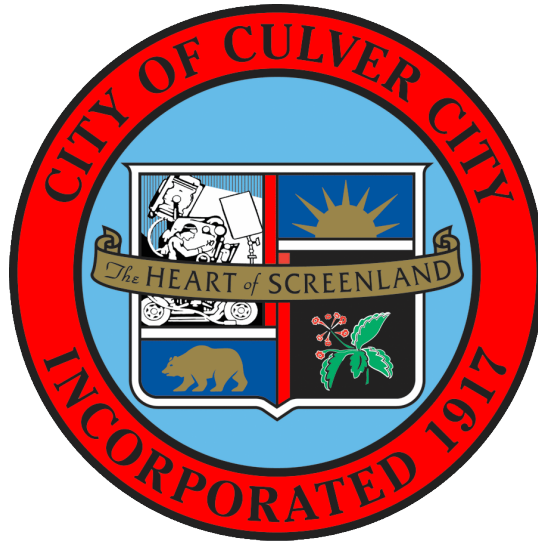




City of Culver City

MID-YEAR BUDGET REPORT FISCAL YEAR 2016-17 Through December 31, 2016

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INTRODUCTION

This Mid-Year Budget Report presents an overview of the City's operating revenues and expenditures for the first half of Fiscal Year 2016-17 as compared to budgeted amounts, explaining any notable aberrations or trends in the numbers. The revenue and expenditure information in this report is organized into two sections: General Fund and Other Major Funds.

An important component to the ongoing management of the City's annual budget process, the Mid-Year Budget Report's purpose is threefold. First, it illustrates the City's focus on monitoring its revenues and expenditures, with the intent to proactively respond to unanticipated changes or emerging trends. Secondly, and equally important, the report is to provide fiscal transparency of City finances as the City is ultimately accountable to its residents for the use of revenue. Finally, an important reason to provide such information is that it serves as a starting point for preparing the FY 2017-18 Budget.

The close of December encompasses the first six months of the City's fiscal year, presenting an ideal point of analysis to determine the viability of the adopted budget, or if and where adjustments should be considered. The Finance Department staff has reviewed all line items and compared actual results against budget expectations, historical trends, seasonality and other known factors affecting either revenue or spending streams to determine if recommendations for reductions or increases should be made. As the defined mid-point of the fiscal year, although the presumed expectation is that most categories should be at 50%, City revenues historically lag expenditures at this point in the fiscal year because of year-end accounting adjustments to major revenues and because the bulk of the property tax and business licenses revenues are received later in the fiscal year.

REPORT HIGHLIGHTS:

- The City's one half cent **Measure Y – Sales Tax** remains strong, and is expected to come in at 99.5% original projections. The year-end revenue total is projected at \$9.26 million.
- The City's overall general fund operating revenues are above expectations for the first half of FY 2016-17. **General Fund Operating Revenues** through December are **\$37.6 million**, or 10.4% higher than the same period last year. Analysis suggests the City's overall recurring General Fund revenues are expected to outpace the current revised budget total for the fiscal year. **It is therefore recommended that revenue budget amounts be increased by \$3.0 million.**
- **General Fund Expenditures** through December total **\$53.7 million**, 1.1% higher than the same period last year. Not all new positions approved in FY 16-17 have been filled, and O & M expenses have remained in line with prior year. Expenditures are anticipated to come in slightly lower than original projections.
- A brief mid-year overview is included in this report for Enterprise Funds and Internal Service Funds, both of which appear to be operating within expectations.

The following pages present the detailed discussion of the City's Mid-Year actual results and recommendations by revenue and expenditure categories.

GENERAL FUND

GENERAL FUND REVENUES

The Fiscal Year 2016-17 Adopted Budget marks the fourth year that recurring revenues are expected to cover ongoing expenditures. Current projections do show that revenues are expected to come in lower than FY 15-16 actuals. One of the main reasons for this difference, though, is one-time receipts in Real Property Transfer Tax, which can fluctuate greatly from year-to-year. Removing these receipts from the total places the revenues at almost the same level. As of December 31, 2016, General Fund operating revenue is tracking higher than prior year revenue, with receipts totaling \$37.6 million, or 36.1% of the current revised budget. This percentage is less than the 50% one would presume as the mid-year total due to payments received in July and/or August for many of the major revenue categories such as sales tax, utility taxes, property tax, transient occupancy tax and business tax being accrued back to the prior fiscal year. Recurring receipts through the 2nd Quarter are higher than the same period last year, greatly due to Sales Tax receipts. More discussion on this may be found below. Charges for Services and Licenses and Permits also show increases over the same period last year, helping drive the overall revenue increase projected over the revised budget.

The table below displays the comparison between revenues received as of December 31st for the current and prior fiscal year:

GENERAL FUND REVENUES					
	2015-16 REVENUE AS OF 12/31/2015	2015-16 REVENUE TOTAL	2016-17 REVENUE AS OF 12/31/2016	2016-17 REVISED BUDGET TOTAL	2016-17 PROJECTED REVENUES
Property Tax	\$ 1,749,357	\$ 6,825,467	\$ 1,869,992	\$ 6,099,000	\$ 7,113,802
Sales Tax	5,220,713	21,127,062	7,349,893	21,145,000	20,523,000
Sales Tax - Measure Y	3,119,140	9,117,121	3,249,275	9,304,000	9,256,000
Public Safety Sales Tax (PSAF)	133,608	413,254	137,246	383,000	383,000
Business Tax	475,521	12,299,395	812,180	12,213,000	12,473,000
Franchise Tax	351,932	1,408,672	359,976	1,525,000	1,410,000
Real Property Transfer Tax	1,868,520	3,802,089	1,069,091	1,500,000	2,200,000
Electricity UUT	3,383,298	6,613,138	2,905,270	6,922,000	6,216,521
Gas UUT	286,816	954,796	316,027	890,000	992,988
Water UUT	571,760	1,321,314	619,651	1,188,000	1,334,527
Telecomm UUT	1,898,266	4,697,432	1,986,675	4,966,000	4,681,220
Cable UUT	398,796	957,390	342,382	931,000	909,520
Transient Occupancy Tax (TOT)	3,117,184	7,572,077	2,903,112	7,210,000	7,875,000
Commercial/Industrial Dev. Tax	169,955	1,228,747	438,478	900,000	900,000
Licenses and Permits	1,745,188	4,395,168	2,060,131	4,005,270	4,195,185
Intergovernmental	102,686	4,309,822	5,857	4,328,380	4,479,859
Charges for Services	3,512,917	10,495,458	5,317,502	8,380,804	9,818,335
Fines and Forfeitures	1,616,022	4,152,547	1,792,116	4,328,000	4,404,710
Use of Money & Property	492,039	829,527	355,602	728,000	773,400
Interfund Revenues	1,989,041	4,239,143	2,288,366	4,566,731	4,566,731
Transfers In	850,000	1,700,000	1,090,000	2,180,000	2,229,660
Other Revenues	975,782	549,694	298,593	417,230	360,591
TOTAL REVENUES	\$ 34,028,541	\$ 109,009,314	\$ 37,567,415	\$ 104,110,415	\$ 107,097,049

- **Property Tax** – As of the close of the 2nd Quarter, the City has received \$1.9 million in Property Tax, which is 6.5% higher than this point last year. Tax Increment Pass-Through payments will be higher than anticipated, and this category is recommended to be increased by \$1,014,802 over original projections.
- **Sales Tax** – Sales Tax receipts as of current mid-year are \$7.5 million. Only 34.8% of the budgeted revenues have been received because at this point in the fiscal year only four months of receipts have been recorded. In accordance with government accounting standards, sales tax revenues received in July and August are moved back to the prior fiscal year because the actual transactions took place in the prior year.

The Sales Tax Triple Flip, which was put into place in 2004, sunset during FY 15-16. Sales Tax In-Lieu amounts previously received by the City through LA County in January and May of each year are now included in the monthly receipts. This is the major reason for the increase of 39.8% over the same period last year.

It is anticipated that Sales Tax receipts will not meet original budget projections and it is recommended to decrease this revenue by \$622,000 from the adopted budget projection for FY 16-17.

- **Sales Tax - Measure Y** – In the November 2012 election, Culver City voters approved a sales tax increase which went into effect in April 2013. The City is expected to fall slightly short of the budgeted projection, and is recommending a decrease of \$48,000 (0.5%) from budgeted projections.

It is important to note in the upcoming years, the additional revenue generated from the Measure-Y Sales Tax will be instrumental in helping to balance the City's budget. However, the sales tax increase sunsets in six years (March 31, 2023); so unless extended the City will need to take other actions to replace what is expected to be over \$11 million in annual revenue by that time, or make corresponding expenditure reductions.

- **Business Tax** – Business Tax renewals are due by the end of February. Approximately 2% growth is anticipated in FY 16-17, and a \$260,000 increase from budgeted projections is recommended.
- **Utility Users Taxes (UUT)** – In accordance with the same accounting standards that apply to sales tax receipts, UUT receipts in July are moved back to the prior fiscal year, so at this point in the year only five months of receipts have been recorded. With accrual calculations taken into account, receipts for Electricity and Cable UUT are lagging behind last year at this time. Electricity UUT is down primarily due to an Emission Intensive Trade Exposed (EITE) eligible facilities credit that was issued by SCE in October to both commercial and residential customers. While residential customers have been receiving the credit for at least two years now, this was the first time commercial customers were included. This credit is part of the State of California's Cap-and-Trade Program, and will result in year-over-year revenues being lower for FY 16-17.

Cable UUT has shown signs of decline with many cutting the cord for internet-based entertainment access, and this trend is expected to continue into the future.

It is recommended that the Cable UUT revenue budget be decreased by \$21,480; Electricity UUT decreased by \$705,479; Telecomm decreased by \$284,780; Gas UUT increased by \$102,988; and Water UUT increased by \$146,527.

- **Transient Occupancy Tax (TOT)** – Current year receipts are slightly lower than this period last year due to timing issues, but receipts are expected to surpass budgeted projections by the end of the year.

In accordance with the same accounting standards that apply to UUT receipts, receipts in July are moved back to the prior year, so at this point in the year five months of receipts have been recorded. It is recommended to increase this revenue category by \$665,000.

- **Real Property Transfer Tax** – Real Property Transfer Tax is difficult to predict as it relies on high value property sales, which fluctuate tremendously from month to month. Last year's total ended at \$3.8 million. Receipts for this year are ahead of projections and it is recommended to increase this category by \$700,000. It is important to note, though, that large receipts in this category are mainly considered one-time revenue and not recurring.
- **Commercial/Industrial Development Tax** – Commercial/Industrial Tax is largely driven by commercial construction activity. While many projects are actively in process throughout the city, most of the receipts in this category are received in the prior year(s) before building proceeds. There is no recommendation to change the projection for this revenue.
- **Licenses & Permits** – Like the Commercial/Industrial Development Tax, Licenses and Permits revenue is driven by residential and commercial construction activity. Mid-year revenues total \$2.1 million which accounts for 51.4% of the adopted budget total, and is 18.0% higher than the same period last year. It is recommended that the budget for Licenses and Permits be increased by \$189,915.
- **Intergovernmental Revenue** – Intergovernmental revenue is mostly comprised of the motor vehicle license fees from the State Department of Motor Vehicles. The majority of this revenue is received in January and May. It is recommended to increase this category by \$151,479.
- **Charges for Services** – The Charges for Services category is comprised of a variety of revenues ranging from recreation fees to police services and plan checks. Recreation related fees and room rentals have performed better than anticipated, along with plan check fees, ambulance fees and film parking. Current building activity throughout the city has spurred a significant increase in building related fees. The net of change recommendations to Charges for Services is an increase of \$1,437,531.
- **Fines and Forfeitures** – Fines and Forfeitures category is primarily comprised of red light camera violations and moving violations written by Culver City traffic enforcement, and parking violations written by Culver City parking enforcement. Current year revenue is higher than this point last year by 10.9%. It is recommended that Fines & Forfeitures budget be increased by \$76,710.
- **Use of Money and Property** – Use of Money and Property includes interest income and income from the rental of city property. It is recommended to increase this category by \$45,400.

- **Other Revenues** – Other Revenues is comprised of loan payments, land sale proceeds, donations and miscellaneous revenues. It is recommended that this category be decreased by \$56,639.

The recommended Mid-Year revenue adjustments total approximately **\$3.0 million** in increases above the current revised budget.

GENERAL FUND EXPENDITURES

Overall, General Fund expenditures through mid-year are **\$53.7 million** or **47.1%** of projected appropriations, which is higher when compared to this point last fiscal year.

The table below provides a comparison between the first six months of Fiscal Year 2016-17 and Fiscal Year 2015-16:

GENERAL FUND EXPENDITURES					
	2015-16 EXPENDITURE AS OF 12/31/2015	2015-16 EXPENDITURE TOTAL	2016-17 EXPENDITURE AS OF 12/31/2016	2016-17 REVISED BUDGET TOTAL	2016-17 PROJECTED EXPENDITURES
ADMINISTRATION	\$ 837,760	\$ 1,590,594	\$ 796,392	\$ 1,496,359	\$ 1,526,507
CITY CLERK	163,291	439,420	181,773	801,282	570,193
CITY ATTORNEY	1,009,280	2,191,461	1,074,620	2,351,346	2,381,090
FINANCE	2,491,491	5,023,594	2,559,277	5,202,584	5,135,370
HUMAN RESOURCES	579,121	1,122,876	648,195	1,324,757	1,291,308
INFORMATION TECH.	2,047,242	3,543,382	1,872,826	4,352,155	3,819,946
PARKS, REC. & COMMUNITY SVCS	3,755,609	7,435,381	3,897,962	8,692,800	8,100,307
POLICE DEPARTMENT	17,148,702	33,806,609	18,402,471	37,921,203	37,804,503
FIRE DEPARTMENT	11,006,033	21,490,578	11,353,211	22,359,373	22,719,778
COMMUNITY DEVELOPMENT	3,346,801	7,113,386	3,455,260	9,367,501	8,790,097
PUBLIC WORKS	5,298,862	10,348,737	5,324,690	11,833,989	11,197,027
NON-DEPARTMENTAL	1,358,366	2,780,096	1,371,263	2,862,590	4,585,199
Transfers	4,119,262	10,738,524	2,802,345	5,604,691	5,604,691
TOTAL EXPENDITURES	\$ 53,161,820	\$ 107,624,639	\$ 53,740,286	\$ 114,170,631	\$ 113,526,016

Total expenditures, excluding transfers, are \$1.9 million higher than this point last year. This is expected due to salary increases, higher pension costs and increased healthcare insurance costs. Transfers will be significantly less in FY 16-17 due to over \$5 million that was transferred to the Urban Runoff Mitigation Fund in FY 15-16. The mid-year expended average for Departments is 47.1% of budgeted expenditures. There are currently a number of position vacancies that are in various stages of recruitment. No departments will exceed the 50% mark at mid-year, and we project no departments will exceed the FY 16-17 revised budget projection. The adopted budget assumes a 2% savings against budget due to normal employee turnover.

Based on spending trends, it is projected that the current year General Fund expenditures will total \$113.5 million. This is \$0.7 million lower than the Revised Budget and 5.5% higher than the total expenditures last fiscal year.

OTHER MAJOR FUNDS

A brief overview follows for the City's Enterprise and Internal Service Funds.

ENTERPRISE FUNDS

The City has four Enterprise Funds: Refuse Disposal, Municipal Bus Lines, Sewer Enterprise, and Municipal Fiber Network, which account for the provision of direct services to the general public where all or a substantial portion of the costs involved are paid in the form of user charges or fees for such services.

- **Refuse Disposal Fund** was established to account for the operation of the City's refuse disposal, transfer station operation, recycling efforts, and street sweeping services.
- **Municipal Bus Lines Fund** is used to account for the operation, as well as the capital assets, of the City's Bus Lines. Other funding assistance comes from FTA Section 9 (Federal-Capital), TDA and STA (Capital and Operating), and Proposition A and Proposition C.
- **Sewer Enterprise Fund** is used to account for revenues collected through sewer charge fees and sewer facilities charges. These funds are used for expenditures related to the operation and maintenance of sewer disposal facilities, capital projects, and debt service on bonds for sewer facility improvements.
- **Municipal Fiber Network Fund** was established through a loan from General Fund to design and construct open access network where Internet Service Providers (ISPs) will utilize City's fiber infrastructure to service the business community.

At mid-year, the Refuse Fund operating expenditures are \$6.08 million, or 44.8% of adjusted budget appropriations. This is 6.9% behind expenditures at this time last year. A contributing factor to the low overall mid-year expenditure percentage is Refuse Disposal Fees being less than anticipated (33.0% of budget), however, this could pick up in the second half of the year. Personnel costs are at 44.6% of budget at mid-year, and are expected to come in below projections. The overall projected year-end expenditures are expected to come in at approximately 93.4% of the revised budget.

Refuse Disposal Fee receipts at mid-year are \$1.8 million, or 51.0% of budgeted revenues. Bin Service and Tonnage Charges are recorded at higher than 50% on average at mid-year and are driven by increased home improvement and development activity. Overall Refuse Fund revenues are on track and are expected to be fully realized at fiscal year-end.

Municipal Bus Lines Fund mid-year expenditures are \$22.2 million, or 44.4% of adjusted budget appropriations. This is approximately 80.5% ahead of expenditures at this time last year. The main reason for the large difference is the purchase of buses during this fiscal year.

As mentioned above, the Municipal Bus Lines Fund has expended \$9.7 million during FY 16-17 for the purchase of 16 buses. As of mid-year, there is also approximately \$7.6 million appropriated in other capital outlay, of which only 3.5% of these funds have been expended. Projects in this category include: Bus Signal Priority; Real-time Bus Arrival Information Project; Bus Stop Improvement Program; and

CNG Station Compressor project. Capital projects not implemented or finished during a fiscal year are carried over to subsequent fiscal years.

Municipal Bus Lines Fund revenues are \$11.1 million or 34.9% of projected receipts. Much of this revenue will be received once expenditures for capital items are expended. Municipal Bus Lines Fund revenues are mostly a combination of Federal, State and County funding sources along with farebox revenues.

Mid-year Sewer Fund operating expenditures are approximately \$3.67 million, or 43.4% of adjusted budget appropriations. The low expenditure percentage at mid-year is mostly due to a lower than estimated payment to the City of Los Angeles for the Hyperion Treatment Plant. Personnel costs are at 42.2% of revised projections.

Sewer Enterprise Fund revenues at mid-year are \$3.77 million, or 33.6% of budget. A portion of Sewer operating receipts from property taxes have been recorded in January, which brings the receipts to 41.1% of budgeted revenues. Sewer Enterprise Fund revenues are also on track to be fully realized at fiscal year-end.

Municipal Fiber Network Fund had significant construction progress during the first six months of the fiscal year. Approximately \$2.4 million was expended on construction and materials, with substantial completion of one of the three fiber rings, and significant progress on the second. The project continues with the expectation of meeting the September 2017 completion estimate, and construction remaining within budget. It is not estimated that any revenue stream will begin until FY 17-18.

INTERNAL SERVICE FUNDS

The Internal Service Funds are used to account for services and commodities furnished by designated funds of the City to user departments of the City.

- **Equipment Replacement Fund** is used to hold annual replacement payments from designated user departments and to use those funds to purchase equipment for general City purposes.
- **Equipment Maintenance & Fleet Services (EMFS) Fund** accounts for all activities of the City's central equipment maintenance operations, the costs of which are distributed among designated user departments.
- **Self-Insurance Fund** receives and disburses funds pertaining to the public liability and workers' compensation insurance programs. It also funds the Employee Disability (IOD) program for employee long-term work-related disabilities.
- **Central Stores** accounts for the timely purchase of needed materials, supplies and auto parts in advance of actual need. Departments are billed as items are issued for use.

At mid-year, Equipment Replacement Fund actual expenditures are \$2.23 million, or 51.1% of adjusted budget appropriations. Currently there is \$0.76 million encumbered for vehicles/equipment set to be received in the next few months. The total revised budget appropriation amount of \$6.6 million is projected to be expended by year end for the City Council approved vehicle/equipment purchases for FY 2016-17.

Equipment Replacement revenues, which are mainly the contributions from the various funds for replacement costs, will be fully recognized at year-end. Additionally, receipts from auction sales of vehicles that have been replaced and are no longer needed are deposited into this Fund. Receipts from auction sales through December are \$121,000.

The EMFS Fund mid-year expenditures are \$3.75 million, or 45.2% of adjusted budget appropriations. The low percentage is mostly due to fuel expenditures in the amount of \$512,800 being 31.7% of revised budget appropriations at mid-year.

EMFS Fund revenues are on track to be fully realized at fiscal year-end. All expenditures will be covered to ensure this Fund continues to operate in a financially sound manner.

The Self-Insurance Fund (SIF) regular expenditures at mid-year are \$4.46 million, or 64.2% of adjusted budget appropriations. Expenses for liability claims are up due to case settlement activity, which can vary substantially year-to-year. Expenditures should come in slightly below budget.

Personnel expenditures at mid-year are \$652,000, or 55.3% of adjusted budget appropriations. Insurance premiums are higher than the adjusted budget appropriations, but anticipated savings for Worker's Compensation claims against the budget should offset this. For Fiscal Year 2016-17 it is anticipated that liability insurance costs will decrease significantly due to the City withdrawing from its previous liability pool and purchasing insurance independently.

Revenues for the SIF Fund are on track and will be fully realized at fiscal year-end.

The Central Stores Fund operations continue to be on track for FY 2016-17. Continued streamlining of purchasing practices and policies has enabled the City to save time and money by centralizing various purchases.

CONCLUSION

General Fund projections for Fiscal Year 2016-17 show total estimated revenues at \$107.1 million, \$3.0 million more than the current revised budget total. Total expenditures are estimated at \$113.5 million, \$0.7 million less than the current budget. General Fund expenditures are projected to exceed operating revenue by an estimated \$6.5 million. This, however, is largely due to substantial planned transfers to fund capital projects total \$5.7 million as well as \$0.8 million to implement mitigation measures in dealing with urban runoff discharge requirements. Therefore, operating revenues are expected to meet operating expenditure requirements again for Fiscal Year 2016-17.

Overall total General Fund revenue budget increases are modest, increasing in some areas while decreasing in others. This Mid-Year Budget Monitoring Report illustrates sustained year-over-year growth in property values, occupancy rates at hotels, and retail sales. After years of economic expansion, history tells us a downturn must occur at some point. Additionally, action taken by CalPERS in December of 2016 to reduce their assumed earnings rate will have huge future impacts on the City's cost of providing services. Continued monitoring of resources is yet a priority to ensure adequate funding for City services, public facilities, and infrastructure necessary to meet the community's present and future needs. This report should be considered in conjunction with the General Fund Financial Forecast, which takes a longer-term view of the City's financial position.