City of Culver City, California

City Council Agenda Item Report

Meeting Date: 03/30/09	Item Number: A-3
AGENDA ITEM: Update of City Finances and FY 2009-10 and 2010-11 Budget Process.	
Contact Person/Dept.: Jeff Muir, Chief Financial Officer	Phone Number: 310-253-6016
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [X] Action Item: [X]	Attachments: [X]
Public Notification: This Town Hall meeting has been announced at City Council Meetings, quarter-page advertisements have been placed in the Culver City Observer and the Culver City News on March 12, 19, and 26; information signs were placed in 17 areas in Culver City Parks; the Official Notice of the Meeting was placed on City service counters and on the City's website; Three E-Mail notifications Utilizing the Master E-Mail Notification List were sent between March 2 and March 26, 2009; Master E-Mail Notification List (03/25/09)	
Department Approval: Jeff Muir (03/23/09)	City Attorney Approval: Carol Schwab (by H. Baker) (03/25/09)
Chief Financial Officer Approval: Jeff Muir (03/23/09)	City Manager Approval: Jerry B. Fulwood (03/25/09)

RECOMMENDATION:

Staff recommends the City Council receive a brief update on the City's financial situation and the upcoming 2009-10/2010-11 budget process, receive public input, and direct staff as deemed appropriate.

BACKGROUND/DISCUSSION:

During the 2008-09 budget process, City Council expressed a desire to provide input on budget priorities prior to the budget kickoff and give the community the opportunity to provide input. On March 9, 2009, staff delivered a comprehensive update of the City's financial situation for all major funds, as well as a preliminary overview of the upcoming 2009-10/2010-11 budget process. This matter has been included as part of the Town Hall Meeting in order to provide a further update and opportunity for the community to share their thoughts prior to the public meetings that are typically held starting in late April.

As was thoroughly discussed on March 9th, the national and world economies are in the midst of a historic economic recession. The economic downturn began in the residential housing market and initially hit financial institutions that had invested in mortgage-backed securities, causing a near collapse of the financial markets, including many large Wall Street firms. Since the wealth of most Americans is in their home's equity and/or invested in the stock market, the combination of declining home prices (40% plus in the hardest hit areas) and declining stock market (also 40% plus over the last year) has significantly impacted the financial position of almost every American. Additionally, the unemployment rate has been increasing steadily over the last few months as many companies are experiencing losses and need to cut expenses. As a result, Americans have pulled back dramatically in their spending habits, which has put the consumer driven American economy in turmoil.

The passage of Propositions 13 and 218 has severely limited California cities' ability to raise revenues, especially property taxes, to fund basic municipal services. Most cities must rely on more economically sensitive revenue streams, such as Sales Tax, Business Taxes, and development related fees and taxes. Therefore, many cities throughout California have been hit hard by this current recession. Culver City is no different, and is severely feeling the effects of the economy.

At the March 9th meeting, staff estimated the City was facing a potential operating shortfall of $500,000 in the current fiscal year in the General Fund. Sales Tax revenue, which makes up approximately 20.5% of total budgeted General Fund revenue, is expected to be approximately 8.0% less than last year's receipts and Commercial Industrial Tax revenue, which is a one-time tax collected on commercial renovations and new commercial development, is expected to fall short of projections. Real Property Transfer Tax is also lagging due to the downturn in the real estate market.

Unfortunately, the economy is expected to continue contracting through 2009 and is not expected to begin to turn around until late 2009/early 2010 at best. Additionally, economists expect a slow recovery that may last two or more years after the economy hits bottom. Consequently, staff expects that the City is facing at least two or more years of substantive financial difficulties. In fact, based on current expenditures and projected revenues for the General Fund at the time of the March 9th report, a budget deficit of approximately $4 million was estimated in 2009-10 and approximately $4.5 million (which may grow) in 2010-11. Unfortunately, recent worsening news on Sales Tax, lower than expected Business Tax receipts and lower than expected revenue estimates from various departments for their departmental revenues are likely to result in a budget deficit that is even larger. Staff is currently in the process of analyzing and assembling the budget information submitted by all City departments.

The State of California continues to face difficulties of its own. Although it recently approved a Spending Plan and Budget for the remainder of 2008-09 and the full year of 2009-10 that closed an approximate $42 billion deficit, there has been identification by the Legislative Analyst's Office that the deficit is back up to $8 billion based on continuing revenue decline. A number of the revenue generating items placed in the Spending Plan and Budget, such as the one percent sales tax increase, borrowing against the Lottery and Vehicle License Fee (also known as the "Car Tax") increase, are also dependent upon voter approval at a statewide special election to be held on May 19, 2009.

A report containing a number of revenue enhancement and cost reduction options which was included as an appendix to the Comprehensive Financial Plan (CFP) on March 9th is also attached to tonight's report. Most of these options are long-term financial solutions and will not make an immediate impact.

The strategy that was presented on March 9th for the upcoming budget included a number of options to 'weather' the economic storm over the next two fiscal years and try at all costs to avoid employee lay-offs and significant program reductions or eliminations. Given the worsening economic news both nationally and locally, the 'weathering the storm' option may only be possible for a one year period. It was clearly stated that the options presented would not fix the problem, they would only prolong the inevitable. As we approach the end of 2010, it is hoped that the City will have a much better idea of where the economy will stabilize and how much of a rebound we may actually see. However, it must be understood that it is entirely possible the economy could still be in a tailspin at this time.

A combination of mostly 'one-time' options will be incorporated in the proposed 2009-10 and 2010-11 budget to address the deficit for Council consideration. These will be primarily short-term measures that can be implemented over the next year or possibly two. They do not solve the ongoing projected structural deficit problem. By the time the 2011-12 budget planning process starts, the City will have to implement on-going, longer-term solutions. The bottom line is that this means a dramatic increase in revenues, or a dramatic decrease in expenditures.

The City's General Fund budget is approximately 80%+ personnel costs. To achieve dramatic expenditure reductions would mean eliminating positions and reducing or eliminating programs and services. Solving a deficit of several million dollars through such reductions would drastically reduce programs and services for Culver City residents, businesses and visitors, and layoffs alone have not worked in the past. Decreases of this magnitude would have to include public safety. Introducing a dramatic revenue increase in the City would most likely mean one or more items on the ballot to address the structural deficit. Some major items for consideration are:

- Consideration of a City-wide Assessment District for Landscaping, Streetlighting, Median Maintenance, Park Maintenance, Tree Trimming and Ficus Tree Replacement, and Graffiti Abatement. The City spends over $4 million annually on these items.
- Increase Transient Occupancy Tax from 12% to 14% (approximately $420k).

- Create a Parking Tax of 10% (approximately $110k).
- Increase Sales Tax by 0.25% (approximately $3.5 to $4 million).
- Paramedic Assessment to add additional paramedic unit and cover future cost increases (approximately $1 to $1.5 million, but would offset new costs)
- Implementation of a cafeteria plan for employee benefits, with a tiered system and lower benefit for new employees.
- Consideration of a two-tier pension program.
- Increasing parking meter rates.
- Extending parking meter hours in certain areas.
- Consider contracting or privatizing certain services (e.g. Parking system)

The City must decide if it wishes to pursue any (or more than one) of these options during this budget process in order to prepare for the 2010 general election.

Culver City, like virtually all other cities, faces a serious, on-going financial problem. The purpose of this report is to highlight some of the factors that have led to this situation, what actions the City is proposing to take in addressing it, and invite public discussion and comment in this Town Hall format.

FISCAL ANALYSIS:

There is no immediate fiscal impact for this report. Staff plans to return with a preliminary budget in late April.

ATTACHMENTS:

Long-Term Financial Options Summary

MOTION:

That the City Council:

1. Receive and file this report; and,

2. Direct staff as deemed appropriate.