Report to Mayor and City Council

Tuesday, March 16, 2021

Discussion

SUBJECT:

FISCAL YEAR 2021-2022 BUDGET WORKSHOP NO. 1 (CITY COUNCIL)

I. SUMMARY

This is the first of three planned budget workshops prior to a public hearing on June 22, 2021 to consider the adoption of the proposed Fiscal Year 2021-2022 budget. This workshop will provide an update on the General Fund Reserve and projected revenues for Fiscal Year 2021-2022. The next two workshops, on April 20 and May 18, 2021, will consider proposed expenditures and strategies for achieving and maintaining a balanced budget as is required by law. The City's charter requires the City Council to adopt an annual budget by resolution each year prior to June 30.

As was stated at the City Council's Workshop on Mission, Vision and Priorities held on February 4, 2021, the City is positioned to achieve a structurally balanced budget for Fiscal Year 2021-2022. This will be the first time since Fiscal Year 2012-2013 that our 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 2021-2022 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 for each budget policy question, which will be used to build the draft budget.

III. ALTERNATIVES

TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

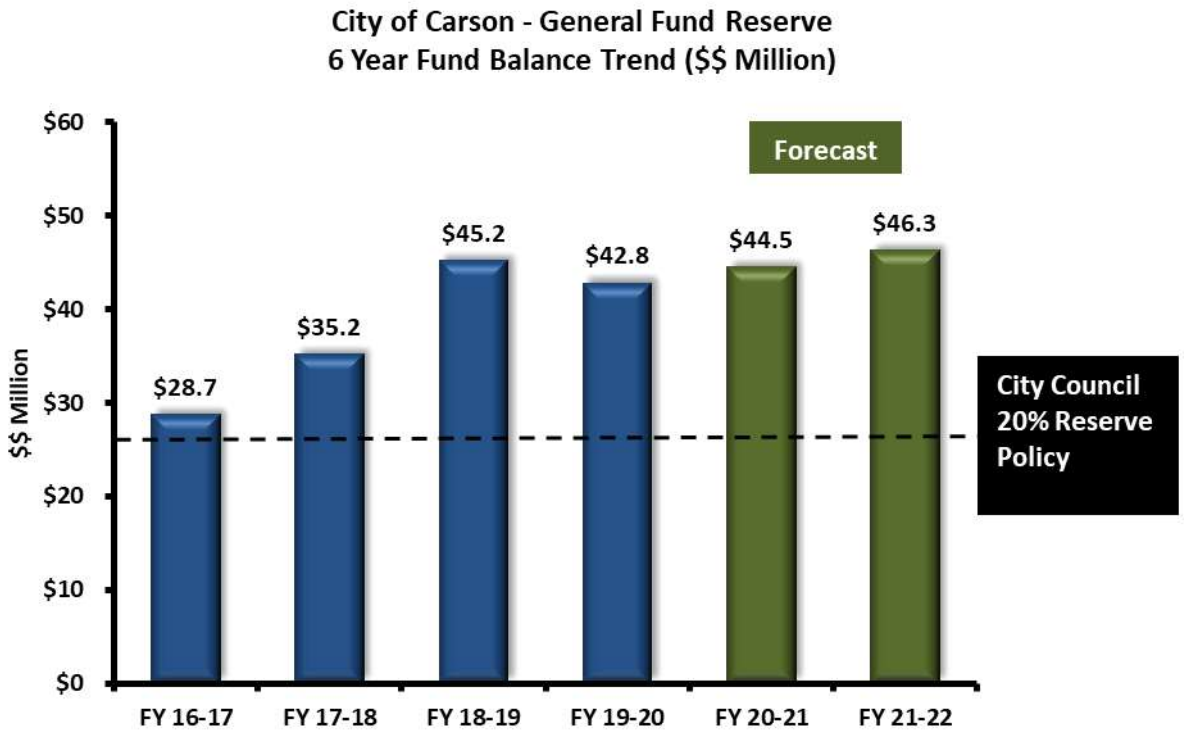
The purpose of this workshop is for the City Council to receive updated information regarding the General Fund Reserve and projected revenues for the Fiscal Year 2021-2022 budget and to provide direction for potential changes to the budget structure for Fiscal Year 2021-2022.

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. The chart below depicts Fund Balance for four previous fiscal years with forecasts for the current and upcoming fiscal years (six years in total). 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, for the first time in about a decade, it will be possible for the proposed Fiscal Year 2021-2022 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 2023 and resist the desire to make assumptions about its continuation past that date (discussed in further detail below).

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The projected General Fund balance at June 30, 2021 is $44.5 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 $1.8 million has been set aside for self-insurance claims.

Expected June 30, 2021 Balance	**$44.5 million**
Less:	
Calculated Reserve for Economic Uncertainties	$23.4 million
Set Aside for Self-Insurance Claims	$1.8 million
General Fund Balance Surplus (estimate)	**$19.3 million**

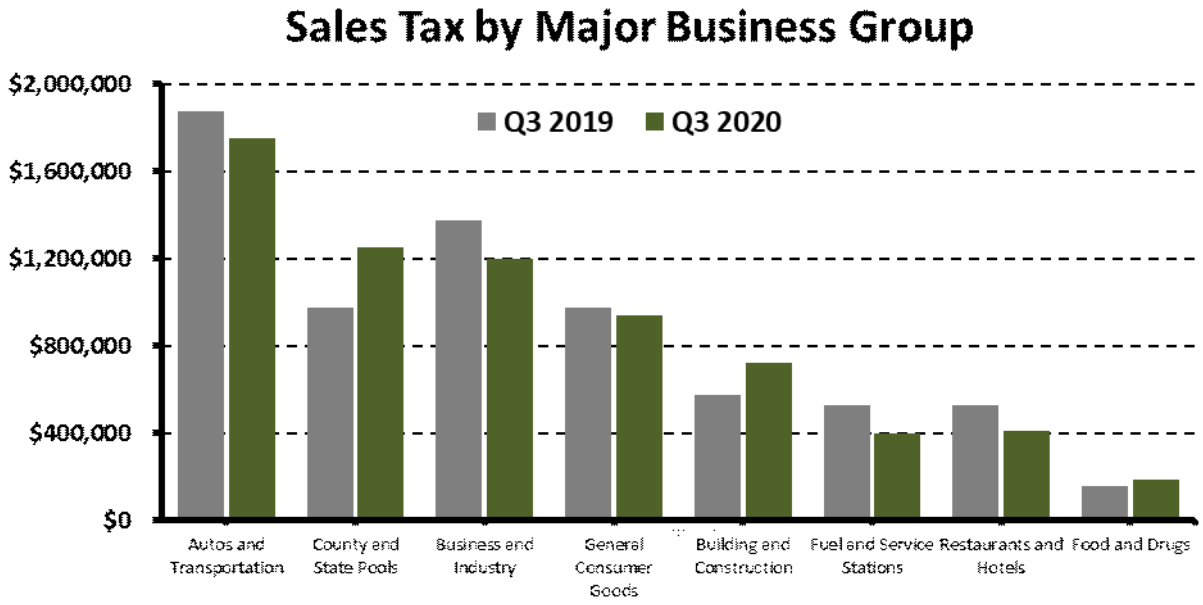
General Fund Revenues

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 3.9% of the next fiscal year. Although the regional Stay-at-Home orders were lifted on January 25, 2021, the County of Los Angeles remains in the Purple Tier, with restrictions still in place, pushing the projections for economic recovery further out into Q3 and Q4 of 2021. While vaccinations are now available, distribution is occurring slowly and will likely take months to trigger a significant economic recovery.

(1) Sales and Use Tax:

Sales tax comprises roughly one-third of General Fund revenue.



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 2020. Here are the top 25 sales tax producers in the City of Carson.



TOP 25 PRODUCERS

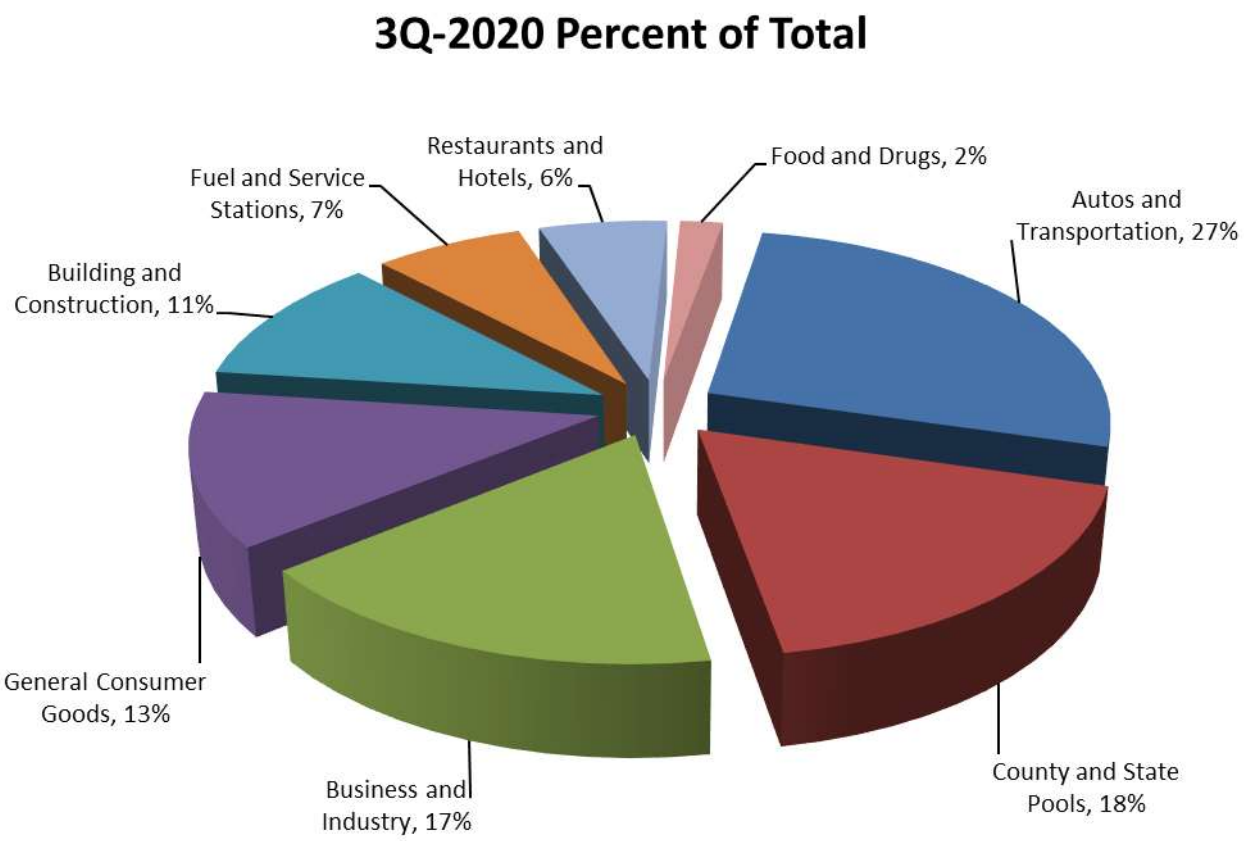
ABC Supply Co
Action Gypsum Supply
Article Furniture
Carson Honda
Carson Nissan
Carson Toyota
Ferguson Plumbing Supply
HD Supply Repair & Remodel
Hertz Equipment Rental
Home Depot
Hyundai Lease Titling Trust
IKEA
Inland Kenworth
Kia of Carson
Lakeshore Learning Materials
MRC Global
MS International
Nalco Company
S & S Supplies & Solutions
Sole Fitness
Southbay Truck Center/ Buswest
Target
Tesoro Refining & Marketing
US Auto Parts Network
Win Hyundai/Chevrolet Carson

Restrictions on dine-in restaurant operations at the state and local levels resulted in a significant decline overall in revenue for restaurants-hotels. The resurgence of COVID-19 cases in Southern California combined with crude oil oversupply resulting from the OPEC-Russia price war led to a slower-than-expected recovery for fuel service stations. The following table shows 3Q-2020 sales tax revenues compared to 3Q-2019.

Major Industry Group	**3Q - 2020**	**3Q - 2019**	**$ Change**	**% Change**
Autos & Transportation	$1,857,458	$1,949,846	($92,388)	-4.7%
Sate & County Pools	$1,235,003	$1,0003,310	$231,693	23.1%
Business & Industry	$1,207,947	$1,372,988	($165,040)	-12.0%
General Consumer Goods	$909,788	$966,196	($56,409)	-5.8%
Building & Construction	$759,905	$657,613	$102,291	15.6%
Fuel & Service Stations	$461,812	$627,031	($165,219)	-26.3%
Restaurants & Hotels	$396,487	$606,089	($209,602)	-34.6
Food & Drugs	$153,141	$143,050	$10,091	7.1%
Transfers & Unidentified	$5,288	$4,368	920	21.1%
Total	**$6,986,828**	**$7,330,491**	**($343,663)**	**-4.7%**

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. The following chart shows the City of Carson's sales tax revenue by economic sector.



Consumer spending increased in the third quarter as more retail stores re-opened, but revenues are still far below pre-pandemic levels. The Autos and Transportation group reported a sluggish sales quarter. Consumers continue to focus on home improvement projects, pushing up revenue from building-construction. The dine-at-home pandemic trend became the norm during COVID-19, boosting revenue from food-drug retailers. The City of Carson's share of the countywide use tax pool increased 23.1% over the same period in the prior year. The following table shows the projected sales tax revenue by year end (ending June, 2021) for Fiscal Year 2020-2021.

CITY OF CARSON

Fiscal Year 2020-2021 (ending June, 2021)

Sales Tax Revenue Projections

Total Allocation from CDTFA *Includes State and County Pools*		
Current quarter	3Q - 2020	$6,065,608
Previous Quarter	2Q - 2020	$6,583,516

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2nd Previous Quarter	1Q - 2020	$6,474,278
3rd Previous Quarter	4Q - 2019	$8,223,442
Total Allocation		$27,346,844
Adjustments		
Economic Adjustments		
State & County Pools (12.2%)		$493,000
General Consumer Goods (16.1%)		$330,400
Autos & Transportation (2.7%)		$138,000
Business & Industry (-1.6%)		($65,200)
Building & Construction (1.5%)		$30,900
Food & Drugs (5.4%)		$23,800
Fuel & Service Stations (0.8%)		$12,000
Restaurants & Hotels (0.6%)		$8,900
Other Adjustments		($729,200)
Administrative Cost (0.864%)		($233,561)
Total Adjustments		$9,039
Estimated FY 20-21 Sales Tax Revenue		**$27,356,000**

Significant recovery is not anticipated until Fiscal Year 2021-2022 with full recovery dependent on the specific character and make up of the city's economic sectors and tax base. Full recovery may also look different than before the pandemic. Recent surveys find that 3 out of 4 consumers have discovered new online alternatives and half expect to continue these habits, which suggest that the part of the recent shift of revenues allocated through countywide use tax pools and industrial distribution centers rather than stores will become permanent. The following table shows the projected sales tax revenue by year end (ending June, 2022) for Fiscal Year 2021-2022 which is 9.8% (or $2.7 million) increase from current Fiscal Year 2020-2021 actual which is good news for the City of Carson.

CITY OF CARSON

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Total Allocation		$27,346,844
Adjustments		

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Economic Adjustments	
State & County Pools (6.8%)	$350,000
General Consumer Goods (16.8%)	$335,300
Autos & Transportation (13.2%)	$240,900
Business & Industry (6.4%)	210,800
Building & Construction (3.0%)	$209,800
Food & Drugs (3.5%)	$206,000
Fuel & Service Stations (3.5%)	$99,500
Restaurants & Hotels (3.0%)	$18.500
Other Adjustments	$1,050,300
Administrative Cost (0.864%)	($261886)
Total Adjustments	$2,440,733
Estimated FY 21-22 Sales Tax Revenue	**$30,049,000**

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	$30,049,000	$31,551,450	$32,497,994

(2) Property Tax:

The City of Carson experienced a net taxable value increase of 5.3% for the Fiscal Year 2020-2021 tax role, which was slightly less than the increase experienced countywide at 6.4%. The following table compares the growth in Carson to surrounding cities.

City	**% Change**
Carson	5.3%
Gardena	6.2%
Compton	6.3%
Bellflower	5.6%
Lakewood	4.8%
Long Beach	5.8%
Torrance	3.9%
Hawthorne	6.3%

Growth in the number of home sales slowed and even declined by mid-2019. Fewer properties were on the market compared with 2018 despite declining mortgage rates. In 2019, economists forecasted a weaker housing market in 2020, even for cities that had achieved pre-recession peak values. In 2020, sale prices have risen as the number of sales declined significantly due to the COVID-19 stay-at-home orders. 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 2020 was $582,000. This represents a $32,000 (or 5.8%) increase in median sale price from 2019 as shown in the following table.

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Fiscal Year	Property Tax Revenue	% Change
2014	$375,000	
2015	$420,000	12.00%
2016	$445,000	5.95%
2017	$485,500	9.10%
2018	$530,000	9.17%
2019	$550,000	3.77%
2020	$583,000	5.82%

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 tax payers based on net values are:

	Rank
Marathon	1
Phillips 66 company	2
Watson Partnersa LP	3
Gatx Tank Storage Terminals Corporation	4
Prologis	5
Watson Cogeneration Company	6
Ineos Polypropylene LLC	7
Rexford Indutrial Realty LP	8
Anschutz So California Sports Complex	9
Equilon Enterprises LLC/Shell	10

Exhibit No. 1 and Exhibit No. 2 illustrate the property tax share among agencies within the City of Carson. The following table shows the historical property tax revenue generated in the last 10 years that shows a steady growth in the last 5 years.

Fiscal Year	Property Tax Revenue	% Change
2011-2012	$13,905,565	
2012-2013	$13,847,726	-0.4%
2013-2014	$13,765,369	-0.6%

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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%

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	$16,972,574	$17,295,053	$17,640,954	$17,17,852,646

(3) 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 the following chart.



The occupancy is projected to increase to 62% next year but below the long run average of 74.4%.

Moving into 2021, 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 2020-2021 projection for Transient and Occupancy tax was reduced by $215,000 compared to Fiscal Year 2019-2020 level. As of second quarter of Fiscal year 2020-2021, the City collected a total of $811,879 in TOT. This is a 30% decrease (or $327,300) from 2Q Fiscal Year 2019-2020 as shown in the following table.

2Q / FY 2018-2019	2Q / FY 2019-2020	Q2 / FY 2020-2021
$1,129,555	$1,086,425	$759,130

A summary of Transient Occupancy Tax revenue actuals and projection is as follow:

FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024
$1,825,663	$1,935,000	$1,958,384	$1,997,385	$2,047,319

(4) 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 2020-2021, the City collected a total of $3.9 million in

UUT. This is a 5% decrease (or $231,000) from second quarter Fiscal Year 2019-2020 as shown in the following table.

2Q / FY 2018-2019	2Q / FY 2019-2020	Q2 / FY 2020-2021
$4,170,045	$4,210,992	$3,980,395

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	$7,450,000	

(5) 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 transactions 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.

State and Federal 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

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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. Preliminary estimates indicate that the City of Carson will be receiving about $20 million. Funds must be provided directly from the Treasury within 60 days of City submitting a Certification of Need. This will be extremely flexible funding in terms of use and funds may be used for:

- Costs associated with responding to the COVID-19 public health emergency or its negative economic impacts, including but not limited to, assistance to households, small businesses, and nonprofits or aid to impacted industries such as tourism, travel, and hospitality

- To support workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers or by providing grants to eligible employers that have eligible workers who perform essential work

- To cover revenue losses caused by the COVID-19 public health emergency

- To make necessary investments in HVAC, water, sewer, or broadband infrastructure

The Federal emergency declaration enabled the Federal Emergency Management Agency (FEMA) to reimburse for eligible activities related to the activation of the Emergency Operation Center (EOC). In the past, expenses under the FEMA Public Assistance Program were reimbursed at 75%. Recent Executive Orders by the new administration indicate that the Public Assistance Program for Category B (Emergency Protective Measures) is 100% reimbursable for eligible expenses through September 30, 2021. This includes personal protective equipment and measures taken by safety personnel in direct response to saving lives due to COVID-19. Also, possibly eligible are supplies, services and equipment used by other City staff performing emergency protective measures. Staff will continue to track and submit eligible expenses through the first quarter of 2021-2022 and continue to monitor the progress of any pending legislation or grant opportunities and maximize any possible funding resources that become available.

Projected Revenues

Revenues	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**
Sales Tax	$27,355,883	$30,049,000	$31,551,450
Property Tax	$16,972,574	$17,295,053	$17,640,954
Transient Occupancy Tax (TOT)	$1,935,000	$1,958,384	$1,997,385
Utility Users Tax (UUT)	$7,450,000	$7,450,000	
Transaction and Use Tax (Measure K)	$13,900,000	$14,348,136	$14,706,839
Oil Industry Business Tax (Measure C)	$4,700,000	$4,700,000	$4,700,000
License and Permits	$2,900,000	$2,900,000	$2,900,000

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Franchise Tax	$9,500,000	$9,500,000	$9,500,000
Fines and Forfeitures	$2,400,000	$2,400,000	$2,400,000
Charges for Services	$5,800,000	$5,800,000	$5,800,000
Total	**$92,913,457**	**$96,400,573**	**$91,196,628**

V. FISCAL IMPACT

City Council direction will be used to prepare the draft Fiscal Year 2021-2022 budget.

VI. EXHIBITS

1. Exhibit No. 1 Property Tax Dollar Breakdown and City of Carson Share
2. Exhibit No. 2 Average Shares of Property Tax revenue by Agency Within the City of Carson

1.

Prepared by: Tarik Rahmani, Finance Director

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