



Legislation Details (With Text)

File #:	2023-0167	Version:	1	Name:	
Type:	Discussion	Status:		Agenda Ready	
File created:	2/28/2023	In control:		City Council	
On agenda:	3/21/2023	Final action:			
Title:	FISCAL YEAR 2023-2024 BUDGET WORKSHOP NO. 1 (CITY COUNCIL)				
Sponsors:					
Indexes:					
Code sections:					
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Date	Ver.	Action By	Action	Result
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Report to Mayor and City Council

Tuesday, March 21, 2023

Discussion

SUBJECT:

FISCAL YEAR 2023-2024 BUDGET WORKSHOP NO. 1 (CITY COUNCIL)

I. SUMMARY

This is the first of three planned budget workshops prior to a public hearing on June 20, 2023 to consider the adoption of the proposed Fiscal Year 2023-2024 budget. This workshop will provide an update on the General Fund Reserve and projected revenues for Fiscal Year 2023-2024. The next two workshops, on April 18 and May 16, 2023, will consider proposed expenditures and strategies for achieving and maintaining a structurally 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's goal is to adopt a structurally balanced budget for the third 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 2023-2024 budget. Proposed expenditures will be prioritized in alignment with the 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 2023-2024 budget and to provide direction for potential changes to the budget structure for Fiscal Year 2023-2024.

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. 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.

The proposed Fiscal Year 2023-2024 budget will be adopted as a structurally balanced budget where projected ongoing revenues are expected to balance the proposed operating expenditures. For that to occur, we will need to continue to manage ongoing expenditures with an eye toward potential economic downward fluctuations on revenue. For example, we need to be mindful of the efforts by the Federal Reserve to mitigate the effects of inflation in our economy. Increase in interest rates to bring stability to prices for goods and services may have negative impact on sales tax revenue.

The audited General Fund balance ended June 30, 2022 is \$107.85 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. **Exhibit (2)**

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 City's local economy was able to weather the impact from the COVID-19 pandemic.

Sales and Use Tax:

Sales tax comprises roughly one quarter of General Fund revenue see **Exhibit (3)**. 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 2022. **Exhibit (4)** shows the top sales tax generators in the City, and **Exhibit (5)** shows top sales tax producers in City of Carson. Although major industries have rebounded from the pandemic and exceeded recovery expectations, excess demand was met with limited supply to which created a supply chain shortage. Sectors that illustrated the biggest year over year gains were restaurants & hotels, fuel & service stations, and state & county pools.

The Auto & Transportation sales tax revenues declined due to supply chain disruptions and computer chip shortages. The lack of inventory contributed to prices for vehicles to spike affecting vehicle sales nationwide. Increasing financing cost due to interest rate increases adds more uncertainty to sector with affordability concerns. A summary of sales tax revenue actuals and projection are in **Exhibit (6)**.

Property Tax:

The City of Carson experienced a net taxable value increase of 16.79% for the Fiscal Year 2022-2023 tax role, which was higher compared to the countywide at 6.9%. **Exhibit (7)** compares the growth/decline in Carson to surrounding cities.

The increase is due largely to recent industrial sales of warehouses and valuation of 2018 parcel of Tesoro Refinery completed. Growth in home sales remained strong through summer of 2021 due to low interest rates, high demand, and limited properties for sales. Interest Rates have increased since the summer. Staff will monitor impact of interest rate on property tax revenue. **Exhibit (8)** illustrates the City of Carson median prices over the years.

Marathon Petroleum, formerly Tesoro, is the City of Carson no. 1 property tax producer. Year over Year the Top 10 property tax producers' assessed value increased from \$3.8 billion to \$5.6 billion. **Exhibit (9)** shows the top 10 property taxpayers in the City of Carson. **Exhibit (10)** illustrate the property tax share among agencies within the City of Carson. **Exhibit (11)** is summary of property tax revenue actuals and projection.

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 2% of City's total General Fund revenue. For the average California city imposing TOT, it provides about 7% of City General Fund. A summary of Transient Occupancy Tax revenue actuals and projection is shown in **Exhibit (12)**.

Utility Users Tax (UUT) (Measure R):

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 was extended by Carson voters with 78% approval in November 2022. The UUT is imposed on electricity and natural gas only (at 2% rate). The UUT is a vital element in the funding of critical city services and comprise 10% of the City's General Fund. **Exhibit (13)** is a summary of the Utility Users tax revenue actuals and projection.

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 several regional and state economic variables (metrics) including per capita auto sector spending in Los Angeles County.

Hdl, the City tax revenue consultants, begin tracking Transaction and Use tax performance starting at fourth quarter of 2021. Based on their analysis, Business and Industry sector is the number 1 revenue producer followed by General Consumer Goods see **Exhibit (14)**.

Exhibit (15) shows the top 10 Transaction Use Tax Revenue producers in the City of Carson during third quarter of 2022. **Exhibit (16)** shows Transaction and Use Tax actuals and projections. Similar to the Sales and Use Tax, inflation at 40 year high combined with

Russian and Ukrainian conflict adding inflationary pressures toward fuel prices.

Oil Industry Business Tax (Measure C):

On November 7, 2017, the City of Carson voters approved Measure C Oil Industry License Tax. This tax unlike Sales and Use Tax or Transaction and Use which are levies on sales or goods and services. Measure C is a tax for doing business in the City of Carson. The original annual estimates of revenue generation was \$24 million annual. The funds were to be used to repair and repave Carson streets, sidewalks, curbs and medians as well as improvement of the City's parks. Additionally, the funds were also to be used to reduce hazardous waste and improve water quality in the City. Since Measure C was passed in 2017, the City did not meet expectations for revenues as stated on **Exhibit (17) Table 1**.

Exhibit (17) Table 2 illustrates revenues after BRI audit findings. City Council took action by procuring BRI Consulting Group, Inc based in Houston, Texas to conduct audit on oil refiners in the City of Carson on June 19th 2018. The City of Carson have begun to receive back pay of tax receipts, to which two lump sum payments were received (\$10 million received on June 2, 2022 and \$59 million received on December 28, 2022) and additional receipts are projected to be received as the audit continues.

The auditing data currently justifies revenue projections for Oil Industry Business Tax to be revised up from \$4.2 million to \$10.5 million. **Exhibit (18) show** projected revenues for Fiscal Year 2023-2024.

V. FISCAL IMPACT

The City Council's direction will be used to prepare the draft Fiscal Year 2023-2024 budget.

VI. EXHIBITS

1. Exhibit 1 - General Fund Balance 5 Year Trend (p.6)
2. Exhibit 2 - General Fund Balance June 30, 2022 (p.7)
3. Exhibit 3 - Fiscal Year 2021-2022 Percentage Revenue by Category (p.8)
4. Exhibit 4 - Top Sales Tax Producers by Sector in City of Carson (p.9)
5. Exhibit 5 - Top 25 Sales Tax Producers in City of Carson (p.10)
6. Exhibit 6 - Sales and Use Tax Actuals and Projections (p.11)
7. Exhibit 7 - Net Taxable Assessed Value Change Fiscal Year 2021-22 to 2022-23 (p.12)
8. Exhibit 8 - City of Carson Median Home Prices (p.13)
9. Exhibit 9 - Top 10 Property Taxpayers in City of Carson (p.14)
10. Exhibit 10 - City of Carson Property Tax Revenue 2013-2023 (p.15)
11. Exhibit 11 - Property Tax Revenues Actuals and Projection (p.16)

12. Exhibit 12 - Transaction Occupancy Tax Actuals and Projection (p.17)
 13. Exhibit 13 - Utility Use Tax Actuals and Projection (p.18)
 14. Exhibit 14 - Top Transaction and Use Tax Sectors in City of Carson (p.19)
 15. Exhibit 15 - Top 10 Transaction and Use Tax Producers in City of Carson (p. 20)
 16. Exhibit 16 - Transaction and Use Tax Actuals and Projection (p. 21)
 17. Exhibit 17 - Measure C Oil Industry Business Tax Actuals 2018-2021(p. 22)
 18. Exhibit 18
Projected Revenues for Fiscal Year 2023-2024 (p. 23)
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