



Legislation Details (With Text)

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Attachments:	1. Exhibit A - Allocation of ARPA Funds, 2. Exhibit B - General Fund Reserve, 3. Exhibit C - Vacancy Rate				

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Report to Mayor and City Council

Monday, April 19, 2021

Discussion

SUBJECT:

FISCAL YEAR 2022-2023 BUDGET WORKSHOP NO. 2 (CITY COUNCIL)

I. SUMMARY

This is the second of three planned Budget Workshops being presented to the City Council before its considering adoption of the Fiscal Year 2022-2023 budget in June 21st, 2022. The first Budget Workshop took place on March 15, 2022 where staff presented detailed information on the City General funds revenues including forecast and 5 year forecast. This report includes updated information regarding the General Fund Reserve, projections for the Fiscal Year 2022-2023 General Fund personnel expenditures, departments' operating expenditures and a preliminary estimate of the Los Angeles County Sheriff contract. The third and final budget workshop on May 17th, 2022 will include Capital Improvement Projects, Special revenue Funds and Special Events fund.

The American Rescue Plan Act (ARPA) of 2021 was passed by both houses of the U.S. Congress and signed into law by President Biden March 11, 2021. The bill was intended to mitigate many of the worst financial effects of the COVID-19 pandemic and included \$1.9 trillion in stimulus measures with the City of Carson receiving \$17.7 million. On March 15th, 2022, Council approved appropriation of ARPA funds and the distribution is illustrated in Exhibit A.

Below are the General Fund revenue line items discussed in detail at the first Budget Workshop, including actual and revised forecast.

Revenues	FY 2021-22	FY 2022-23
Sales Tax	\$32,912,000	\$33,644,000
Property Tax	\$17,732,016	\$18,332,470
Transient Occupancy Tax (TOT)	\$1,958,384	\$1,583,384
Utility Users Tax (UUT)	\$7,450,000	\$8,500,000
Transaction and Use Tax (Measure K)	\$13,900,000	\$14,348,136
Oil Industry Business Tax (Measure C)	\$4,700,000	\$4,200,000
License and Permits	\$2,900,000	\$4,900,000
Franchise Tax	\$9,500,000	\$9,500,000
Fines and Forfeitures	\$2,400,000	\$3,706,754
Charges for Services	\$5,800,000	\$5,800,000
Total	\$99,252,400	\$104,872,744

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 2021-2022 budget. Departments 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

Of these nine priorities, the City Council concluded that Economic Development, Increased Public Safety, Maintaining Quality City Programs and Services and Quality of Life Improvements are its top four priorities.

II. **RECOMMENDATION**

PROVIDE direction to staff on any expenditure line item that will be used to build the draft budget.

III. **ALTERNATIVES**

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

On March 15, 2022, the City Council conducted its first Budget Workshop for Fiscal Year 2022-2023 that included a detailed analysis of the City's major General Fund revenues:

- 1) Sales Tax
- 2) Property Tax
- 3) Transaction and Use Tax (Measure K)
- 4) Utility Users Tax
- 5) Transient Occupancy Tax

Tonight, is the second of three planned Budget Workshops prior to the public hearing to consider adoption of the Fiscal year 2022-2023 budget, currently scheduled for June 21, 2022. This Workshop will focus on updated information regarding the General Fund Reserve, projections for the Fiscal Year 2022-2023 General Fund personnel expenditures, departments' operating expenditures and a preliminary estimate of the Los Angeles County Sheriff contract.

General Fund Reserve

The City's independent financial statement auditor, CliftonLarsonAllen LLP, has completed the audit for Fiscal Year 2020-2021. The auditor found the financial statements to be presented fairly, in all material respects, including the financial position and activities of the City and its component units. The Comprehensive Annual Financial Report is available on the City's website and may be viewed in City Hall at the City Clerk's Office.

The General Fund is the primary operating fund of the City. The following is 3-year summary of actual numbers.

	FY 18-19*	FY 19-20*	FY 20-21*
Beginning Fund Balance	\$35,219,969	\$47,587,999	\$45,184,396
Revenues	\$95,627,840	\$91,543,590	\$88,986,723
Expenditures	\$83,259,810	\$93,947,193	\$80,460,862
Ending Fund Balance (Reserve)	\$47,587,999	\$45,184,396	\$59,399,074

* Source data: Audited financial reports

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. To provide funding for emergencies, the City Council has adopted a policy that requires maintaining a "minimum reserve" for economic activity equal to 20% of expenditures of the current year General Fund exclusive of Restricted and Assigned fund balance. Exhibit B 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.

Revenue Expectations

On March 15, 2022, the City Council received a detailed analysis and forecast of the City’s General Fund revenue. The following is a summary forecast of the 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)	\$4,200,000
License and Permits	\$4,900,000
Franchise Tax	\$9,500,000
Fines and Forfeitures	\$3,706,754
Charges for Services	\$5,800,000
Total	\$104,514,744

Federal and State Resources

On March 10, 2020, the U.S. House of Representatives voted to pass the American Rescue Plan, which includes \$65 billion in direct and flexible relief for every city in the United States. City allocations are to be divided according to the Community Development Block Grant (CDBG) formula. The CDBG formula is based upon population, poverty, and the age and density of housing, as it was designed for grants administered by the U.S. Department of Housing and Human Services (HUD) to promote affordable housing and expand economic opportunities for low-income household. The City of Carson was appropriated \$17.7 million of which \$8.8 million was received in July 2021, and the remaining \$8.9 million will be received Spring/Summer 2022. On March 15th, 2022, Council approved appropriation of ARPA funds and the distribution is illustrated in Exhibit A.

Structurally Balanced Budget

For the second consecutive year, staff is producing a structurally balanced budget to Council. 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 FY 2023-24. 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	SUNSETS

*The tax is currently scheduled to sunset June 30, 2023

Employee Compensation Expectations for Fiscal Year 2021-2022

Employee compensation is approximately 43% of the General Fund. Employee compensation includes wages and benefits. The primary benefit costs are health insurance (City contribution capped), employee pension, and retiree health insurance. Employee pension and retiree health insurance expectations are included in the following preliminary Fiscal Year 2022-2023 forecast.

Department	FY 22-23 Total Personnel Budget
City Clerk	\$667,915
City Council	\$690,510
City Manager	\$5,958,160
City Treasurer	\$642,579
Community Development	\$2,319,486
Community Services	\$11,880,419
Finance	\$4,037,309
Human Resources	\$1,721,297
Public Works	\$13,852,990
Grand Total	\$41,770,665

Exhibit C shows the City's vacancy report with vacancy rate currently at 11%

Los Angeles County Sheriff Contract

The Sheriff's contract is approximately 24% 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 2022-2023. Services will increase by \$205,225 or 1%, which includes an increase in overhead costs and assumes a status-quo to the number of units.

	Fiscal Year 2021-2022	Fiscal Year 2022-2023	Increase
Sheriff Contract	\$22,374,413	\$22,579,638	\$205,225

Departments Operating Expenditures

The following table shows the proposed Fiscal Year 2022-2023 in City departments' non-personnel operating budget.

Departments	FY 2021-22	FY 2022-23	Increase/(Decrease)
City Clerk's Office	\$641,483	\$666,498	\$25,015
City Manager's Office	\$425,968	\$285,123	(\$140,845)
City Treasurer's Office	\$183,663	\$162,663	(\$21,000)
Community Development Department	\$3,776,765	\$3,464,951	(\$311,814)
Community Services Department	\$3,232,624	\$3,591,991	\$359,367

Finance	\$700,874	\$708,781	\$7,907
Human Resources	\$1,824,751	\$2,127,231	\$302,480
Information Technology	\$1,684,682	\$1,684,682	
Public Information	\$356,722	\$299,900	(\$56,822)
City Attorney	\$3,100,000	\$3,100,000	
Public Safety	\$23,769,984	\$23,957,729	\$187,745
Public Works	\$7,189,592	\$7,653,202	\$463,610
Non-Departmental	\$4,054,000	\$11,449,964	\$7,395,964
Total	\$51,151,058	\$59,360,265	\$8,209,207

Community Services Department

The FY 2022/23 Department proposed budget exceeds FY 2021/22 by approximately \$359,000. Of this total, \$300,000 is attributed to the Youth Services contract for uniforms, trophies, photos that centralized the purchase of these items to the Department. The agreement was approved during the current fiscal year, and the cost associated with the contract is offset by revenues generated by participation fees.

Human Resources Department

The Year over Year Proposed Budget increase are due to the conditions below:

- *Excess Liability:* The estimated FY 22-23 premium for Excess Liability is \$804,000 v. \$590,000 (FY 21-22); an increase of \$214,000 or 36%. The increase is due to (a) market conditions, 32%; and (b) Carson's claims experience, 4%.
- *Property Insurance:* The estimated FY 22-23 premium for Property insurance is \$205,509 v. \$169,430 (FY 21-22); an increase of \$36,079 or 21%. The increase is due to (a) market conditions, 15%; and (b) The increase in cost of labor and material due to the pandemic and inflation, 5-7.5%.
- *Cyber Liability:* The estimated FY 22-23 premium for Cyber Liability insurance is \$21,200 v. \$12,095 (FY 21-22); an increase of \$9,105 or 75%. The increase is strictly due to market conditions. PRISM is advising members to plan for increase of 35-75%. Members with paid Cyber losses will see increase of 50-100%. We have been advised that the City's Cyber premium would double or more if we were to replace the PRISM insurance policy.
- *Workers Compensation:* The estimated FY 22-23 premium for Excess Workers Compensation is \$138,000 v. \$111,933 (FY 21-22); an increase of \$26,067 or 23%. The increase is strictly due to market conditions. PRISM expects reinsurance rates to increase by 5-40%. Due to our safety record (record low claims) and aggressive settlements, the City's work comp loss ratio is 89%, meaning that the premium estimate is 11% lower than the average PRISM policy holder. The current estimate and the final premium will reflect the 11% credit.

- *American with Disabilities Act Assessment (ADA)*: 265K budgeted for FY 2022-23 to engage a qualified firm to provide a comprehensive evaluation of American with Disabilities Act (ADA) accessibility compliance of City facilities, programs, services, and communications.

Public Works Department:

The Year over Year Proposed Budget increase is due mainly to Concrete Remediation needs. Due to previous litigations regarding concrete trip and fall hazards, Public Works is requesting to add \$400k to the FY 22/23 budget to augment the estimated cost of concrete remediation throughout the city.

Non-Departmental:

The Year over Year Proposed Budget increase is due to the \$7.3 million payment on Pension Obligation Bond, in two installments. First Payment of \$1.6 million on 7/15/22 and the Second Payment on 1/15/23 of \$5.7 million.

V. FISCAL IMPACT

Fiscal Impact will be provided in conjunction with direction received from the City Council for the preparation of the Fiscal Year 2022-2023 Budget.

VI. EXHIBITS

Exhibit A: Allocation of ARPA Funds

Exhibit B: General Fund Reserve

Exhibit C: Vacancy Rate

Prepared by: Tarik Rahmani, Finance Director and Ralston Turner, Sr. Budget Analyst