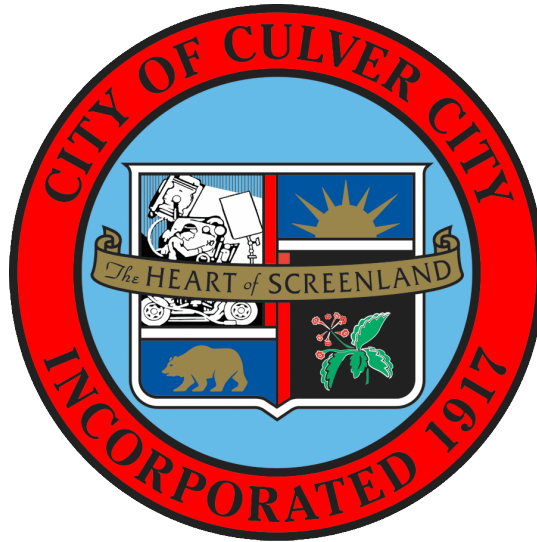




City of Culver City

PRESENTATION TO THE CITY COUNCIL OF THE FISCAL YEAR 2021/2022 UNAUDITED GENERAL FUND FINANCIAL REPORT

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INTRODUCTION

The Finance Department has prepared a Fiscal Year (FY) 2021/2022 Unaudited Financial Report for the General Fund. It is important to note, the enclosed year-end financials are approximately 98% complete and the final audit has not yet been completed by the City's auditors. The FY 2021/2022 report is an overview of the City's General Fund operating revenues and expenditures as compared to revised budget amounts adopted by the City Council, explaining any notable deviations or trends in the numbers.

This fiscal year-end report 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 serves to support fiscal transparency and accountability by providing the Council and members of the public with information on the sources and uses of City revenue.

While early predictors suggested that the economic recovery from the COVID-19 pandemic would be slow, the economy recovered more quickly than anticipated in great part due to the flow of stimulus funding from the federal government. The year-end numbers in this report demonstrate that the City's recovery exceeded expectations.

It is important to note the continued recovery is now being tempered by concerns about inflation and the Federal Reserve's raising of interest rates which are having a cooling effect on the economy. Economic pressures from the war in Ukraine and its impacts on fuel prices and supply chains compound these concerns. Finance Department staff will continue to watch these trends carefully as the current fiscal year progresses.

Finance staff have reviewed all line items and compared actual results against budget expectations, historical trends, seasonality, and other known factors affecting revenue or spending streams to inform its recommendations during upcoming budget discussions.

REPORT HIGHLIGHTS:

- **General Fund Operating Revenues** for FY 2021/2022 were \$172.4M. This high amount reflects both the economic recovery and some unusual one-time revenues.
 - Actual revenues were 116.3% of the FY 2021/2022 Revised Budget of \$148.2M. Further detail is included in the report outlining some of the larger variances between actual and revised budget.
- **General Fund Expenditures** for FY 2021/2022 were \$138.3M. There are \$2.8M in encumbrances that will be carried over into FY 2022/2023, along with approved carryover in the amount of \$3.6M for items such as programs, services, and the purchase of equipment that was unable to be completed in FY 2021/2022.
 - Actual expenditures were 97% of the FY 2021/2022 Revised Budget of \$142.6M. A high number of staff vacancies during the second half of the fiscal year was one of the major factors contributing to this variance.

GENERAL FUND

GENERAL FUND REVENUES

General Fund Revenues were \$172.4M or 116.3% of the FY2021/2022 Revised Budget. The table below displays comparisons between the Adopted Budget, Revised Budget, and Actual amounts for FY 2021/2022. The percentage difference is based on the Actual amounts versus the Revised Budget amounts. Total General Fund Revenues from FY 2020/2021 have also been included as a comparison. Actual revenues for FY 2021/2022 were \$41.5M higher than actual revenues for the prior year.

Revenue Category	FY 2021/2022				FY 2020/2021
	Adopted Budget	Revised Budget	Actual	%	Actual
Property Tax	10,511,000	10,511,000	12,896,922	122.7%	11,830,948
Sales Tax	36,951,192	41,834,487	43,415,098	103.8%	37,830,897
Business Tax	15,561,000	15,561,000	16,186,447	104.0%	15,895,303
UUT	13,397,000	13,347,000	14,858,827	111.3%	13,184,795
TOT	3,704,000	7,304,000	8,813,484	120.7%	3,073,677
Franchise Tax	1,400,000	1,400,000	1,456,175	104.0%	2,298,715
Real Prop Trans Tax	10,550,000	14,050,000	32,575,269	231.9%	8,533,467
Comm/Ind Dev Tax	500,000	1,500,000	1,969,752	131.3%	391,788
Licenses & Permits	5,322,500	5,602,500	5,741,465	102.5%	3,365,957
Fines & Forfeitures	2,912,000	2,912,000	3,580,843	123.0%	3,562,963
Intergovernmental	10,030,259	11,111,049	11,254,174	101.3%	11,225,938
Charges for Services	8,897,965	10,493,548	11,921,128	113.6%	8,173,472
Earnings, Prop. Use & Transfer In	6,990,628	7,025,628	2,205,127	31.4%	6,162,695
Cost Allocation Rec	5,560,449	5,560,449	5,560,449	100.0%	5,429,932
Total Revenues	\$ 132,287,993	\$ 148,212,661	\$ 172,435,161	116.3%	\$ 130,960,547

- **Property Tax** – For FY 2021/2022, this category was \$12.9M or 122.7% of the Revised Budget amount, and 9.0% above the previous year. A strong housing market helped drive property tax revenue above the amount estimated in the revised budget. Housing sales slowed during the final months of calendar year 2022, but this revenue category is anticipated to experience routine growth in FY 2022/2023 based on increased assessed values in the City.
- **Sales Tax** – Total Sales Tax receipts for FY 2021/2022 were \$43.4M or 103.8% of the revised budget, and 14.8% above the previous year. The Sales Tax total includes Bradley-Burns Uniform Local Sales Tax, Measure C and Measure CC revenues. Several sectors have performed well during the year, and include auto sales, restaurants and hotels, and general consumer goods, along with receipts from the City's share of the State and County pools. Inflation and other current economic stressors are causing a flattening out of Sales Tax receipts in the current fiscal year based on data received from the City's Sales Tax consultant, HdL.
- **Business Tax** – Business Tax receipts for FY 2021/2022 were \$16.2M, 104.0% of the revised budget, and 1.8% above the previous year. On November 8, 2022, Culver City

voters approved an update to the City's Business Tax rates. The new rates will go into effect on April 1, 2023 for new businesses. Existing businesses will use the new rates for the 2024 renewal period.

- **Utility Users Taxes (UUT)** – Total UUT receipts for FY 2021/2022 are \$14.9M or 111.3% of the revised budget, and 12.7% above the previous year. UUT for Gas, Water, Cable and Electricity performed higher than predicted. Increased prices from utility companies drove much of this increase, along with increased telecommuting activities. UUT for Telecommunications came in slightly under the revised budget and is a category that has continued to decline in recent years. Staff continues to evaluate increasing the City's auditing efforts to help capture any UUT revenues not currently being collected.
- **Transient Occupancy Tax (TOT)** – For FY 2021/2022, receipts in this category were \$8.8M or 120.7% of the revised budget, and almost triple the receipts from the prior year. TOT receipts have rebounded from the depths of the COVID-19 pandemic as travel patterns return to pre-pandemic levels. Revenue for the first several months of the current fiscal year has exceeded receipts prior to the pandemic. The planned development of new hotels in the City will further increase TOT revenue in the coming years.
- **Franchise Tax** – Revenues for FY 2021/2022 were \$1.5M or 104.0% of the revised budget. The prior year revenue was higher due to a one-time receipt. Historically, this category stays around \$1.4M and routinely meets estimates.
- **Real Property Transfer Tax** – Revenues for FY 2021/2022 were \$32.6M or 231.9% of revised budget. Approximately half of this amount was due to one large commercial property sale in March 2022. Large receipts like these are not anticipated to occur on a regular basis and are treated as one-time receipts. Based on the City Manager's recommendation and the City Council's approval, \$15.0M of this unanticipated revenue was deposited into the City's Section 115 Pension Trust, which is a restricted reserve fund. The fund can be drawn upon in future years to cover payments on the City's pension liabilities. By the end of calendar year 2022, home sales have slowed significantly due to rising interest rates and other economic stressors. This is reflected in lower receipts in recent months. Finance staff will watch this carefully as predictions are made for the upcoming budget.
- **Commercial and Industrial Development Tax** – Revenues for FY 2021-2022 were \$1.97M or 131.3% of the revised budget. This was largely due to more development projects resuming after a sharp decline during the COVID-19 pandemic.
- **Licenses & Permits** – Revenues for FY 2021/2022 were \$5.7M or 102.5% of revised budget, and 70.5% above the previous year. Licenses and Permits revenues are driven by residential and commercial construction activity, which has continued to see increased activity during and after the COVID-19 pandemic. Building, Electrical and Plumbing permits are the most significant source for this revenue category.

- **Intergovernmental Revenue** – Intergovernmental revenue is \$11.3M or 101.3% of the revised budget. This revenue is normally comprised of the motor vehicle license fees from the State Department of Motor Vehicles. In FY 2021/2022, the City received the second and final tranche of the Coronavirus Relief Funds (CRF) from the American Rescue Plan Act (ARPA) in the amount of \$4.7M. This federal stimulus funding will not continue in future years.
- **Charges for Services** – Receipts in this category were \$11.9M or 113.6% of the revised budget, and 45.9% above the previous year. Charges for Services category is comprised of a variety of revenues ranging from recreation fees to police services and plan checks. This category experienced the most significant decreases due to the COVID-19 pandemic. During FY 2021/2022, this category saw a dramatic recovery from the prior two years as recreation related activities returned to pre-pandemic levels.
- **Fines and Forfeitures** – Fines and Forfeitures were \$3.6M or 123.0% of the revised budget and are only slightly higher than the previous year. This category is primarily comprised of red-light camera violations, moving violations written by Culver City traffic enforcement, and parking violations written by Culver City parking enforcement.
- **Earnings, Property Use and Transfers-In** – This category was \$2.2M or 31.4% of the revised budget. The revenue received in this category was significantly less than anticipated mainly due to poor returns on investments, creating a significant reduction in the actual interest income, along with a negative fair market value adjustment. The FY 21-22 receipts equates to approximately a third of the revenue received in FY 20-21. Staff will continue to monitor economic conditions that may impact this revenue source in the current and upcoming fiscal year.

Overall, the revenues for the General Fund finished \$24.2M above the City's FY 2021/2022 Revised Budget revenue predictions. As mentioned above, \$15M was deposited in the City's Section 115 Pension Trust. Additionally, following adopted policy, the City transferred \$5M to the Self Insurance Fund to satisfy reserve requirements and increased the amounts allocated to other reserve funds according to established percentages.

GENERAL FUND EXPENDITURES

General Fund Expenditures for FY 2021/2022 were \$138.3M or 97% of FY 2021/2022 Revised Budget.

The tables below include information for the Adopted Budget, Revised Budget, Actual amount, and Encumbrance amount carried over to FY 2022/2023. The Encumbrance amount also includes City Manager approved carry overs. The percentage difference is based on the Actual amounts versus the Revised Budget amounts. Total General Fund Expenditures from FY 2020/2021 have also been included as a comparison.

Comparison by Department:

Expenditures by Department	FY 2021/2022				Encumbrance & Approved Carryforward	FY 2020/2021
	Adopted Budget	Revised Budget	Actual	%		Actual
Administration	1,844,225	1,887,998	1,830,173	96.9%	38,527	1,814,588
City Attorney	2,906,725	3,432,746	2,548,027	74.2%	3,939	2,852,766
Finance	6,163,591	6,411,113	5,984,253	93.3%	264,015	5,365,280
Non-Departmental	6,350,464	3,861,042	12,666,275	328.1%	1,587,960	6,803,367
Administrative Services	2,810,926	3,368,457	2,899,746	86.1%	177,410	2,462,409
Information Technology	5,110,978	5,284,730	5,041,859	95.4%	205,446	4,807,245
Parks Recreation & Comm Svs	9,759,843	10,716,653	9,866,390	92.1%	577,741	8,268,396
Police	48,282,825	48,991,735	45,382,490	92.6%	134,406	44,359,141
Fire	27,826,478	28,545,600	27,637,595	96.8%	292,390	25,967,334
Community Development	9,575,327	13,362,812	10,440,699	78.1%	1,074,615	8,976,956
Public Works	14,588,671	16,720,339	14,030,469	83.9%	2,060,210	12,892,461
Total Expenditures	\$ 135,220,053	\$ 142,583,225	\$ 138,327,976	97.0%	\$ 6,416,659	\$ 124,569,942

Comparison by Category:

Expenditures	FY 2021/2022				FY 2020/2021
	Original Budget	Revised Budget	Actual	%	Actual
Personnel	103,846,736	105,742,674	100,248,405	94.8%	98,439,320
O & M	28,978,748	37,132,232	28,919,594	77.9%	24,561,505
Capital	492,569	834,079	826,675	99.1%	923,225
Excess Appropriations/Appropriated Reserve	(840,000)	(4,451,064)	7,998	-0.2%	26,892
Transfers	2,742,000	3,325,304	8,325,304	250.4%	619,000
Total Expenditure	\$ 135,220,053	\$ 142,583,225	\$ 138,327,976	97.0%	\$ 124,569,942

As can be seen on the expenditure chart by Department, the actual expenditures came in below the 2021/2022 revised budget for all General and Operating Departments. The Encumbrances are at \$2.8M for FY 2021/2022, and they represent purchase orders and contracts that were not completed in FY 2021/2022. Adding the City Manager approved Carry Over amounts for necessary equipment and supply purchases that were unable to be completed by the end of the fiscal year increases this total to \$6.4M. This amount will be carried over and realized in FY 2022/2023. Non-Departmental actuals are greater than predicted because they include an end of year transfer of \$5M to the Self Insurance Fund to satisfy reserve requirements. Additionally, the Revised Budget amount for that category was decreased to reflect \$4.5M in excess appropriations to account for budget savings in salaries and O&M.

The Personnel category is \$100.3M or 94.8% of the Revised Budget. The hiring freeze put in place by the City Manager during the COVID-19 pandemic was fully lifted by Mid-Year FY 2021/2022. In FY 2021-2022, there were also an unprecedented number of retirements, most occurring in December of 2021. The Human Resources Department (HR) needed to fill many of its vacancies before citywide recruitment could be ramped up. These vacancies were not all filled by the end of FY 2021/2022 leading to lower actual expenses in this category of approximately \$5.5M. As HR has built back its staff resources, recruitments are moving forward more quickly in the current fiscal year, but all of the vacancies have not yet been filled.

Operations and Maintenance (O&M) category was \$37.1M or 77.9% of the revised budget. This category saw an increase in spending over the previous year as Departments began getting back to normal operations. The higher Revised Budget total for FY 2021/2022 also included FY 2020/2021 encumbrance carryover of \$2.6M. This category was increased significantly during the Mid-Year Budget process, but departments did not have sufficient time remaining or staffing resources availability in the fiscal year to implement purchases and procurement of services. Many of these expenditures were approved by the City Manager to be carried forward into the current fiscal year.

Overall, the total General Fund expenditures came in \$4.3M below the FY 2021/2022 Revised Budget of \$142.6M. As mentioned above, a large part of this is attributable to continued personnel vacancies, and operations and maintenance still playing catch up from the COVID-19 pandemic.

CONCLUSION

In conclusion, the Unaudited Financial Report for FY 2021/2022 indicates that the General Fund has shown significant recovery this past year as the City moves out of the uncertainty of the COVID-19 pandemic. Revenues significantly recovered during the fiscal year. The estimated increase to the General Fund unappropriated reserve is shown in the table below. It includes the transfer of \$15M to the Section 115 Pension Trust Fund, along with the \$5M transfer to the Self Insurance Fund.

Fund Balance Analysis for the General Fund		
Beginning Fund Balance		\$ 108,808,031
Estimated Increase in Fund Balance	39,107,185	
Less Transfer to Self Insurance Fund	(5,000,000)	
Net Increase in Fund Balance	34,107,185	
Estimated Ending Fund Balance		\$ 142,915,216
Less: Increase in Pension Trust	(15,000,000)	
Less: Increase in Contingency	(4,109,336)	
Less: Increase in Recreation Facilities	(162,450)	
Less: Increase in Encumbrances	(1,293,056)	
Less: Increase in Facility Planning	(12,227,120)	
Unassigned:	1,315,223	

The City is positioned to end FY 2021/2022 with a surplus due to recovering revenues, personnel vacancies, and continued conservative spending.