



## Legislation Details (With Text)

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## Report to Mayor and City Council

Tuesday, April 09, 2019

Discussion

### SUBJECT:

### FISCAL YEAR 2018-19 MIDYEAR FINANCIAL REPORT (CITY COUNCIL)

#### I. SUMMARY

This item was continued from the March 19, 2019, City Council agenda. The purpose of this report is to provide a Mid-Year update of revenue estimates and expenditure variances. The report also includes mid-year funding requests from departments and the status of the City's General Fund for the Fiscal Year 2018-19 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 and carry-forwards from prior Fiscal Year 2017-18.

The City began the Fiscal Year 2018-19 with a \$27.4 million fund balance. This is \$7.6 million higher than originally anticipated. In addition to salary savings, most of the increase is largely attributable to three major items: (1) a \$1.6 million in stale deposits that the City moved to General Fund; (2) a one-time \$2.5 million settlement payment from Tesoro; and (3) \$1.2 million in Measure C revenues where staff only budgeted a projected \$266,000.

Forecasting Revenues from the Oil Industry Tax (Measure C) remains a challenge as actual receipts have been significantly lower than originally anticipated. The Oil Industry Tax Accountability Audit process is still underway and Staff anticipates a final audit within

the next month or so. The Oil Industry Tax has not solved the City's budget issues. Staff continues to recommend prudence as the City prepares the Fiscal Year 2019-20 budget. Without significant service reductions, new revenues or the combination of both, the City will maintain its structural General Fund budget deficit for next fiscal year and the revised Five-Year Model predicts budget deficits for the next four years. The City has adopted nine deficit budgets in the last twelve years.

## II. RECOMMENDATION

RECEIVE and FILE the Mid-year Budget Report, which includes the 2<sup>nd</sup> Quarter Update and Vacancy Report.

## III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

## IV. BACKGROUND

At the halfway point in Fiscal Year 2018-19 budget the City finds itself in a somewhat stronger position with the General Fund Reserve, due to an increase of beginning fund balance total of \$27.4 million (compared to \$19.8 million originally budgeted). As of December 31, 2018, revenues totaled \$30.1 million, which is 35% of the annual planned revenue (due mainly to timing lags). Expenditures totaled \$37.3 million or 42% of originally planned costs.

In viewing the Five-Year Model, the largest single increasing expense facing the City is its payment to CalPERS for employee pensions. Carson's CalPERS payments are estimated to increase by \$2,392,552 next fiscal year, ramping up to an additional annual increase of \$5,795,930 (over the current year's base) by Fiscal Year 2022-23. All CalPERS agencies are facing similar growth in pension costs due to changes in CalPERS' anticipated rate of return and the requirement to reduce unfunded liabilities. There is no easy solution to this problem for any agency. Because of the significant increase in the budget solely due to PERS costs, Staff recommends caution as it has begun to prepare the Fiscal Year 2019-20 budget.

	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
PERS Contributions	\$4,869,400	\$5,968,035	\$7,261,952	\$8,580,793	\$9,689,494	\$10,665,336
Increase		\$1,098,635	\$2,392,552	\$3,711,393	\$4,820,094	\$5,795,936

### Adopted & Current Fiscal Year 2018-19 General Fund Budget

The Fiscal Year 2018-19 budget was adopted on July 1, 2018 with projected deficit of \$1,879,997 and an estimated General Fund Reserve at year-end (June 30, 2019) of \$17.6 million. A summary of the estimated ending General Fund balance compared to the City Council approved budget is as follow:

FY18-19 Adopted Budget	FY18-19 Mid-Year Actuals	FY18-19 YE Forecast

Beginning/Fund Balance	\$19,811,555	\$27,386,187	\$27,386,187
Revenue	\$86,919,816	\$30,143,034	\$86,178,159
Expenditures	(\$88,799,813)	(\$37,310,578)	(\$95,939,900)
Net Transfers & Adjustments	(\$460,000)		
<b>Ending Balance</b>	<b>\$17,491,859</b>	<b>\$20,218,643</b>	<b>\$17,624,446</b>

GFOA (Government Finance Officers Association) recommends, at minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their General Fund. These best practice policies translate to 17% to 20% of operating expenditures. The minimum calculated operating reserve is \$15.4 million (17% of \$95,939,900 million expenditures). The estimated ending fund balance at June 30, 2019 of \$17.6 million is compliant with the General Fund reserve best practice policy.

Department Name	Adopted Budget	Revised Budget	Expenses	Spent
City Council	927,549	927,549	478,913	52%
City Attorney	2,920,000	2,920,000	1,740,595	60%
City Clerk	1,112,767	1,199,767	409,673	34%
City Treasurer	788,874	789,374	342,329	43%
City Manager	4,351,107	4,670,757	1,733,211	37%
Public Safety	24,071,329	24,278,260	7,934,271	33%
Finance	4,085,693	4,180,693	1,746,250	42%
Human Resources/Risk Mgmt	2,597,877	2,630,107	1,353,311	51%
Community Development	7,496,259	7,622,634	922,810	12%
Public Works	16,444,543	22,531,369	6,778,579	30%
Community Services	13,234,510	13,420,085	5,318,681	40%
Non-Departmental	10,769,305	10,769,305	8,552,053	79%
<b>Total</b>	<b>88,799,813</b>	<b>95,939,900</b>	<b>37,310,578</b>	<b>39%</b>

The City Departments General Fund expenditures budget consists of labor and non-

labor components. The overall expenditures finished December at 34% of revised budget two quarters through the year.

### Summary Fiscal Year 2018-19 General Fund Revenue

The following chart summarizes prior year actual revenue, current year budget, and updated expectations for General Fund revenue. 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.

	<b>FY 17-18 Actuals</b>	<b>FY 18-19 Adopted Budget</b>	<b>FY 18-19 Projections</b>	<b>Variance</b>
Sales Tax	24,439,000	24,672,756	24,825,099	152,343
Property Tax	7,607,000	7,401,445	7,261,445	(140,000)
Property Tax in Lieu of VLF	7,724,000	7,873,445	7,743,445	(130,000)
Franchise Fees	9,094,860	9,948,750	9,448,750	(500,000)
Utility Users Tax (UUT)	8,129,000	7,000,000	7,000,000	
Building Permits	6,927,000	3,500,000	3,500,000	
Business License Tax/Fee	2,916,000	2,900,000	2,900,000	
Transient Occupancy Tax (TOT)	2,242,000	2,150,000	2,150,000	
Oil Industry Business License Tax	1,223,000	4,700,000	4,700,000	
Other Revenues	15,612,000	16,773,420	16,649,420	(124,000)
<b>Total General Fund Revenue</b>	<b>85,914,000</b>	<b>86,919,816</b>	<b>86,178,159</b>	<b>(741,657)</b>

General Fund revenues for Fiscal Year 2018-19 are projected to total \$86.2 million. This includes a \$4.7 million estimate of Measure C revenue. The City's major revenue sources (Sales Tax, Property Tax and Utility Use Tax) represent 55% of the total General Fund revenues. The City utilizes a consultant for sales tax analysis and audit. The consultant has increased its Fiscal Year 2018-19 revenue estimate by \$152,343 for continued strong auto sales. 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 and the price of oil on that assessment date causes some annual fluctuations in the City's property tax revenue.

As part of franchise fee revenue, the City receives an annual payment from Southern California Edison each April. The Fiscal Year 2018-19 revenue estimate of \$1.1 million was based upon actual Fiscal Year 16-17 revenue.

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. As of December 31, 2018, the total Measure C revenue totaled \$2,353,442 which is 53% of revised plan

(\$4.7 million).

### Proposed Amendments to General Fund Expenditures

Since the beginning of the fiscal year, departments have requested and City Council has approved budget amendments that added a total of \$1,663,604 to the General Fund expenditure budget. The detailed requests and justifications are listed on Exhibit B. Requests are summarized below.

Restore funding for Annual Parent Conference	\$4,209
GIS Software and Equipment Upgrade	\$7,500
Increased appropriation for Events Services	\$104,000
Ocean Blue damage repair	\$14,634
Environmental resolution no 18-134	\$23,407
Resolution 18-125 Continuing appropriations for variety of project	\$1,117,337
Medians Maintenance	\$211,032
Administration/Management and Control	\$26,375
Family Support Prevention	\$6,175
Professional Services	\$33,235
Other Miscellaneous Requests	85,700
<b>Total General Fund Approved Budget Amendments</b>	<b>\$1,663,603</b>

### Fiscal Year 2018-19 Vacancy Status

Department	POSITION TITLE	FTE
City Treasurer	Deputy City Treasurer	1.0
CITY MANAGER	Executive Assistant	1.0
CITY MANAGER	Code Enforcement Officer	1.0
COMMUNITY DEVELOPMENT	Senior Planner	1.0
COMMUNITY DEVELOPMENT	(Senior) Administrative Specialist	1.0
FINANCE	Senior Budget Analyst	1.0
FINANCE	Accounts Payable Specialist I	1.0
HUMAN RESOURCES	Senior Human Resources Analyst	1.0
HUMAN RESOURCES	Human Resources Specialist	1.0
COMMUNITY SERVICES	Senior Recreation Center Supervisor	1.0
COMMUNITY SERVICES	Event Services Supervisor	1.0
COMMUNITY SERVICES	Recreation Program Manager	1.0
COMMUNITY SERVICES	Human Services Supervisor	1.0
COMMUNITY SERVICES	Early Childhood Director	1.0
COMMUNITY SERVICES	Early Childhood Instructor	1.0

COMMUNITY SERVICES	Human Services Senior Coordinator	1.0
COMMUNITY SERVICES	Human Services Assistant Coordinator	1.0
PUBLIC WORKS	Right of Way Ops and Maint Superintendent	1.0
PUBLIC WORKS	Landscape and Bldg Maint Superintendent	1.0
PUBLIC WORKS	Principal Administrative Analyst	1.0
PUBLIC WORKS	Construction Inspector	2.0
PUBLIC WORKS	Traffic Engineer	1.0
PUBLIC WORKS	Engineering & Maintenance Supervisor	1.0
PUBLIC WORKS	Engineering Technician	1.0
PUBLIC WORKS	Division Secretary	1.0
PUBLIC WORKS	Senior Maintenance Worker I	1.0
<b>TOTAL</b>		<b>28.0</b>

The City has 26 General Fund citywide vacancies across departments. The City Council will have the opportunity to re-visit staffing budget levels during the fiscal year 2019-20 budget process

## **V. FISCAL IMPACT**

Staff has amended General Fund revenue estimates based on current information. The estimated General Fund balance at June 30, 2019 will be \$17,624,446.

## **VI. EXHIBITS**

None

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