City of Culver City, California

City Council Agenda Item Report

Meeting Date: 03/09/09	Item Number: PH-2
AGENDA ITEM: Preliminary Budget Kick-Off Presentation and Budget Priorities for Fiscal Years 2009-10 and 2010-11.	
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: []	Attachments: []
Public Notification: Master E-Mail Notification List (03/04/09); Culver City Employees Association, Culver City Management Group, Culver City Fire Management Group, Culver City Firefighters Local 1927, AFL-CIO, Culver City Police Officers Association, Culver City Police Management Group on 03/05/09; Mail notice through USPS to Culver City Homeowners Associations, and Culver City Civic Organizations on 03/04/09.	
Department Approval: Jeff Muir (03/03/09)	City Attorney Approval: Carol Schwab (by H. Baker) (03/03/09)
Chief Financial Officer Approval: Jeff Muir (03/04/09)	City Manager Approval: Jerry B. Fulwood (03/05/09)

RECOMMENDATION:

Staff recommends the City Council receive a report on the upcoming 2009-10/2010-11 budget process, discuss budget priorities, 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. Tonight, staff will provide a brief preliminary overview of the upcoming 2009-10/2010-11 budget process and, considering the financial challenges facing the City, staff would also like to give the City Council and the community an initial opportunity to share their thoughts prior to the public meetings that are typically held starting in late April.

As has been discussed in greater detail in the other financial reports on this evening's agenda, the national economy is in the midst of a historic economic recession that is deeper and more widespread than has been experienced since the Great Depression. 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 have 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 fortunate to have a healthy reserve, which gives the City some flexibility in options for dealing with the current downturn. Many other cities do not have as strong a reserve policy and have already had to implement mandatory furloughs, layoffs, and one city has filed for bankruptcy during the last year with several others dangerously close to fiscal insolvency.

That said, Culver City is 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 more years of substantive financial difficulties. In fact, based on current expenditures and projected revenues as of this date for the General Fund, a budget deficit of approximately $4 million is estimated in 2009-10 and approximately $4.5 million (which may grow) in 2010-11. In order to close the deficit for fiscal 2009-10, some difficult decisions will need to be made.

In addition to the difficulties facing the City, the State of California is facing 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 are still uncertainties in some of the decisions made. Cities and counties were left relatively unscathed in this Plan, but schools and transportation were hit hard. A few of the revenue generating items placed in the Spending Plan and Budget, such as the one percent sales tax increase and Vehicle License Fee (also known as the “Car Tax”) increase, are also dependent upon voter approval at a state-wide special election to be held on May 19, 2009.

Redevelopment Agencies did have funding taken, and Culver City’s share is $2.25 million. The remainder of 2008-09 State Transit Assistance (STA) payments will not be received, and beginning in fiscal 2009-10, this funding will be permanently diverted to the state. The MTA has promised to back-fill the 2008-09 loss of funds for Transit Agencies. For 2009-10, additional Measure R monies the City will begin receiving will help offset this loss.

A report containing a number of revenue enhancement and cost reduction options is included as an appendix to the Comprehensive Financial Plan (CFP), which is also being presented tonight. However, many of these options are long-term financial solutions and will not make an immediate impact. Although the implementation of some of the options presented in the CFP are imperative to the long-term financial health of the City, immediate actions must be taken to balance the 2009-10 and 2010-11 budgets.

Under the leadership of the City Manager, the strategy being recommended for the upcoming budget includes 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. These options will not fix the problem, they will 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.

The following are items currently being analyzed to bridge the deficit for FY 2009-10 and 2010-11:

- A ‘hard’ hiring freeze (except sworn public safety positions) and holding positions vacant. (The approved 2009-10 budget already includes a 4% vacancy assumption, meaning we are only budgeting 96% of the cost of positions.)
- Reduction of temporary agency employees.
- Reduction in casual part-time employees
- Significant reductions to budgets for training, education and conference attendance.
- Reductions in usage of contract staff / consultants.
- Negotiating rate reductions or rate freezes with necessary contractors and consultants.
- Reducing Employee Service Awards budget.
- Requiring developers to pay mandated public notification costs.

- Implementing a charge for special event permits like yard sales, sidewalk sales, and other special events.
- Reduction of some enhancement items previously approved for 2009/10.
- Deferral of the General Plan update project.
- Deferral of some 2009/10 Capital Improvement Projects (CIPs), and de-allocation of some existing CIPs that have not started.
- Personnel costs savings measures such as furloughs.
- Implementation of a Retirement Incentive Program in order for organizational restructuring opportunities.
- Transfer of Innovation Fund balance back to General Fund.
- Transfer of a portion of Equipment Replacement Fund balance to General Fund.
- Potential use of General Fund reserves in excess of Reserve Policy as a sinking fund for emergency projects.

A combination of the items above will be incorporated in the proposed 2009-10 and 2010-11 budget to address the deficit for Council consideration.

It is important to note that most of the items above are only one-time, short-term measures that can be implemented over the next year or 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.

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.

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.

Considering the importance of this issue to the entire Culver City community, staff has put forth an additional effort to receive input from members of the community by placing an ad in the local newspapers and setting up an email address dedicated to receiving community input, budget.priorities@culvercity.org. Additionally, the presidents of the City's six bargaining units, Culver City Homeowners Associations, and Culver City Civic organizations have been notified via email. With City Council direction, staff can also create a survey on our City website, similar to what the City of Los Angeles has done, to receive community input in that manner.

FISCAL ANALYSIS:

There is no immediate fiscal impact for this report. Based on the strategies outlined, and the City Council direction received, staff plans to return with a preliminary budget in late April.

ATTACHMENTS:

None

MOTION:

That the City Council:

1. Receive and file the 2009-10 and 2010-11 preliminary budget kick-off presentation; and,

2. Direct staff as deemed appropriate.