



City of Culver City

MID-YEAR BUDGET REPORT FISCAL YEAR 2017-18 Through December 31, 2017

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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 2017-18 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 2018-19 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 overall general fund operating revenues are above expectations for the first half of FY 2017-18. **General Fund Operating Revenues** through December are **\$48.6 million**, or 29.3% higher than the same period last year. A good portion of this increase is attributable to what should be considered as one-time revenues. Analysis suggests the City's overall recurring General Fund revenues, along with one-time revenues, are expected to significantly outpace the current revised budget total for the fiscal year. **It is therefore recommended that revenue budget amounts be increased by \$5.34 million.**
- The City's one half cent **Measure Y – Sales Tax** remains strong, and is expected to come in at 2.5% above original projections. The year-end revenue total is projected at \$9.68 million.
- **General Fund Expenditures** through December total **\$62.5 million**, 16.2% higher than the same period last year. This increase over the prior year is mainly due to increased pension costs, and employee pay increases through negotiated agreements. Not all new positions approved in FY 17-18 have been filled, and O & M expenses have remained in line with prior year. Expenditures are anticipated to come in 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 2017-18 Adopted Budget marks the fifth year that recurring revenues are expected to cover ongoing expenditures. Current projections show that revenues are expected to come in much higher than FY 16-17 actuals. Much of this difference is due to one-time receipts from increased development and the sale of properties. As of December 31, 2017, General Fund operating revenue is tracking higher than prior year revenue, with receipts totaling \$48.6 million, or 41.7% 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, primarily due to one-time items such as property tax distributions from the Successor Agency for property sales, real property transfer tax, and transfers in from other funds. Development activity is very high at the current time resulting in higher revenues in the Licenses and Permits and Charges for Services categories.

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

GENERAL FUND REVENUES					
	2016-17 REVENUE AS OF 12/31/2016	2016-17 REVENUE TOTAL	2017-18 REVENUE AS OF 12/31/2017	2017-18 REVISED BUDGET TOTAL	2017-18 PROJECTED REVENUES
Property Tax	\$ 1,869,992	\$ 8,103,563	\$ 2,470,914	\$ 7,200,823	\$ 8,818,623
Sales Tax	7,349,893	\$ 20,229,791	7,488,747	21,200,000	21,279,197
Sales Tax - Measure Y	3,249,275	\$ 9,343,596	3,369,245	9,447,000	9,679,000
Public Safety Sales Tax (PSAF)	137,246	\$ 424,108	144,072	396,000	425,000
Business Tax	812,180	\$ 13,373,055	574,569	12,800,000	13,300,000
Franchise Tax	359,976	\$ 1,408,686	317,555	1,424,000	1,424,000
Real Property Transfer Tax	1,069,091	\$ 2,907,756	1,894,665	2,000,000	2,900,000
Electricity UUT	2,905,270	\$ 6,113,707	3,065,829	6,465,000	6,400,000
Gas UUT	316,027	\$ 1,042,718	264,008	1,023,000	1,027,000
Water UUT	619,651	\$ 1,420,660	676,489	1,348,000	1,400,000
Telecomm UUT	1,986,675	\$ 4,622,627	1,833,076	4,611,000	4,276,000
Cable UUT	342,382	\$ 904,791	371,219	864,000	878,000
Transient Occupancy Tax (TOT)	2,903,112	\$ 7,566,579	3,219,919	8,151,000	7,750,000
Commercial/Industrial Dev. Tax	438,478	\$ 631,600	827,933	900,000	900,000
Licenses and Permits	1,998,027	\$ 3,960,642	2,990,094	3,925,301	5,318,000
Intergovernmental	5,857	\$ 4,546,854	126,021	4,831,210	4,855,168
Charges for Services	5,298,693	\$ 10,935,773	5,990,956	10,584,687	10,899,021
Fines and Forfeitures	1,854,220	\$ 5,080,610	2,353,174	4,559,500	5,064,550
Use of Money & Property	362,340	\$ 692,450	548,339	678,560	787,000
Interfund Revenues	2,288,366	\$ 4,571,731	2,284,648	4,569,296	4,569,306
Transfers In	1,090,000	\$ 2,180,000	7,328,654	9,185,650	9,185,650
Other Revenues	291,855	\$ 410,895	486,769	347,635	716,519
TOTAL REVENUES	\$ 37,548,606	\$ 110,472,193	\$ 48,626,895	\$ 116,511,662	\$ 121,852,034

- **Property Tax** – As of the close of the 2nd Quarter, the City has received \$2.5 million in Property Tax, which is 32.1% higher than this point last year. Tax Increment Pass-Through payments will be higher than anticipated due to one-time property sales by the Successor Agency, and this category is recommended to be increased by \$1,617,800 over original projections.
- **Sales Tax** – Sales Tax receipts as of current mid-year are \$7.5 million. Only 35.3% 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.

It is anticipated that Sales Tax receipts will slightly exceed original budget projections and it is recommended to increase this revenue by \$79,197 above the adopted budget projection for FY 17-18.

- **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 receive more than the original budgeted projection, and is recommending an increase of \$232,000 (2.5%) to 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 five 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. Based on prior year receipts, and a \$500,000 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 Gas and Telecommunications UUT are lagging significantly behind last year at this time. Gas UUT is down over last year primarily due to an exceptionally warm winter, and Telecommunications continues to show a decline partly due to bundling of plans.

Cable UUT is higher than this time last year, but is expected to come in lower at year-end due to many cutting the cord for internet-based entertainment access.

It is recommended that the Electricity UUT be decreased by \$65,000; Telecomm decreased by \$335,000; Gas UUT increased by \$3,000; Cable UUT increased by \$14,000; and Water UUT increased by \$52,000.

- **Transient Occupancy Tax (TOT)** – Current year receipts are higher than this period last year, but receipts are expected to be below 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 decrease this revenue category by \$401,000.

- **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 \$2.9 million. Receipts for this year are ahead of budgeted projections and it is recommended to increase this category by \$900,000. 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 \$3.0 million which accounts for 76.2% of the adopted budget total, and is 49.6% higher than the same period last year. It is recommended that the budget for Licenses and Permits be increased by \$1,382,699.
- **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 \$23,958.
- **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. Building activity throughout the city has continued to spur an increase in building related fees. The net of change recommendations to Charges for Services is an increase of \$314,334.
- **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 26.9%. It is recommended that Fines and Forfeitures budget be increased by \$505,050.
- **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 \$108,440.
- **Other Revenues** – Other Revenues is comprised of loan payments, land sale proceeds, donations and miscellaneous revenues. It is recommended that this category be increased by \$368,884.

The recommended Mid-Year revenue adjustments total approximately **\$5.34 million** in increases above the current revised budget.

GENERAL FUND EXPENDITURES

Overall, General Fund expenditures through mid-year are **\$62.5 million** or **52.8%** of projected appropriations, which is higher when compared to this point last fiscal year.

The tables below provide a comparison between the first six months of Fiscal Year 2017-18 and Fiscal Year 2016-17:

Comparison by Department:

GENERAL FUND EXPENDITURES					
DEPARTMENT	2016-17	2016-17	2017-18	2017-18	2017-18
	EXPENDITURE AS OF 12/31/2016	EXPENDITURE TOTAL	EXPENDITURE AS OF 12/31/2017	REVISED BUDGET TOTAL	PROJECTED EXPENDITURES
Administration	\$ 796,392	\$ 1,562,820	\$ 832,916	\$ 1,514,647	\$ 1,500,511
City Attorney	1,074,620	2,387,745	1,198,552	2,505,471	2,478,207
Finance	2,559,277	5,126,547	2,736,980	5,253,535	5,149,315
Administrative Services	829,968	1,722,831	1,067,763	2,318,907	2,166,160
Information Technology	1,872,826	3,864,996	2,126,507	4,601,453	4,535,210
Parks, Recreation & Comm Svcs	3,898,913	7,938,211	4,380,089	9,024,412	8,602,724
Police Department	18,402,471	37,345,615	22,385,039	41,076,879	38,412,232
Fire Department	11,353,211	22,633,094	13,023,835	24,409,348	23,400,374
Community Development	3,455,260	7,491,868	4,309,769	10,882,632	10,159,126
Public Works	5,324,690	10,785,437	6,066,898	12,978,292	12,375,216
Non-Departmental	1,371,263	3,478,812	1,921,333	2,585,196	4,711,649
Transfers	2,802,345	5,556,608	2,412,701	4,825,402	4,825,402
TOTAL EXPENDITURES	\$ 53,741,238	\$ 109,894,583	\$ 62,462,380	\$ 121,976,173	\$ 118,316,126

Comparison by Category:

GENERAL FUND EXPENDITURES					
CATEGORY	2016-17	2016-17	2017-18	2017-18	2017-18
	EXPENDITURE AS OF 12/31/2016	EXPENDITURE TOTAL	EXPENDITURE AS OF 12/31/2017	REVISED BUDGET TOTAL	PROJECTED EXPENDITURES
Personnel Costs	\$ 43,015,352	\$ 84,366,656	\$ 48,136,459	\$ 87,802,481	\$ 84,200,829
Operating O & M	7,763,879	19,282,268	11,696,241	30,056,299	27,690,672
Capital	159,660	689,051	216,980	927,573	899,224
Budgeted Excess Appropriations	-	-	-	(1,635,582)	700,000
Transfers	2,802,345	5,556,608	2,412,701	4,825,402	4,825,402
TOTAL EXPENDITURES	\$ 53,741,238	\$ 109,894,583	\$ 62,462,380	\$ 121,976,173	\$ 118,316,126

Total expenditures, excluding transfers, are \$9.1 million higher than this point last year. This is expected due to MOU related salary increases, higher pension costs, increased healthcare insurance costs, and six months of contract expense for the South Bay Regional Call Center (RCC) safety dispatch services that were not active at this time last year. Transfers will be slightly less in FY 17-18, and are not expected to increase. The mid-year expended average for Departments is 51.2% of budgeted expenditures. Even though some departments are currently exceeding the 50% mark, we project no departments will exceed the FY 17-18 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 \$118.3 million. This is \$3.7 million lower than the Revised Budget and 7.7% 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 \$7.6 million, or 48.2% of adjusted budget appropriations. This is 22.9% ahead of expenditures at this time last year. A contributing factor to the overall mid-year expenditure percentage is Refuse Disposal Fees being more than anticipated (52.6% of budget). Personnel costs are at 51.7% of budget at mid-year, but are expected to come in below projections at the end of the year. The overall projected year-end expenditures are expected to come in at approximately 97.0% of the revised budget.

Refuse Disposal Fee receipts at mid-year are \$1.5 million, or 40.8% 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 \$14.3 million, or 39.0% of adjusted budget appropriations. This is approximately 36.4% behind expenditures at this time last year. The main reason for the large difference is the purchase of buses during last fiscal year.

As of mid-year, there is also approximately \$8.4 million appropriated in other capital outlay, of which only 9.3% 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 \$6.5 million or 19.3% of projected receipts. Much of the remaining 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 \$1.9 million, or 20.5% 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 48.0% of revised projections.

Sewer Enterprise Fund revenues at mid-year are \$4.4 million, or 44.3% of budget. A portion of Sewer operating receipts from property taxes have been recorded in January, which brings the receipts to 53.6% of budgeted revenues. Sewer Enterprise Fund revenues are also on track to be fully realized at fiscal year-end.

Municipal Fiber Network Fund has had significant construction progress during the past eighteen months. The construction of the network backbone is approximately 90% complete. The construction project schedule for the backbone has encountered delays (extending the timeline), but the effort is estimated to complete within budget. In addition to the construction of the physical network, efforts have also been focused on identifying and engaging with potential customers. Estimated revenue projections will be provided for Fiscal Year 2018-19 during the budget planning process.

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 \$890,000, or 9.95% of adjusted budget appropriations. Currently there is \$250,000 encumbered for vehicles/equipment set to be received in the next few months. The FY 2017-18 budgeted amount includes three (3) fire engines and eight (8) Refuse front loaders. The majority of the total revised budget appropriation amount of \$8.95 million is projected to be expended by year end for the City Council approved vehicle/equipment purchases for FY 2017-18.

Equipment Replacement revenues, which are mainly the contributions from the various funds for replacement costs, will be fully recognized at year-end.

The EMFS Fund mid-year expenditures are \$4.1 million, or 47.1% of adjusted budget appropriations. The low percentage is mostly due to fuel expenditures in the amount of \$494,000 being 30.5% 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 \$3.6 million, or 50.7% of adjusted budget appropriations. Expenditures are anticipated to come in slightly below budget.

Personnel expenditures at mid-year are \$687,700, or 57.8% 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 2017-18 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 2017-18. 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 2017-18 show total estimated revenues at \$121.85 million, \$5.46 million more than the current revised budget total. Total expenditures are estimated at \$118.3 million, \$3.7 million less than the current budget. Overall, General Fund recurring revenues are projected to exceed recurring expenditures by an estimated \$8.0 million.

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.