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Attachments: 1. Exhibit 1 - General Fund Reserve, 2. Exhibit 2 - Sales Tax by Major Business Group, 3. Exhibit 3 - The Top 25 Sales Tax Producers In The City of Carson, 4. Exhibit 4 - The City of Carson's Sales Tax Revenue By Economic Sector, 5. Exhibit 5 - Sales Tax Revenue Projections For Fiscal Year 2021-2022, 6. Exhibit 6 - Sales Tax Revenue Projections For Fiscal Year 2022-2023, 7. Exhibit 7 - Property Tax Dollar Breakdown and City of Carson Share, 8. Exhibit 8 - Average shares of Property Tax revenue by Agency Within the City of Carson, 9. Exhibit 9 - Hotel Occupancy Annual Performance - Los Angeles Market

Date	Ver.	Action By	Action	Result
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Report to Mayor and City Council

Tuesday, March 15, 2022

Discussion

SUBJECT:

FISCAL YEAR 2022-2023 BUDGET WORKSHOP NO. 1 (CITY COUNCIL)

I. SUMMARY

This is the first of three planned budget workshops prior to a public hearing on June 21, 2022 to consider the adoption of the proposed Fiscal Year 2022-2023 budget. This workshop will provide an update on the General Fund Reserve and projected revenues for Fiscal Year 2022-2023. The next two workshops, on April 19 and May 17, 2022, will consider proposed expenditures and strategies for achieving and maintaining a balanced budget as required by law. The City's charter requires the City Council to adopt an annual budget by resolution each year prior to June 30.

The City goal will be to adopt a structurally balanced budget for the second consecutive year. A structurally balanced budget is when recurring expenditures do not exceed our recurring revenues.

The nine City Council priorities identified at the Workshop on Mission, Vision and Priorities

will serve as the foundation for financial planning in formulating the Fiscal Year 2022-2023 budget. Proposed expenditures will be prioritized in alignment with the newly defined City Council priorities highlighted 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

II. RECOMMENDATION

PROVIDE direction to staff which will be used to build the draft budget.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

The purpose of this workshop is for the City Council to receive updated information regarding the General Fund Reserve and projected revenues for the Fiscal Year 2022-2023 budget and to provide direction for potential changes to the budget structure for Fiscal Year 2022-2023.

General Fund Reserve

Fund Balance is the City's "reserve." It provides a measure of the City's ability to mitigate future risks associated with providing important services in times of economic uncertainties (i.e., Dominguez Channel Emergency). To provide funding for emergencies, the City Council has adopted a policy that requires fund balance to be maintained at a minimum level equal to 20% of General Fund's budget. Exhibit (1) depicts Fund Balance for five previous fiscal years. The City has maintained a healthy Fund Balance ("reserve") and it is anticipated that the upcoming fiscal year will continue to follow this trend.

In addition, it will be possible for the proposed Fiscal Year 2022-2023 budget to be adopted as a structurally balanced budget where projected ongoing revenues are expected to

balance the proposed operating expenditures. For that to occur into the future, we will need to continue to manage ongoing expenditures with an eye toward potential downward fluctuations in long term revenue. For example, we need to be mindful that our Utility Users Tax sunsets in July 2023 and resist the desire to make assumptions about its continuation past that date (discussed in further detail below).

The audited General Fund balance ended June 30, 2021 is \$59.4 million. 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 \$1.0 million has been set aside for self-insurance claims.

Audited June 30, 2021 Balance	\$59.4 million
Less:	
Calculated Reserve for Economic Uncertainties	\$15.3 million
Non-spendable	\$0.7 million
Restricted	\$2.3 million
Set Aside for Self-Insurance Claims	\$1.0 million
General Fund Balance Surplus	\$40.1 million

General Fund Revenues

The purpose of the financial forecast is to provide insight on the potential long-term financial trends for the General Fund resources. This perspective will allow the City Council to make informed decisions today while fully understanding the future anticipated changes to the City's revenues. It is staff's expectation that General Fund recurring revenues will recover by an average of 4% of the next fiscal year. As the city tax receipts show, the impact from the pandemic did not meet the devastating forecast predicted. In fact, tax revenues collected exceeded expectations.

Sales and Use Tax:

Sales tax comprises roughly one-third of General Fund revenue (exhibit 2). The California Department of Tax and Fee Administration (CDTFA) has released sales tax information for sales occurring in the second and third quarter of calendar year 2021. Exhibit 3 shows the top 25 sales tax producers in the City of Carson. Major Industries rebounded from the pandemic and exceeded recovery expectations. Most notable sectors that illustrated the

biggest turnaround were the auto & transportation, fuel service stations, and restaurants & hotels. Careful attention will need to be made towards restaurant & hotel sector due to difficulty in hiring. There is sentiment nationwide of prospective workers not returning to full time work or even resigning, this period has been termed "The Great Resignation".

Major Industry Group	3Q - 2021	3Q - 2020	\$ Change	% Change
Autos & Transportation	2,136,943	1,876,496	260,447	13.9%
Sate & County Pools	1,537,335	1,223,611	313,724	25.6%
Business & Industry	1,522,162	1,377,556	144,605	10.5%
General Consumer Goods	980,405	913,030	67,375	7.4%
Building & Construction	784,753	771,383	13,371	1.7%
Fuel & Service Stations	626,665	471,653	155,011	32.9%
Restaurants & Hotels	587,864	398,008	189,856	47.7%
Food & Drugs	159,810	153,350	6,459	4.2%
Transfers & Unidentified	5,588	5,288	300	5.7%
Total	\$8,341,525	\$7,190,375	\$1,151,150	16.0%

The Business-industry sector experienced a significant dip largely due to forced shutdowns and stay-at-home orders. Despite recent gains in the manufacturing base, employment levels in October were still lower than in February. Exhibit (4) shows the City of Carson's sales tax revenue by economic sector. As the City began move on from the pandemic closures of last year, we are detecting increased demand for fuel which was reflected in increased prices. The correlation of the same demand leads to purchases of motor vehicles, however close adverse headwinds due to supply chain crunch which might hinder further growth. Consumers continue to focus on home improvement projects, pushing up revenue from building-construction. City of Carson's share of the countywide use tax pool increased 25.6% over the same period in the prior year. Exhibit 5 shows the projected sales tax revenue by year end (ending June, 2022) for Fiscal Year 2021-2022.

A summary of sales tax revenue actuals and projection is as follow:

FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
\$28,473,022	\$27,355,883	\$32,912,000	\$33,644,000	\$34,316,880

Property Tax:

The City of Carson experienced a net taxable value increase of 1.1% for the Fiscal Year 2021-2022 tax role, which was slightly less than the increase experienced countywide at 3.6%. The following table compares the growth in Carson to surrounding cities.

City	% Change
Carson	1.1%
Gardena	3.9%
Compton	3.1%

Bellflower	3.7%
Lakewood	3.9%
Long Beach	3.5%
Torrance	3.1%
Hawthorne	2.4%

Growth in the number of home sales strengthened in the summer of 2020 and many cities detected an increase in properties for sale despite a pandemic year. Prices have continued to rise in response to lower inventory and lower interest rates. The median sale price of a detached single family residential home in Carson from January through October 2021 was \$665,000. This represents a \$75,000 (or 12%) increase in median sale price from 2020 as shown in the following table.

Fiscal Year	Property Tax Revenue	% Change
2015	\$420,000	
2016	\$445,000	5.95%
2017	\$485,500	9.55%
2018	\$530,000	8.72%
2019	\$550,000	3.77%
2020	\$590,000	7.27%
2021	\$665,000	12.71%

Over the last 5 years, the City's share of property tax revenue from Marathon (formerly Tesoro) 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.
- Increase when new equipment is purchased
- Decrease when existing equipment is depreciated; and
- Decrease when old equipment is decommissioned.

The top 10 property taxpayers based on net values are:

	Rank
Marathon	1
Watson Partners LP	2
Gatx Tank Storage Terminal Corp	3
Phillips 66 Company	4
Prologis	5
Watson Cogeneration Company	6
Equilon Enterprises LLC/Shell	7
Ineos Polypropylene LLC	8

Anschutz So. California Sports Complex	9
Carson Dominguez Properties	10

Exhibit (7) and Exhibit (8) illustrate the property tax share among agencies within the City of Carson. The following table show Year-To-Year decline due to the drop in oil prices which is incorporated into the assess value of the property.

Fiscal Year	Property Tax Revenue	% Change
2012-2013	\$13,847,726	
2013-2014	\$13,765,369	-0.6%
2014-2015	\$14,064,809	2.2%
2015-2016	\$14,604,289	3.8%
2016-2017	\$14,618,857	0.1%
2017-2018	\$14,910,756	2.0%
2018-2019	\$15,534,714	4.2%
2019-2020	\$15,996,779	3.0%
2020-2021	\$16,738,239	4.6%
2021-2022	\$15,280,187	-8.7%

A summary of property tax revenue actuals and projection is as follow:

FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-2025
\$16,738,239	\$15,280,187	\$17,732,016	\$18,332,470	\$18,953,229

Transient Occupancy Tax (TOT):

The Transient Occupancy Tax ("TOT"), also commonly known as a hotel tax, is a general tax deposited into the City's General Fund. The tax is imposed on occupants for privilege of occupying room(s) in hotel, motel, inn and other short-term lodging facilities for stays of 30 days or less. The TOT rate in the City of Carson is 9% and currently represents about 3% of City's total General Fund revenue. For the average California city imposing TOT, it provides about 7% of City General Fund. However, some cities are especially dependent upon TOT revenue.

City	TOT Rate
Inglewood	14%
Long Beach	12%
Hawthorne	12%
Torrance	11%
Gardena	11%
Covina	10%
Carson	9%
Lakewood	8%
Compton	7.5%

The impact of the COVID-19 pandemic on U.S. hotels has presented challenges to all participants in the lodging industry. From recent reports from Visit California, travel and tourism in California are not expected to reach pre-COVID-19 levels until 2024. The Los Angeles hotels are not expected to surpass the 2019 levels until 2024 as shown in exhibit (9). The occupancy is projected to increase to 72% next year but below the long run average of 74.4%.

Moving into 2023, Carson hotels are projected to continue towards a positive, slow and steady occupancy growth. Staff expects this growth to continue as we move into less restrictive tiers. Hotels are anticipating new state and local guidelines for Meetings and Events that are key portions of hotels' business model that allow competing for Group programs (such as conventions). The state and county risk losing groups to other states that have guidelines and protocols in place.

The Fiscal Year 2022-2023 projection for Transient and Occupancy tax was reduced by \$375,000 compared to Fiscal Year 2021-2022 level. As of second quarter of Fiscal year 2021-2022, the City collected a total of \$942,867 in TOT. This is a 21% or \$161,453 increase from 2Q Fiscal Year 2020-2021 as shown in the following table.

2Q / FY 2019-2020	Q2 / FY 2020-2021	Q2 / FY 2021-2022
\$1,086,425	\$781,414	\$942,867

A summary of Transient Occupancy Tax revenue actuals and projection is shown in the following table. The Los Angeles County by using funding from Project HomeKey secured acquisition and purchase of The Hampton Inn in Carson. Potential impact of the purchase is 375,000 on average per year.

FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024
\$1,783,795	\$1,648,796	\$1,958,384	\$1,583,384	\$1,615,051

Utility Users Tax (UUT):

The City of Carson's Utility Users Tax (UUT) was originally approved by the City's voters in 2009 and renewed in 2016 for seven years. The tax is currently scheduled to sunset June 30, 2023. The UUT is imposed on electricity and natural gas only (at 2% rate) and any increase or extension of UUT requires voter approval. The City Council declared a fiscal emergency for Fiscal year 2017-2018, which lifted the cap of \$1 million per payer per year. As of second quarter of Fiscal year 2021-2022, the City collected a total of \$6.2 million in UUT. This is a 57% or \$2.2M increase from second quarter Fiscal Year 2020-2021 as shown in the following table.

2Q / FY 2019-2020	Q2 / FY 2020-2021	Q2 / FY 2021-2022
\$4,210,992	\$3,980,395	\$6,236,342

The UUT is a vital element in the funding of critical city services. On average, the UUT provides **10%** of the City of Carson's General Fund revenue. In some cities, the UUT provides as one-third of the General Fund:

City	UUT as % of GF Revenues
Richmond	31.8%

Huntington Beach	25.3%
Compton	23.6%
Bell	22.3%
Lynnwood	19.4%
El Segundo	18.7%
Torrance	18.5%
Inglewood	16.1%
Carson	10.0%

A summary of the Utility Users tax revenue actuals and projection is as follows.

FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024
\$7,458,906	\$7,450,000	\$7,450,000	\$8,500,000	

Transaction and Use Tax (Measure K):

On August 4, 2020, the City Council approved a ballot measure (Measure K) amending the City of Carson Municipal Code and providing for a local transaction and use tax of three quarter-cent (0.75%). This measure was submitted to the County of Los Angeles and included on the November 3, 2020 ballot designated as Measure K. Measure K was approved by over 53% of the voters. The initial revenue forecast (before the COVID-19 pandemic) showed that Measure K would generate approximately \$12 million using a number of regional and state economic variables (metrics) including per capita auto sector spending in Los Angeles County. The City's sale tax consultant, HdL Companies, has revised its Fiscal Year 2021-2022 revenue forecast for the City of Carson's Measure K to reflect an increase in anticipated sales tax transactions with a new estimated Measure K revenue of about \$13.9 million. This projection depends on economic recovery of about 9.9% in Fiscal Year 2021-2022 compared to the COVID-19 recessionary lows. The new analysis also takes into consideration the newly implemented State law AB147 (Wayfair) that has resulted in additional internet goods being subject to California sales tax than had been true in the past.

Projected General Fund Revenues

Revenues	FY 2022-23
Sales Tax	\$33,644,000
Property Tax	\$18,332,470
Transient Occupancy Tax (TOT)	\$1,583,384
Utility Users Tax (UUT)	\$8,500,000
Transaction and Use Tax (Measure K)	\$14,348,136
Oil Industry Business Tax (Measure C)	\$4,700,000
License and Permits	\$2,900,000
Franchise Tax	\$9,500,000
Fines and Forfeitures	\$2,400,000
Charges for Services	\$5,800,000
Total	\$101,707,990

V. FISCAL IMPACT

City Council direction will be used to prepare the draft Fiscal Year 2022-2023 budget.

VI. EXHIBITS

1. Exhibit 1 - General Fund Reserve
2. Exhibit 2 - Sales Tax by Major Business Group
3. Exhibit 3 - The Top 25 Sales Tax Producers In The City of Carson
4. Exhibit 4 - The City of Carson's Sales Tax Revenue By Economic Sector
5. Exhibit 5 - Sales Tax Revenue Projections For Fiscal Year 2021-2022
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7. Exhibit 7 - Property Tax Dollar Breakdown and City of Carson Share
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Prepared by: Tarik Rehmani, Finance Director and Ralston Turner, Sr. Budget Analyst