City of Culver City, California

City Council Agenda Item Report

Meeting Date: 02/26/2007	Item Number: A-7
AGENDA ITEM: Discussion of Comprehensive Financial Plan	
Contact Person/Dept.: Marlee Chang, City Controller	Phone Number: (310) 253-6011
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: [X]	Attachments: [X]
Public Notification: Master Notification (02/22/07)	
Department Approval: Marlee Chang (02/22/07)	City Attorney Approval: Carol Schwab (by H. Iker) (02/22/07)
City Controller Approval: Marlee Chang (02/22/07)	City Manager Approval: Jerry B. Fulwood (02/22/2007)

RECOMMENDATION:

Staff recommends the City Council receive a report by the City Manager regarding the Comprehensive Financial Plan, and discuss and give direction to staff regarding included options of revenue enhancement and cost reduction recommendations.

BACKGROUND:

The Comprehensive Financial Plan (Plan) presented to the City Council tonight includes a 10-year financial forecast along with numerous feasible revenue enhancement and cost reduction options. The Plan is prepared under the City Manager's direction, with a team effort including the Budget and Finance Subcommittee, and the support of all City department heads.

The forecasting in the Plan is extended from the traditional 5-year projection to a 10-year plan. The Plan is prepared to project the City's financial condition based on the existing service levels and future revenue and expenditure trends. The Plan includes all City funds, and the financial impact which occurs between funds can be updated to show the overall city-wide financial picture. The Plan should be used as a management tool to identify any short- or long-term financial issues. This long-range approach will allow the City Council to address structural problems and related issues. It will also facilitate the implementation of revenue enhancement options as well as cost control/reduction opportunities to address these fiscal issues that require longer than the existing one-year budget cycle. The Plan is intended to serve as a working document and will be updated annually. It will be a valuable tool for the City Council to assess any fiscal implications and resolve any short-term issues when they surface. The Plan also helps to demonstrate to other levels of government that the City is vigilant in managing its financial affairs.

A draft financial policy is being prepared and will be reviewed by the executive management team for their input. The final policy recommendation will be presented to the City Council during the budget study sessions starting in May 2007.

DISCUSSION:

This Plan presents detailed revenue and expenditure projections based on historical trends and includes projected costs with which to provide the highest level of services to our community. The detailed worksheets are attached for your review. It is evident the fundamental issue is the projected City's General Fund expenditure increases will outpace its revenue resources; the projected deficit will escalate each year if no action is taken. The largest increases are attributed to the increase of medical insurance and pension costs. Consequently, the options for decision-making and policy direction are provided for City Council's review and consideration.

Currently, MOU negotiations have been successfully completed and implemented for five of the six bargaining groups for the next two to three fiscal years. With the adoption of the current MOUs, the City demonstrated its commitment to retaining high-caliber staff in order to continue providing a high level of City services to the community. Likewise it is important to evaluate and ensure the work programs are accomplished for the community with the resources necessary to achieve them. As the City Manager has previously stated, the City is at a juncture of making crucial decisions on its short- and long-term financial plan.

The audited Annual Financial Report has been completed by the City Treasurer's Office for fiscal year 2005-06 and shows the City currently has a healthy General Fund reserve. However, it is important to realize that the majority of the reserve is a result of one-time revenue receipts (such as proceeds from the Warner lot sale) accumulated over time. Keep in mind the recurring revenues **must** support the recurring operating expenditures.

The City is still facing difficulty funding on-going needs for the following:

1. Maintenance of City's streets, street lights and facilities - further deferment of the maintenance schedule for these needs will eventually cost the City more money in future years. If the funding is not available at the time when it is absolutely needed, the condition of the deterioration will worsen. Public Works and PR&CS are currently conducting studies to assess the condition of City-owned buildings and parks. It is anticipated the final findings will be presented to the City Council in the near future when the studies are completed;

2. The City has budgeted its appropriations at around the 96% level in recent years; it would be prudent to raise it to 100%. This recommendation will be included in the updated financial policy for City Council's consideration and discussion. For fiscal 2007-08 and 2008-09, the proposed budgeted level will be 97%.
3. Continue to build up Self-Insurance Fund reserve. Staff is assessing the appropriate reserve level and the recommendation of the reserve percentage will be included in the financial policy for your consideration; and
4. Set aside funding for future payment of retiree medical insurance (according to preliminary estimate within five years the cost of this expenditure will double from $3.1 million to $6.2 million). The GASB 45 (Governmental Accounting Standards Board issued Statement No. 45) generally requires that state and local governmental employers account for and report the annual cost of Post Employment Benefits Other Than Pensions (OPEB). The City will report this cost and obligation in fiscal 2007-08. There is no funding requirement at this time; however, staff recommends the City start to set aside at least $100,000 each fiscal year starting in fiscal 2007-08, and also establish a funding level in the financial policy. CalPERS is one organization that is currently providing a "pre-funding" plan (irrevocable trust) which enables participating employers the ability to set-aside funding for this growing liability need. Currently, staff is reviewing the available financing options and will present the findings to the City Council when available.

In order to provide the best service to our community, departments submitted their proposed additional operational needs for the next five years. These items also have a direct impact to the City's financial condition; they are summarized below and the details information is described in attachments D and E.

1. Build adequate resources for all departments to provide best services to our community;
2. Identify steady funding source for equipment replacement and establishment of a refreshment program;
3. Set aside funding for major acquisitions, such as: replacing the financial system, infrastructure repairs, computer server replacements, and Enterprise Application Interface (EAI);
4. Additional capital project funding for projects such as street repair, building construction, etc;
5. Set aside funding to meet State Mandated Stormwater Cleanup requirement (NPDES/TMDL).

OPTIONS FOR CITY COUNCIL'S CONSIDERATION

Currently, the City's recurring revenue is not sufficient to cover all these proposed on-going funding needs; therefore, the City must formulate a plan and take action accordingly in order to accommodate these needs. The forecasted revenues do include projected economic development revenue increases as revealed in the study by Keyser Marston.

The projected structural operating gap is anticipated to grow up to $7 million over the next ten years. To fill this gap and cover the additional recommended enhancements identified by departments (approximately $10 million ongoing), the City Council will need to take decisive action. The following are financial options for City Council consideration to assist in accommodating these needs:

1. The City continues to implement Best Management Practices. Some suggestions are included in the Cost-Reduction and Revenue-Enhancement Recommendations (staff is working on items that were identified for review [i.e. updating the Purchasing Policy, Financial Policy, etc.] and this effort will be continued);
2. Fees and Charges study may generate approximately $750,000 of on-going revenue; this amount will be greater if the City Council approved a more aggressive cost recovery rate (the Study is at the final stage and the report will be presented to the City Council in April, 2007);
3. Consideration to increase 0.25% of Sales Tax (Transaction Fee), which will generate approximately $4.5 million annually in additional on-going revenue (requires **majority** approval of residents at a General Election);
4. Consideration of increase in the Transient Occupancy Tax (TOT) from 12% to 14%, which will generate approximately $360,000 annually of on-going revenue (requires **majority** approval of residents at a General Election);
5. Consideration of a Fire Paramedic Assessment District, which will generate approximately $1.6 million annually (requires **majority** approval by affected parties based on the number of returned mail-in ballots);
6. Consideration of a Fire Suppression Special Assessment District, which will generate on-going revenue (requires **majority** approval by affected parties based on the number of returned mail-in ballots);
7. Consideration of Safety Salary Initiative Assessment, which will generate revenue as needed (requires **majority** approval by affected parties based on the number of returned mail-in ballots);
8. Consideration of General Purpose Ad Valorem Tax, which will generate on-going revenues (requires **majority** approval of residents at a General Election);

9. Consideration of a Tree-trimming Benefit Assessment District, which will generate on-going revenue (requires **majority** approval by affected parties based on the number of returned mail-in ballots);
10. Consideration of a Landscape and Maintenance Benefit Assessment District, which will generate on-going revenue (requires **majority** approval by affected parties based on the number of returned mail-in ballots);
11. Consideration of a Streetlight Benefit Assessment District, which will generate on-going revenue (requires **majority** approval by affected parties based on the number of returned mail-in ballots);
12. Consideration of a Stormwater Utility Surcharge, which will generate on-going revenue (requires **majority** approval by affected parties based on the number of returned mail-in ballots);
13. Consideration of issuing General Obligation bond for infrastructure deferred maintenance funding needs, which will generate one-time revenue (requires **majority** approval of residents at a General Election);
14. Consideration of increased Business Tax, which will generate on-going revenue (requires **majority** approval of residents at a General Election);
15. Consideration of Ballot approval to protect City's Utility User's Tax, which will secure on-going revenue (requires **majority** approval of residents at a General Election);
16. Consideration of raising Utility User's Tax rate, which will generate on-going revenue (requires **majority** approval of residents at a General Election);
17. Consideration of increasing various Fines, which will generate on-going revenue (requires **amending** municipal code);
18. Consideration of increasing Parking Meter rates, which will generate on-going revenue;
19. Consideration of implementation of an Admission Tax, which will generate on-going revenue (requires **majority** approval of residents at a General Election);
20. Direct staff to evaluate the feasibility of various options for healthcare cost containment including researching various healthcare providers; explore the possibility of implementation of a two-tier employee benefit system (i.e. cafeteria plan that is not precluded by CalPers) prior to the next MOU negotiations (requires future research and analysis);

NOTE: Implementation of any of the above items that require voter approval will take approximately 9-12 months of lead time for staff to complete all necessary research and preparation.

FISCAL IMPACT

If the City Council directs staff to pursue any of the above options which require voter approval, there will be contract services costs for a financial and/or public relations consultant to assist the City with the process. The contract service cost will be determined by the type of tax/special assessment and scope of services (e.g. will there be polling, public education, engineering study, etc.).

ATTACHMENTS:

- Comprehensive Financial Plan
    - Cost Reduction Subcommittee – Report of Findings
    - Revenue Enhancement Subcommittee – Report of Findings
- Level II Summarized Needs for General Fund
- Level III Summarized Needs for General Fund

MOTION:

That the City Council:

1. Receive and file the Comprehensive Financial Plan;

2. Approve the concept of the Comprehensive Financial Plan;

3. Discuss and direct staff to prepare and bring back additional information from items listed above for further consideration and implementation;

   or

4. Direct staff to prepare and bring back additional information on items not listed in this report for further consideration.