City of Culver City, California

City Council Agenda Item Report

Meeting Date: 06/18/2007	Item Number: A-1
AGENDA ITEM: Discussion and Presentation of Proposed Financial Options for City Council's Consideration and Authorization to Seek Professional Services to Implement the Financial Options.	
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 (06/14/07)	
Department Approval: Marlee Chang (06/14/07)	City Attorney Approval: Carol Schwab (by H. Iker) (06/14/07)
City Controller Approval: Marlee Chang (6/14/07)	City Manager Approval: Jerry B. Fulwood (06/14/07)

RECOMMENDATION:

Staff recommends the City Council direct staff to:

A. Place a measure on the April 2008 ballot to modernize the City's Utility Users Tax Ordinance at the existing rate of 11%.

B. Continue to work with the Budget & Finance Subcommittee to develop strategies to address deferred maintenance.

BACKGROUND/DISCUSSION:

On March 5, 2007, staff presented the Comprehensive Financial Plan (Plan) and a list of financial options for City Council's consideration. During the meeting, the City Council received the report of the City's long-term financial condition and discussed a number of financial options. The forecasts included in the Plan revealed that, in the next few years, the projected financial disparity between the on-going revenues and the on-going expenditures will continue to grow. The Plan is a useful tool and helped to identify the magnitude of this disparity early enough to allow the City to take appropriate actions to stabilize the City's finances.

In accordance with the City Council's direction, the City Manager has already begun to implement a number of recognized best management practices, including updating the City's fees and charges, reviewing the City's financial policies, assessing operational procedures and processes, and implementing staff efficiency.

The major issues addressed in the Plan were:

- Level I Funding Needs – Immediate funding needs to allow, at minimum, annual CPI (Consumer Price Index) increases for department's operating and maintenance budget. For the three fiscal years preceding 2007-08, no CPI increases were built into the departments' annual budget. Since many contracts and other operational costs have increased by a factor equal to or greater than CPI, this resulted in many departments being under-funded for their operating budget. Level I funding is needed to restore CPI increases and reflect the true departmental operation funding needs for the future fiscal years.

- Level II Funding Needs – In addition to Level I funding needs, Level II funding needs would allow the operating departments to maintain the existing level of services to our community. The City experienced several years of cut backs and/or restricted spending, and now has reached a point of difficulty in managing its operations with the same level of funding.

- Level III Funding Needs – This identifies the level of funding needing for the City to provide optimal services to our community.

- Deferred Maintenance Funding Needs - It is prudent for the City to develop a strategy to address the immediate and on-going deferred maintenance for City streets, curbs, gutters, sidewalks, street lights, facilities, and parks. Under-funding the annual needs and further deferring the maintenance will essentially burden the future generation and continue to escalate costs. The following chart illustrates the magnitude of the City's deferred maintenance funding needs to: 1) restore each area to good/excellent condition, and 2) maintain the current condition.

Description	Immediate Repair Cost to Restore to Good-Excellent Condition	Approx. Annual Cost to Maintain Current Condition ($2007)
Street Paving*	$20,500,000	$2,700,000
Asphalt Streets	$13,400,000	
Concrete Streets	7,100,000	
City Facilities* (e.g. City Hall, Police Station, etc.)	4,015,000	856,000
Parks & Park Facilities*	1,023,000	298,500
Street Lights	10,630,000	864,000
Curb & Gutter (Replacement & Maintenance)	4,500,000	80,000
TOTAL	**$40,668,000**	**$4,798,500**

*Figures per a study prepared by a consultant.

Staff will continue to work with the City Council Budget & Finance Subcommittee to develop funding strategies for deferred maintenance issues and present a number of options to the full Council in the near future. Some preliminary options that have been discussed include:

- ◊ *Issue a General Obligation Bond* to address all, or a portion, of the immediate deferred maintenance needs; debt service and on-going maintenance needs to be paid using funds that would normally be appropriated for Capital Projects that address deferred maintenance piecemeal (requires voter approval);
- ◊ *Issue a Certificate of Participation* to address all, or a portion, of the immediate deferred maintenance needs; debt service and on-going maintenance needs to be paid using funds that would normally be appropriated for Capital Projects that address deferred maintenance piecemeal (does not require voter approval);
- ◊ *Leverage Redevelopment Agency Funds* by maximizing the use of either RDA bond funds or Tax Increment funds to address large deferred maintenance issues within Redevelopment Project Areas; and/or
- ◊ *Create Assessment Districts* either Citywide or in certain areas of the City to create a dedicated funding source for specific deferred maintenance issues (e.g. streets assessment district or landscape and streetlight assessment district).

- <u>Set Aside Funding for Unfunded Liabilities</u> - This includes pension benefits, retiree medical benefits, and workers' compensation future liability. GASB 45 (Governmental Accounting Standards Board Statement No. 45) is an accounting requirement that generally requires state and local governmental employers to report the annual cost of Other Post Employment Benefits (OPEB), which includes retiree medical benefits. *There is no funding requirement at this time*; however, according to preliminary estimates, within five years, the City's cost for this expenditure will double from $3.1 million to $6.2 million. Staff is currently researching options for funding this obligation, including participating in a CalPERS irrevocable trust fund program being set up specifically to fund OPEB. The proposed budget included an allocation of $100,000 for Designated for future retiree medical cost for City Council's consideration.

Tonight, staff brings back more information related to the financial options that were selected by the City Council on March 5, 2007. Those financial options are as follows:

1. Initiate a ballot measure to modernize the City's Utility User's Tax (see Attachment 1);

2. Increase in the Transient Occupancy Tax (TOT) from 12% to 13% (see Attachment 2);
3. Create Fire Suppression Assessment District (see Attachment 3);
4. Create Community Facilities District (see Attachment 4);
    a. Paramedic Services;
    b. Safety Salary Initiative;
5. Create City-wide Landscape and Streetlight Benefit Assessment District (see Attachment 5);
6. Create City-wide Street Assessment District (see Attachment 6);
7. Review Parking Rates City-wide (see Attachment 7);
8. 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) (see Attachment 8); and/or
9. Explore photovoltaic/solar energy options (see Attachment 9);

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:

The following fiscal impacts identify the initial cost of implementing each recommendation:

Options 1: This option requires voter approval at a general election and will have associated consultant contract costs ranging from approximately $100,000 to $150,000 (depending on the number of ballot measures and also the scope of the consultant services) for an attorney and/or elections consultant to assist the City with the process.

Options 2: This option requires voter approval at a general election and will have associated consultant contract costs ranging from approximately $100,000 to $150,000 (depending on the number of ballot measures and also the scope of the consultant services) for an attorney and/or elections consultant to assist the City with the process.

Options 3 – 6: These options deal with special assessments/taxes levied on affected property owners' taxes and will have associated consultant costs for polling, public education, and preparing the appropriate financial and engineering reports. These services can range from $50,000 to $100,000, depending on the scope of the activities.

Option 7: Staff will begin to develop a citywide parking strategy, including a potential increase of parking meter rates in various parts of the City. There will need to be additional staff time to continue this research. The associated revenue increase is unknown at this time.

Option 8: Staff has already begun researching various options for healthcare cost containment solutions. There will need to be additional staff time to continue this research as well as some consultation costs for insurance plan experts, actuarial studies, etc. More research by the Personnel Department is needed before cost savings can be projected.

Option 9: Consultation costs to explore various solar power opportunities on City Facilities are approximately $30,000. The results of the consultant's study will identify potential cost savings/revenue generation opportunities.

ATTACHMENTS:

Attachment 1: Transient Occupancy Tax
Attachment 2: Utility Users Tax
Attachment 3: Fire Suppression Assessment District
Attachment 4: Community Facilities District
Attachment 5: Landscaping and Lighting Assessment District
Attachment 6: Streets Assessment District
Attachment 7: Review Parking Strategy, including Parking Meter Rates
Attachment 8: Healthcare Cost Containment Solutions
Attachment 9: Photovoltaic/Solar Energy Options
Attachment 10: Calendar for General Municipal Election, April 8, 2008
Attachment 11: Summary Sheet from DRAFT Facility Assessment Study
Attachment 12: Summary Sheet from DRAFT Parks Assessment Study
Attachment 13: Summary Sheet from Pavement Management Master Plan
Attachment 14: Streetlight Replacement and Annual Maintenance Needs

City of Culver City, California

City Council Agenda Item Report

MOTION:

That the City Council:

1. Discuss and direct staff to pursue financial options as recommended by staff and authorize staff to seek professional services to implement the financial options;

Or

2. Discuss and direct staff to pursue other financial options approved by the City Council.