City of Culver City, California

City Council Agenda Item Report

Meeting Date: 05/22/06		Item Number: A-1
AGENDA ITEM: Financial State of the City – Part III		
Contact Person/Dept.: Jerry Fulwood	Phone Number: (310) 253-6000	
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []	
Public Hearing: []	Action Item: [X]	Attachments: []
Public Notification: Master Notification List 5/18/06		
Department Approval: Jerry Fulwood, (05/17/06)	CAO Approval: Jerry Fulwood, (05/17/06)	
City Controller Approval: Marlee Chang (05/17/06)		

RECOMMENDATION:

Receive report and direct staff as deemed appropriate.

EXECUTIVE SUMMARY

The current and future financial issues facing the City are two-fold; both cost reductions and revenue enhancements must be addressed in order for the City to maintain its high level of services and financial health.

The estimated projection for the fiscal year 2006-07 operating budget indicates a potential budget gap as high as $2.0 million. This projection may be modified based on decisions made during the upcoming budget process. The capital project funding needs are estimated to be approximately $8 to $9 million each year for at least the next five years. The future unfunded long-term liability for the Self-insurance Fund was $17 million as of June 30, 2005 and the cash reserve has fallen from approximately $13 million in 2000-01 to just over $1 million in 2004-05. The unfunded actuarial liability for the CalPERS pension plan is estimated to be approximately $30 million, and the future liability for the retiree medical insurance is expected to be substantial (amount still to be determined).

Currently, the City has an estimated deferred maintenance backlog of over $25 million. The City must assess the maintenance needs for its current infrastructure and develop a plan and ongoing funding source.

It is prudent for the City to: 1) take an action to close the projected operating deficit, 2) consider setting aside one-time revenue or establish a steady revenue stream for capital project needs, 3) implement a plan to off-set the growing future unfunded liability.

Without the immediate development and implementation of a comprehensive financial plan, the City may face even tougher financial challenges in the future.

Pension Benefits Create Funding Challenge

In the late 1990's, the Governor signed legislation authorizing an enhanced retirement benefit formula for the retirement plans offered by the California Public Employees Retirement System (PERS). At that time, the stock market was on the incline and investments were doing very well. This created a "super funded" situation for many cities. Consequently, Culver City's PERS account had significant surplus dollars to cover the PERS pension cost, without further contribution from the City. Therefore, Culver City and many other cities had the option of not contributing to the pension fund.

As was the trend with many city employee groups throughout California, Culver City's employee groups were able to renegotiate pension enhancements. In 2000, Police Safety negotiated a retirement formula of 3% @ 50, and Fire Safety negotiated 3% @ 55. Miscellaneous classification employees negotiated 2.5% @ 55 in 2001 and 2002.

With the stock market decline in the early 2000's, the "super funded" status of cities within PERS also vanished. Therefore, Culver City, along with other cities, had to begin contributing back into the PERS pension fund with dollars that had been allocated for other City needs. Additionally, Culver City had to pay for the newly negotiated pension benefits that were granted during the time when Culver City's PERS account was super funded. The City's current annual pension cost is approximately $10.1 million.

Retiree Medical Benefits

Culver City is also financially challenged by the fast growing future obligation for retiree health benefits. Due to changes in reporting requirements, Culver City will need to have an actuarial study conducted prior to the 2008 deadline. The actuarial information from this study is required by the Governmental Accounting Standards Board (Statement 45) to be included in the City's annual financial statement. While the City is not required to fund it at this time, it may potentially have a negative impact on the City's bond rating in the future.

Salary Initiative Allows Salary Cost to Rise Without an Offsetting Revenue Source

In 1953, Culver City voters enacted an ordinance (Safety Salary Initiative) with the intent to ensure that Culver City's Fire and Police public safety employees remained at parity with counter parts in the City of Los Angeles and the County of Los Angeles. At the time of enactment, City Councils throughout California had the authority to increase revenues through local increases in the property tax. With the passage of Proposition 13 almost 30 years ago, along with associated types of ballot initiatives (e.g. Proposition 218), the ability of cities to increase revenues became subject to voter approval. Culver City's ongoing revenue has increased over the years; however, the ongoing expenditures have grown at an even greater rate. In spite of the strong economic growth within the City, it has not been able to keep up with expenses.

In 2000 and 2001, most of the employee groups negotiated approximately a 4% annual increase for each of the next four years. At that time the Police Safety Units opted out of the Safety Salary Initiative choosing a negotiated salary increase with the City instead. With the expiration of the current MOU, the Safety Salary Initiative has once again taken effect. Last week, staff received information that salary increases resulting from the contract re-opener for the Los Angeles County Sheriff's Department were ratified. The impact to our Police Safety personnel costs is significantly higher than what was expected. It is possible that the Fire Safety may receive a similar increase as well. As a result, the combined public safety personnel cost increases could potentially be substantially higher than originally anticipated. This additional information worsens the outcome of the cash flow projection. Consequently, the City's current on-going revenues are unable to keep pace with these on-going salary increases without any additional revenue sources or reduction of on-going expenditures.

For fiscal 2005-06, public safety salary and benefit expenses account for approximately 55% of the total General Fund budget. Consequently, any increase in salaries or benefits will have a significant impact on the overall City budget.

The City's ongoing revenue stream and working capital is under siege since the biggest cost to the City is salaries and benefits for all its employees. Salary and benefits represent approximately 80% of the budget. The remaining 20% must fund operations, maintenance, and capital expenditures. This restricts the City's flexibility, making it very difficult to balance the budget. At this rate, Culver City's projected revenue over the next ten years will not support the projected expenditures.

Culver City has a very talented and dedicated team of employees who take great pride as professionals in their jobs. They are hard workers, demonstrate a "can do" attitude, and are a true asset to the City of Culver City.

In order to continue recruiting the best talent possible, we must be competitive in the market place. The questions that we must address are: how do we continue to be competitive and retain our current employees? And, how do we recruit the new talent to replace those employees who are retiring and/or leaving the employment of the City?

Workers' Compensation/Liability and Medical Insurance

The California workers' compensation system was considered by many to be broken with claims' cost draining the resources of both the private and public sectors. Culver City exhausted approximately $13 million of reserve funds within a five year period. As of June 30, 2005, the City's long-term liability, which includes all of the older claims that have not been settled, totaled more than $17 million. The City must keep track of these claims and close them when and where possible; otherwise, our future liability will continue to escalate.

Additionally, Culver City must continue to reduce the frequency and cost per claim of its current workers' compensation claims. Culver City has the highest cost per claim in our risk pool, the Independent Cities Risk Management Authority, which includes 29 southern California cities.

Furthermore, insurance premiums industry-wide have significantly increased since September 11, 2001. This has placed added pressures on City resources. Prior to September 11th, our insurance premiums totaled $311,000 annually. Today our cost for insurance premiums, excluding medical premiums, is approximately $1.45 million.

Culver City provides full medical, dental and vision for its active and retired employees, including their dependents. Ten years ago, medical insurance cost the City approximately $1.8 million annually. Culver City's projected budgeted amount for medical premiums for fiscal year 2006-07 is a little over $5 million. The annual projected medical cost in five years is estimated to be in the neighborhood of $8.1 million.

The medical and other insurance premium costs continue to increase and contribute to the structural deficit facing many cities.

Deferred Maintenance

Culver City has parks, streets, sidewalks, buildings, computers, etc., that must be maintained on an ongoing basis. The projected cost to keep up with current maintenance and repairs is estimated to be approximately $4 million dollars annually.

Over the last fifteen years or so, Culver City has been unable to generate sufficient funds to keep up with the annual maintenance of its infrastructure. As a result, the City has been forced to defer that maintenance to future years. The City's increased cost for deferred maintenance continues to grow at an alarming rate; every year that the City waits, the cost continues to grow.

Recommendations

This report includes recommendations/action plans that are provided as a vehicle to help address the fiscal issues facing the City. The recommendations/action plans are presented under different categories. Each category provides a brief analysis of the related issues and respective fiscal impacts. Staff is seeking direction to work with the Budget Subcommittee on any recommendations the City Council would like to move forward on for further analysis and discussion. Additionally, staff is looking for suggestions that City Council may want to include for further consideration.

There are two major categories with subcategories that directly impact the City's financial condition and need to be addressed:

1. Funding Needs

- Capital Funding/Deferred Maintenance
- Operating Funding Needs
- Future Liability Funding Needs

2 Financial Alternatives/Options

- Cost Reduction
  - ➢ Operation
  - ➢ Cost Sharing
- Revenue Enhancements
  - ➢ Ballot Initiated
  - ➢ City Initiated
- Organizational Efficiencies
- Policy Issues

Summary Conclusion

Culver City is facing a number of major challenges. However, even though Culver City has a healthy reserve, the decline of the reserve will accelerate unless actions are put in place. Now that we are aware of the issues, it is imperative that we, as a City, take the steps necessary to address the challenges before us. It is at this point that the clock starts to tick.

<u>BACKGROUND:</u>

The City's Financial Policy states: "The City shall avoid using one-time revenues to subsidize an ongoing imbalance between operating revenues and expenditures unless a five-year forecast shows no continuance of structural operating deficits." Ideally, ongoing revenues are used to pay for ongoing expenditures while one-time revenues are used to invest in the City's long-term financial stability and service improvements (e.g. fund capital projects and set aside money to pay for future liabilities).

In the last decade, many California cities have experienced similar fiscal challenges as Culver City. These challenges include: absorbing revenue reductions due to State take-away, funding significant increases in pension costs and medical insurance premiums, and controlling rising workers' compensation costs.

However, there are increases in certain ongoing operating expenses that are very unique to Culver City. Expenses such as the Safety Salary Initiative Ordinance – a non-negotiable salary initiative passed in 1953 which ties Culver City public safety employee salary increases to Los Angeles City and County salary increases – and the fact that the City provides full medical benefits to retirees regardless of their length of service to the City. When these costs increase consistently without a corresponding increase in recurring revenue, the City needs to shift funding to pay for those obligations. This has made it increasingly difficult to establish a consistent funding source for the following:

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- Capital projects;
- Deferred maintenance costs;
- Replacement of computers and related technology equipment; and
- Setting aside funds to off-set future liabilities (e.g. future workers' comp and general liability costs, employee pensions, retiree medical insurance responsibilities, increases in service levels, CPI increases, and labor negotiations).

Below is a chart showing General Fund expenditures per capita amounts in comparison to surrounding cities:

General Fund Expenditures Per Capita - 2005-06	
City	**Amount**
Gardena	$ 550
Carson	$ 580
Redondo Beach	$ 882
Torrance	$ 988
Burbank	$ 1,190
West Hollywood	$ 1,228
Manhattan Beach	$ 1,236
Culver City	$ 1,805
Santa Monica	$ 2,407
El Segundo	$ 2,914
Beverly Hills	$ 3,811

Despite these circumstances over the last five to ten years, the City has, for the most part, maintained a 30% General Fund reserve balance and has no bonded indebtedness for which General Fund revenues have been pledged as collateral. This situation is mainly the result of decisive action taken by the City to reduce costs (e.g. layoffs, hiring freeze, and personnel attrition), and an increase in revenues that was made possible by investments in both economic development and municipal infrastructure by the City and the Redevelopment Agency. However, some of the cost reduction and revenue enhancing actions that were necessary in order to maintain financial stability are no longer sufficient to sustain the annual operating budget needs.

Over the past few months, Council has been provided information regarding the current fiscal state of the City and impending issues that will have significant financial consequences in the future. The projected five-year General Fund cash flow presented in January showed a structural deficit over the next five years, which ultimately resulted in a negative reserve fund balance. The City is in a position **now** to make pre-emptive decisions to mitigate the potential negative impacts and create a favorable environment for improving the fiscal condition of the City.

DISCUSSION:

As described in the financial presentation “The Perfect Storm” on January 23, 2006, staff would like to continue the discussion of some significant financial impacts that will affect our City in the next couple of years. It is in the City’s best interest to implement a long-term financial plan and consider taking action while there are still many options available for consideration.
The following report outlines a number of alternatives/options for Council to consider in developing a short- and long-term financial plan. Many of these alternatives will require additional research and study to determine the actual impact on City services and service levels. The City Council is requested to direct staff to proceed with those alternatives/options they feel are most appropriate for the City to meet its short- and long-term financial goals.

FUNDING NEEDS

Capital Funding Needs/Deferred Maintenance

- Street Resurfacing Plan
- Pavement Management Master Plan
- Five-year Capital Improvement Plan
- Tree-trimming Master Plan
- Infrastructure Master Plan
- Computer Replacement Fund
- NPDES/TMDL – mandated stormwater cleanup issues

ISSUE:

Culver City has no dedicated revenue stream to fund its capital improvement and deferred maintenance needs. Over the last several years, one-time monies have mainly been used to fund a limited number of needed capital projects each fiscal year, thus increasing the growing list of unfunded projects.

Deferred maintenance is another serious and growing issue facing the City. The longer maintenance is put off, the more it will end up costing the City in the future. Many of the City's buildings are decades old and in need of significant upgrades/upkeep. The Veterans Memorial Complex is one of these. In fiscal 2003-04, funding in the amount of $268,700 was appropriated for maintenance and repair activities at City Hall, Fire Station No. 1, and the Vets Building. The funding was used specifically to paint each of these buildings.

Funds were approved in fiscal 2005-06 to initiate an assessment of City-owned and maintained buildings, and also parks and park facilities. An RFP for assessment services on the City's buildings was prepared by Public Works. Responses to the RFP are expected in April, and it is anticipated that findings should be available within a couple of months after the consultants begin the assessment.

The Pavement Management Plan calculates the current backlog for street paving at approximately $17 million. This would bring the City up to an A+ level, which means all of the streets would be in an acceptable condition. Approximately $2.5 million is needed in the coming fiscal year just to keep the backlog at the current level ($17 million). As with all deferred maintenance, the further in the future a street is repaired/repaved, the more it will cost.

In fiscal 2005-06, the City started the process of setting aside funds for pavement, slurry seal, and computer/technology replacement. This was accomplished by using one-time funds from new development activities. It is not realistic in the City's current financial situation to allocate a dedicated revenue stream for these activities; therefore, the City will once again need to rely on any one-time monies available to continue funding these items.

Culver City, along with numerous other municipalities, is facing a growing issue relating to cleanup of pollutants in relation to stormwater and urban runoff, specifically those that enter Ballona Creek and empty into Santa Monica Bay. This cleanup effort is an unfunded mandate by the State.

The City's National Pollutant Discharge Elimination System (NPDES) program was established to support the implementation of the Los Angeles County Municipal Stormwater NPDES Permit, and to comply with federal and state environmental (surface water quality) laws. This program covers all stormwater (and urban runoff) pollution prevention and mitigation issues including the storm water plan check reviews, public outreach, commercial and industrial stormwater inspections, attending meetings, providing staff training, responding to complaints, applying for and managing grants, and managing the Transportation Yard and Transfer Station's General Industrial Stormwater NPDES Permits. In-house staff was hired at the beginning of 2005 to manage the NPDES/Stormwater Program. The stormwater program manager oversees all of the stormwater issues within the City, including the public facilities, construction sites, businesses, and residential areas. With the adoption of total maximum daily loads (TMDLs) (surface water quality limits with strict quantitative limitations), all the municipalities in Los Angeles County (and across the state) are facing a situation where they may incur millions of dollars in financial obligations to satisfy the regulations over the coming decade.

FISCAL IMPACT:

The fiscal impact regarding capital needs and deferred maintenance is staggering. As mentioned in the previous paragraphs, the current financial impact is in the double-digit millions. It is clear the City can no longer continue under-funding its capital improvement program and deferred maintenance needs. Proposed funding can come from recommendations mentioned under the "Revenue Enhancement" section of this report, such as a bond issuance. While a dedicated funding stream would need to be appropriated or allocated in order to pay for the bond payments, one-time funding would be freed up to use for other one-time projects and/or programs.

RECOMMENDATION/ACTION PLAN:

A. Proceed with assessment of City owned and operated buildings, including parks and park facilities. Use City employees to assess and determine costs.
B. Continue to monitor legislation regarding the federal and state National Pollutant Discharge Elimination System (NPDES) requirements.
C. Identify/research a dedicated revenue stream for ongoing and deferred maintenance.

Operating Funding Needs

- Building Maintenance and Repair
- Transfer of maintenance programs from Redevelopment Agency to City
- Transfer of grant funded positions to the General Fund

ISSUE:

In addition to capital improvement funding needs, there are a number of other funding issues facing the City that need to be addressed. These include ongoing maintenance and repair costs of existing City buildings, and Redevelopment Agency projects that, per state law, can no longer be financed using RDA funds.

Also, due to expiring grants and/or the unpredictable nature of federal and state funding, there are a number of grant funded positions and programs in which the City's General Fund will either need to absorb the costs or choose to eliminate the position/program.
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FISCAL IMPACT:

The City has had to absorb maintenance costs for Redevelopment Agency developed projects over the last few years. Per state law, the Redevelopment Agency can only pay these expenses for two years after completion of the project. Currently, the City has absorbed approximately $62,000 in maintenance costs over the last three years.

Over the last two fiscal years, the City's General Fund has absorbed approximately $650,000 in ongoing salary and benefit costs alone due to the expiration of certain grant programs.

RECOMMENDATION/ACTION PLAN:

A. As part of the project approval process, direct staff to identify ongoing maintenance costs that will be transferred from the Redevelopment Agency to the City over the next five years and set aside funding sources for these costs.
B. When considering any new project or building acquisition, direct staff to identify ongoing maintenance needs and costs as part of the total fiscal impact and set aside funding sources for these costs.
C. When considering the creation of grant funded positions and/or programs, staff must identify the length of the grant funding. If for some reason, grant funding for a position or program is no longer available; staff must get direction from City Council to either secure funding from another source or eliminate the position(s)-or program(s).

Future Liability Funding Needs

- Establish an adequate Self-insurance Fund future liability reserve (Worker's Comp and General Liability Programs)
- Reporting retiree medical insurance future liability – required by Governmental Accounting Standards Board (GASB Statement – 45)
- CalPERS unfunded future liability

ISSUE:

The City has accrued significant future liabilities in the workers' compensation and general liability programs and retiree pensions and medical benefits.

Historically, the self-insurance fund has had a sufficient cash balance to off-set future liability reserves[1]. For more than ten years, the self-insurance fund has not collected enough revenues from operating departments to cover expenses. As a result, the cash reserves, once approximately $13 million, have been depleted. The rapid increase in workers' compensation costs was not unique to Culver City and it caused a state-wide evaluation of the workers' compensation system. Lawmakers recognized that the system needed to be "fixed" and passed a large scale reform package in April 2004 (SB 899), which has been effective in reducing costs and fraud.

In order to keep the self-insurance fund solvent, charges to departments were increased approximately $2.7 million in 2005-06 (60% increase) and $1 million was transferred into the self-insurance fund from the equipment replacement fund. A new allocation formula – based on a department's experience rather than payroll – has

[1] Future liability reserves are set aside to account for future medical treatment, temporary disability and indemnity payments.

been created and will be implemented in fiscal year 2006-07. Plans are being developed to re-establish a cash balance in the self-insurance fund and restore its financial health.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45 (GASB 45), "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other non-pension benefits (OPEB). GASB 45 does not require that local governments establish a fund in their accounting system to accumulate assets to satisfy their OPEB obligation. It only impacts the notes to the financial statements (where the actuarially determined liability is disclosed along with certain other actuarial information) and the government-wide financial statement. No funding or accumulation of assets is required at this time. However, as a result of the new GASB 45 rule, the government may be under pressure to fund the obligation in advance rather than on the prior "pay as you go" basis. Failure to pre-fund the obligation may impact future borrowing costs, credit ratings, and the overall financial health of the organization. The City anticipates implementing the reporting of this compliance in 2008. As part of the MOU negotiated with each bargaining group, Culver City pays 100% of the medical insurance premiums for its retired employees. With an aging workforce and increasing medical costs, this future liability could potentially be quite substantial. The City needs to develop a plan to establish or increase cash reserves to off-set future liabilities for retiree benefits and the self-insurance fund.

FISCAL IMPACT:

The City should establish an adequate Self-insurance Fund Future Liability reserve (Worker's Comp and General Liability Programs). If the City were to fully fund the current future liability, it would cost approximately $850,000 per year, amortized over 20 years.

The City should establish a reserve fund to off-set retiree medical and pension benefits. The level of funding needed is dependent upon expected PERS rate changes and actuarial determination of the City's retiree medical liability.

RECOMMENDATION/ACTION PLAN:

A. Risk Management is tracking future liability changes and is performing an analysis of the average annual change in the self-insurance fund's future liability over the past four years to estimate the approximate level of funding needed to off-set the future liability.

B. Direct staff to return to City Council with more information once an actuarial study on Culver City's retiree medical benefit obligations has been completed. The City is required to report this information in its Comprehensive Annual Financial Report in 2008.

FINANCIAL ALTERNATIVES/OPTIONS:

Staff has prepared a summary of as many feasible actions/alternatives as possible to assist in formulating plans/strategies that address these short- and long-term financial needs.

NOTE: Many of the Recommendations/Action Plans mentioned below are dependent on acceptance by the City's bargaining groups or require a vote of the people. They are not in any specific order.

Cost Reductions

1. Cost Reductions/Operating

- Cafeteria Plan for Employee Benefits (with or without CalPERS)*
- Place cap on accumulation of vacation, sick leave, etc. – pay off annually*
- Implement two-tier retirement plans for new employees (Safety & Miscellaneous)*
- Fund one-time (retirement) payoff costs with one-time dollars
- Layoffs
- Attrition
- Freeze merit (step) increases
- Program Reductions

** These items would be dependent on acceptance by the City's Bargaining Groups*

ISSUE:

Personnel and benefit costs make up the largest portion of the City's budget at approximately 80%. The average personnel cost for miscellaneous classified personnel is $82,700, and the average personnel cost for public safety personnel is $179,400 (includes salary and salary related costs). The City currently pays full medical (with the exception of PERScare), dental, and vision premiums for employees and their eligible dependents, except for Fire Safety and Fire Management employees. The Fire Safety and Fire Management bargaining groups are the only ones who have a current and adopted Memorandum of Understanding (MOU) with the City, which requires contribution of 5% towards the City paid medical insurance premiums.

During fiscal years 2002-03 and 2003-04, the City took the very difficult step of eliminating 40 positions, along with other service reductions, in order to balance the fiscal year operating budget. Most of the eliminated positions were vacant at the time due to a hiring freeze that was put into effect in anticipation of this action. These position eliminations and service reductions resulted in approximately $3.5 million in cost reductions to the General Fund.

FISCAL IMPACT:

With the current increased personnel and benefit cost trends, Culver City soon will not be able to afford to maintain its current staffing levels with the current funding sources. This is especially true in light of the recent information received from Personnel regarding Police and Fire initiative-mandated salary increases, which are based on the City of Los Angeles and Los Angeles County public safety contracts. For Police safety personnel alone, there will be an increased cost beyond what was originally anticipated. Based on the historic trend of increases implemented by the City of Los Angeles and Los Angeles County, the fiscal impact to our Safety personnel costs may potentially be higher than what was originally anticipated.

RECOMMENDATION/ACTION PLAN:

Some of the Recommendations/Action Plans mentioned below would be dependent on acceptance from the City's employee bargaining units, as many relate to MOU negotiated benefits.

A. Research and estimate the potential savings from implementation of items such as: cafeteria plan for employee benefits, capping annual payout of leave costs, and potential long-term savings from implementation of a two-tier retirement plan.
B. Identify and prepare a list of potential positions for layoffs (this would also take into consideration "bumping" rights for Civil Service covered positions).

2. Cost Sharing*

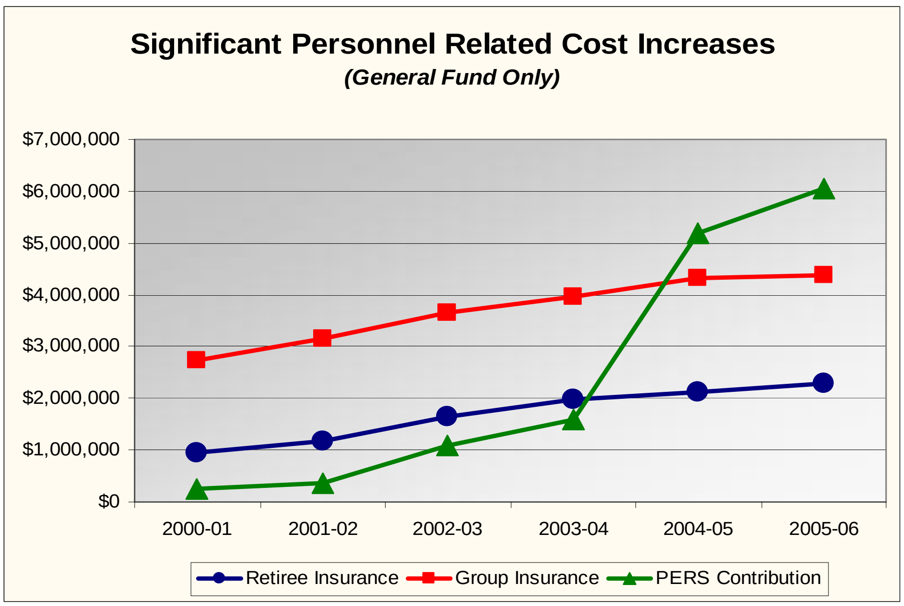
- Employee contribution for pension costs
- Employee contribution for medical insurance
- Establish policy of "vesting time" for eligibility of retiree medical insurance benefit
- Employee-only coverage for medical/dental/vision benefit

** All of these items would be dependent on acceptance by the City's Bargaining Groups*

ISSUE:

Two of the largest growing costs that face the City are pension costs and medical insurance premiums. The City took a significant hit with pension costs between fiscal 2003-04 and 2004-05 when the costs jumped approximately $3.6 million, which was on top of an almost $1.3 million increase from fiscal 2001-02. This equates to approximately a 2,054% increase over the last five fiscal years.

Medical insurance is another benefit the City has little control over, and it has increased approximately 60% over the last five fiscal years. Also, Culver City currently pays full medical insurance premiums for its retirees and their eligible dependents, and equates to an approximate increase of 123% over the last five fiscal years. Below is a chart showing the budgeted increases for medical, retiree medical and pension costs for the General Fund for the last six fiscal years:



Currently, the City has no "vesting" period for employees to complete before they are eligible to receive the lifetime medical benefit when they retire. As long as an employee has vested five years in the CalPERS system (which can be done at any CalPERS agency) and are eligible to retire, they will receive this benefit from Culver City. This means that a person could work for the City of Culver City for one day, retire, and their medical insurance will be paid by the City of Culver City for the rest of their life. This coverage extends to any eligible dependents they have.

With the current personnel and benefit cost trends, Culver City can no longer afford its current staffing levels in the future years. The skyrocketing increase in pension costs over the last five fiscal years has significantly exhausted the financial health and viability of the City. These costs are ongoing and growing, and recurring revenues cannot keep up with this growth.

FISCAL IMPACT:

Below are examples of potential cost savings the City could realize if they were able to be implemented. Many of these savings include employee cost sharing with the City and would need to be **approved through the labor negotiation process with all of the City's bargaining groups.**

Item/Description	Potential Savings in Year 1	Potential Savings Over a 5-Year Period
All Employees contribute 5% towards their Medical Insurance Premium:	$305,000	$ 1,957,000*
Increase PERS Contributions from Employees:		
o Public Safety – 1% Contribution	$168,000	$891,000
o Pubic Safety – 2% Contribution	$336,000	$1,783,000
o Miscellaneous – Additional 1% Contribution **	$ 262,000	$1,392,000
All Active Employees pay $5/month toward Dental/Vision/Life Insurance Premiums***	$119,000	$633,000

* *Factors in a 12.5% growth rate in medical costs each year.*
** *Miscellaneous employees currently contribute 1% towards PERS retirement benefit.*
*** *Factors in a 3% growth rate on premiums each year.*

RECOMMENDATION/ACTION PLAN:

A. Consideration of partnering with bargaining groups to initiate, or continue, contribution of a percentage of employee pension costs. (Miscellaneous classifications already contribute 1% towards PERS costs. Gain buy-in to increase this to 2%, and also have public safety pay at least 2% portion for their PERS costs.)
B. Consideration of partnering with bargaining groups to initiate, or continue, contribution of medical insurance premiums (5% or 10% contribution from employees).

C. Consideration of partnering with bargaining groups to limit medical/dental/vision insurance coverage to employee only.
D. Direct staff to develop a policy for a required/specified length of employment (vesting) an employee must be employed with Culver City before being eligible to collect lifetime retiree medical insurance benefit. (Currently there is no length of employment required).

Revenue Enhancements

1. Ballot Initiated

- Increase City Transient Occupancy Tax (TOT)
- Increase Utility User's Tax (UUT)
- Implement Parcel Tax – to fund Public Safety
- Implement ¼% Sales Tax increase (Transaction Tax)
- Implement Benefit Assessment District for landscaping, streetlights, etc.
- Increase Business License Tax
- General Obligation Bond issue for capital needs

ISSUE:

Historically, Culver City has rejected the action of placing an increased financial burden on residents to increase its recurring revenue stream in order to cover ever rising operating costs. Also, Proposition 218, enacted in 1996, took away the right of a city's elected body to increase any tax rates without a popular vote of its residents and greatly complicated the process involved in implementing an Assessment District or in increasing the fees charged for services in an existing Assessment District.

With mounting costs, especially in the areas of capital improvement, deferred maintenance, and personnel/benefit costs, it is recommended that the City consider generating ongoing revenue streams to sustain the budget need. All of the above items, though, would need to be placed on the ballot for a vote by Culver City electors.

Benefit Assessment Districts are intended to charge those whose property is receiving a direct and measurable City service where the relative "benefit" to the property owner can be computed. One Benefit Assessment District that could be implemented city-wide would be a Paramedic Benefit Assessment. Other Benefit Assessment Districts could be implemented for tree-trimming, streetlights, parks, and landscaping. These may be able to be city-wide, or implemented on a smaller neighborhood-by-neighborhood basis depending on benefit/need.

The Culver City Municipal Code authorizes the City to levy a tax for the privilege of occupying lodgings on a transient basis. The current Transient Occupancy Tax (TOT) rate is 12%. Also, the Culver City Municipal Code authorizes the City to collect an 11% Utility User's Tax (UUT) on electricity, water, gas, cable, and telephone and cellular/mobile telephone service.

FISCAL IMPACT:

Below are financial projections that may be realized (most annually) if Culver City were to implement and the electors were to approve, one or more of the above listed items:

- Increase Transient Occupancy Tax 1% (from 12% to 13%) - $ 185,000
- Increase Utility User's Tax ¼% (from 11% to 11.25%) - $ 300,000
- Increase Business License Tax (~10% Increase) $825,000
- Implement Parcel Tax ($100/Parcel/Address – collected by County) $2,200,000
- Increase Sales Tax by ¼% (Transaction Tax) from 8.25% to 8.5% $3,700,000
- Benefit Assessment District *Based on Benefit*
  - *e.g. – Paramedic Benefit Assessment District (full operating cost recovery with escalator)** $4,500,000
  - e.g. – City-wide Tree-trimming (annual cost recovery) $800,000
- Issuance of Bond for Capital Improvement *TBD – Amount Open*

** This program currently generates approximately $1,000,000 in ambulance billings*

RECOMMENDATION/ACTION PLAN:

A. It is recommended that the City Council direct staff to begin the process of researching any of the above identified items that best fit the financial needs of the City. Additionally, if the City Council selects any of these items please remember that they require a vote of the people, and a determination to hold a special election in November 2006 or wait until April 2008 would need to be made.
B. Conduct a full study to identify the total amount needed to fund all outstanding capital improvements and deferred maintenance costs. The findings will be presented to the City Council for consideration.

2. City Initiated

- Review and Increase/Adjust all applicable fees and charges not restricted by Prop 218
- Maximize Utilization of Prop A & C funds – purchase funds from other cities

City of Culver City, California

City Council Agenda Item Report

ISSUE:

There are some service fees and charges the City collects that do not fall under the restrictions set forth in Proposition 218, and the City must regularly review and update these fees and charges as applicable to cover and recoup the costs associated with the services being given. General Fund service charges, though, cannot exceed the cost of service, including overhead.

The City must remain cognizant of the fact that it needs to stay competitive with surrounding jurisdictions, while also remaining mindful of the current condition of the economy, therefore not overburdening its customers.

A large majority of cities are eligible to collect Prop C funds from the County. Many of these cities, often smaller “bedroom” communities, do not fully utilize these funds and “sell” them to other cities at a determined “cost on the dollar.” Culver City can purchase these funds at 50 to 60 cents on the dollar. This will provide Culver City with more buying power per dollar for street improvements.

FISCAL IMPACT:

Unknown at this time. Staff is currently working with all departments to determine potential fiscal impact.

RECOMMENDATION/ACTION PLAN:

A. The City Controller’s office is currently working with all departments along with the City Attorney’s office to establish a systematic process to include annual fees and charges update. The goal is:
   - Include this process as part of the annual budget adoption.
   - Consolidate all the resolutions and transfer items from the Municipal Code, where applicable, to one city-wide fees and charges resolution.
   - This process will enforce the review and adjustment of fees and charges annually, when applicable. It is recommended that, where applicable, a CPI increase should be built into the formula to allow the fees and charges to automatically increase by this amount. By doing this, it will ensure that Culver City is reimbursed for all allowable costs for services rendered.
   - The fees and charges schedule will be posted on the City’s website, which will be easily accessible for reference by staff and customers.

B. Direct staff to explore the feasibility of “purchasing” available Prop C funds from other cities

Organizational Efficiencies

- Implement a policy to hold two (2) City Council meetings per month coupled with Redevelopment Agency
- Implement a two-year Budget cycle
- Collect all revenues due the City
- Reduce service levels or ensure that departments have the appropriate staffing level and resources to meet their mission and objectives
- Provide city-wide reorganization plan within 60 days
- Recruit Risk Manager
- Consultant Evaluation of the City Treasurer's Office
- Maximize the use of e-commerce where feasible, including for the collection of certain permits, licenses, and fees
- Contracting out some responsibility within applicable departments

ISSUE:

"Work smarter not harder." Culver City employees are among the finest and most dedicated employees in the area. The elimination of positions that took place as part of the budget cutbacks in fiscal years 2002-03 and 2003-04, and the increase in service levels has placed an additional burden on current staff. Consequently, it is more important than ever that all operating departments are "working smarter not harder" in order to maximize efficiency and productivity. There are a number of areas in which the City can take advantage of technological advancements to increase revenue collection and facilitate the flow of information leading to an even greater level of efficiency and productivity. Additionally, the City should evaluate its organizational efficiency and internal procedures to ensure effective work-flow and lines of communication between and within operating departments.

By adopting a practice of holding only two City Council meetings per month, staff will be able to provide more in-depth staff reports, conduct in-house analyses, address critical issues immediately, and work with the community and City Council more effectively. A pilot program of 180 days is recommended.

With the implementation of a long-term financial plan, a two-year budget cycle will be easily accomplished. In a two-year budget cycle, full budget preparation will take place every other year rather than annually. It would also give each department a stable two-year financial plan to achieve their goals and objectives.

There are a number of tools that the City is already in possession of or is developing to increase internal efficiency. For example, in 1999, a consultant was hired to evaluate the City's organizational efficiency and internal processes of all departments.

Additionally, the Information Technology department is working with the City Controller's Office and the City Treasurer's Office to develop a suite of financial reports to be used as tools for sound financial management. IT is also working on an e-commerce program, which will reduce paperwork, expedite the application process, and increase the efficiency of revenue collection.

FISCAL IMPACT/RECOMMENDATION/ACTION PLAN:

A. Direct staff to develop a City Council Policy for number of meetings to be reduced to two each month, and implement a 180 day pilot program. A policy regarding number of City Council meetings per month would reduce City Council Members and staff time spent in meetings. This should enhance the efficiency and quality of the meetings.
B. Determine what it would take to implement a two-year budget process. The implementation of a two-year Budget cycle would reduce City Council Members and staff's time, which would provide a better tool to manage the City's resources and allow more time to be spent on more in-depth financial planning and analysis.
C. Have each department perform a self-evaluation to determine if the most appropriate staffing level is being utilized to meet department's mission and objectives. A cap should be placed on service level increases if resources are insufficient and/or unavailable to meet the need.
D. Increase the use of technology to generate and distribute financial reports in a timely manner and maximize the use of e-commerce including: purchasing and licensing software, annual maintenance and software updates, and staff time to implement. Overall, it is expected that increased use of technology will increase efficiency and productivity.

Policy Issues

- Transition from 96% spending assumption to 100% spending assumption
- Increased diligence in pursuing grant funds and timely drawdown of grant funds
- Impact of State revenue take-away
- Seek funding for impact of Mandated Public Safety Salary Initiative
- Review Public Safety Salary Initiative for Possibility of Amendment
- Review Purchase Card Policy
- Review City Hall Security procedures
- Research the Feasibility of Contracting-out some City Services
- Ensure financial viability of Enterprise and Internal Service Funds
- Hiring freeze with exceptions presented to the City Council
- Re-evaluate priority of the City's services to the community
- Update the City Financial Policy

ISSUE:

The City faces a number of other policy issues that have a significant impact on the financial health of the General Fund. Unfortunately, not all of these issues are within the City's control. In recent years, the State has "borrowed" money from cities in order to balance its budget. This State mandated confiscation of revenues has had a negative impact on the City's cash flow and has forced the City to reduce operating expenses. In addition, federal budget cuts, which negatively impact the amount of grant fund monies awarded to Culver City, cause the General Fund to absorb on-going costs.

Fortunately, the City does have control over most of the following policy issues. Since fiscal year 1997-98, the City has budgeted assuming that only 96% of appropriated funds will be spent annually, based on historical trends. The 96% spending assumption is difficult to achieve as departments are finding it increasingly challenging to maintain at 96% spending pattern and achieve their goals and objectives. Therefore, it is crucial to progressively reduce the percentage of this assumption until ultimately the City is able to appropriate 100% of its operating expenses.

Over the past six months, the CAO's office has worked with a number of operating departments including Public Works, Parks, Recreation and Community Services, and the City Treasurer's office, to develop a comprehensive policy that lays out guidelines for grant funds. This policy is fully inclusive, outlining procedures from when grant funds are awarded until the project is completed and all grant funds are received. The CAO's office has also taken on a lead role in managing the operating departments to ensure that the guidelines are followed, the City fulfills all of the requirements of the granting agency, and all grant funds are collected in a timely manner.

FISCAL IMPACT:

In order to transition from a 96% to a 100% spending assumption over an eight year period, the City would need to increase its annual General Fund appropriations by approximately $375,000 each fiscal year until the goal of 100% is reached.

An increased diligence in pursuing grant funds and ensuring timely drawdown of grant funds may result in an increase in awarded grant funds. Staff is in the process of finalizing a comprehensive grant policy to ensure that grants are tracked and grant requirements are met.

The impact of State revenue take-away has been $971,000 in 2004-05 and $971,000 in 2005-06. The passage of Proposition 1A in November 2004 lessens the ability of the State to take funding from City governments.

RECOMMENDATION/ACTION PLAN:

A. Transition to a 100% spending assumption over eight (8) years, beginning in fiscal 2007-08, by increasing the assumption by ½% per fiscal year.
B. Encourage departments to aggressively pursue grant funding while considering the long-term financial impact to the General Fund, and enforce the recently revised grant fund policy to ensure the City receives all grant funds it is owed in a timely manner.

MOTION:

That the City Council:

Staff is seeking direction to work with the Budget Subcommittee on any recommendations the City Council would like to move forward on for further analysis and discussion. Additionally, staff is looking for suggestions that City Council may want to include for further consideration.