscal Year 2024-2025 and address the proposed Special Events Plan, the Capital Improvement Plan and strategies to achieve and sustain a structurally balanced budget, as mandated by law. A subsequent workshop, slated for June 4, 2024, will According to the City's charter, the City Council must endorse an annual budget via resolution before June 30 each year.

The City's objective is to achieve a structurally balanced budget for the fourth consecutive year, wherein recurring expenses remain within recurring revenues.

The development of the City's Operational Budget is guided by the 9 principles listed below:

1. Quality of life improvements (infrastructure, maintenance, beautification)

2. Economic development
3. Governance policies and procedures pertaining to districts
4. Housing
5. Increase public safety
6. Make progress on development that provides community benefits in the long term
7. Maintain quality City programs and services
8. Advocacy for funds from county, state and federal government
9. Increased outreach and information to the community

Annually, the City adopts a Capital Improvement Program that outlines fund allocations for the upcoming fiscal year (FY). Public Works will be presenting the proposed FY 2024-2025 CIP plan for Council consideration.

## **II. RECOMMENDATION**

1. PROVIDE direction to staff which will be used to build the draft for Fiscal Year 2024-2025 Budget.
2. PROVIDE direction to staff which will be used to build the draft for Fiscal Year 2024-2025 Special Events Budget.
3. PROVIDE direction to staff which will be used to build the draft for Fiscal Year 2024-2025 CIP 5 Year Plan.

## **III. ALTERNATIVES**

TAKE another action deemed appropriate by City Council.

## **IV. BACKGROUND**

The objective of this workshop is to furnish the City Council with updated insights into the General Fund Reserve and anticipated revenues for the Fiscal Year 2024-2025 budget, as well as to guide potential adjustments to the budget structure for the same fiscal year.

### **1. Overview of Financial Budget**

General Fund Reserve:

The Fund Balance, often referred to as the City's "reserve," serves as a crucial measure of the City's capacity to navigate future uncertainties in delivering essential services, particularly during periods of economic instability. To ensure preparedness for emergencies, the City Council has instituted a policy mandating that the fund balance be maintained at a minimum level equivalent to 20% of the General Fund's budget. **Exhibit (1)** illustrates the Fund Balance over the past five fiscal years, demonstrating a consistently robust reserve. It is anticipated that this trend will persist into the upcoming fiscal year.

#### Structurally Balanced Budget:

The proposed Fiscal Year 2024-2025 budget aims to achieve a structurally balanced status, wherein projected ongoing revenues align with proposed operating expenditures. To achieve this, ongoing expenditure management must be maintained with consideration for potential economic downturns in revenue. The audited General Fund balance as of June 30, 2023, stands at \$222.9 million. The City Council's reserve policy (Resolution 12-014) mandates setting aside 20% of annual budget expenditures as a Reserve for Economic Uncertainty, with an additional \$5.0 million allocated for self-insurance claims. **Exhibit (1)** provides further detail.

#### Sales & Use Tax Revenues Forecast:

The financial forecast aims to provide the City Council with insights into potential long-term financial trends for General Fund resources, facilitating informed decision-making. It is expected that General Fund recurring revenues will "increase by 1.5%" in the next fiscal year. as detailed in Exhibit 2.

#### Transaction and Use Tax (Measure K):

The approval of Measure K introduces a local transaction and use tax aimed at bolstering city revenues. Despite challenges posed by the pandemic, early forecasts indicated promising revenue potential. However, inflationary pressures and geopolitical tensions may impact revenue projections. Refer to Exhibit (7) for details.

#### Property Tax:

The City of Carson has witnessed a significant increase in net taxable value increase of 7.2% for Fiscal Year 2023-2024, outpacing countywide growth. This rise can be attributed to various factors, including industrial sales and property valuation adjustments. However, staff will remain vigilant regarding the potential impact of rising interest rates on property tax revenue. Refer to Exhibit (6) for details.

#### Utility Users Tax (UUT) (Measure R):

The UUT, vital for funding critical city services, is imposed on electricity and natural gas consumption (at 2% rate). The UUT contributes 7.2% to the City's General Fund revenue. Exhibit (8) outlines UUT revenue actuals and projections.

#### Transient Occupancy Tax (TOT):

The TOT, a key revenue source for the General Fund, reflects occupancy taxes levied on

short-term lodging facilities. While representing about 1.4% of the City's total General Fund revenue, efforts are ongoing to optimize this revenue stream. Refer to Exhibit (9) for a summary of TOT revenue actuals and projections.

#### Oil Industry Business Tax (Measure C):

The City's oil industry tax, enacted to fund infrastructure and environmental improvements, has faced challenges in revenue generation. However, recent audit findings and subsequent actions have led to revised revenue projections. Refer to Exhibit (4 and 10) for insights into projected revenues for Fiscal Year 2024-2025.

### **Employee Compensation Expectations for Fiscal Year 2024-2025**

Employee compensation is approximately 40% of the General Fund. Employee compensation includes wages and benefits. The primary benefit costs are health insurance (pegged to Kaiser Family Plan), employee pension, and retiree health insurance.

#### **Los Angeles County Sheriff Contract**

The Sheriff's contract is approximately 17% of the General Fund budget. On June 18, 2019, the City Council approved a five-year contract renewal agreement with the Los Angeles Sheriff's Department for the period of July 1, 2019, through June 30, 2024. The billing rates of the Contract City Law Enforcement Services is adjusted by the County Auditor-Controller annually effective July 1 of each year to reflect the cost of such service in accordance with the policies and procedures for the determination of such rates as adopted by the County Board of Supervisors. The Sheriff's Department has provided preliminary rate increases for Fiscal Year 2024-2025. The final cost estimates are expected to be received in May, in which revised numbers will be brought to Council during Budget Workshop #2 scheduled on June 4<sup>th</sup>. Services are estimated to increase by \$780,354 or 3.5%, which includes liability coverage and rate of law enforcement personnel.

#### *Non-Departmental:*

For Fiscal Year 2024-2025, the increase of \$654,921.04 is attributed to adjusting the budget for J.P. Morgan Loan annual loan repayment. The loan was secured to finance HVAC project on City Hall and Community Center premises. Next fiscal year will be Year 4 of 10-year repayment schedule. In addition, the CalPERS requirement for Fiscal Year 2024-2025 is \$512,424.

### **2. Fiscal Year 2024-2025 Special Events**

For Fiscal Year 2024-2025, the Department of Community Services is proposing a total direct budget of \$1,063,126 to support the following fourteen Council approved Special Events listed below:

- Samoan Flag Day
- Heroes Day/9-11 Tribute
- Cajun & Blues White Linen Festival

- Jazz Festival
- Women's Health Conference
- Country Western Fair
- Winterfest
- Earth Day / Kids Fest
- Cinco De Mayo
- FamFest
- Philippine Independence Day
- Juneteenth
- Samoan Heritage Day
- State Of the City

Throughout its history, the programs have consistently delivered high-quality entertainment featuring renowned performers. They have also fostered collaboration among local vendors, agencies, and community groups, enriching the Carson community through both enjoyment and education. Looking ahead to the next fiscal year, the department is fully committed to upholding this tradition by ensuring that necessary resources are allocated in the proposed budget.

In the fiscal year 2023-2024, the City Council approved \$773,770 in Indirect and Direct costs. The \$289,356.12 increase proposed for the fiscal year 2024-2025 budget can be attributed to rising expenses in materials, supplies, professional services, and staffing salaries. Additionally, non-Council approved special events such as the Cesar Chavez Tribute, Volunteer Recognition Banquet, Larry Itliong Day, and Black History Month are currently included in the Community Services Operational Budget proposal, as outlined in Exhibit (10).

### **3. Fiscal Year 2024-2025 Public Works 5-Year Capital Improvement Plan:**

The following summarizes the proposed Fiscal Year 2024-2025 Five-Year Plan for the City's Capital Improvement Program (CIP). The CIP will guide the City in the planning and scheduling of infrastructure improvement projects over the next five years, from Fiscal Year 2024-2025 through Fiscal Year 2028-2029. The CIP represents funding to accommodate the City's growing infrastructure needs based on deferred maintenance and projects required to stay at the level of service residents expect.

For Fiscal Year 2024-2025, the Proposed Capital Improvement Program annual budget

request is approximately \$57 million. Of the \$57 million, approximately \$25 million will be for projects in construction, \$20 million for projects in design, and \$12 million for maintenance related projects. Each year, the City's Public Works department goes through a process of working with each city department that may have a CIP project to determine the scope and description of what is being requested and/or required. During this process, a cost estimate and schedule is developed. The Projects proposed for Fiscal Year 2024-2025 dedicated sources of funding including grants and other potential financing opportunities. Projects are evaluated and prioritized based on the protection of public health and safety, adherence to both regulatory and legal requirements, environmental benefits, public support, and alignment with the Strategic Key Targets of the Mayor and City Council.

In addition to the proposed projects totaling \$57 million, staff has identified several other projects that do not have dedicated funding sources but are considered high priority for Fiscal Year 2024-2025. If Council approves these unfunded-high priority projects, an additional \$47 million will be added to the CIP plan, bringing the total to \$104 million. The additional funds would be requested from the unreserved, undesignated general fund (or appropriate fund) balance.

#### *Funding Sources:*

The City's general revenue streams are insufficient to fund all the infrastructure rehabilitation and new projects requested by City Council and expected by the public. Therefore, Public Works has been proactive in obtaining grants for Roadways and Bike Lanes and currently has several million in grants from various agencies, including Caltrans and Metro. However, Public Works is responsible for the design and construction of everything in the city that is considered a capital project. Therefore, Public Works continues to seek out grants for projects city-wide and assists other departments, primarily for parks, bike lanes and roadway projects so that it can leverage projects with non-General Funds. The type and cost of the project generally determines the funding source. The City receives monies from the following funding sources for CIP projects:

- Gas Tax
- SB1 (State sales tax for road improvements)
- Measure R (County sales tax for road improvements)
- Measure M (County sales tax for road improvements)
- CalRecycle (for recycling programs)
- Development Impact Fees (City-imposed)
- County Quimby funds
- CBDG (Locally-allocated federal dollars)

- Measure W (County parcel tax for stormwater improvements)
- OGALS (State funding for local, state, and nonprofit organization projects)

Public Works is focused on investing in capital projects that reduce maintenance and operating costs.

### *Fiscal Year 2024-2025 Proposed CIP Expenditures*

The largest capital funding investment for Fiscal Year 2024-2025 is in the category of Roadways, at approximately \$31 million and 54% of the CIP plan. In the past, Roadways were funded by Regional programs such as Measure R and Measure M, as well as State and Federal funds. In addition to these funds, Public Works is utilizing DIF funding to supplement project costs. The CIP proposed expenditures for Fiscal Year 2024-2025 by category are presented in Exhibit (11).

## **V. FISCAL IMPACT**

The Operational Budget Revenue baseline was established at \$138.3 million. The Operational Budget Expense was established at \$136.4 million. The estimated surplus is budgeted at \$1.9 million.

The City Council's directives from this workshop will inform the drafting of the Fiscal Year 2024-2025 budget. A comprehensive set of exhibits accompanies this background document to provide detailed insights into various revenue streams and projections.

## **VI. EXHIBITS**

The document includes a range of exhibits detailing General Fund balances, revenue categories, tax revenue breakdowns, and projected revenues for the upcoming fiscal year. These exhibits offer a comprehensive overview of the City's financial landscape, aiding informed decision-making by the City Council.

1. Overview of Financial Performance (p. 9)
2. 2024-2025 Proposed Budget Revenue (p. 10)
3. Sales & Use Tax Projections (p. 11)
4. Oil & Business Tax (Measure C) Projections (p. 12)
5. Financial Highlights - Sales and Use Tax (p. 13)
6. Financial Highlights - Property Tax (p. 14)

7. Financial Highlights - Transaction & Use Tax (p. 15)
8. Financial Highlights - Utility Users Tax (Measure R) (p. 16)
9. Financial Highlights - Transient Occupancy Tax (p. 17)
10. Financial Highlights - Oil Industry Business Tax (Measure C) (p. 18)
11. Financial Highlights - 2025 Proposed Budget Forecast (p. 19)
12. Fiscal Year 2024-2025 Special Events Budget (pgs. 20-27)
13. Fiscal Year 2024-2025 5-Year Capital Improvement Plan (pgs. 28-35)
14. Unfunded/High Priority Capital Improvement Projects (pgs. 36-37)

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