



# CITY OF CARSON

Honorable Mayor and Members of the City Council:

I am pleased to present to you the FY 2009/10 general fund budget that was approved and adopted June 30, 2009. Again this year, it has been a significant challenge to prepare a balanced budget. Even though the city was triumphant in getting the Measure C - Utility Users Tax passed on March 3, 2009, the simultaneous recession has seriously diluted the positive effects hoped to be gained from the passage of Measure C. However, unlike the last 4 years, we have achieved our goal of presenting a balanced budget - using no reserves to fund the operations for FY 2009/10. Therefore, we are happy and proud to present to you the adopted FY 2009/10 general fund budget.

Before we get into this year's budget, let us briefly remind you of all that happened with respect to the FY 2008/09 budget. A General Fund budget of \$66,522,519 was approved and adopted by the City Council on July 1, 2008. That budget included a number of budget cuts and expenditure shifts, which Council decided to enact in order to minimize the use of reserves. The original draft of the FY 2008/09 budget showed a \$5M shortfall. But, after all was said and done, the City Council adopted a budget projecting to use only \$1.8M of reserves, thus maintaining the reserve level at above the \$20 million mark. Those cuts included: (1) unfunding 10 additional full-time vacant positions, bringing the total number of unfunded positions to 26; (2) the partial funding of 10 full-time vacant positions; (3) modifying the sheriff's contract slightly to reduce costs while trying to minimize service impacts; (4) reducing part-time and overtime budgets; (5) unfunding a vacant Sr. Building Inspector position in the County contract; (6) eliminating 11 city events (Unity Day golf tournament, Santa's Sleigh program, Health Fair at Veteran's Sports Complex, Concerts in the Park, Christmas Tree lighting ceremony, Asian/Pacific Islander Day luncheon, Cesar Chavez Day celebration, Mariachi Festival, Seniors Las Vegas Luncheon, Seniors St. Patrick's Day Luncheon, and the Farmer's Market); (7) transferring certain programs to the separate self-supporting fund; (8) transferring the cost of certain services like tree trimming and street sweeping to other funds; and (9) reducing other operations and maintenance costs, where possible. However, despite these cuts, the budget still conformed to the Council's priorities, which include public safety, and code enforcement, youth and senior citizen welfare, continued economic development, and quality parks and recreation services.

As the fiscal year progressed, the recession took an even greater hold and by mid-year, the state of the city's budget had deteriorated even further. Projected revenue losses had caused the year-end shortfall to increase to \$5.2M. To avoid having to dip into the fund balance that deeply, the City Council took immediate action to implement further cuts and to transfer monies in from other funds. Some of the mid-year actions that were approved included: (1) not making the annual transfer of \$765,000 to the equipment replacement fund for its replenishment; (2) transferring into the general fund \$735,000 from the fund balance of the equipment replacement fund; (3) increasing from \$600,000 to \$1,200,000, the annual reimbursement from the gas tax fund to the general fund; (4) charging a portion of certain engineers' salaries to the gas tax fund and redevelopment agency; (5) unfunding 11 additional vacant positions, bringing the total number of unfunded vacant positions to 37; (6) eliminating, whenever possible, paid overtime; (7) eliminating all non-required travel; (8) postponing basketball and tennis court resurfacing; (9) not issuing the 4<sup>th</sup> issue of the Carson Report; (10) reducing the number of city-issued cell phones; and (11) reducing additional operations and maintenance costs, where possible. With all of these things implemented, it was estimated that we could end the year only

having to use the original \$1.8M of reserves planned at the time the budget was adopted on July 1, 2008.

As stated above, balancing this year's budget was no cake walk, but we have met that challenge. The FY 2009/10 adopted general fund budget projects revenues of \$67,639,537. This represents a \$1,117,016, or 1.7%, increase over the FY 2008/09 adopted budget of \$66,522,521. Most of the city's ongoing revenue sources are projected to stay constant or decline. However, included in these projections is \$5M, a very conservative estimate of the revenue anticipated to come from the new 2% utility users tax approved by the voters on March 3, 2009, and \$280,000 from admissions fees negotiated with the Home Depot Center. These new revenues are, unfortunately, being offset by a \$2M projected decline in sales tax revenues, a projected \$365,000 decline in Community Center revenues, a \$272,000 projected decline in motor vehicle license fees, a projected \$225,000 decline in interest earnings, a \$172,000 projected decline in transient occupancy taxes (TOT), and a projected \$152,000 decline in property tax revenues.

On the other hand, the adopted FY 2009/10 budget is \$67,626,858, an increase of \$1,104,339, or 1.7%, over the FY 2008/09 budget of \$66,522,519. Some of the factors contributing to that increase include a 14.5% increase in the building & safety contract, a 3.4% increase in the cost of the sheriff's contract, adding the operational costs for the new Hemingway Park Pool, and the funding of some of the previously unfunded position. One thing that did not increase in the FY 2009/10 budget is employee salaries. That is because the various bargaining units are all in multi-year agreements that call for a COLA based on the March-to-March increase in the CPI, and, in this instance, the March-to-March CPI change was actually a decrease of 1.6% rather than an increase. Therefore, the employees are not entitled to a COLA for FY 2009/10. Another item included in this budget is the \$500,000 funding to replenish funds in the equipment replacement fund. The FY 2008/09 replenishment of \$765,000 was suspended as part of the mid-year budget cuts for that year.

In summary, the FY 2009/10 budget projects total revenues and transfers of \$67,639,537 and expenditures of \$67,626,858, leaving a surplus of \$12,679. This will allow us to keep our general fund balance at approximately \$24.3M.

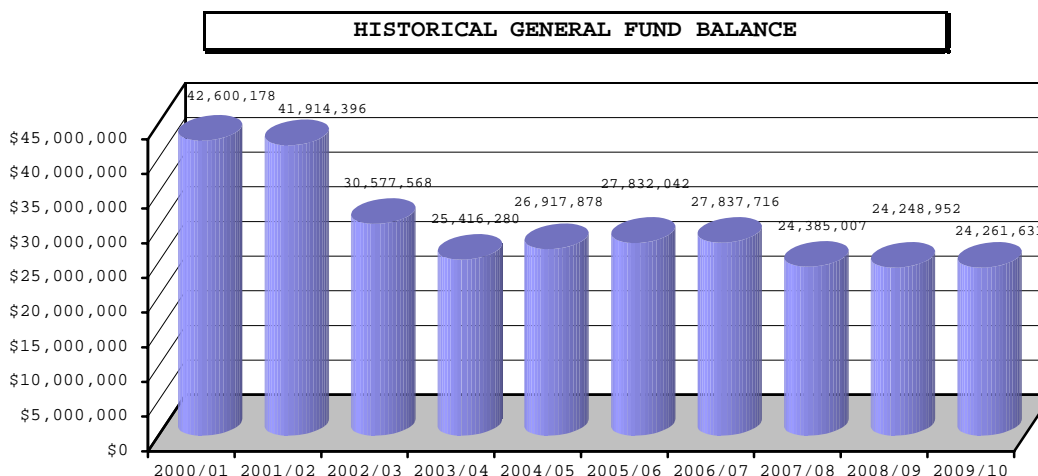
For comparison purposes, provided below are the FY 2006/07 thru FY 2009/10 general fund revenue and expenditure data:

| GENERAL FUND           | FY 2006/07<br>ACTUAL | FY 2007/08<br>ACTUAL | FY 2008/09<br>YEAR-END<br>ESTIMATE | FY 2009/10<br>ADOPTED<br>BUDGET |
|------------------------|----------------------|----------------------|------------------------------------|---------------------------------|
| Revenues/Transfers     | \$63,680,226         | \$63,442,874         | \$64,282,134                       | \$67,639,537                    |
| Expenditures/Transfers | 63,674,552           | 66,895,583           | 64,418,189                         | 67,626,858                      |
| FUND BALANCE INC/(DEC) | \$5,674              | (\$3,452,709)        | (\$136,055)                        | \$12,679                        |

#### ECONOMIC GROWTH

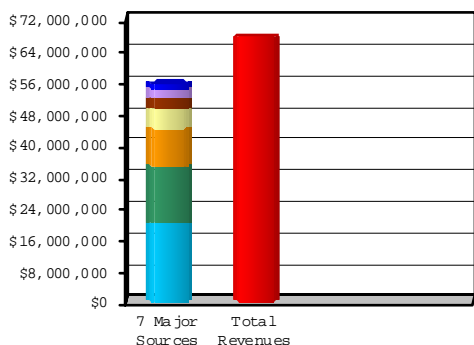
The economy is in a recession and California is feeling the brunt of that recession. With the current economic trends and the crisis with the state of California's budget, things don't look good at this time, nor is there much hope on the horizon for a stable economy. As a result of the state's budget crisis, the governor is again proposing to "borrow" money from cities to help fund the state's budget deficit. If this proposal goes through as currently presented, the city could be required to loan the state \$1.5 million dollars. Staff recommends that "loan" be taken from the fund balance rather than impacting the city's operational budget. When the money is repaid in 3 years as required, the money would go back into the fund balance.

The historical ten-year data for the General Fund balance of the city of Carson is shown on the following chart.



## FINANCIAL OUTLOOK

The financial condition of the city of Carson still faces some challenges. The new Utility Users Tax and Admissions Fee have been diluted by the reduction in other major revenues of the city. Therefore, the city anticipates the continuance of lean budgets with very tight controls on the expenditures. Below is a brief discussion of the seven major revenue sources of the city.



|                              |           |                   |
|------------------------------|-----------|-------------------|
| Sales and Use Tax            | \$        | 20,033,225        |
| No/Low Property Tax          | \$        | 14,468,277        |
| Franchise Tax                | \$        | 9,599,659         |
| Utility Users Tax            | \$        | 5,000,000         |
| Business License             | \$        | 2,631,274         |
| Bulding Construction Permits | \$        | 2,483,337         |
| Transient Occupancy Tax      | \$        | 1,383,501         |
| <b>Total Revenues</b>        | <b>\$</b> | <b>67,639,537</b> |

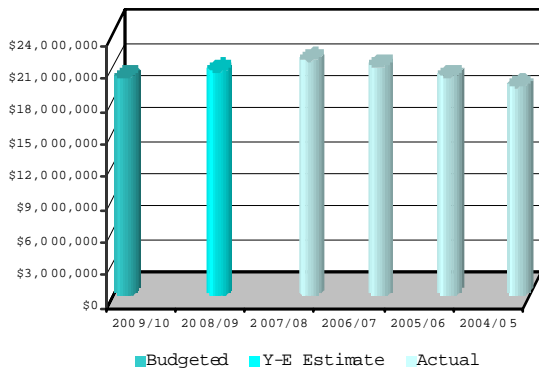
## MAJOR REVENUE SOURCES

The city has seven major revenue sources. Sales and use tax continues to top the list of revenue sources. To the left, is a chart that shows the list of the seven major revenue sources in comparison to the total general fund revenue adopted for FY 2009/10. Last year, the top seven revenue sources (which included community center revenues instead of utility users tax) represented 81.3% or \$52.6 million of the \$64.7 million adopted general fund revenues. For FY 2009/10, the seven major revenue sources make up 82.2%, or \$55.6 million, of the \$67.6 million adopted total general fund revenues. The city's revenues increased by 1.7%, or \$1,117,016, from the adopted revenues of \$66,522,521 in FY 2008/09 to the projected revenues of \$67,639,537 for FY 2009/10. This growth is the combination of the new utility users tax and admissions fee revenues and the reduction of sales tax and other revenues.

In the paragraphs that follow, information will be provided for each of these seven major revenue sources, including charts showing actual performance for the past four years, the year-end estimate for FY 2008/09 and the adopted budget for FY 2009/10.

**SALES AND USE TAX**

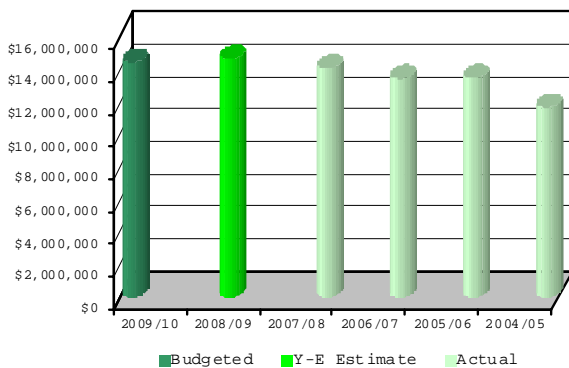
Carson's sales taxes have been a consistent top performer as a revenue source for the past several years, however, with the loss of several car dealerships over the last two years, it is projected to drop by about \$2 million this year. In FY 2006/07, there were 8 car dealerships in Carson. Since then, 4 dealerships, Don Kott Ford, Don Kott Lincoln, Superior Nissan and Car Pros Chrysler, have all closed. Now there are only 4 dealerships left. Although sales tax revenues are projected to be down \$2 million, it is still the largest source of revenue for the city.



For FY 2009/10, Carson will continue to receive only 3/4% of the 9.25% sales tax because of the triple flip that started in FY 2004/05. Before FY 2004/05, the city received 1% of the 9.25%. To make up for the revenue loss in sales tax, the State agreed to replace the funds, dollar for dollar, with property taxes. The city projects sales and use tax for FY 2009/10 to be \$20.0 million, or 8.9% less than the \$22.0 million budgeted in FY 2008/09.

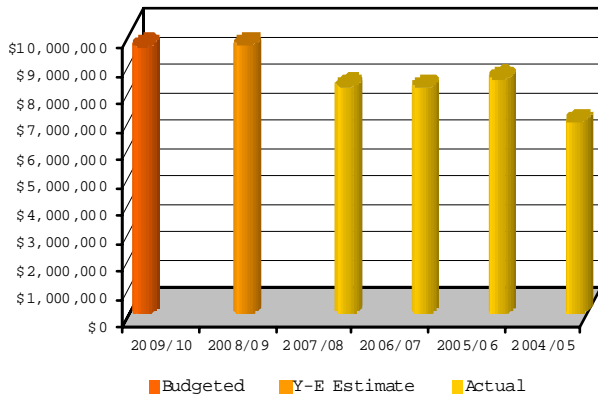
**NO/LOW PROPERTY TAX**

The property tax revenues projected for FY 2009/10 are \$14,468,277. This represents a \$152,822 decline from the FY 2008/09 budgeted amount of \$14,621,099. Property tax revenues are also affected by the triple flip that started in FY 2004/05, in that property tax revenues have increased due to the "backfill" provided to make up for the loss of motor vehicle license fees that were reduced in 2004. Those lost motor vehicle license fees are now received as property taxes. Therefore, only about \$7.3 million of the \$14.5 million projected for FY 2009/10 are "true" property tax dollars based on the city's assessed values.



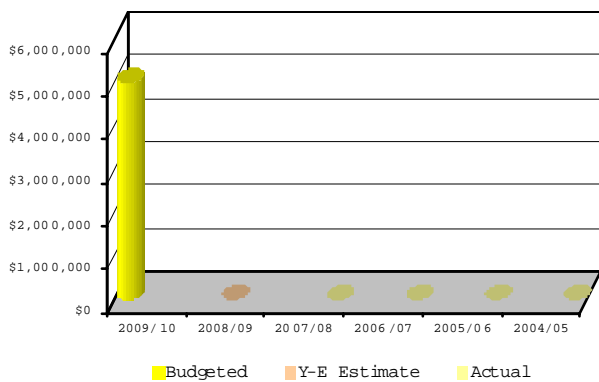
### FRANCHISE TAX

Franchise taxes are paid for the privilege of using city property or to operate a franchise within the city limits. In 2008/09, the largest franchise taxes were paid to the city by the electric and gas utility companies, providing revenues of about \$1.6 million and \$5.1 million, respectively. For FY 2009/10, the city projects electric franchise taxes to be \$1.6 million and gas franchise tax to be \$5.0 million. Consequently, the city projects total franchise tax revenues to reach \$9.6 million for FY 2009/10, the same that was received for FY 2008/09.



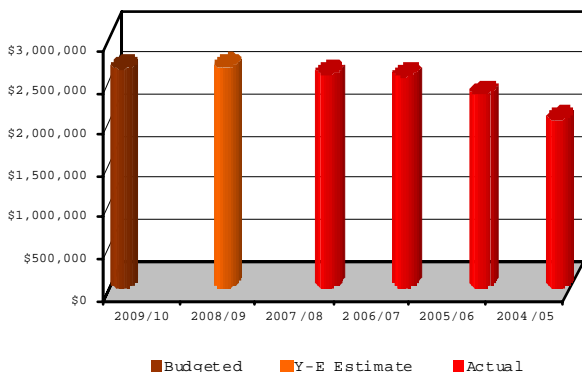
### UTILITY USERS TAX

After spending several months educating the community on the city's need for additional revenues, the city was successful in getting Measure C passed. On March 3, 2009, the citizens of the City of Carson voted overwhelmingly to enact Measure C, a 2% utility users tax on gas and electric utilities. While the original projections of a 2% utility users tax were between \$7 and \$9 million, for FY 2009/10, the first year the tax will be effective, the city is using a very conservative projection of \$5 million. The reason for that is that there were certain exemptions and caps that were enacted as part of the enabling ordinance and it is not clear how much those exemptions will reduce the utility users tax receipts.



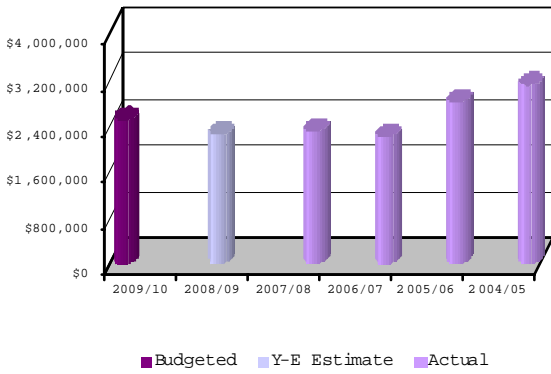
### BUSINESS LICENSE

As shown on the chart to the left, business license fees continue to be a consistent revenue source for the city. Business license revenues are projected to stay consistent at \$2.6 million for FY 2008/09 and in FY 2009/10. This revenue source is based on the number of employees of each business entity. The 2009 basic license fee is \$150.00 for the first five employees and \$30.00 for each additional employee.



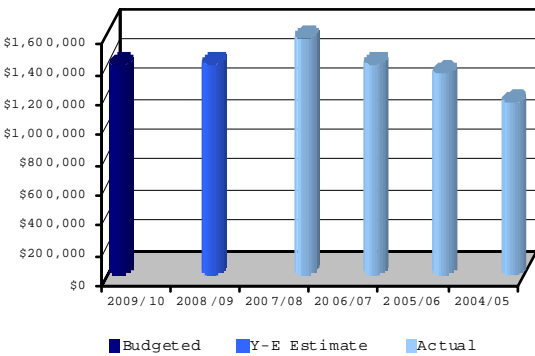
**BUILDING CONSTRUCTION PERMIT**

Building construction permit revenues decreased from a high of \$3 million in FY 2004/05 when building activity was up. Since FY 2006/07 through FY 2008/9, they remained fairly constant at about \$2.2 million. However, with the upcoming construction of the Carson City Center and the Boulevards at South Bay projects, building permit revenues are projected to increase by about \$250,000 in FY 2009/10 and most likely by significantly more in FY 2010/11.



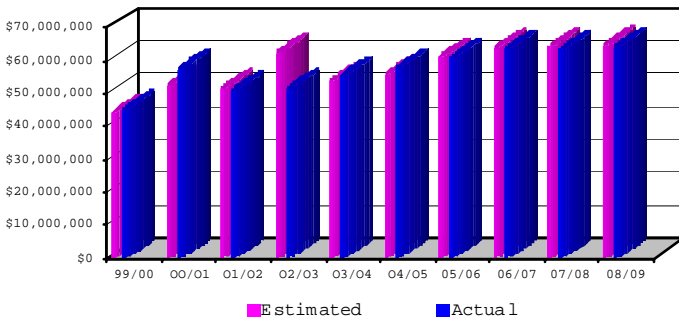
**TRANSIENT OCCUPANCY TAX**

The Carson Municipal Code authorizes the city to levy a tax for the privilege of occupying lodgings on a transient basis. This tax is charged to the lodger but is collected by the lodging operator and is transmitted to the city on a monthly basis. Currently, the transient occupancy tax (TOT) rate is 9.0%. With the opening of the Home Depot Center, TOT revenues increased for a few years, but are down in FY 2008/09 and estimated to remain down a bit in 2009/10, due to the recession.

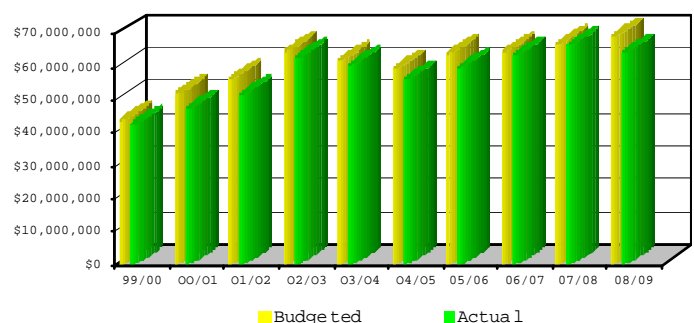


The city of Carson remains in sound financial condition in spite of continued budget challenges. The General Fund balance is well above industry standards and the Council has vowed to keep it above \$20 million. With the strong, prudent fiscal management that was demonstrated over the last several years, Carson should be able to sustain, and hopefully improve, the quality of life its residents have come to expect. The graph on the lower left shows the relationship between the actual general fund revenues and transfers to estimated revenues over the last ten years, while the graph on the lower right shows actual expenditures as compared to the expenditure budgets for the last ten years.

**REVENUES  
ESTIMATED VS. ACTUAL**



**EXPENDITURES  
BUDGETED VS. ACTUAL**



## BUDGET HIGHLIGHTS

For fiscal year 2009/10, a balanced budget with revenues of \$67,639,537 and expenditures of \$67,626,858 is now presented. In light of increases in the sheriff's contract and building and safety contract, the inclusion of funds to operate the new Hemingway Park Pool, and the funding of some previously unfunded positions, the following measures are included in this budget to keep expenditures within the revenues estimated for FY 2009/10:

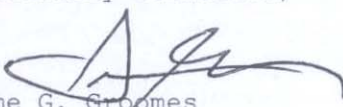
- Eliminate 3 vacant full-time positions permanently
- Keep 19 vacant full-time positions unfunded for FY 2009/10
- Partially fund 10 vacant full-time positions
- Eliminate the Mini Golf tournament
- Continue to pay for street sweeping and signal maintenance with gas tax funds
- Forego the tree trimming cycle for FY 2009/10
- Continue to implement a slightly modified Sheriff's contract to reduce costs
- No new capital equipment purchases
- Reduce operations and maintenance accounts, wherever possible

Again, this budget, as adopted, does not include the use of the unreserved, undesignated general fund balance to balance the budget. If the year-end projections for FY 2008/09 hold true and the actual revenues and expenditures for FY 2009/10 end up in line with these estimates, the general fund balance at June 30, 2010 should be approximately \$24.3 million. With this adopted FY 2009/10 budget, staff believes that the city's commitment to maintain good fiscal health and sustain a high level of service for our citizens has been met.

## CONCLUSION

As the city strives to maintain fiscal health, it is clear that the leadership of the City Council, combined with the city's dedicated staff, involved citizens and active businesses, will remain focused on the enrichment and growth of this culturally-diverse community. This budget is intended as a tool that will enrich the community by funding the necessary public services and programs that provide the quality of life our residents and businesses have come to expect.

Respectfully submitted,

  
Jerome G. Grooms  
City Manager

  
Jackie Acosta  
Administrative Services General Manager