City Council Meeting: September 9, 2025 Santa Monica, California

RESOLUTION NUMBER _____ (CCS)

(City Council Series)

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA MONICA IDENTIFYING LOCAL FISCAL DISTRESS BASED ON DECREASED REVENUE AND INCREASED LIABILITIES

WHEREAS, the City of Santa Monica (the "City") is a full-service city that provides residents with a police department, fire department, a regional transportation network, water, refuse and recycling, street maintenance, parking services, free public wi-fi, a high speed fiber optic network, parks, affordable housing, economic development, library services, rent control, recreational, cultural and educational services; and

WHEREAS, the City has historically relied on tax revenue from tourism and travel to support the City's extensive services; and

WHEREAS, the COVID-19 pandemic resulted in a sudden 26.8% decline in General Fund revenue in FY 2020-21; and

WHEREAS, the City Council responded to the COVID-19 pandemic by reducing the City's budget by 23.9% and eliminating 299 permanent and 122 temporary positions; and

WHEREAS, City services have not been restored to the level before the COVID-19 pandemic; and

WHEREAS, numerous capital projects have remained unfunded in light of the financial challenges faced by the City; and

WHEREAS, the City recently adopted a FY 2025-26 General Fund budget with adjusted expenditures of $484.3 million and $473.5 million in expected revenue; and

WHEREAS, the City has faced challenges achieving its revenue, expenditures, and General Fund reserve targets during the past several years; and

WHEREAS, the recent financial forecasts anticipate that the City will continue to operate a structural deficit for several years; and

WHEREAS, the City faces ongoing uncertainty that revenue projections may come in lower than expected; and

WHEREAS, the problem of uncertain revenue is exacerbated by the possibility of increased liabilities; and

WHEREAS, AB 218 and AB 452 effectively eliminated the statute of limitations for sexual abuse claims; and

WHEREAS, the City has paid over $229 million in settlements relating to alleged sexual abuse purportedly committed 20 to 30 years ago by a former City employee (the "Settlements"); and

WHEREAS, the Settlements have been funded largely by reserves in the general fund and by borrowing over $52 million from various City funds; and

WHEREAS, the City's General Fund reserves are only at 61% of their pre-pandemic levels; and

WHEREAS, the City faces additional abuse claims relating to the former employee from over 180 claimants that are seeking several million dollars for their alleged damages, the payment of which will be due in full upon order of the court and/or approval of the settlement; and

WHEREAS, on June 24, 2025, the City Council adopted, along with the FY 2025-26 Budget, an updated fiscal policy which includes a provision first adopted in May 2020—

in response to the COVID-19 pandemic—to reduce the City's longstanding policy requiring the General Fund to maintain an operating contingency reserve of at least 15% to 12.5% of the following year's operating and capital budget and subsidies to other funds; and

WHEREAS, the fiscal policy further commits the General Fund to increase the reserve level by 0.5% annually until it once again reaches 15%, provided that revenues recover; and

WHEREAS, the federal government has discussed or implemented several economic policies, including tariffs, mass deportations, tax cuts, and deregulation, which may impact the national and local economy; and

WHEREAS, some economists predict that the national economy will continue to be an inflationary economic environment with rising costs of goods and labor; and

WHEREAS, the City Council has determined that the current financial condition of the City, including the significant drawdown of reserves and interfund payment obligations, coupled with uncertain revenues and increasing costs and liabilities warrants declaring a fiscal emergency.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SANTA MONICA DOES RESOLVE AS FOLLOWS:

SECTION 1. The City Council declares that, as a result of the City's current financial condition, uncertain revenues, and increasing costs and liabilities, the City is experiencing a fiscal emergency.

SECTION 2. The City Council hereby directs the City Manager to take all necessary steps to address, alleviate, and mitigate this emergency.

SECTION 3. The City Clerk shall certify to the adoption of this Resolution, and thenceforth and thereafter the same shall be in full force and effect.

APPROVED AS TO FORM:

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HEIDI VON TONGELN
Interim City Attorney