



Legislation Text

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Report to Mayor and City Council

Tuesday, February 18, 2020

Discussion

SUBJECT:

**FISCAL YEAR 2019-2020 MID-YEAR FINANCIAL REPORT AND CONSIDER
ADOPTION OF RESOLUTION NO. 20-027 TO AMEND THE FISCAL YEAR 2019-2020
BUDGET (CITY COUNCIL)**

I. SUMMARY

The Finance Department performs an ongoing review of the City's financial performance and provides updates on the General Fund results to the Mayor and the City Council. The report presents the City's financial condition in the current Fiscal Year (2019-2020) based on actual revenue and expenditure for the period of July 1 through December 31, 2019. In addition, the report includes Mid -Year funding requests from departments.

II. RECOMMENDATION

1. RECEIVE and FILE Mid -Year Budget Report
2. Adopt resolution No. 20-027, A RESOLUTION OF THE CITY OF CARSON CITY COUNCIL AMENDING THE FISCAL YEAR 2019-2020 BUDGET IN THE GENERAL FUND.

1.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

The City Council adopted the Fiscal Year 2019-2020 Budget at its June 18, 2019 meeting. The Mid-Year budget report analyzes the budget status at the mid-point of the current fiscal year and updates the Mayor and the City Council on the City of Carson's financial position. The report provides an opportunity to adjust revenue projections and make expenditures appropriation changes for any adjustments needed based on changed needs or priorities.

The Mid-Year Report is focused on the City's General Fund as the main operating fund for the City. Staff reviewed and is proposing adjustments to account for changing needs and priorities within each department, taking into account anticipated expenditures for the remainder of the year.

The Fiscal Year 2019-2020 Budget was adopted by the City Council to maintain levels of service to the residents of City of Carson and enhance public safety efforts. There are four areas that necessitate adjustments and require the City Council's approval. These adjustments total \$2.1 million across the departments of Public Works, Public Safety, Human Resources and Information Technology to address projected expenditures. Technical adjustments also include a \$1,750,000 reduction in Community Development's professional services budget to reflect anticipated year-end underspending, resulting in \$623,000 net General Fund expenditure increase. The City's revenues are expected to exceed projections for the fiscal year by \$3 million. Budget amendments are not necessary to reflect increases in revenues but are prepared for expenditure adjustments that go above the approved department budget (Exhibit A).

1) General Fund Revenue Update

At the end of Fiscal Year 2018-2019, the General Fund revenue totaled \$92.7 million. This is \$4 million (or 4%) higher than originally planned, which added to the net positive change of the fund balance (reserve) as stated on Table (1).

Table (1): FY 2018-2019 General Fund Revenue by Category

Revenue Source	Budget	Actual	Variance
Sales and Use Tax	\$24,672,756	\$28,133,617	\$3,460,861
Franchise Tax	\$9,948,750	\$9,810,903	(\$137,847)
Property Tax	\$15,274,890	\$16,042,132	\$767,242
Transient Occupancy Tax	\$2,150,000	\$2,245,576	\$95,576
Utility User Tax	\$7,000,000	\$7,892,486	\$892,486
Real Property Transfer Tax	\$320,000	\$343,541	\$23,541
Oil Industry Business Tax	\$4,700,000	\$4,451,533	(\$248,467)
Licenses and Permits	\$9,012,259	\$9,465,400	\$453,141
Fines and Fees	\$2,490,800	\$1,542,202	(\$948,598)
Charges for Services ¹	\$6,258,450	\$3,349,400	(\$2,909,050)
Investment Income	\$1,878,520	\$1,844,324	(\$34,196)
Miscellaneous	\$5,040,400	\$7,564,937	\$2,524,537
Total	\$88,746,825	\$92,686,051	\$3,939,226

⁽¹⁾ Charges for Services include facility permits, business permits, park permits -details on Exhibit (H)

Based on year-to-date information, revenue receipts do not follow an even schedule or linear trend. Although 50% of the fiscal year has elapsed, based on historic trends, revenues are estimated to be at approximately 30% of the budgeted amount. Actual revenues received are currently 27% of budget as stated on Table (2). Revenue amounts

continue to be stable. Although there will be variances in some of the amounts budgeted, the total is conservatively projected to be 4% higher than budgeted levels. It also should be noted that the lag in timing of revenue receipts is one reason an operating cash reserve continues to be necessary.

The Fiscal Year 2019-2020 General Fund revenue budget, as adopted, totals approximately \$88.7 million. Based on economic activity and revenue collections through December 2019, staff is not anticipating that total revenues will produce any significant increases over the amounts originally budgeted. We are anticipating one time sale of a City owned property by the end of the fiscal year, resulting in additional onetime revenues of \$5 million.

On June 18, 2019, the City Council authorized a Land Exchange of the City Yard Real Property at 2390/2400 E. Dominguez for the Prologis Targeted U.S. Logistics Fund, L.P. owned property at 18620 S Broadway & 18601 S Main Street, Carson. The appraisals determined that the fair market value of the City Property is \$25,824,000 and the fair market value of the Prologis Property is \$15,624,000, with the net difference being \$10,200,000. The total amount the City is anticipating to spend on the new Corporate Yard is \$5.2 million leaving a net balance of \$5 million that will be received upon Certificate of Occupancy and Close of Escrow. Prologis has been a great City partner in funding costs such as City Attorney fees as well as all the City Property's site work that will prevent the City from having to reduce its net balance.

Table (2): FY 2019-2020 General Fund Revenue Year-To-Date by Category

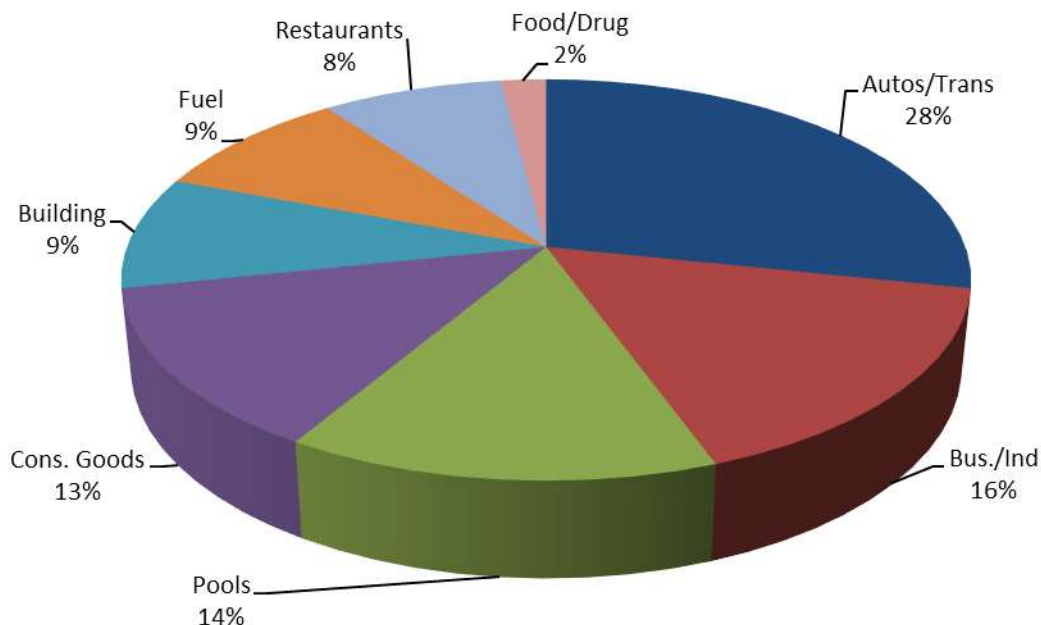
Revenue Source	Budget	Actual	% of Budget
Sales and Use Tax	24,672,756	7,394,464	30%
Franchise Tax	9,948,750	1,117,078	11%
Property Tax	15,274,891	91,135	1%
Transient Occupancy Tax	2,150,000	842,647	39%
Utility Users Tax	7,000,000	2,845,067	41%
Real Property Transfer Tax	320,000	206,445	65%
Oil Industry Business Tax	4,700,000	1,865,068	40%
Licenses and Permits	9,500,000	1,423,390	15%
Fines and Fees	2,490,800	1,024,618	41%
Charges for Services	6,258,450	2,225,295	36%
Miscellaneous	6,336,518	5,026,039	79%
Total	88,652,165	24,061,245	27%

Sales Tax:

On an annual basis, and as stated on Table (1), Sales tax is the most volatile and single largest General Fund revenue source at 28% of total estimated revenues. The current projection is for revenues in this category to come 3% below last year's actuals. The City's receipts from July through September were 16.2% below the third sales period in 2018. However this comparison is skewed due to the California Department of Tax and Fee Administration's transition to a new reporting system in the prior year when additional payments were received by the City. Excluding reporting aberrations, actuals sales were down 5.6% compared to last fiscal year.

The City experienced a very significant decline in service station sales and every business type within autos and transportation including new vehicles, auto leases and auto supply stores were down. A third consecutive quarter of growth in sales from building materials and contractors and ongoing growth in the countywide use tax pool allocation helped to offset the losses.

Sales Tax Revenue by Business Group



Additional Transaction Tax Districts Approved: The Los Angeles County voters approved eight of the nine sales tax measures on the November 2019 ballot adding six new districts and extending two others. This brings the total number of local transactions and use tax districts (TUT's) to 325 with 62 that are levied countywide and 263 imposed by individual cities. The number of local districts has close to tripled over the last decade as

agencies deal with rising costs and service needs.

California's basic rule is that the rate for all local TUT's combined, shall not exceed 2.0% or a total of 9.25% including the state levy. However, the state legislature has authorized higher caps in some jurisdictions with the highest voter-approved, combined state/local rate now at 10.5%.

Thirty-five or more additional local TUT measures are currently being considered in California for the March 2020 ballot.

Property Tax:

The adopted Fiscal year 2019-2020 Property Tax was estimated at growth of 3% compared to last year. The new revised growth is estimated to be 2.2%, which is lower than original plan. The difference between the adopted growth and actual growth is attributed to the decline in Marathon's possessory interest value between tax years due to the volatility of the oil and gas values.

Utility User's Tax (UUT)

UUT was budgeted at a 2.0% increase from the prior year and is performing in line with expectations. Due to changing behavior in consumer patterns for consuming media and federal prohibitions against taxing streaming media, it is anticipated that revenues from mobile phones, landlines and both cable and satellite television will be declining in the coming years. Revenues from electric, gas, and sewer are all anticipated to continue to increase.

Property Tax in Lieu of VLF Mandates:

The City receives property taxes from the State, in lieu of vehicle license fees. This revenue was budgeted at 4.3% growth. Current projections show the City can expect an additional \$236,000 above that original projection. Other Taxes, Permits, and Licenses: To date, revenues are largely consistent with budgeted amounts.

Oil Industry Business Tax:

In November 2017, the City's voters approved an Oil Industry Business License Tax (Measure C), based upon 0.25% of applicable oil industry gross receipts. The tax went into effect December 1, 2017 with annual projected revenue of \$4.7 million. The 2018-2019 Oil Industry Business Tax revenues totaled \$4.5 million, which is \$250 thousand (or 5%) below budgeted revenue as stated on table (3).

Table (3): 2018-2019 Oil Industry Business Tax Revenue by Business Name

Business Name	Q1	Q2	Q3	Q4	Annual Revenue
Phillips66	\$846,411	\$861,278	\$554,638	\$860,659	\$3,122,986
Equilon	\$195,201	\$175,138	\$117,505	\$148,435	\$636,279
Marathon	\$122,552	\$67,621	\$105,148	\$136,235	\$431,556

KinderMorgan	\$50,418	\$47,654	\$49,640	\$49,781	\$197,493
Chemoil Terminals	\$10,207	\$11,504	\$11,064	\$11,291	\$44,066
Nexeo Solutions	\$4,479	\$3,664	\$5,931	\$5,079	\$19,153
Total	\$1,229,268	\$1,166,859	\$843,926	\$1,211,480	\$4,451,533

As of December 31, 2019, the City has collected Oil Industry Tax Revenue totaling \$1.8 million or 40% of budget. Forecasting revenues from the Oil Industry Tax remains a challenge as actuals have been significantly lower than previously anticipated. The Oil Industry Accountability Audit process is still underway and staff anticipates a final audit within the end of the fiscal year.

The Oil Industry Tax has not solved the City's budget issues. Staff continues to recommend prudence as the City prepares the Fiscal Year 2020-2021 budget. Without significant service reductions, new revenues or the combination of both, the City will maintain its structural General Fund budget deficit.

2) General Fund Expenditure Update

When the Fiscal Year 2019-2020 budget was adopted on June 18, 2019, Fiscal Year 2018-2019 was not yet closed; and the beginning General Fund balance was only an estimate of \$39 million. The City ended Fiscal Year 2018-2019 with a budget surplus in excess of \$6 million due to annual underspending and reduction of expenses below budgets as stated in table (4) below.

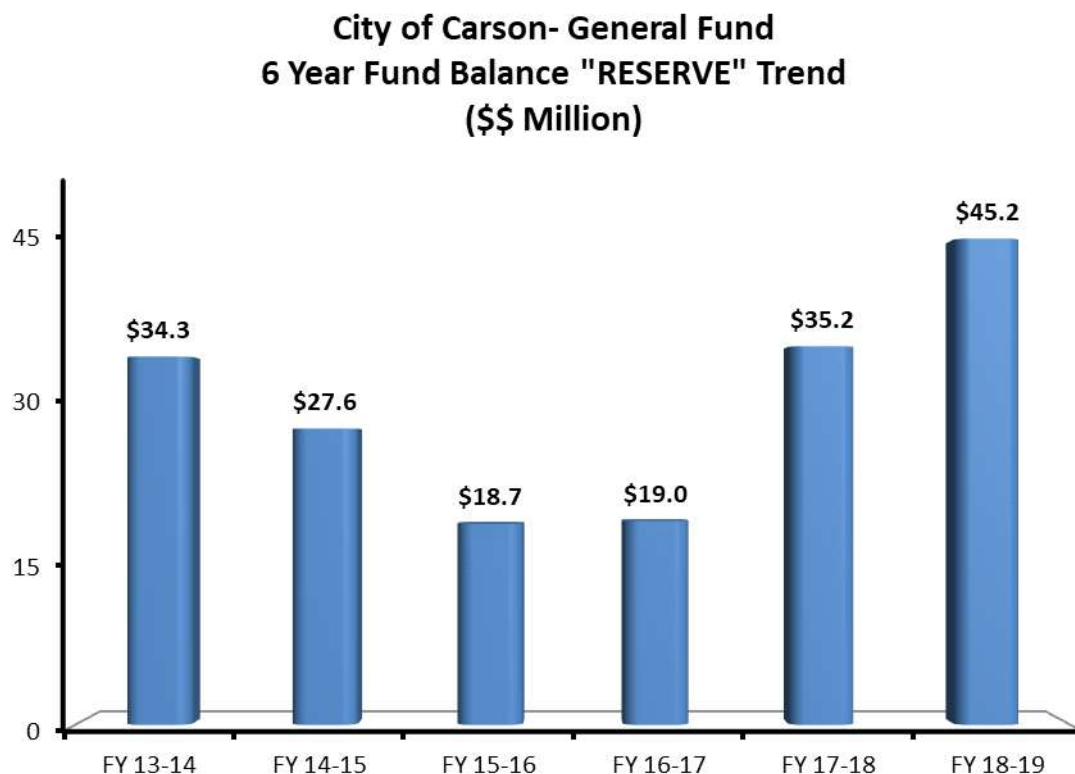
Table (4): Fiscal Year 2018-2019 Expenditures Summary

Department Name	Budgeted Expenditures	Actual	(Over)/Under Budget
City Council's Office	\$927,549	\$1,012,191	(\$84,642)
City Attorney's Office ⁽¹⁾	\$2,920,000	\$3,591,936	(\$671,936)
City Clerk's Office	\$1,112,767	\$998,125	\$114,642
City Treasurer's Office	\$788,874	\$652,836	\$136,038
City Manager's Office	\$4,351,107	\$3,832,020	\$519,087
Public Safety Department	\$24,071,330	\$22,635,739	\$1,435,591
Finance Department	\$4,085,693	\$3,909,246	\$176,447
Human Resources Department	\$2,597,877	\$2,297,917	\$299,960
Community Development Department	\$7,496,259	\$4,109,743	\$3,386,516
Community Services Department	\$13,234,510	\$11,903,838	\$1,330,672
Public Works Department	\$16,444,543	\$16,545,258	(\$100,715)
Non-Departmental	\$10,769,304	\$11,239,531	(\$470,227)
Total	\$88,799,813	\$82,728,380	\$6,071,433

⁽¹⁾ The City Attorney's total expenditures of \$3,591,936 are two categories: General Fund (\$2,092,223) and Reimbursable Matters (\$1,499,713) -details on Exhibit (D)

The combination of better revenue performance and lower expenditures in the General Fund resulted in increased fund balance. The audited fund balance at the beginning of the 2019-2020 fiscal year was a total of 45,235,652.

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. The chart below provides a six year fund balance trend for the General Fund. While the City now maintains a very healthy fund balance ("reserve"), it is anticipated that future ongoing revenues are not likely to offset projected increases in ongoing operating expenditures.



Although not all expenditures follow a straight-line spending pattern, operating expenditures should track close to within 50% of budget for the year at the end of the first 6 months. As of December 31, 2019, total General Fund expenditures were at 42%. This pace is within expectations for most activities in the General Fund.

The Fiscal Year 2019-2020 General Fund expenditures budget, as currently amended, totals approximately \$92.1 million. The recommended Mid-Year budget changes increase expenditures by \$623,000 to \$92.7 million. This is primarily due to processing expenditures originally from last Fiscal Year 2018-2019 using this Fiscal Year 2019-2020 budget for

Public Works and Public Safety invoices. The progress we have made in closing out old invoices is largely related to the City's financial system implementation. Additionally, staff is implementing internal control processes to ensure no future delays in Account Payables.

The General Fund continues to be structurally unbalanced, with the use of fund balance for ongoing operations. While the budget was adopted with an estimated \$2.4 million deficit, the new projections of revenues have helped to reduce the deficit to a projected \$1.5 million. The specific budget adjustments for the General Fund are summarized in Exhibit A attached to the City Council Resolutions recommended for approval.

Table (5): Fiscal Year 2019-2020 Year-To-Date Financial Performance

Department Name	Revised Budget	Actual	% Spent
City Council's Office	\$1,145,715	\$532,764	47%
City Attorney's Office ⁽¹⁾	\$2,920,000	\$1,078,358	37%
City Clerk's Office	\$776,613	\$349,270	45%
City Treasurer's Office	\$730,691	\$291,430	40%
City Manager's Office	\$4,370,429	\$1,970,200	45%
Public Safety Department	\$24,578,395	\$10,729,606	44%
Finance Department	\$4,397,340	\$1,822,292	41%
Human Resources Department	\$2,705,933	\$1,477,061	55%
Community Development Department	\$7,188,157	\$1,019,292	14%
Community Services Department	\$14,335,671	\$7,710,473	45%
Public Works Department	\$17,271,045	\$6,246,088	44%
Non-Departmental	\$11,678,809	\$5,819,020	50%
Total	\$92,098,798	\$39,045,854	42%

⁽¹⁾ The City Attorney's total expenditures of \$1,078,358 are two categories: General Fund (\$836,300) and Reimbursable Matters (\$242,058) -details on Exhibit (E)

Departments are requesting amendments that would add a total of \$623,000 to the General Fund Expenditures. The detailed requests and justifications are listed on Exhibit A and Exhibit B.

Requests are summarized as follow:

Increases:		
Public Works	Purchase replacement stump grinder and trailer.	\$69,000
Public Works	Increase in Enterprise lease and maintenance equipment	\$150,000
Public Works	Community Center Upgrade (Exhibit I): (ADA upgrades) - Sound System - Back Upgrade - Marquee	\$496,000

Public Safety	2018-2019 unpaid invoices: Convergent American Guard Services, Turbo Data S (details on Exhibit G)	\$300,000
Public Works	City Hall Lobby Flooring	\$48,000
Public Works	2018-2019 Unpaid invoices: Ron's Main Bay Cities, LA County Consultants, Cat Cleaning, O2PECM, Ford Hardy and Ha Exhibit F)	\$950,000
Information Technology	Wi-Fi Upgrade in City Parks	\$60,000
Human Resources	Increase in workers Comp and higher in premiums	\$300,000
		\$2,373,000
Decreases:		
Community Development	Professional Services	(\$1,750,000)
Net Change		\$623,000

3) Fiscal Year 2019-2020 Vacancy Status:

A list of citywide vacancies, by department, including individual vacant positions, is attached to this report as Exhibit (C). This list is as of February 12, 2019. Note that vacancies are constantly changing, and certain circumstances could be very different in a matter of days or weeks. Table (6) summarizes the 31 vacant positions across all departments, which is 10% of total General Fund FTEs.

Table (6): Vacancy Report by Department

Department Name	Budgeted FTEs	Vacant FTEs	Vacancy Rate
Public Works	130	8	6%
Community Services	66	8	12%
Human Resources	11	3	27%
Community Development	23	4	17%
City Manager's Office	6	1	17%
Information Technology	8	1	13%
Public Safety	23	2	9%
Finance	32	4	13%
City Treasurer's Office	4	0	0%
City Council's Office	5	0	0%
City Clerk's Office	4	0	0%
Public Information Office	4	0	0%
TOTAL POSITIONS	316	31	10%

As part of the Fiscal Year 2019-2020 budget process, Finance department has assigned a vacancy factor of 3% to departments in order to reduce budgeted personnel expenditures in recognition of normal turnover and salary savings. The vacancy savings included in the

Fiscal Year 2019-2020 were based on a June 2019 data snapshot of the vacancy status of positions, as well as consultations with City Manager's Office and Human Resources department regarding hiring plans.

Budget savings are primarily generated from consistent vacancies in departments. At any given time, the City vacancy rate varies between 10% and 20%. Many of the vacancies are a result of internal promotions. Others are created by retirements or employees leaving for other opportunities. The City Council will have the opportunity to revisit staffing levels during the fiscal year 2020-2021 budget process.

V. FISCAL IMPACT

The City's Budget provides the funding and expenditure plan for all funds. As such, it serves as the City's financial plan for the fiscal year. The fiscal impacts for the proposed budget amendments are identified in Exhibit A to the Resolutions.

VI. EXHIBITS

- 4) Exhibit (A): Mid-Year Resolution.
- 5) Exhibit (B): Mid-Year Expenditure Requests
- 6) Exhibit (C): Vacancy Status Report
- 7) Exhibit (D): Fiscal Year 2018-2019 City Attorney's Office Expenditure Analysis
- 8) Exhibit (E): Fiscal Year 2019-2020 Year-To-Date City Attorney's Office Expenditure Analysis
- 9) Exhibit (F): Public Works 2017-2018-2019 Invoices Charged to FY 2019-2020 Budget
- 10) Exhibit (G): Public Safety 2017-2018-2019 Invoices Charged to FY 2019-2020 Budget
- 11) Exhibit (H): Summary Revenue Report: Charges for Services - Fiscal Year 2018-2019
- 12) Exhibit (I)- Community Center Upgrade - Mid Year Proposal

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