



Legislation Text

File #: 2017-484, Version: 1

Report to Mayor and City Council

Tuesday, June 20, 2017

Special Orders of the Day

SUBJECT:

PUBLIC HEARING TO CONSIDER RESOLUTION NO. 17-068, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON ADOPTING THE FISCAL YEAR 2017-18 BUDGET IN THE GENERAL FUND AND SPECIAL REVENUE FUNDS (CITY COUNCIL)

CONSIDER RESOLUTION NO. 17-16-CSA, A RESOLUTION OF THE CARSON SUCCESSOR AGENCY ADOPTING THE FISCAL YEAR 2017-18 BUDGET (SUCCESSOR AGENCY)

CONSIDER RESOLUTION NO. 17-16-CHA, A RESOLUTION OF THE BOARD OF THE CARSON HOUSING AUTHORITY ADOPTING THE FISCAL YEAR 2017-18 BUDGET (HOUSING AUTHORITY)

CONSIDER RESOLUTION NO. 17-043, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON UPDATING THE POLICY FOR THE GENERAL FUND RESERVE FOR ECONOMIC UNCERTAINTIES (CITY COUNCIL)

CONSIDER RESOLUTION NO. 17-044, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON UPDATING THE POLICY ADDRESSING THE UNFUNDED LIABILITY FOR OTHER POST-EMPLOYMENT BENEFITS AND REPEALING RESOLUTION NO. 13-012 (CITY COUNCIL)

CONSIDER RESOLUTION NO. 17-079, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, FINDING AND DETERMINING A FISCAL CRISIS PURSUANT TO ARTICLE VI, CHAPTER 11, SECTION 61104(E) OF THE CARSON MUNICIPAL CODE (CITY COUNCIL)

I. SUMMARY

The City Council, Successor Agency Board, and Housing Authority Board are being asked to adopt the Fiscal Year 2017-18 (FY17-18) budget this evening. A one-page summary of the proposed FY17-18 budget for all funds of the City, Successor Agency, and Housing Authority is attached to this staff report (Exhibit A). The summary includes the estimated beginning and ending fund balances for all funds.

The proposed FY17-18 budget for the General Fund includes net deficit activity of \$3,452,227, reducing the General Fund balance to \$9,330,935; which is \$6,501,712 below the City Council policy threshold of \$15,832,647, based upon 20% of annual budgeted expenditures. The proposed FY17-18 budget includes a hiring freeze and no increase to employee wages.

Staff recommends declaring a fiscal emergency for FY17-18, lifting the cap on Utility Users Tax, and generating another \$350,000 of revenue.

To close the budget gap in the future, the City Council may wish to consider reducing service levels and new or increased revenue sources. A separate agenda item will be presented to City Council this evening to consider an update to the Uniform Schedule of Fees, expected to generate another \$500,000 of fee revenue; which has been included in the proposed FY17-18 budget.

II. RECOMMENDATION

1. OPEN Public Hearing, TAKE public testimony, and CLOSE the Public Hearing.
2. WAIVE further reading and ADOPT RESOLUTION NO. 17-068, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON ADOPTING THE FISCAL YEAR 2017-18 BUDGET IN THE GENERAL FUND AND SPECIAL REVENUE FUNDS.
3. WAIVE further reading and ADOPT RESOLUTION NO. 17-16-CSA, A RESOLUTION OF THE CARSON SUCCESSOR AGENCY ADOPTING THE FISCAL YEAR 2017-18 BUDGET.
4. WAIVE further reading and ADOPT RESOLUTION NO. 17-16-CHA, A RESOLUTION OF THE BOARD OF THE CARSON HOUSING AUTHORITY ADOPTING THE FISCAL YEAR 2017-18 BUDGET.
5. WAIVE further reading and ADOPT RESOLUTION NO. 17-043, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON UPDATING THE POLICY FOR THE GENERAL FUND RESERVE FOR ECONOMIC UNCERTAINTIES.
6. WAIVE further reading and ADOPT RESOLUTION NO. 17-044, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON UPDATING THE POLICY ADDRESSING THE UNFUNDED LIABILITY FOR OTHER POST-EMPLOYMENT BENEFITS AND REPEALING RESOLUTION NO. 13-012.
7. WAIVE further reading and ADOPT RESOLUTION NO. 17-079, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, FINDING AND DETERMINING A FISCAL CRISIS PURSUANT TO ARTICLE VI, CHAPTER 11, SECTION 61104(e) OF THE CARSON MUNICIPAL CODE.

1.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council/Successor Agency Board/Housing Authority Board.

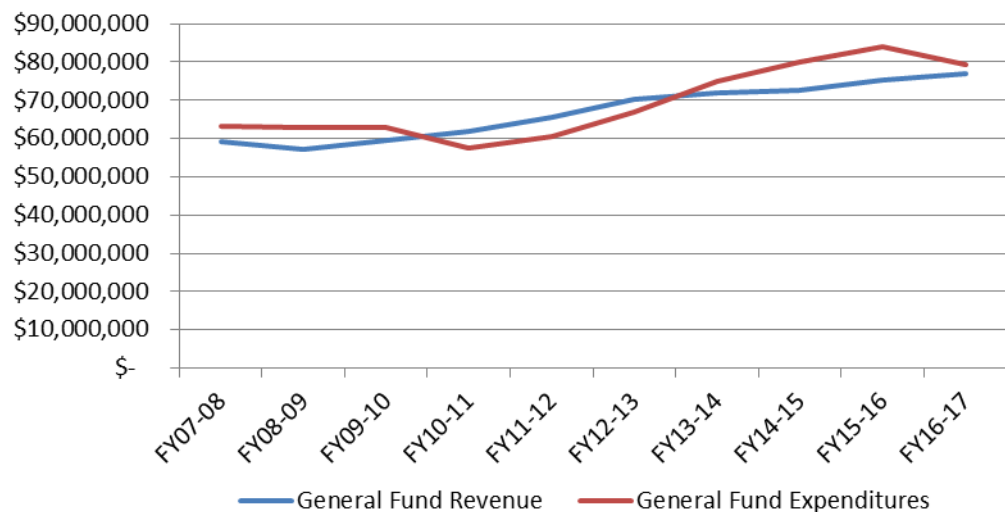
IV. BACKGROUND

The Fiscal Year 2017-18 (FY17-18) budget process began in January 2017 with internal staff meetings to prepare initial draft budgets for each department.

The Budget Subcommittee of the City Council (Mayor Pro Tem Davis-Holmes and Councilmember Hicks) has met 10 times to review various staff proposals and make Subcommittee recommendations to the City Council. The City Council has conducted 4 budget workshops on March 21st, April 18th, May 16th, and June 6th.

General Fund

The General Fund is the primary operating fund of the City, and comprises 85% of the City-wide budget. The City has a history of General Fund deficits. In 7 of the last 10 fiscal years, General Fund expenditures have exceeded General Fund revenue (9 years of actual data, and FY16-17 budget).



The proposed FY17-18 budget is also deficit. In general, General Fund expenditures have been increasing faster than revenue. Over the last 5 years, General Fund revenue has increased by an average of only 1.6% per year. A five-year summary of total General Fund revenue follows.

	General Fund Revenue	Increase
FY13-14	\$ 71,975,708	2.2%
FY14-15	\$ 72,470,288	0.7%
FY15-16	\$ 72,470,288	0.0%
FY16-17 est.	\$ 76,906,298	6.1%
FY17-18 est.	\$ 76,167,709	-1.0%
	Average	1.6%

Note: FY16-17 revenue includes a \$1.4 million settlement from the NFL; which completely paid for all City out-of-pocket costs of the former stadium proposal.

Over that same period, the average expenditure increase was 3.6%. However, expenditures have been decreasing of late in an effort to reduce the budget deficit. Most of these expenditure decreases are temporary fixes such as a hiring freeze and use of the Section 115 Trust for retiree health insurance.

	General Fund Expenditures	Increase
FY13-14	\$ 74,905,905	12.0%
FY14-15	\$ 80,098,802	6.9%
FY15-16	\$ 83,971,737	4.8%
FY16-17 est.	\$ 79,303,099	-5.6%
FY17-18 est.	\$ 79,163,237	-0.2%
	Average	3.6%

The first draft of the budget was presented to City Council on April 18th, including a draft General Fund deficit of \$6,965,303 for FY17-18. Based upon City Council direction during the budget workshops, the FY17-18 General Fund deficit has been reduced to \$3,452,227. A summary of the FY17-18 deficit follows.

General Fund	Proposed FY17-18
Revenue	\$ 76,167,709
Expenditures	79,163,237
Net Transfers	(456,699)
Net Activity	\$ (3,452,227)

It should be noted that the FY17-18 net activity includes the following non-recurring items to help close the deficit:

- Additional \$350,000 of Utility Users Tax revenue due to the proposed declaration of a fiscal emergency, which would lift the cap on the tax;
- A \$1 million use of the Section 115 Trust for retiree health insurance;
- Hiring freeze savings of \$3.1 million (\$1.8 million taken in FY16-17 and another \$1.3 million taken in FY17-18); and

- An expenditure of \$230,000 for the Tyler Munis system implementation.

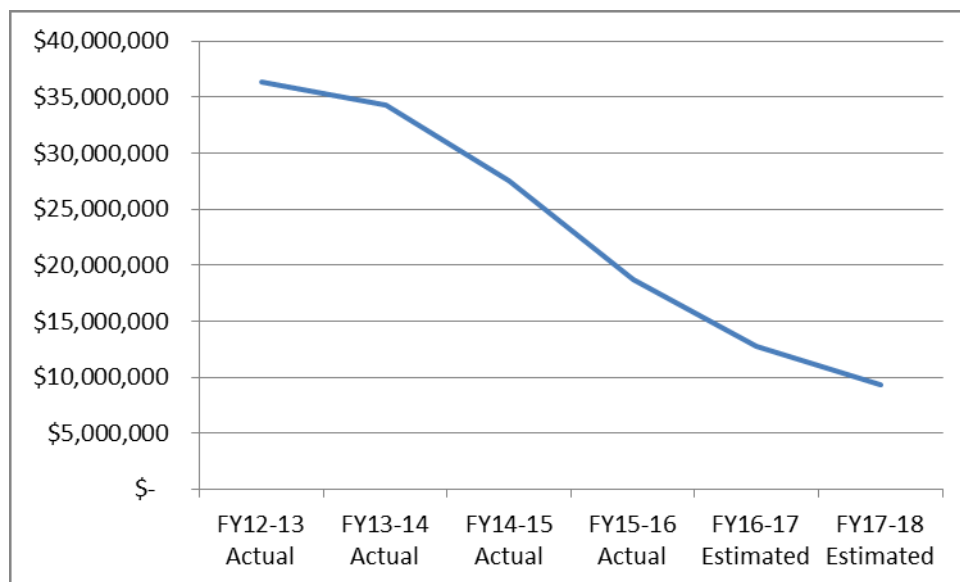
Therefore, the structural deficit is closer to \$7.7 million or 10.1% of General Fund revenue.

General Fund Reserve for Economic Uncertainties

The City Council has adopted a policy to maintain a Reserve for Economic Uncertainties equivalent to 20% of annual budgeted expenditures (Resolution No. 12-014), which will be \$15,832,647 for FY17-18 if the proposed budget is adopted.

The Government Finance Officers Association (GFOA) has issued a Best Practice recommendation: “at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.” Two months of General Fund expenditures is equivalent to \$13.2 million or 16.7%.

If the proposed FY17-18 budget is adopted, the estimated General Fund balance at June 30, 2018 will be \$9,330,935; which is less than the City Council’s policy threshold and the GFOA best practice minimum. A summary of actual and estimated General Fund Balance follows.



At the March 21st budget workshop, City Council supported the staff recommendation to include conditions for using the General Fund Reserve, as well as methods to replenish it. The following conditions are recommended.

The City may consider use of the Reserve for Economic Uncertainties when:

1. A Fiscal Emergency is declared; or
2. A physical emergency requires immediate significant City response (e.g.

earthquake, terrorist attack); or

3. The City incurs a significant legal or insurance settlement expenditure of more than \$1 million; or
4. A major tax revenue decreases by more than \$1 million.

The Reserve for Economic Uncertainties may be replenished through:

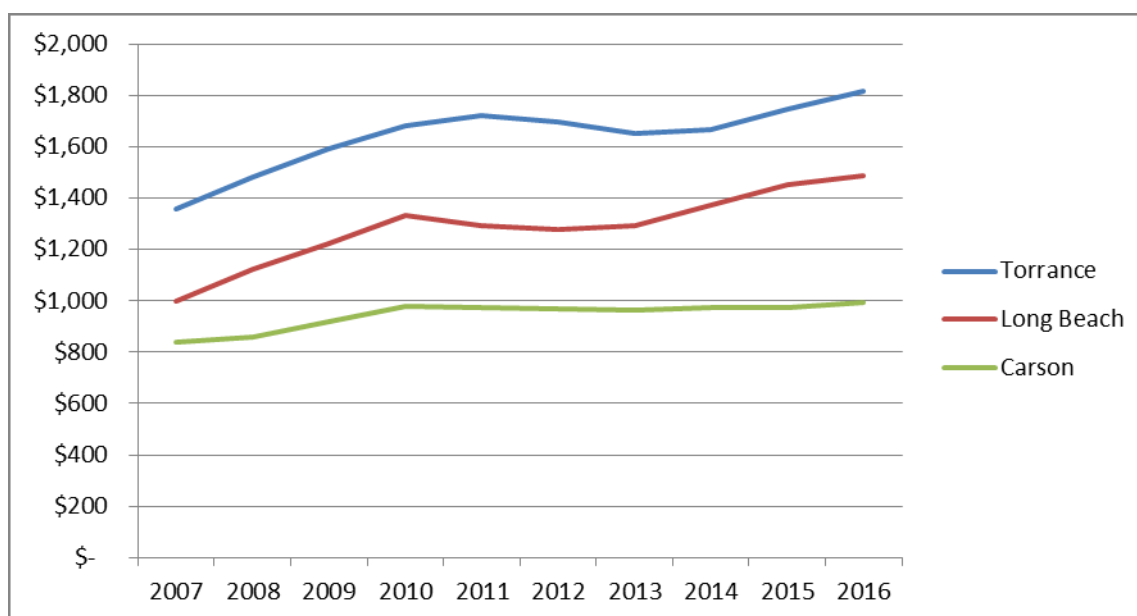
1. Future increases of General Fund revenue, without corresponding increases to General Fund expenditure appropriations, until the 20% Reserve is made whole; or
2. Favorable fiscal year-end budget variances; or
3. One-time revenue sources (e.g. sale of land, legal settlements).

Staff recommends the City Council adopt proposed Resolution No. 17-043 to update to the policy. The proposed resolution would not change the 20% policy threshold; but only lists the conditions allowing use of the Reserve, and methods to replenish the Reserve.

Major General Fund Revenues and Expenditures

Property tax comprises approximately 21% of General Fund revenue. Property assessments in the City of Carson have not recovered from the Great Recession as well as neighboring cities, as illustrated below.

Assess Valuation per Acre (in thousands)



Sales tax comprises approximately 32% of General Fund revenue. The City's independent sales tax analysis/audit consultant has estimated that sales tax will decrease by 0.3% for

FY17-18, primarily due to expected reallocations and audit corrections that were recently detected.

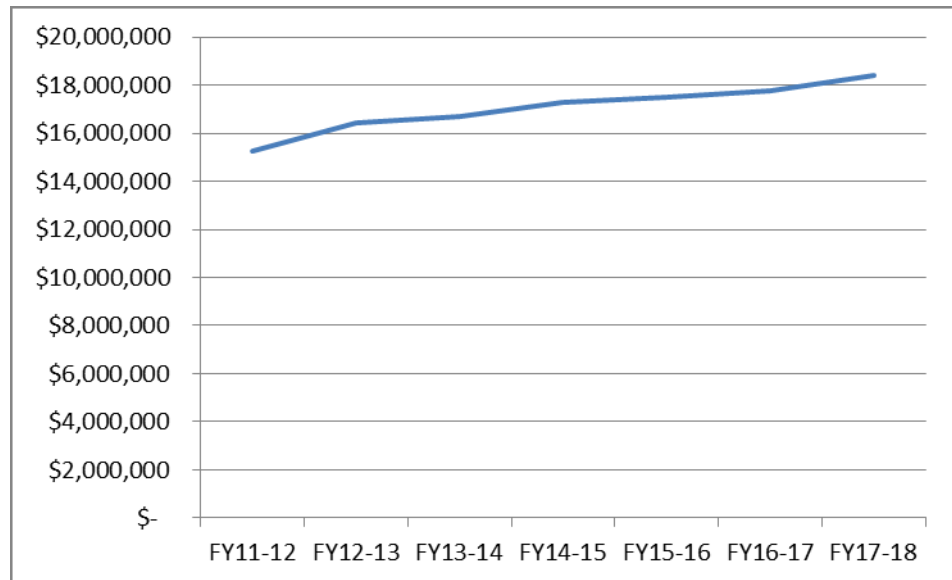
Based upon public demand, the City spends a significant amount of General Fund money to maintain parks, and provide robust recreation and human services programs. Most other General Fund expenditures are tied to public safety, along with mandates required by federal, state and local law. A summary of General Fund expenditures by service area follows.

Elected Offices + City Attorney	\$ 5,382,170	7%
City Manager's Office	3,835,545	5%
Public Safety	21,917,169	28%
Human Resources	2,264,664	3%
Finance	3,635,899	5%
Community Development	5,848,364	7%
Public Works	14,630,752	18%
Community Services	12,748,936	16%
Non-Departmental*	8,899,738	11%
Total General Fund Expenditures		\$79,163,237

**Non-Departmental includes employee retirement legacy costs, claims settlement, employee leave cash-outs and County fee for property tax roll administration*

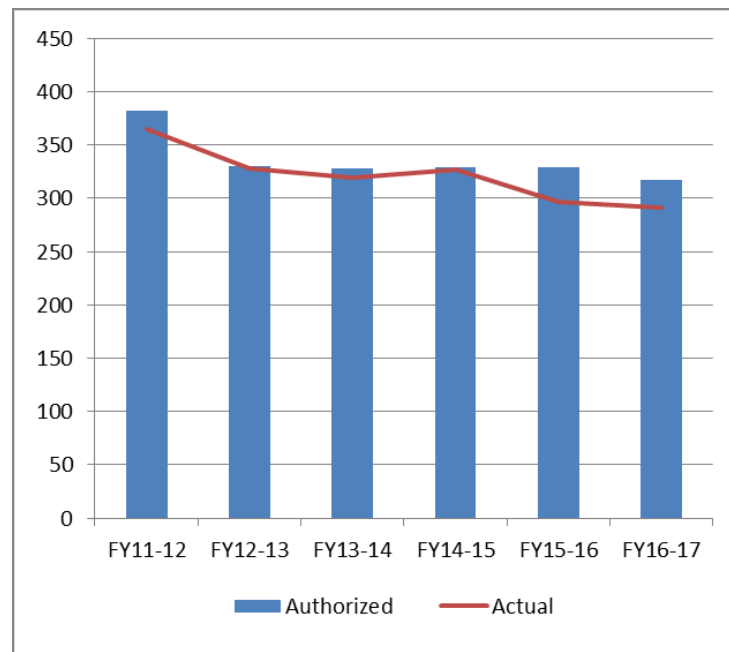
Employee compensation comprises roughly half of General Fund expenditures, and is discussed in more detail below.

Other than employee compensation, the Sheriff contract is the single largest expenditure of the General Fund and the Public Safety Division. For FY17-18, the cost of the Sheriff contract would have increased by 4.8% overall. However, the proposed FY17-18 budget includes a restructuring of supervision for the Park Enforcement team, which is expected to save \$225,991. Therefore, the adjusted overall increase is expected to be 3.5%, for a contract cost of \$18,417,483 in the General Fund. A summary of General Fund expenditures for the Sheriff's contract illustrates a steady increase of costs each year, averaging 3.2% since FY11-12.



Employee Compensation

The proposed FY17-18 budget does not include any increases to employee wages; but does include cost increases to fund employee retirement, as discussed further below. The following chart and table illustrate the authorized and actual number of full-time employees by fiscal year.



	Authorized	Actual
FY11-12	382	365
FY12-13	330	328
FY13-14	328	319
FY14-15	329	327
FY15-16	329	297
FY16-17	317	291

The City currently has a six-year low of 291 full-time employees; which is a 20% decrease in 5 years. Even with a decreasing workforce, the City's residents continue to expect a high level of service.

Prior to FY16-17, the authorized number of full-time employee positions was stable for 4 years. For FY16-17, 18 full-time positions were subjected to a hiring freeze for a savings of \$1.8 million. The proposed FY17-18 budget includes an extended hiring freeze of another 20 full-time positions, for additional savings of \$1.3 million in the General Fund. The following full-time positions are impacted by this hiring freeze.

Frozen	Department	Classification	Cost
FY16-17	City Council	FIELD DEPUTY	115,389
FY16-17	City Council	FIELD DEPUTY	115,389
FY16-17	City Manager	TYPIST CLERK I	76,968
FY16-17	City Manager	SENIOR CLERK	79,021
FY16-17	Comm Dev	ADMINISTRATIVE SECRETARY	95,582
FY16-17	Comm Dev	ASSOCIATE PLANNER	126,079
FY16-17	Comm Dev	MGR, REDEVELOPMENT	189,176
FY16-17	Comm Svcs	TYPIST CLERK I	76,968
FY16-17	Finance	ADMINISTRATIVE SECRETARY	95,582
FY16-17	Info Tech	COMPUTER SYSTEMS SUPPORT TE	107,620
FY16-17	Public Safety	CODE COMPLIANCE OFFICER	107,427
FY16-17	Public Safety	EMERGENCY PREPAREDNESS ANALYST	128,608
FY16-17	Public Safety	YOUTH SERVICES OFFICER	105,368
FY16-17	Public Safety	YOUTH SERVICES OFFICER	105,368
FY16-17	Public Works	CUSTODIAN	70,328
FY16-17	Public Works	ASSISTANT MAINTENANCE WORKER	76,968
FY16-17	Public Works	ASSISTANT MAINTENANCE WORKER	76,968
FY16-17	Public Works	ASSISTANT MAINTENANCE WORKER	76,968
Total Savings taken in FY16-17			1,825,777

Frozen	Dept	Title	Cost
FY17-18	City Manager	PUBLIC SAFETY SPECIALIST	\$ 99,997
FY17-18	Public Works	CIVIL ENGINEERING ASSISTANT	118,479
FY17-18	Public Works	CONSTRUCTION INSPECTOR	94,808
FY17-18	Public Works	ASSISTANT MAINTENANCE WORKER	55,723
FY17-18	Public Works	ASSISTANT MAINTENANCE WORKER	55,723
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FY17-18	Public Works	ASSISTANT MAINTENANCE WORKER	55,723
FY17-18	Public Works	ASSISTANT MAINTENANCE WORKER	55,723
FY17-18	Public Works	ASSISTANT MAINTENANCE WORKER	55,721
FY17-18	Public Works	ASSISTANT MAINTENANCE WORKER	55,723
FY17-18	Public Works	ASSISTANT FACILITIES MAINTENANCE TECH	59,930
FY17-18	Public Works	SENIOR GROUNDSWORKER	85,552
FY17-18	Public Works	ASSISTANT GROUNDSWORKER	57,095
FY17-18	Public Works	CUSTODIAN	57,093
FY17-18	Public Works	CUSTODIAN	71,702
FY17-18	Public Works	HEAVY EQUIPMENT OPERATOR	90,948
FY17-18	Public Works	TREE TRIMMER I	74,540
FY17-18	Public Works	FACILITIES MAINT TECH	77,483
FY17-18	Public Works	SENIOR MAINTENANCE WORKER II	98,759
FY17-18	Public Works	ASSOCIATE CIVIL ENGINEER	129,209
		Subtotal Savings	\$1,505,655
		Less: Temporary Part-Time Maintenance Aides	(146,068)
		Add: Savings for 3 month vacancy of Human Resources Director	52,988
		Net Savings taken in FY17-18*	\$1,412,575

**\$1.3 million is General Fund savings, and the remainder is savings from restricted monies.*

To sustain the FY17-18 level of full-time employees in the future, consideration must be given to reorganize and potentially reduce service levels.

Employee Retirement Funding

The City has 2 legacy costs related to employee retirement, which are not reduced if the workforce is reduced.

1. Payment for the employee pension unfunded liability. The unfunded liability is the difference between the market value of plan assets, and the retirement benefit promise for work already performed. The cost of this payment is \$5,048,701 for FY17-18, which is being reduced by a \$179,301 discount for making the payment by July 31, 2017.
2. Cost of health insurance for retirees. The City's cost to insure retired employees for FY17-18 is expected to be \$2,200,000; which is being reduced by \$1,000,000 taken from the Section 115 Trust set aside for this purpose.

At the March 21st budget workshop, City Council supported the staff recommendation to update the pre-funding policy for Other Post-Employment Benefits (OPEB). Based upon prior staff recommendation, the City Council had adopted a policy in 2013 for pre-funding retiree health insurance by requiring contributions as an increasing percentage of employee wages (Resolution No. 13-012). The policy was found to be unreasonable, and did not include a cap on the increasing percentage of wages.

The City has already set aside \$14.2 million in the Section 115 Trust noted above, which continues to earn interest that will help offset the future cost of retiree health insurance. The amount contributed to the Trust is approximately 26% of the unfunded liability of \$55.2 million at June 30, 2015 (the latest actuarial valuation date). Staff recommends the City Council adopt proposed Resolution No. 17-044 to memorialize an updated policy whereby the City Council would consider a pre-funding contribution when reviewing the results of each fiscal year, including favorable budget variances and the General Fund Reserve balance.

Capital Improvement Plan (CIP)

The City's infrastructure must be maintained to provide safe roadways and public buildings, functioning storm drains, and desirable parks. The historical cost of the City's infrastructure is approximately \$450 million (excluding land and land rights). If we assume infrastructure has an average useful life of 30 years, then the City should be spending approximately \$15 million + inflation per year for rehabilitation.

The City's pavement management plan indicates the City will need to spend \$8 million per year on street pavement to maintain the current average pavement condition index rating of 67 (a "fair" rating).

The FY17-18 CIP uses only restricted funding sources, with no General Fund contributions. The proposed FY17-18 budget includes only \$11.9 million for capital improvement projects, including only \$1.7 million for street pavement. This suggests the City's streets and other infrastructure will continue to deteriorate over the next year. A summary of projects included in the proposed FY17-18 budget are as follows.

Location	Improvement	Estimate	Funding
Anderson Park	Parking Lot Lighting	\$ 85,000	Load Shed restricted money
Citywide	Facility Condition Assessment	\$ 100,000	Successor Agency Bond Proceeds
Citywide	Pavement Overlay	\$ 750,000	Gas Tax, Prop C, Measure M
Citywide	Concrete Replacement Program	\$ 260,000	CDBG, TDA Article 3
Citywide	Pavement Slurry Seal	\$ 990,000	Gas Tax, Prop C, Measure M
Citywide	City Facility ADA Compliance Upgrades	\$ 150,000	CDBG
Citywide	Rapid Bus Priority System	\$ 636,350	Grant, Contribution, Prop A
Citywide	Sepulveda Blvd Widening	\$ 2,592,000	Federal Hwy Bridge pgm, Measure M
Citywide	Green Streets & Sustainability Program	\$ 275,693	Measure M
Citywide	Tree Planting	\$ 357,220	CalFire Grant, Measure M
Scott Park	Pool Upgrade	\$ 500,000	Duimby Fees & Measure A
Dolphin Park	Accessible Playground	\$ 250,000	Donation
Citywide	CCA Feasibility Study	\$ 65,000	Load Shed restricted money
Citywide	Carson Street Master Plan improvement	\$ 722,250	Successor Agency Bond Proceeds
Citywide	Wilmington/I-405 Interchange	\$ 150,000	Rubberized Asphalt Grant
Total		\$11,883,524	

Results of Five-Year Financial Model

The 2017 Five-Year Financial Model has been updated and attached to this staff report (Exhibit B). The Model includes 2 years of actual data, the current FY16-17 budget, the proposed FY17-18 budget, and 4 years of outlook based upon the current budget structure. Staff has included assumptions for inflation and expected future events (e.g. additional sales tax received from a development on the 157-acres scheduled to open September 2020).

The results of the Model indicate there will be a continued erosion of the General Fund balance, until it is extinguished towards the end of 2019. Of course, the City Council can avoid this outcome by continuing to make changes to the structural budget.

Estimated	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Beginning Balance	\$18,710,435	\$12,783,162	\$9,330,935	\$2,633,181	\$ (5,495,342)	\$ (14,533,938)
Revenue	76,906,298	76,167,709	77,390,589	79,081,335	82,054,848	83,466,920
Expenditures	79,303,099	79,163,237	83,581,644	86,653,159	90,486,745	93,638,750
Net Transfers	(3,530,472)	(456,699)	(506,699)	(556,699)	(606,699)	(656,699)
Ending Balance	\$12,783,162	\$ 9,330,935	\$2,633,181	\$ (5,495,342)	\$ (14,533,938)	\$ (25,362,460)
Reserve Policy	15,860,620	15,832,647	16,716,329	17,330,632	18,097,349	18,727,750

Special Revenue Funds

Funds restricted by law or granting agencies are deposited into Special Revenue Funds, to ensure they are not mingled with unrestricted money deposited into the General Fund. A significant portion of the City's restricted monies is in the form of transportation revenues. The City uses these revenues to pay for its transit system and maintain its roadways.

- Gas Tax, formally known as Highway Users Tax - in the current FY16-17, the City expects to receive \$1.8 million of Gas Tax; which is primarily used to maintain the City's right-of-way (e.g. traffic signal maintenance, street sweeping, tree

trimming, etc.). New state law will increase the City's Gas Tax allocation beginning in FY17-18; which is an implementation year, with an additional \$0.8 million expected (\$2.6 million total). FY18-19 will be the first full year of the newly increased Gas Tax allocation, with total revenue expected to reach \$3.7 million. However, \$107,564 of that amount is a repayment of Gas Tax loans, with the last repayment to be received in FY19-20. For FY20-21, Gas Tax is expected to decrease to \$3.6 million. Staff has proposed using the additional revenue primarily for street pavement maintenance (e.g. slurry seal and overlay).

- Proposition A - the City receives approximately \$1.7 million annually, which is primarily used to support the City's transit system. Carson Circuit rider revenue has decreased from about \$100,000 per year to \$60,000 recently. The fund balance is sufficient to continue the current budget structure for FY17-18; however, if rider revenue does not increase for FY18-19, expenditures may have to be reduced or another revenue source will be necessary to subsidize the transit program.
- Proposition C - the City receives approximately \$1.4 million annually; with approximately \$1.3 million used for the City's transit system, and the remainder available for street pavement maintenance. The City is in the process of studying its transit needs. There may be recommendations to use more of this revenue source to support the City's transit system, which will eliminate any availability for street pavement maintenance. Before any decision is made to increase transit system expenditures, staff recommends a full analysis of the system and options for the future.
- Measure R - the City receives approximately \$1.1 million annually; which is used primarily for roadway CIP projects. The proposed FY17-18 budget includes a \$1 million contribution to the Sepulveda Boulevard widening project. Specific projects have not yet been identified for future years.
- Measure M - this is a new revenue source passed by the County's voters. The City expects to receive \$1.1 million annually. The proposed FY17-18 budget includes a use of \$740,000 for street pavement maintenance, \$89,305 as the local match for a street tree planting project primarily funded with a CalFire grant, \$108,218 for employee compensation related to project management, and the remaining revenue to be used for other green streets projects.

Community Development Block Grant (CDBG)

The City receives restricted money from the federal government via the CDBG program. The City has historically used its annual \$0.7 million allocation to fund the Neighborhood Pride and Commercial Rehab programs, along with small projects to improve compliance with the Americans with Disabilities Act (ADA). The revenue also funds 2.5 full-time equivalent employees at a cost of \$282,620. Based upon President Trump's initial budget recommendations, this revenue source is at risk. Staff expects to have better information by August 2017; and is recommending a status-quo placeholder budget in the meantime. If the funding is reduced or eliminated, staff will return with proposals to reduce or eliminate

the related programs; which may include reallocation of employee compensation. Due to the uncertainty of the program, no revenue or corresponding expenditures have been included in the remaining four years of the Model at this time.

Successor Agency Bond Proceeds Transferred to the City via the Cooperative Agreement

In FY14-15, as part of redevelopment dissolution, \$38.4 million of Successor Agency bond proceeds were transferred to the City to manage projects funded by the bonds. Of that total, \$10.5 million has been appropriated for the Wilmington/Interstate-405 exchange, \$18 million has been appropriated for Carson Street Master Plan improvements, and \$2.5 million has been appropriated for a variety of other small projects.

On a separate agenda item, an update is provided for Carson Street Master Plan Improvements. The staff report explains a budget shortfall of \$4,722,259 for the project. The budget shortfall has been added to the proposed FY17-18 budget.

The proposed FY17-18 budget also includes \$100,000 for a facility condition assessment study and \$170,040 for employee compensation related to project management. If the proposed FY17-18 budget is approved, then the estimated remaining balance of the bond proceeds will be \$2,947,421.

New Measure A Allocation for Park Improvements

The County's voters recently approved an additional allocation of Measure A money. The City expects to receive approximately \$350,000 annually for park improvement projects. Staff has recommended using 2 years of this allocation to fund rehabilitation of the Scott Park Pool. No further uses have been included in the Model at this time. There is a significant backlog of unfunded park rehabilitation projects; and recommendations will be forthcoming.

The City is also expected to receive approximately \$80,000 annually for maintenance of facilities originally funded with Measure A money. Maintenance expenditures have not yet been included in the proposed FY17-18 budget or the Model, as expenditure guidelines have not yet been released.

Other Restricted Funds

The City received a five-year family support grant from the South Bay Center for Counseling. The grant expires at the end of calendar year 2019. No further revenue or corresponding expenditures have been included in the Model after expiration of the current grant award.

The City receives occasional Park Development fees from developers, as authorized by the California Quimby Act. The proposed FY17-18 budget includes use of the remaining \$150,000 fund balance for the Scott Park Pool rehabilitation project. Due to the uncertainty of future revenue streams, there is no additional revenue or corresponding park project expenditures in the remaining four years of the Model. However, Community Development staff has advised us that at least one major project is in the works, which may generate a significant Quimby Fee receipt in the near future. Once the timing and amount is identified,

staff can make recommendations to fund park improvement projects.

The City receives Load Shed Program revenue of approximately \$60,000 annually; which is restricted to lighting projects. The proposed FY17-18 budget includes \$85,000 for the Anderson Park parking lot lights and \$65,000 for a Community Choice Aggregation (CCA) Feasibility Study. No additional projects have been included in the Model at this time.

In FY13-14, the City received a \$574,757 federal grant for Neighborhood Stabilization. Staff expects the remaining funds will be spent by December 2021; and nothing further has been included in the Model.

The City's administrative tow fee allocation has decreased from approximately \$185,000 annually to \$125,000. Of this total, 68% is deposited into the General Fund, and 32% is deposited into a Special Revenue fund to be used for special operations conducted by the Sheriff. This revenue stream is driven by activity of the Sheriff's Department, which is beyond the City's control. The current budget structure will not be sustainable beginning in FY18-19 unless revenue increases. It is possible the activity driving this revenue will increase with the Chargers football games. Staff will reassess administrative tow fees with the FY17-18 Midyear Financial Report. On a related topic, \$50,000 has been added to the proposed FY17-18 General Fund revenue budget for tow truck franchise fees; which is a separate revenue source from the administrative tow fees discussed here.

If the City Council adopts the recommended update to the Uniform Schedule of Fees this evening, a new facility rental surcharge of 10% will be established to fund facility maintenance and repairs. The new fee is expected to generate approximately \$55,000 annually; to be deposited into a Special Revenue fund. A corresponding expenditure has been included in the proposed FY17-18 budget, but no specific small projects have been identified yet.

Capital Asset Replacement

The City has a Capital Asset Replacement fund, used to account for General Fund money set-aside for replacement of machinery and equipment. The General Fund has not been making regular contributions to this fund; and as a result, there is an estimated fund balance of only approximately \$550,000 after paying for the Tyler Munis ERP system and necessary network switches. The City has capitalized \$14.3 million of historical costs of machinery and equipment. If the assets last an average of 7 years, then approximately \$2 million + inflation should be spent each year to replace them.

The FY17-18 proposed budget includes a \$250,000 contribution from the General Fund, which will be used to fund necessary vehicle replacements in FY17-18 of approximately \$295,000. Staff proposes including ongoing General Fund contributions in future budgets to pay for equipment replacement.

In addition, the City receives approximately \$116,000 annually from the Air Quality Management District (AQMD) that is currently only used for the BREATHE program and promotional items. Approximately \$88,000 per year can be used to purchase clean-air vehicles; thereby supplementing the General Fund contribution. Another option is to use

the remaining AQMD allocation to supplement the City's transit system if necessary.

Fiscal Emergency

The facts discussed in this staff report support declaration of a Fiscal Emergency. Doing so would generate additional Utility Users Tax (UUT) of approximately \$350,000 for FY17-18, and provides the City Council with flexibility for timing new revenue proposals. The additional \$350,000 is included in the proposed FY17-18 budget, for total UUT revenue of \$7.6 million or 10% of total General Fund revenue.

The Carson Municipal Code (CMC) Section 61104(e) states the following.

"Notwithstanding any other provision of this Chapter, no service user shall be required to pay more than \$1,000,000 in electricity users tax, or gas users tax, or both combined, for service provided in any one (1) calendar year; provided, however, that the City Council may, by resolution duly adopted at a noticed public meeting, suspend this subsection for a period of twelve (12) consecutive calendar months commencing the day after the effective date of the resolution, upon making written finding(s) that the City of Carson will be required to lay off employees, and/or furlough employees, and/or be unable to fill allocated employee positions due to any fiscal crises as determined by the City Council in its sole discretion."

The City Council lifted the UUT cap for October 2011 through September 2012 (Resolution No. 11-123); and again for November 2012 through October 2013 (Resolution No. 12-122). Although a fiscal emergency was declared on January 19, 2016 (Resolution No. 16-004), the UUT cap was not lifted at that time. Declaring a fiscal emergency in January 2016 allowed the City Council to place a measure on the June 2016 ballot to renew the UUT, which was set to expire in that same month. The measure passed, and the UUT continues to be effective through June 2023.

Staff recommends adopting proposed Resolution No. 17-079, declaring a fiscal emergency and lifting the UUT cap for July 2017 through June 2016.

V. FISCAL IMPACT

If the City Council approves staff recommendations this evening, including the update to the Uniform Schedule of Fees, the General Fund balance is expected to decrease another \$3.45 million during FY17-18. The estimated General Fund balance at June 30, 2018 will be \$9,330,935; which is \$6,501,712 below the City Council policy threshold of \$15,832,647.

VI. EXHIBITS

A. Fund Summary (page 18)

B. 2017 Five-Year Financial Model (pages 19-71)

C. RESOLUTION NO. 17-068, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON ADOPTING THE FISCAL YEAR 2017-18 BUDGET IN THE GENERAL FUND AND SPECIAL REVENUE FUNDS (pages 72-74)

- D. RESOLUTION NO. 17-16-CSA, A RESOLUTION OF THE CARSON SUCCESSOR AGENCY ADOPTING THE FISCAL YEAR 2017-18 BUDGET (pages 75-76)
- E. RESOLUTION NO. 17-16-CHA, A RESOLUTION OF THE BOARD OF THE CARSON HOUSING AUTHORITY ADOPTING THE FISCAL YEAR 2017-18 BUDGET (pages (77-78)
- F. RESOLUTION NO. 17-043, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON UPDATING THE POLICY FOR THE GENERAL FUND RESERVE FOR ECONOMIC UNCERTAINTIES (pages 79-80)
- G. RESOLUTION NO. 17-044, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON UPDATING THE POLICY ADDRESSING THE UNFUNDED LIABILITY FOR OTHER POST-EMPLOYMENT BENEFITS AND REPEALING RESOLUTION NO. 13-012 (pages 81-82)
- H. RESOLUTION NO. 17-079, A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, FINDING AND DETERMINING A FISCAL CRISIS PURSUANT TO ARTICLE VI, CHAPTER 11, SECTION 61104(e) OF THE CARSON MUNICIPAL CODE (page 83-85)

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