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Attachments: 1. Exhibit A Midyear Resolution, 2. Exhibit B Midyear Expenditure Requests

Date	Ver.	Action By	Action	Result
2/20/2018	1	City Council		

Report to Mayor and City Council

Tuesday, February 20, 2018

Discussion

SUBJECT:

FY17-18 MIDYEAR FINANCIAL REPORT AND CONSIDER ADOPTION OF RESOLUTION NO. 18-015 TO AMEND THE FY17-18 BUDGET (CITY COUNCIL)

I. SUMMARY

The Midyear Budget Report summarizes the status of the City's General Fund for the FY17-18 budget at the halfway point. The report includes new revenues received, and expenditures approved by the City Council after the adoption of the budget. It also includes budget savings from FY16-17.

Noteworthy events occurred since the adoption of the budget, including the passage of Measure C by the Carson electorate (the Business License Tax on certain petroleum mixing, blending and refining companies). Revenues from Measure C remain unknown, since the revenue collection process is just underway. The City Council also negotiated significant new revenues from Andeavor in the Community Benefits Agreement, however Andeavor's remaining payments to the City are on hold due to litigation involving the refiner and an environmental group. There is a perception among some that since Measure C passed, the City has solved its budget issues. This far from the reality.

The Midyear budget adjustment includes a pending sale of City owned surplus property for \$4.5 million. However, staff continues to recommend caution as the City prepares the

FY18-19 budget. Without significant service reductions, new revenues or the combination of both, the City will remain in a General Fund budget deficit. The revised Five-Year Model predicts budget deficits for the next five years. This City has adopted eight deficit budgets in the last eleven years.

II. RECOMMENDATION

1. RECEIVE and FILE this report.
2. ADOPT Resolution No. 18-015, A RESOLUTION OF THE CITY OF CARSON CITY COUNCIL AMENDING THE FISCAL YEAR 2017-18 BUDGET IN THE GENERAL FUND, COMMUNITY DEVELOPMENT BLOCK GRANT FUND, AND SPECIAL EVENTS FUND.
 - 1.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

At the halfway point in our FY17-18 budget the City finds itself in a stronger position with the General Fund Reserve, due to non-recurring receipts totaling \$6.1 million. The City will add \$4.2 million to its General Fund Reserve this year.

The City processed \$1.6 million in stale deposits back into the General Fund. We are anticipating the sale of the City owned property adjacent to the 405 Freeway by the end of the fiscal year, resulting in additional onetime revenues of \$4.5 million. The City originally paid \$3.5 million for the property.

Another bright spot is the large uptick in planning activity and building permits generating an additional \$1,981,000 in building permit revenues over our prior estimates. The unbudgeted expense increases of \$660,881 are minor compared to the City's overall \$84.7 million General Fund expenditure budget.

In viewing the Five-Year Model, the largest single increasing expense facing the City is our payment to CalPERS for employee pensions. Our CalPERS payments are estimated to increase by \$1,098,635 next fiscal year, ramping up to an additional annual increase of \$5,795,930 by FY22-23, five years out from today. All CalPERS agencies are facing similar growth in pension costs and there is no easy solution to this problem. Staff recommends caution as we prepare the FY18-19 budget.

Original & Current FY17-18 General Fund Budget

The FY17-18 budget was adopted on June 20, 2017 with deficit spending and an estimated General Fund Reserve at June 30, 2018 of \$9.3 million. After the budget was adopted, the City Council approved a series of amendments, including those related to the Andeavor (formerly Tesoro) Community Benefits Agreement.

	FY17-18 Original Budget	FY17-18 Current Budget
Beginning Balance	12,783,162	15,389,543
Revenue	76,167,709	81,117,373
Expenditures	(79,163,237)	(83,545,823)
Net Transfers & Adjustments	(456,699)	(456,699)
Ending Balance	\$ 9,330,935	\$ 12,504,394

Staff has analyzed the first 6 months of activity and proposes a series of further amendments to the FY17-18 General Fund budget with this report.

Summary FY17-18 General Fund Revenue

The following chart summarizes prior year actual revenue, current year budget, and updated expectations for General Fund revenue. In total we expect the General Fund will receive \$7.7 million more than previously estimated, including \$6.1 million of non-recurring receipts. It should be noted there are a series of non-recurring receipts that have contributed to a significant increase of the General Fund balance when compared to prior estimates.

	FY16-17 Actual	FY17-18 Budget	FY17-18 Expected	Variance
Sales Tax	24,721,304	24,397,018	24,786,000	388,982
Property Tax	7,195,139	7,799,000	7,187,000	(612,000)
Property Tax in Lieu of VLF	7,525,402	7,869,000	7,731,000	(138,000)
Franchise Fees	8,095,973	8,522,750	8,322,750	(200,000)
Utility Users Tax (UUT)	7,030,672	7,650,000	7,621,000	(29,000)
Building Permits	3,399,219	3,500,000	5,481,000	1,981,000
Business License Tax/Fee	2,765,967	2,701,000	2,689,000	(12,000)
Transient Occupancy Tax (TOT)	2,225,416	2,200,000	2,150,000	(50,000)
Oil Industry Business License Tax	-	-	266,473	266,473
Other Revenues (combo 96 other sources)	10,373,237	12,978,605	12,978,605	-
Non-Recurring Receipts				
NFL Settlement	1,400,000	-	-	-
Macerich Developer Security	2,000,000	-	-	-
Andeavor Community Benefits*	-	3,500,000	3,500,000	-
Stale Deposit Reconciliation	-	-	1,642,353	1,642,353
Sale of 2403 E 223rd St	-	-	4,500,000	4,500,000
Total General Fund Revenue	\$76,732,329	\$81,117,373	\$88,855,181	\$7,737,808
<i>*Includes \$1.5 million which must be used for specific LARIAC projects.</i>				

Discussion of the FY17-18 Non-Recurring Receipts in the General Fund

The Andeavor Community Benefits Agreement included the following payments to the City during FY17-18:

1. Community Benefits - Two \$1 million installments were due in FY17-18;
2. LARIAC Projects - An initial payment of \$1.5 million committed to fund LARIAC

- projects;
3. Truck Yard Development Impact Fee - \$1.15 million of payments that were not recorded in the General Fund, but recorded in a special revenue Development Impact Fee fund.

These payments were added to the estimated General Fund balance when the agreement was approved on July 5, 2017. The City will receive additional Community Benefit receipts, and the next LARIAC project receipt, upon completion of Milestone 3; which is completed construction of the Carson project elements associated with the Andeavor's integration project. It is currently unknown when Milestone 3 will be completed; and therefore, no additional receipts have been included in the Five-Year Model Snapshot included with this report.

Accounting staff completed a reconciliation of deposit liability accounts on the balance sheet. Staff discovered documentation necessary to determine that approximately \$1.6 million should have been recorded as revenue in prior periods; and as such, made an adjustment accordingly.

On December 19, 2017, the City Council authorized sale of surplus real property at 2403 E. 223rd Street for an estimated \$4.5 million. Although this addition to the General Fund balance is expected for FY17-18, it is not assured; as the transaction may be delayed or completed for a different amount.

Discussion of FY17-18 Expected Revenue Variances in the General Fund

The City utilizes a consultant for sales tax analysis and audit. The consultant has increased the FY17-18 revenue estimate by \$388,982 for continued strong auto sales and unexpected favorable audit adjustments.

A portion of the City's property tax is based upon the assessed value of oil inventory at the refineries in Carson. Los Angeles County assesses the inventory every January. In January 2016, the market price of oil had decreased significantly, contributing to a decrease of revenue for FY16-17. Staff noted the market price of oil had rebounded by January 2017, and estimated an increase in FY17-18 property tax revenue. Actual assessed values were released by the County in August 2017; and there were significant further decreases in the assessed values for property owned by Andeavor and Phillips 66. The FY17-18 revenue estimate has been reduced by \$612,000.

As part of franchise fee revenue, the City receives an annual payment from Southern California Edison each April. The FY17-18 revenue estimate of \$1.7 million was based upon actual FY15-16 revenue. Actual FY16-17 revenue was only \$1.3 million. According to a representative from Southern California Edison, the reduced FY16-17 payment was due to prior overpayments from commercial customers that were credited back in FY16-17, and a retroactive adjustment for budget vs. actual requirements in prior periods. The FY17-18 payment is expected to be approximately \$1.5 million. Therefore, the estimated FY17-18 revenue has been reduced by \$200,000.

There are 3 projects in the City that have paid significant building permit fees during FY17-18, which were not included in the original revenue estimate. As such, the FY17-18 revenue estimate has been increased by \$1,981,000.

1. Union South Bay garage buildings A and B at 21601 Avalon Boulevard and 615 Carson Street;
2. Macerich grading permit at 1 Stadium Way; and
3. An interior remodel of the Kaiser building at 18600 Figueroa.

In November 2017, the City's voters approved an Oil Industry Business License Tax, based upon 0.25% of applicable oil industry gross receipts. The tax went into effect December 1, 2017 and the first payments were due January 30, 2018. Staff contacted 27 companies that may be subject to the tax. Gross receipts information is confidential; and therefore, staff can only report information in the aggregate to the public. The following summarizes activity to date.

- Five (5) companies filed tax returns by January 30th. Additional companies are expected to file by March 1st.
- A total of \$266,473 has been collected for the period of December 2017. Additional payments may be received by March 1st.
- Five (5) companies have been found to be subsidiaries of other companies; or operating pipelines only, and paying the City's pipeline franchise fee.

The City is still in a period of discovery. As such, staff does not recommend including significant revenue estimates until more information is received. We expect to be more prepared with annual revenue estimates during consideration of the FY18-19 budget.

Proposed Amendments to General Fund Expenditures

Departments are requesting amendments that would add a total of \$660,881 to the General Fund expenditure budget. The detailed requests and justifications are listed on Exhibit B. Requests are summarized below.

Legal Settlements	168,000
Public Works Maintenance Equipment	161,803
Microsoft Office Upgrade	60,000
Tree Maintenance	50,818
Park & Community Center Facilities	49,000
Crossing Guards authorized June 20, 2017	35,560
Community Survey	25,000
Oil Industry Tax Auditor	25,000
Other Miscellaneous Requests	85,700
Total General Fund Requests	\$ 660,881

The majority of the legal settlements are related to a lawsuit filed against all of the redevelopment agencies in Los Angeles County in 2007 by the Los Angeles Unified School District, alleging that the County Tax Assessor overpaid the redevelopment agencies in the District's service area. The Community College District filed a similar lawsuit. With the dissolution of redevelopment in 2011 there was no opportunity for the former redevelopment agencies to provide the refund. The total amount of the settlement is \$125,900. As discussed further below, staff requests an increase of \$10,000 for General Fund transfers to the Special Events Fund for the City's 50th Anniversary.

FY16-17 General Fund Results Better Than Expected

When the FY17-18 budget was adopted on June 20, 2017, FY16-17 was not yet closed; and the beginning General Fund balance for the fiscal year was only an estimate of \$12,783,162. The FY16-17 financial statements have not yet been issued with the independent auditor opinion letter, but the unassigned General Fund balance at June 30, 2017 was \$17,068,529. This is \$4,285,367 more than the original budget estimate and \$1,678,986 more than the current budget estimate. The FY16-17 results will be discussed in greater detail when the audited financial statements are presented to the City Council. However, the \$4,285,367 improvement from the original budget estimate is attributable to net positive budget variances, and the \$2 million Macerich Developer Security.

Snapshot of Five-Year Model for the General Fund

Staff has prepared a snapshot of the Five-Year Model for the General Fund updated with the new information presented in this report. In summary, the General Fund balance at June 30, 2018 is expected to be \$21,250,307, if the property at 2403 E 223rd Street is sold for \$4.5 million as reported to City Council on December 19, 2017.

Current Budget for General Fund Reserve	12,504,394
FY16-17 Positive Variances	1,678,986
Increased Revenue Expectations	7,737,808
Requested Expenditure Increases	(660,881)
Requested Transfers Increase	(10,000)
Expected General Fund Reserve	\$21,250,307

If the property at 2403 E 223rd Street is not sold as expected, the General Fund balance may be \$16,750,307. The City Council's reserve policy threshold (20% of budgeted expenditures) is calculated as \$16,843,341.

	FY17-18 Expected	FY18-19 Model	FY19-20 Model	FY20-21 Model	FY21-22 Model	FY22-23 Model
Beginning General Fund Balance	\$17,068,521	\$21,250,307	\$14,326,555	\$3,762,068	\$(8,990,234)	\$(22,242,762)
Sales Tax	24,786,000	24,500,000	25,161,500	25,840,861	28,038,564	30,295,600
Property Tax	7,187,000	7,401,445	7,640,848	7,887,872	8,142,946	8,406,460
Property Tax in Lieu of VLF	7,731,000	7,984,676	8,268,132	8,560,824	8,863,021	9,175,880
Franchise Fees	8,322,750	9,322,750	9,322,750	9,322,750	9,322,750	9,322,750
Utility Users Tax (UUT)	7,621,000	7,621,000	7,621,000	7,621,000	7,621,000	7,621,000
Building Permits	5,481,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Business License Tax/Fee	2,689,000	2,761,603	2,836,166	2,912,743	2,991,387	3,072,150
Transient Occupancy Tax (TOT)	2,150,000	2,208,050	2,267,667	2,328,894	2,391,775	2,456,350
Oil Industry Business License Tax	266,473	???	???	???	???	???
Cannabis Tax Revenue	???	???	???	???	???	???
Tesoro Community Funding	3,500,000	???	???	???	???	???
Other Revenues	14,620,958	12,028,480	12,148,765	12,270,252	12,392,955	12,516,880
Sale of 2403 E 223rd St*	4,500,000	-	-	-	-	-
Sale of Parcel Victoria/Cedarbluff	-	1,500,000	-	-	-	-
General Fund Revenue	\$88,855,181	\$78,828,004	\$78,766,828	\$80,245,196	\$83,264,397	\$86,367,090
Expenditures & Net Transfers	84,673,403	84,653,125	86,938,759	89,286,106	91,696,830	94,172,640
PERS Contribution Increases		1,098,635	2,392,552	3,711,393	4,820,094	5,795,930
General Fund Expenditures	\$84,673,403	\$85,751,760	\$89,331,311	\$92,997,499	\$96,516,924	\$99,968,570
Net Activity	\$ 4,181,778	\$(6,923,756)	\$(10,564,483)	\$(12,752,303)	\$(13,252,527)	\$(13,601,480)
Ending General Fund Balance	\$21,250,307	\$14,326,555	\$3,762,068	\$(8,990,234)	\$(22,242,762)	\$(35,844,242)
Policy Threshold (20% of Exp)	\$16,843,341	\$17,150,350	\$17,866,265	\$18,599,500	\$19,303,385	\$19,993,710

Due to the non-recurring revenue sources noted above, FY17-18 activity shows a surplus of \$4,181,778. However, the preliminary estimates for FY18-19 indicate a deficit of \$6,923,756 that continues to grow each year thereafter. This snapshot does not yet include revenue estimates for the Oil Industry Business License Tax.

For the five “Model” years shown in the snapshot, staff assumed the following.

- Sales tax and property tax revenue estimates are the most current provided by the City’s consultant, HdL Companies.
- Franchise fee revenue includes an increase attributable to the anticipated new waste hauler.
- Building permit revenue is reduced to a “normal” level of \$3.5 million. FY17-18 includes significant permit revenue as discussed above. Going forward, we expect additional significant building permit revenue for development of the 157 acres. However, the timing and amount of additional revenue is uncertain and has not yet been included in the Five-Year Model.
- Nothing further has been included for the Oil Industry Business License Tax, as limited data is available at this time. With the FY18-19 budget process, revenue estimates will be included in the Five-Year Model.
- Nothing has been included for Cannabis tax revenue pending data from potential commercial applications.
- Additional funding from the Tesoro Community Benefits Agreement is pending completion of the Carson elements of the integration project. At this time, it is

unknown when the construction will be completed; and no further revenue has been included in the snapshot.

- “Other Revenues” have been reduced by non-recurring receipts in FY17-18.
- Sale of the CDC parcel at E. Victoria Street and Cedarbluff Way has been included in FY18-19 for \$1.5 million. The sale was approved in a settlement agreement and the property is on the market.
- Expenditures have been reduced by non-recurring items in FY17-18, and increased by the additional expenditure appropriations requested herein.
- The increased contributions to the employee pension plan have been included.
- Contributions to infrastructure rehabilitation (e.g. streets and sidewalks) have not been included in the snapshot at this time.

The snapshot indicates the General Fund balance will be extinguished in 2020. Once Oil Industry Business License Tax and Cannabis Tax are included in the Model, the General Fund outlook will improve.

Significant Budget Variances in Other Funds

The Community Development Block Grant (CDBG) Action Plan was adopted after the original budget was adopted. The requested net amendments of \$76,981 true-up the budget to the approved Action Plan.

Amendments totaling \$65,080 are requested for the Special Events Fund. The requests will be funded with a combination of fund balance, additional revenue, and a \$10,000 transfer from the General Fund for unforeseen 50th Anniversary expenditures. Additional detailed information may be found in Exhibit B.

The City received a \$500,000 Home program grant award notification on July 17, 2017. The related expenditure has not yet been appropriated.

A February 6, 2018 staff report to City Council indicated that the Hemingway Park Pool rehabilitation (Project 1513) is estimated to be \$209,000. Quimby revenue of \$34,600 has been appropriated for the project, but no other funding source has been identified yet.

Los Angeles County is contributing \$5,720,000 to the Carriage Crest Storm Water project (Project 1515). The additional funding has not yet been appropriated for expenditure.

V. FISCAL IMPACT

Staff has amended General Fund revenue estimates based on current information. If the City Council approves the proposed resolution, the estimated General Fund balance at June 30, 2018 will be \$21,250,307.

VI. EXHIBITS

- A. Resolution No. 18-015, A RESOLUTION OF THE CITY OF CARSON CITY COUNCIL AMENDING THE FISCAL YEAR 2017-18 BUDGET IN THE GENERAL FUND, COMMUNITY DEVELOPMENT BLOCK GRANT FUND, AND SPECIAL

EVENTS FUND (pages 9-12)

B. Requested Budget Amendments (pages 13-16)

A.

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