

GENERAL FUND FINANCIAL FORECAST

FY 2015-16 to FY 2023-24

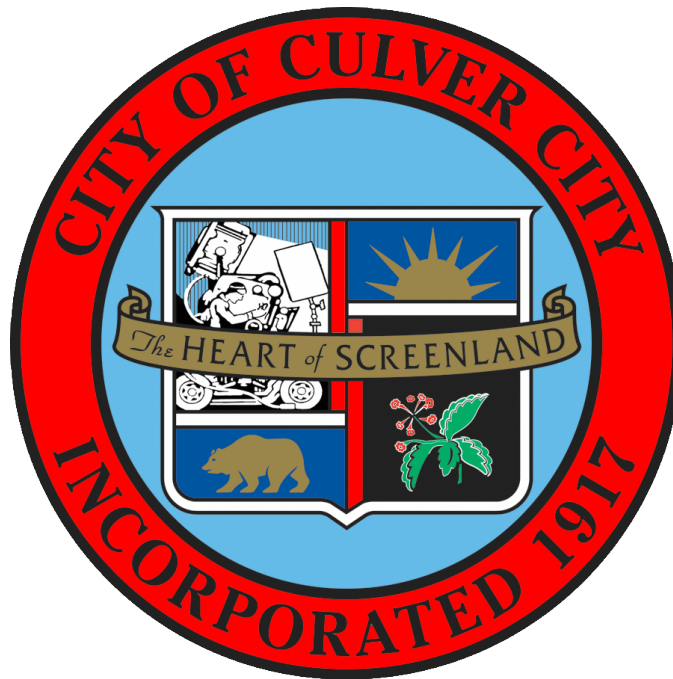


CITY OF CULVER CITY, CALIFORNIA
*A current and long-range assessment of
financial conditions and costs for City Services & Programs*

CITY OF CULVER CITY

General Fund Financial Forecast

Fiscal Years 2015-16 to 2023-24



PREPARED BY:

FINANCE DEPARTMENT

JEFF S MUIR, CHIEF FINANCIAL OFFICER

KAMBIZ BORHANI, ASSISTANT CHIEF FINANCIAL OFFICER

MARY V. NOLLER, BUDGET & FINANCIAL OPERATIONS MANAGER

ERICA McADOO, SENIOR BUDGET MANAGEMENT ANALYST

February 22, 2016

CITY OF CULVER CITY
GENERAL FUND FINANCIAL
FORECAST FY 2015-16 to FY 2023-24

TABLE OF CONTENTS

<u>DESCRIPTION</u>	<u>PAGE</u>
GENERAL FUND FORECAST	
OVERVIEW AND SUMMARY	1
FORECAST METHODOLOGIES AND ASSUMPTIONS.....	3
GENERAL FUND FORECAST SCHEDULE.....	5
GENERAL FUND REVENUES	8
ADDITIONAL EXPENDITURES / POLICY ISSUES	34
FINANCIAL RESERVES	35
ECONOMIC PERSPECTIVE & OUTLOOK	36

OVERVIEW AND SUMMARY

OVERVIEW AND SUMMARY

The General Fund Financial Forecast provides a current and long-range financial assessment addressing revenues, City services and programs, and financial reserve policies. The primary objective of the Forecast is to provide the City Council and the Community with an early financial assessment and identify significant issues that need to be addressed in the budget development process. While historically the forecast looked out five years, the scope of the forecast has been extended out to FY 2023-24 in order to fully capture both known increases in pension funding contributions as well as the expiration of Measure Y in March of 2023 (if not extended by the electorate).

The forecast information presented in this document combines projected resources, current service expenditures and mandated expenditures to illustrate the financial impact to the General Fund and the ending balances for the fund. Recent revenue trends and economic assumptions (many of which can be found in the Economic Perspective & Outlook section of this document) are used to develop these figures. Service expenditures required to sustain the current (FY 2015-16) level of services are used throughout the forecast period based in part on the projected rate of inflation. The net result of this combined data highlights any adjustments needed over the forecast period to maintain a balanced budget as required by City policy and State Law. Many of the assumptions, projections, and cost estimates within this document are based on early and preliminary information that may be refined and changed as the FY 2016-17 Proposed Operating Budget is developed and presented to City Council.

GENERAL FUND

During the forecast period through FY 2022-23, General Fund operating revenue is expected to change annually at rates ranging between 0.7% to 2.8% growth, with an overall average of 2.3% annual growth. In FY 2023-24, operating revenues are projected to decrease by 7.8% based on the sunset of Measure Y. The FY 2015-16 revenue forecast estimate is approximately \$1.19 million higher than the current year revised budget, or an overall increase of 1.2%. Operating revenue growth beyond FY 2015-16 is forecasted at rates of 0.7% in FY 2016-17, 2.8% in FY 2017-18, 2.3% in FY 2018-19, 2.3% in FY 2019-20, 2.7% in FY 2020-21, 2.6% in FY 2021-22, 2.6% in FY 2022-23, and then a 7.8% decrease in FY 2023-24 if Measure Y does sunset.

Projections show that while revenue growth gradually increases over the forecast period, cost drivers over the same period will cause operating expenditures to catch up to revenue growth during the course of the projection, and the sunset of Measure Y in March 2023 would result in a deficit of over \$11 million in FY 2023-24. Infrastructure spending will primarily require the use of reserves. The increased growth in expenditures over the forecast period is primarily due to increased costs for pensions (a certainty), anticipated cost-of-living increases, and anticipated general inflation in operating and maintenance accounts. The General Fund assumptions are provided later in this document. Displayed separately are transfers for infrastructure projects and assumed one-time expenditure costs. These items will be further considered and evaluated during the FY 2016-17 budget process and are shown in the schedule only to provide estimated impacts to the fund balance, and aid with the discussion for the potential uses of reserves in

excess of the Contingency Reserve requirement.

In FY 2015-16, the General Fund Adopted Budget assumed a \$1.3 million operating surplus but recommended using \$8.0 million for capital costs, resulting in a projected draw of \$6.6 million from reserves. After review of six months of actual revenue and expenditure trends and other updated information, estimated improvements to operating revenues and modest expenditure savings result in an estimated \$3.5 million operating surplus for the year, meaning the \$8.0 million invested in capital costs will reduce the draw from reserves to \$4.5 million. This should result in the total financial reserves of the General Fund being approximately \$67.3 million, \$30.9 million in excess of the 30% Contingency Reserve requirement and the amounts set aside for the Facilities Planning Reserve and Recreation Facilities Reserve. Specific FY 2015-16 assumptions and projections are further detailed in the separate Fiscal Year 2015-16 Mid-Year Report.

Utilizing economic and other data, General Fund revenues and expenditures have been forecasted out to FY 2023-24. FY 2019-20 is expected to be the final year of major increases to pension costs due to phased in changes to actuarial assumptions and practices by CalPERS. The forecast shows that while revenues are expected to outpace expenditures during the next several years, by the end of the forecast period cost increases will drive the General Fund into just about a break-even status on an operational basis, and the sunset of Measure Y would then push the General Fund into a significant operating deficit. It is also critical to note that the forecast does not assume a recession during this period.

This forecast argues for continued vigilance in controlling costs, encouraging economic development and a focus on maintaining service levels. It also argues further discussion and consideration regarding the scheduled sunset of Measure Y well prior to that time.

FORECAST METHODOLOGIES AND ASSUMPTIONS

REVENUES

The Finance Department works with departments responsible for administering the services and/or collecting the associated revenues to develop revenue projections based on an analysis of various factors. These include historical trends, current economic conditions, projected economic activity, and any known future factors. Revenue projections do not include fee or rate increases and are based on current service levels. More information on assumptions and other factors is available in the detailed revenue category analysis.

EXPENDITURES

Expenditures assumed in the Forecast are based on the current service level, or funding needed to provide today's level of recurring City services. FY 2015-16 expenditure estimates are based on an analysis of current fiscal year expenditure trends by using six months of actual expenditures to project estimated expenditure levels at the end of FY 2015-16. The FY 2016-17 base projection modifies current service costs for price changes and assumes the removal of one-time enhancements. Inflation rates are also used to project certain non-personnel service expenditures derived from Consumer Price Index (CPI) projections for each year from FY 2016-17 through FY 2023-24 (See Economic Outlook section for more detail on CPI projections used). Overall, operating expenditures are projected to grow at a faster rate than revenues during the first five years of the projection primarily due to increasing pension costs.

Cost-of-living adjustments for safety personnel (police and fire) are controlled by the Salary Initiative Ordinance (SIO), which provides that Culver City safety personnel receive one-half of salary adjustments provided by the City of Los Angeles and one-half of salary adjustments provided by the County of Los Angeles. Historically (prior to the recession), SIO increases averaged about 3% per year. Due to rising pension costs faced by all governments, including the City of Los Angeles and the County of Los Angeles, the SIO assumption for safety through this projection is 2% annually. Ultimately, the City does not have control over this factor though. For non-safety employees, an assumption of 2% base salary increase per year is built into this projection. Inflation in the City's contribution towards wellness benefits (health, dental, vision and life insurances) is estimated at the full 4% annual cap included in the bargaining agreements.

Of most significance are increases in the employer contribution rates to CalPERS. Based on the most recent actuarial report issued by CalPERS, these rates are expected to rise between FY 2015-16 through FY 2020-21 from 20.628% to 26.0% for non-safety, and from 42.036% to 56.6% for safety.

Changes in assumptions for each expenditure category and CalPERS employer rates are listed below.

Category	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Non-Safety COLA %	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Safety COLA %	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Non-Safety PERS Employer Rate Projection from CalPERS	22.2%	23.5%	24.7%	26.0%	26.0%	26.0%	26.0%	26.0%
Safety PERS Employer Rate Projection from CalPERS	46.6%	49.9%	53.2%	56.5%	56.6%	56.6%	56.6%	56.6%
Health Insurance Inflation Rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Workers' Comp	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Retiree Medical Insurance	4.0%	4.5%	4.5%	5.0%	5.0%	5.0%	5.0%	5.0%
OPEB Pre-Funding	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Office Supplies & Exp	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Travel / Training / Dues	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Public Notices / Ads	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Repair / Maintenance	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other O&M	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Equipment Maintenance Charges	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Equipment Amortization Charges	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Legal Services	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Contract Services	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Property Insurance Premiums	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Liability Reserve Charges	-35.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Capital	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Transfers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Annual Projected % Change in Operating Expenditures	3.2%	3.2%	2.9%	3.1%	2.1%	2.2%	2.1%	2.2%

GENERAL FUND FORECAST

GENERAL FUND FORECAST SCHEDULE

General Fund Forecast [in thousands]										
	2015-16 Estimate	2016-17 Projection	2017-18 Projection	2018-19 Projection	2019-20 Projection	2020-21 Projection	2021-22 Projection	2022-23 Projection	2023-24 Projection	
RESOURCES										
Beginning Balance *	71,896	67,355	66,450	64,514	60,968	59,009	57,176	55,786	54,511	
CURRENT REVENUES										
Operating Revenue	92,976	93,430	95,850	97,890	100,056	102,589	105,181	107,836	110,060	
Measure Y	9,000	9,304	9,767	10,109	10,468	10,879	11,222	11,575	0	
Additional Operating Rev from Development	0	324	0	83	404	490	490	0	0	
One-Time Revenue - Development	0	300	1,000	700	600	0	0	0	0	
One-Time Revenue - Sale of Properties	0	0	0	0	0	0	0	0	0	
TOTAL REVENUES	101,976	103,358	106,617	108,782	111,528	113,958	116,893	119,411	110,060	
EXPENDITURES										
Current Service Budget	96,511	102,804	106,069	109,267	112,601	115,016	117,470	119,986	122,566	
One-time Costs - Elections & Other	2,074	500	575	500	575	500	575	500	575	
1.5% Assumed Savings - Vacancies, O&M, etc.	0	(1,542)	(1,591)	(1,639)	(1,689)	(1,725)	(1,762)	(1,800)	(1,838)	
TOTAL PRE-INFRASTRUCTURE EXPENDITURES	98,584	101,762	105,053	108,128	111,487	113,791	116,283	118,686	121,302	
PRE-INFRASTRUCTURE SURPLUS / (DEFICIT)	3,392	1,596	1,564	654	41	166	610	725	(11,242)	
INFRASTRUCTURE INVESTMENTS										
Advance to Urban Runoff Mitigation Fund	4,580	500	1,500	2,200	0	0	0	0	0	
General Infrastructure Funding	3,354	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	
Infrastructure Expenditures	7,934	2,500	3,500	4,200	2,000	2,000	2,000	2,000	2,000	
GROSS SURPLUS / (DEFICIT)	(4,541)	(904)	(1,936)	(3,546)	(1,959)	(1,834)	(1,390)	(1,275)	(13,242)	
30% Contingency Reserve Requirement	28,953	30,841	31,821	32,780	33,780	34,505	35,241	35,996	36,770	
Facilities Planning Reserve (40% of any gross surplus)	6,824	6,824	6,824	6,824	6,824	6,824	6,824	6,824	6,824	
Recreation Facilities Reserve (10% of certain PRCS fees)	708	953	1,198	1,443	1,688	1,933	2,178	2,423	2,668	
UNASSIGNED FUND BALANCE	30,869	27,831	24,671	19,921	16,716	13,913	11,542	9,267	(4,994)	
ENDING TOTAL BALANCE	67,355	66,450	64,514	60,968	59,009	57,176	55,786	54,511	41,269	

* NOTE: Excludes Non-Spendable Reserves (Land Held for Resale, Loans Receivable, etc.)

GENERAL FUND FORECAST SCHEDULE EXPLANATION

BEGINNING BALANCE

“Beginning Balance” reflects the amount of funds available for use at the beginning of the fiscal year. The balance is the result of the net prior year-end revenues-to-expenditures, except in years projected to have a negative ending balance. The Beginning Balance does not include the Fund Balance category of Non-Spendable Reserves, which can include things like land held for resale, loans receivable, etc., as those items are not cash that can be spent on current services.

CURRENT REVENUES

“Current Revenues” highlights the Operating Revenue – including taxes and all other sources, including fines and fees and other charges for current service. Also included are projected additional operating revenues to be added in future years as a result of specific developments. Projections for one-time revenues also associated with development or other occurrences are also included.

EXPENDITURES

“Current Service” shows the aggregate annual projected expenditures required to sustain the current FY 2015-16 level of services throughout the forecast period. Separately listed is an estimated amount for various one-time expenditure enhancement needs as well as election costs in alternating years. Lastly, an assumption of 1.5% of annual expenditure savings against the projected budget amount due to vacant positions, unexpended operations and maintenance funding, etc., is also included. These items comprise total operating expenditures.

OPERATING SURPLUS / (DEFICIT)

This figure represents total anticipated revenues minus total operating expenditures. This is the surplus or deficit prior to infrastructure/capital investments.

INFRASTRUCTURE INVESTMENTS

These are the anticipated amounts of funding from the General Fund towards infrastructure or capital investments. Funding for certain urban runoff/storm water mitigation projects are shown separately from general infrastructure funding.

GROSS SURPLUS / (DEFICIT)

This is the bottom line figure for all anticipated revenues minus all operating and infrastructure funding, either adding to or subtracting from fund balance.

CONTINGENCY RESERVE REQUIREMENT

Represents the required General Fund Contingency Reserve amount based on thirty percent of Current Service and Infrastructure/Facilities Projects expenditures.

FACILITIES PLANNING RESERVE

Pursuant to City Council adopted financial policies, 40% of any gross surplus will be set aside for future facilities enhancements or improvements.

RECREATION FACILITIES RESERVE

Pursuant to City Council adopted financial policies, 10% of certain Parks, Recreation and Community Services fees will be set aside for future recreational facilities enhancements or improvements.

UNASSIGNED FUND BALANCE

Represents Fund Balance in excess of the Contingency Reserve Requirement, the Facilities Planning Reserve and the Recreational Facilities Reserve. This amount can be appropriated towards one-time purposes by the City Council, pursuant to City financial policies.

ENDING TOTAL BALANCE

Represents the total of the Contingency Reserve Requirement, the Facilities Planning Reserve, the Recreational Facilities Reserve, and Unassigned Fund Balance.

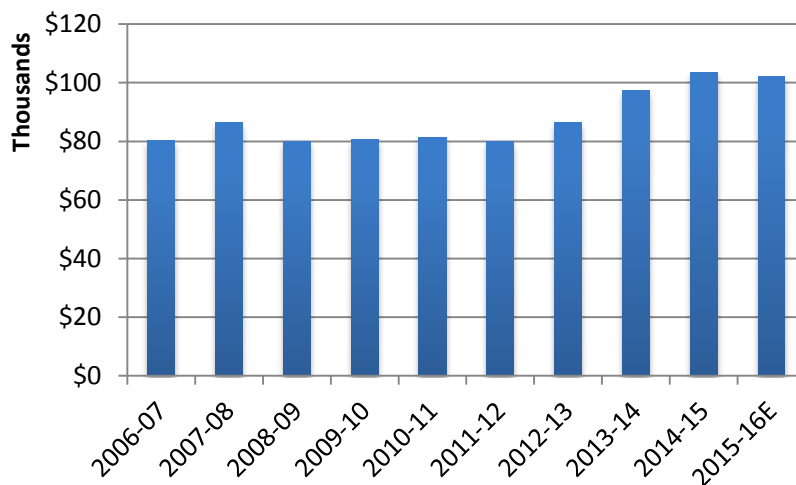
GENERAL FUND REVENUES

Looking Back

Over the past ten years, General Fund Revenues have grown at an average rate of 2.7%, after factoring out land sale proceeds. However, during this period there was great volatility, with the housing bubble fueling revenue gains that were unrealistic in the long-term. The Great Recession saw revenues reduced and then flat for several years. Fiscal Year 2012-13 saw total General Fund revenues recover to the pre-recession high from Fiscal Year 2007-08. This growth persisted, with Fiscal Year 2014-15 receipts reaching record high levels in recent history. The graphs below represent the ten year history of total General Fund revenues, as well as the year-to-year changes.

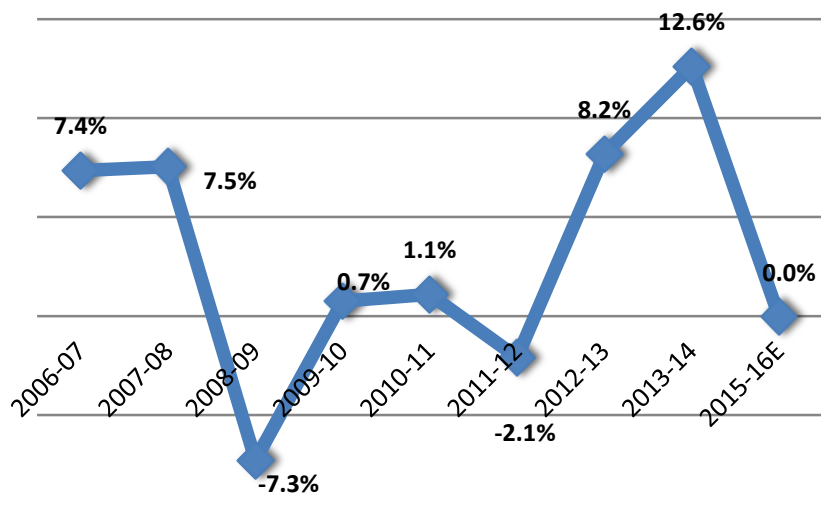
General Fund Revenues

(Excluding Land Sale Proceeds)



General Revenues

(Year-to-Year Percentage Change)



Looking Forward

The FY 2015-16 revenue forecast estimate is approximately \$1.19 million higher than the current year revised budget, or an overall increase of 1.2%. Over the forecast period, these revenues are expected to increase at an average annual rate of 2.4%, with a significant decrease in FY 2023-24 caused solely by the sunset of Measure Y.

General Fund Forecast of Current Revenues (in thousands)

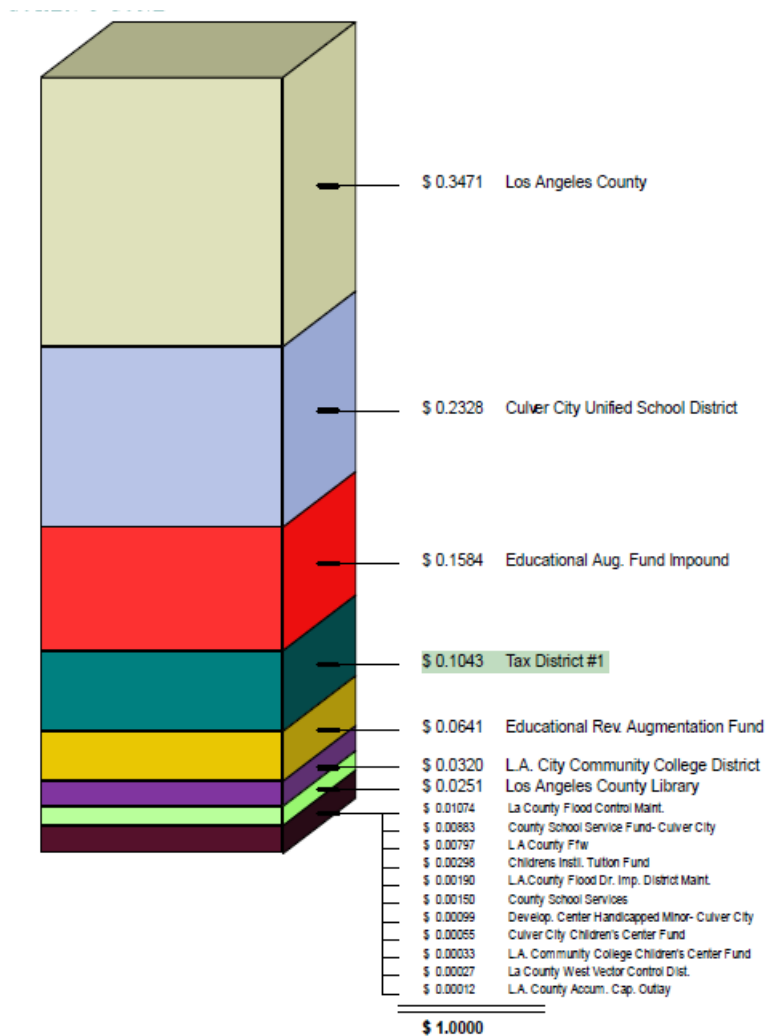
	2015-16 Estimate	2016-17 Proj.	2017-18 Proj.	2018-19 Proj.	2019-20 Proj.	2020-21 Proj.	2021-22 Proj.	2022-23 Proj.	2023-24 Proj.
Property Tax	4,895	6,099	6,312	6,533	6,762	6,999	7,244	7,498	7,760
Sales Tax	21,665	21,145	22,198	22,975	23,791	24,724	25,504	26,307	27,096
Measure Y	9,000	9,304	9,767	10,109	10,468	10,879	11,222	11,575	0
PSAF Tax	394	383	399	413	426	440	453	467	481
Business License Tax	11,915	12,213	12,588	12,934	13,311	13,838	14,259	14,691	15,095
Franchise Tax	1,502	1,525	1,548	1,571	1,595	1,619	1,643	1,668	1,693
Real Prop. Transfer Tax	2,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
UT. User Tax (Elect.)	6,720	6,922	7,121	7,263	7,430	7,651	7,802	7,955	8,074
UT. User Tax (Gas)	840	890	942	970	1,002	1,042	1,078	1,105	1,127
UT. User Tax (Water)	1,200	1,188	1,198	1,210	1,226	1,250	1,268	1,286	1,299
UT. User Tax (TEL)	4,685	4,966	4,797	4,682	4,570	4,460	4,353	4,249	4,147
UT. User Tax (Cable TV)	950	931	912	894	876	858	841	824	808
Transient Occupancy Tax	7,000	7,210	7,426	7,575	7,727	7,882	8,415	8,959	9,138
Comm/Ind. Dev. Tax	750	900	900	900	900	900	900	900	900
Licenses and Permits	3,441	3,510	3,580	3,652	3,725	3,800	3,876	3,954	4,033
Intergovernmental	4,210	4,273	4,337	4,402	4,468	4,535	4,603	4,672	4,742
Charges For Service	8,357	8,524	8,694	8,868	9,045	9,226	9,411	9,599	9,791
Fines and Forfeitures	4,086	4,167	4,250	4,335	4,422	4,510	4,600	4,692	4,786
Use Of Money And Property	693	714	735	757	780	811	843	877	912
Interfund Revenues	4,228	4,270	4,313	4,356	4,400	4,444	4,488	4,533	4,578
Other Revenues	1,246	400	400	400	400	400	400	400	400
Transfers In	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Operating Revenue Sub-total	101,976	102,734	105,617	107,999	110,524	113,468	116,403	119,411	110,060

The table below represents a consolidated view of the assumed rates of change in each revenue category over the course of the forecast. This data is repeated in each individual revenue category section.

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Property Tax	24.60%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Sales Tax	-2.40%	4.10%	3.50%	3.40%	3.25%	3.00%	3.00%	3.00%
Measure Y	3.38%	4.98%	3.50%	3.55%	3.92%	3.15%	3.15%	-100.00%
PSAF TAX	-2.70%	4.10%	3.50%	3.25%	3.25%	3.00%	3.00%	3.00%
Business Tax	2.50%	2.50%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Franchise Tax	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Real Prop Trans	-40.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Utility Users Tax - Electricity	3.00%	2.00%	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%
Utility Users Tax - Gas	6.00%	5.00%	3.00%	3.00%	3.00%	3.00%	2.00%	2.00%
Utility Users Tax - Water	-1.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Utility Users Tax - Telecomm	6.00%	-3.40%	-2.40%	-2.40%	-2.40%	-2.40%	-2.40%	-2.40%
Utility Users Tax - Cable TV	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%
Transient Occupancy Tax	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Commercial/Industrial Dev Tax	20.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Licenses and Permits	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Intergovernmental	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Charges for Services	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Fines and Forfeitures	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Use of Money and Property	3.00%	3.00%	3.00%	3.00%	4.00%	4.00%	4.00%	4.00%
Interfund Revenues	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Other Revenues	-67.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transfers-In	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Annual Projected % Change in Operating Revenue	0.7%	2.8%	2.3%	2.3%	2.7%	2.6%	2.6%	-7.8%

PROPERTY TAX

The valuation of property in the City is determined by the Los Angeles County Tax Assessor, except for public utility property which is assessed by the State Board of Equalization. The County levies a base tax of one percent of assessed valuation (subject to annual growth limitations of two percent). In 1993, the state passed legislation that resulted in the transfer of property tax revenues to schools from cities and counties. This transfer resulted in the City's share of property tax revenues being reduced to about 10.5 percent of the one percent County levy. The graph below represents the breakdown of a property tax dollar in a non-redevelopment project area (Tax District #1 refers to the City):

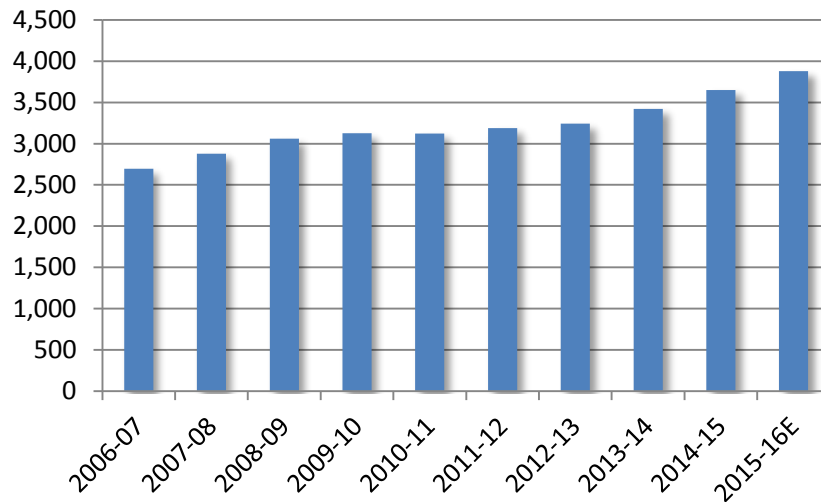


Also included in the Property Tax revenue category is the City's share of pass-through payments of incremental property taxes generated by the former Redevelopment Agency (now Successor Agency). The on-going portion of this revenue is expected to decrease based on a recent decision in a lawsuit between the Los Angeles Unified School District and Los Angeles County. Additionally, as part of the redevelopment dissolution process, any property tax revenues allocated to the Successor Agency in excess of required obligation payments over a six month period are distributed to the various taxing entities. When this occurs, the City will receive its 10.5% share of such distributions. Large distributions occurred in Fiscal Year 2012-13 and 2013-14, but this is considered one-time revenue as it cannot be counted on to recur.

Property Tax revenues are remitted by the County based on actual payments. There can be minor fluctuation year-to-year based on late payments. Therefore, reviewing the City's assessed valuation is a better predictor than actual Property Tax receipts from year-to-year.

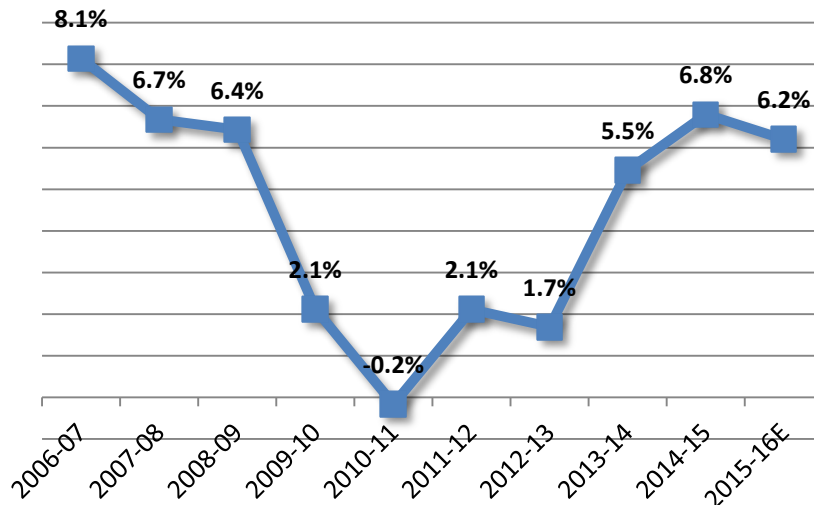
Assessed Valuation

(\$ Millions)



Assessed Valuation

(Year-to-Year Percentage Change)



A significant recovery in the housing market returned assessed valuation growth in FY 2015-16 to over 6%. It is expected that this level of growth will begin to taper off in FY 2016-17 and trend back down towards the 3.5% inflationary assumption over the span of the forecast. However, it is also anticipated that annual property tax transfers from the Successor Agency to the Culver City Redevelopment Agency will increase in FY 2016-17 and carry forward.

Projected Annual Rates of Change

FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
24.60%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

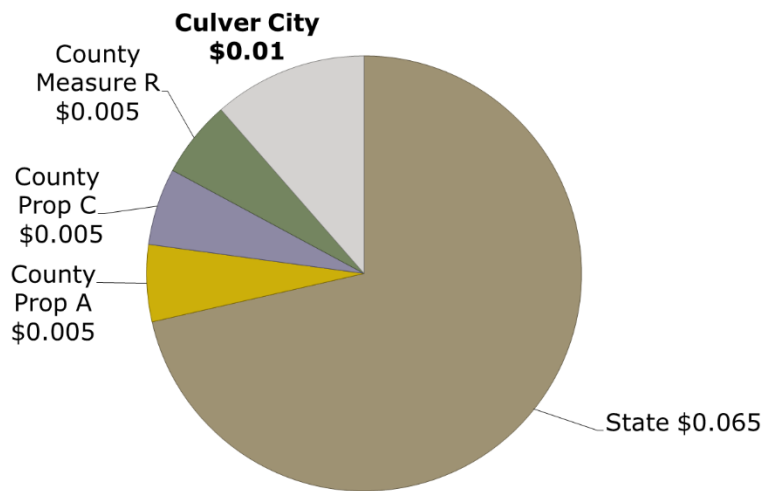
SALES TAX

Bradley-Burns Sales Tax

In accordance with the California Revenue and Taxation Code, the Bradley-Burns Uniform Local Sales and Use Tax Law, the State of California imposes a 7.5 percent sales and use tax on all taxable sales in the City. The City receives 1.0 percent of the transactions subject to the sales and use tax. An additional 0.5 percent is authorized by "Proposition A", another 0.5 percent by "Proposition C," and another 0.5 percent by "Measure R", all of which are levied within Los Angeles County for various transportation purposes. The breakdown is represented by the following graph:

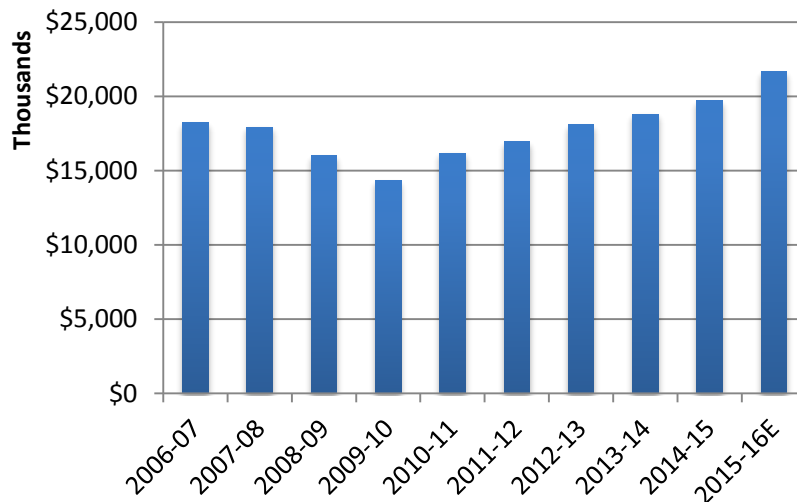
Bradley-Burns Sales Tax Breakdown

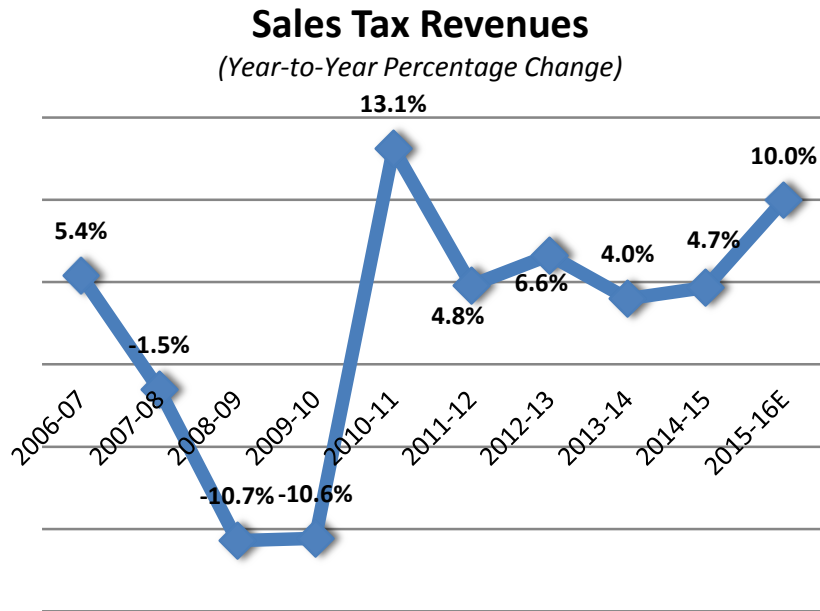
For each taxable dollar spent



Sales Tax Revenues

(Total \$)





Sales Tax is the City's largest revenue source representing approximately 21.2 percent of estimated Fiscal Year 2015-16 General Fund revenue. This revenue source is very volatile based on economic conditions. This is evidenced by the dramatic drops during the recession. Significant recovery has occurred, and modest growth is projected during the balance of the projection, based on input from the City's sales tax consultant. A significant one-time increase in FY 2015-16 is expected as a result of the State unwinding the Sales Tax Triple-Flip. An overall decrease in FY 2016-17 is then projected to normalize this occurrence.

Public Safety Sales Tax (PSAF)

The City also receives one-half percent levy of the Public Safety Sales Tax, approved by the voters in November 1993. For FY 2015-16, revenues are estimated to be \$394,000. Changes in this revenue source are forecasted at the same level as sales tax.

Projected Annual Rates of Change

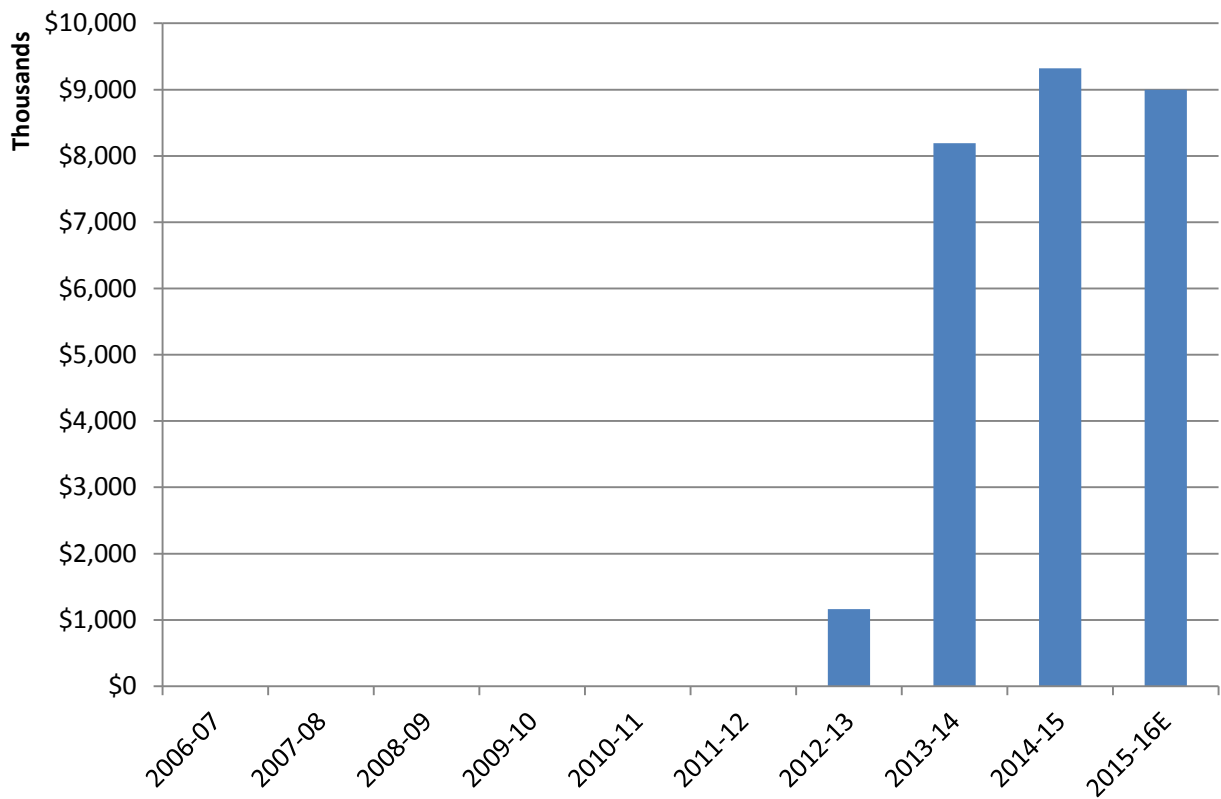
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
-2.40%	4.10%	3.50%	3.40%	3.25%	3.00%	3.00%	3.00%

MEASURE Y

In November 2012, Culver City residents overwhelmingly voted for a 10-year ½ cent Transactions and Use Tax. Measure Y took effect on April 1, 2013. With the exception of certain goods sold to operators of common carrier aircraft, the transactions and use tax is imposed on the same goods and merchandise as the local sales and use tax. However, where the Bradley-Burns Sales and Use Tax is generally allocated to the jurisdiction where the sale is negotiated or the order is taken, the transactions and use tax is allocated to the district where the goods are delivered or placed into use. This results in the receipts from Measure Y being slightly less than half of the Bradley-Burns receipts. Measure Y receipts are forecasted as a factor of the Bradley-Burns amount. The estimated factor used for the duration of the forecast was developed in conjunction with the City's sales tax consultant.

Sales Tax - Measure Y Revenues

(Total \$)



Projected Percentage of Bradley-Burns

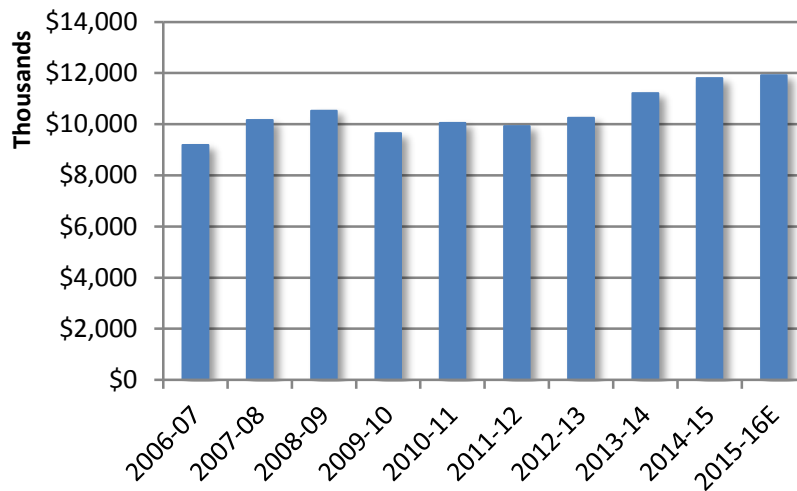
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
44.0%	44.0%	44.0%	44.0%	44.0%	44.0%	44.0%	0.00%

BUSINESS LICENSE TAX

Culver City Municipal Code requires a tax certificate as a prerequisite for conducting businesses, trades or professions in the City. The Code further imposes an annual tax for the privilege of conducting such businesses at different rates, depending on the type of business. Generally, this revenue is projected to change at a level similar to Sales Tax.

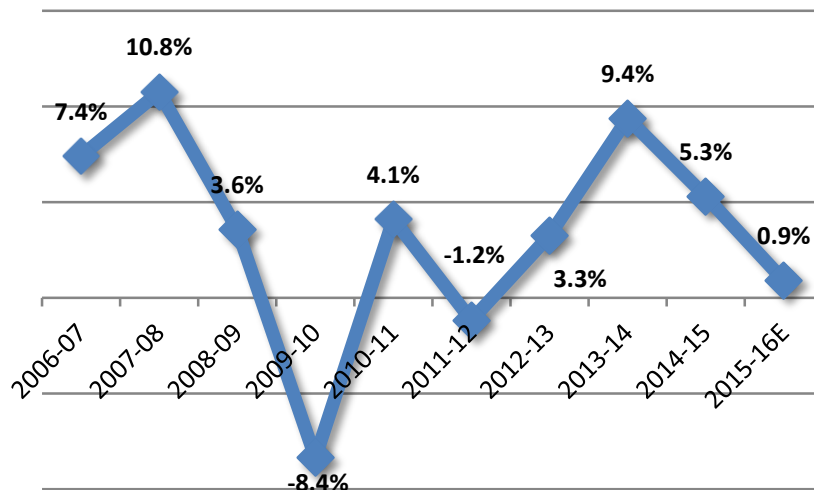
Business Tax Revenues

(Total \$)



Business Tax Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

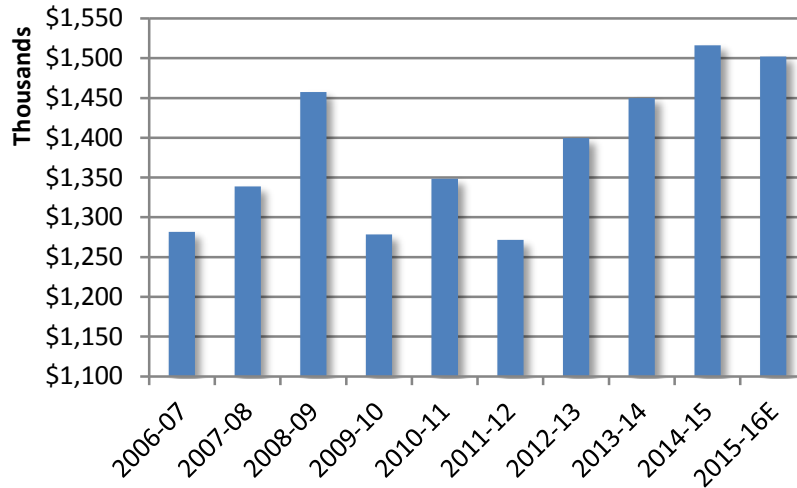
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
2.50%	2.50%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

FRANCHISE TAX

The City imposes fees on gas, electric, cable television and oil pipeline companies for the privilege of using City streets. Although there is year-to-year variation, this revenue has consistently remained between \$1.2 million and \$1.5 million for the last ten years.

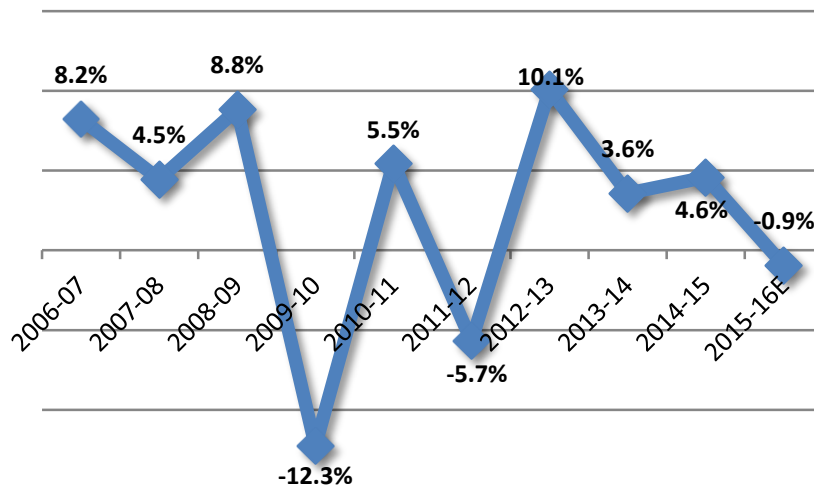
Franchise Tax Revenues

(Total \$)



Franchise Tax Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

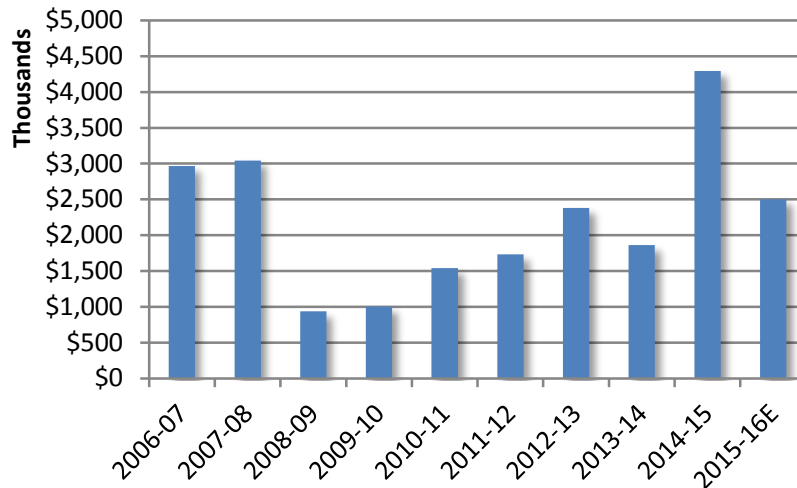
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

REAL PROPERTY TRANSFER TAX

The Culver City Municipal Code authorizes the imposition of a transfer tax on real property sold in the city. The rate is \$2.25 per \$500 of purchase value. This source of revenue can fluctuate dramatically based on the real estate market. Because of this a flat amount of \$1.5 million per year is the base assumption.

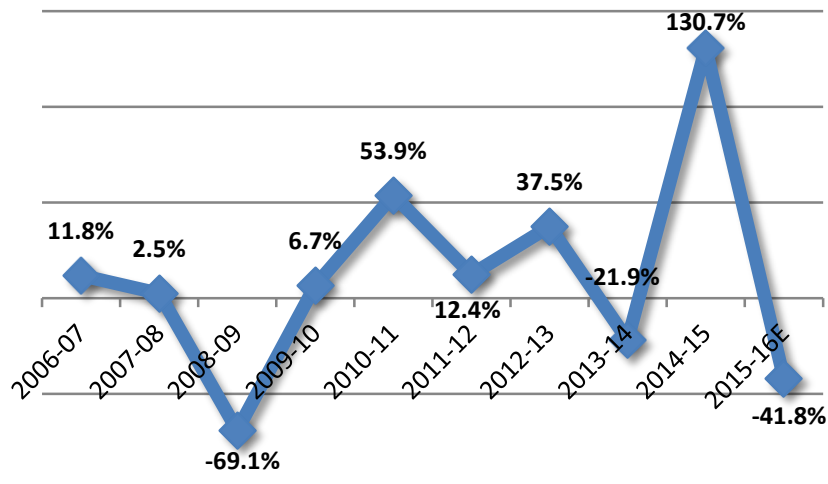
Real Property Tax Revenues

(Total \$)



Real Property Tax Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

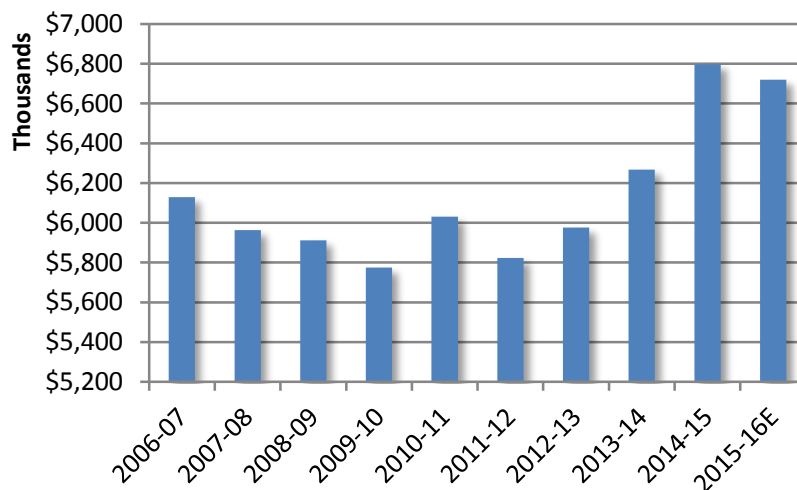
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
-40.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

UTILITY USERS TAX (UUT)

As authorized by the Culver City Municipal Code, an 11.0 percent utility tax is levied on electricity, water, gas, cable TV, and both wired and cellular/mobile telephone service. Utility taxes are collectively the second largest revenue source for the General Fund. Seasonal and annual weather fluctuations can impact utility consumption, as well as conservation efforts. Generally, the combination of consumption and cost are expected to increase in the coming years for electricity, natural gas and water, resulting in modest annual increases in UUT revenues. However, dramatic technology and consumption changes in the telephone and cable television industries are expected to result in consistent reductions in revenue in future years.

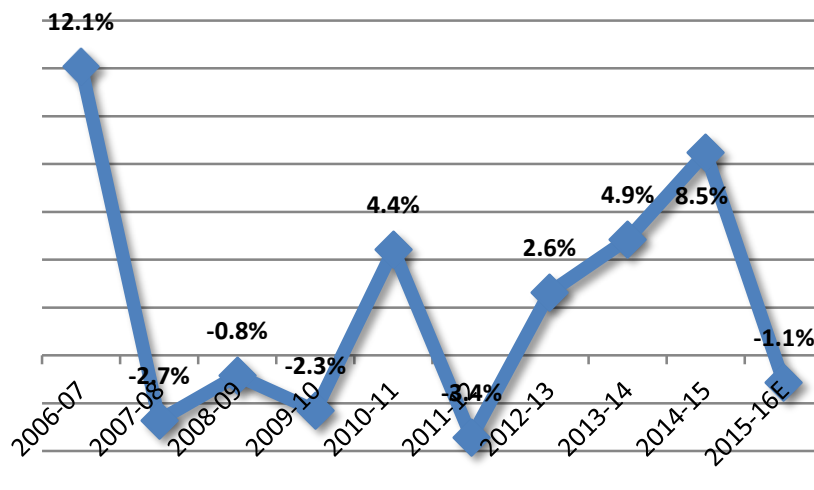
UUT- Electricity Tax Revenues

(Total \$)



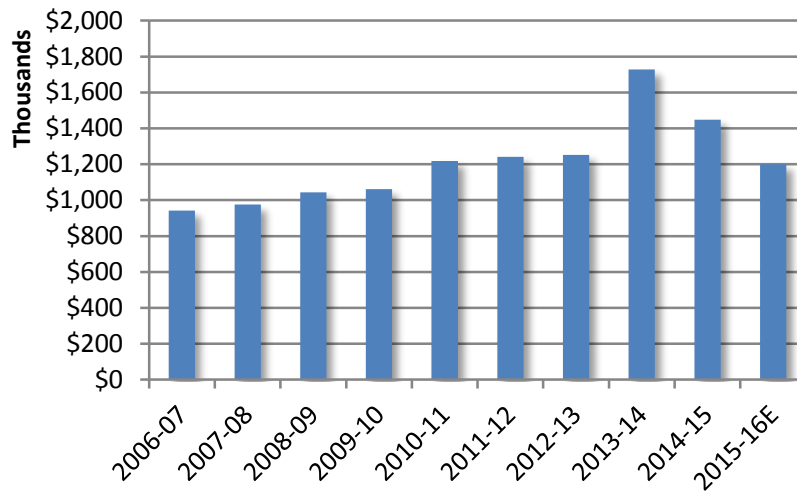
UUT-Electricity Tax Revenues

(Year-to-Year Percentage Change)



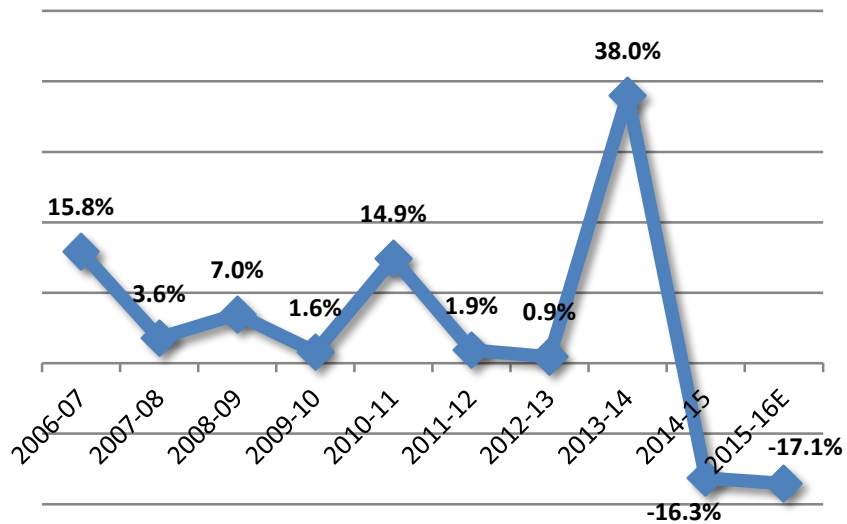
UUT- Water Tax Revenues

(Total \$)



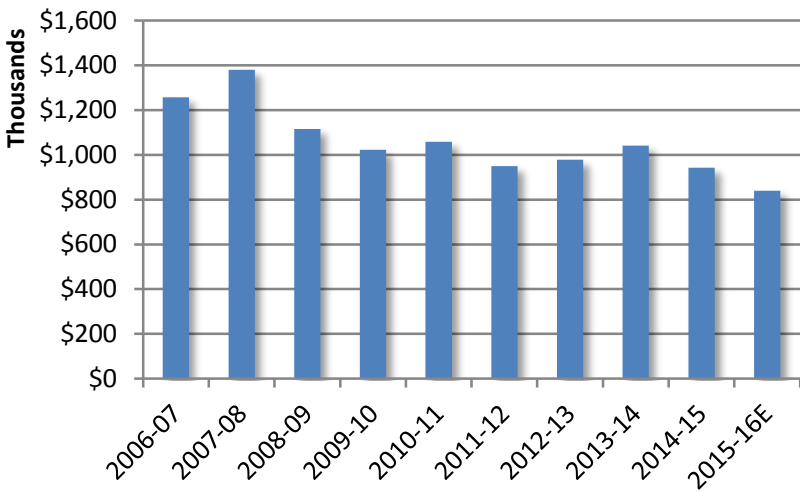
UUT - Water Tax Revenues

(Year-to-Year Percentage Change)



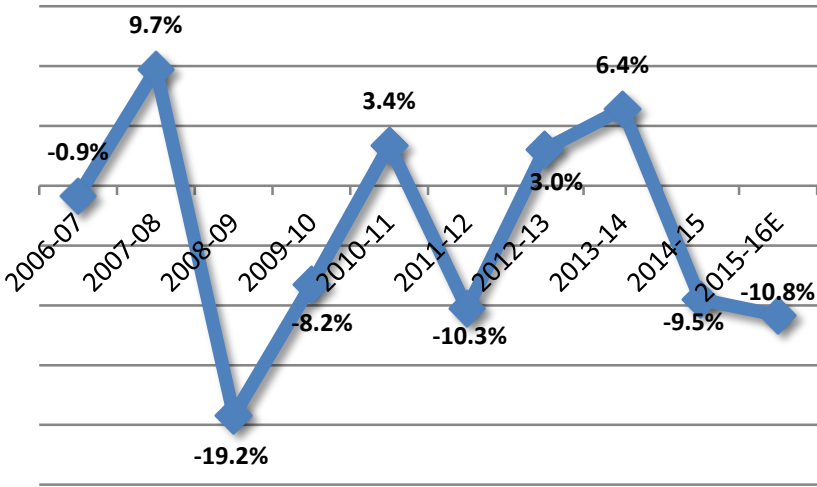
UUT- Gas Tax Revenues

(Total \$)



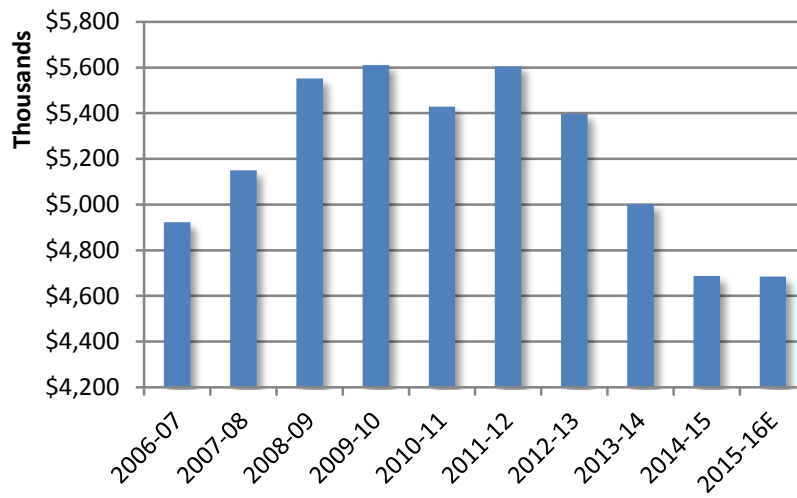
UUT - Gas Tax Revenues

(Year-to-Year Percentage Change)



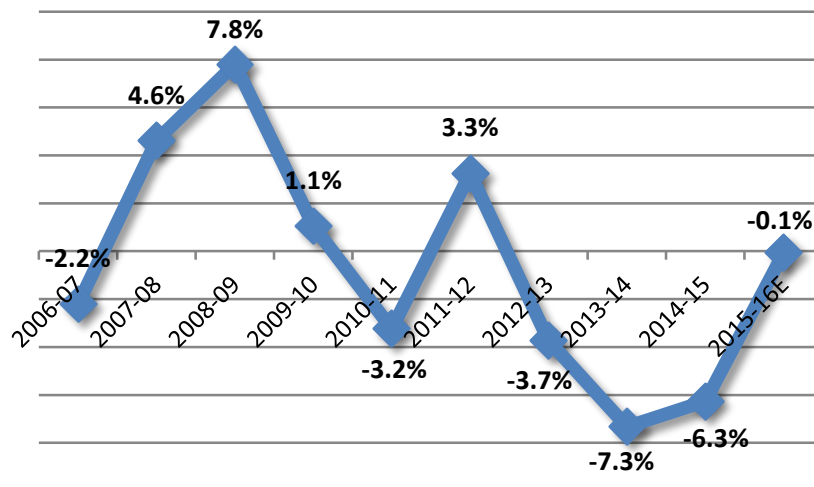
UUT- Telecom Tax Revenues

(Total \$)



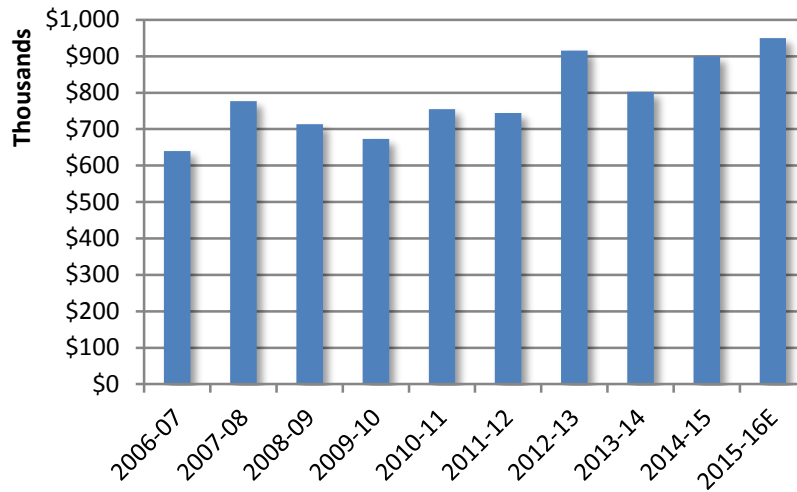
UUT - Telecom Revenues

(Year-to-Year Percentage Change)



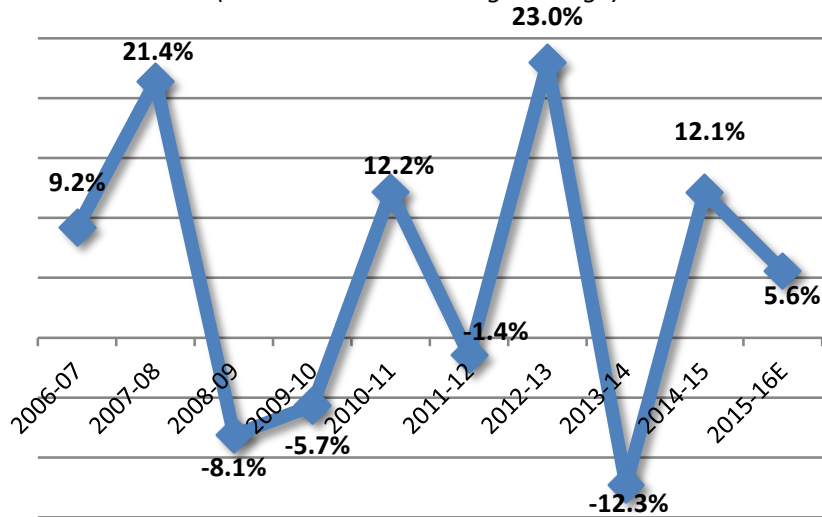
UUT- Cable Tax Revenues

(Total \$)



UUT - Cable Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

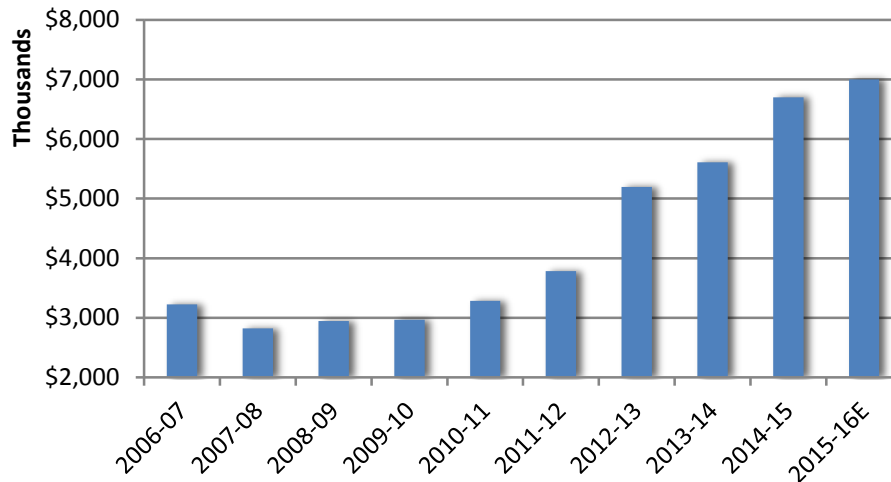
	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
Electricity	3.00%	2.00%	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%
Gas	6.00%	5.00%	3.00%	3.00%	3.00%	3.00%	2.00%	2.00%
Water	-1.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Telecom	6.00%	-3.40%	-2.40%	-2.40%	-2.40%	-2.40%	-2.40%	-2.40%
Cable TV	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%

TRANSIENT OCCUPANCY TAX (TOT)

The Culver City Municipal Code authorizes the City to levy a tax for the privilege of occupying lodgings on a transient basis. In April 2012, Culver City residents approved a ballot measure that increased the rate from 12.0 percent to 14.0 percent (a 16.67% rate increase), to be consistent with surrounding cities. This revenue source spiked in fiscal year 2012-13 with a 37% increase over the prior year, well beyond the 16.67% increase in the tax rate. With occupancy and nightly room rates both rising, TOT revenues are estimated to reach another record level for fiscal year 2015-16, improving an additional 4.5%.

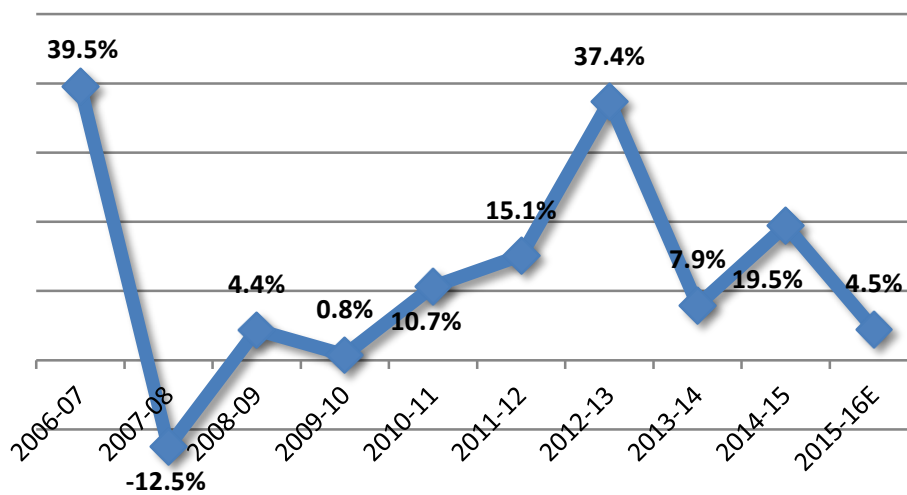
Transient Occupancy Tax (TOT) Revenues

(Total \$)



Transient Occupancy Tax (TOT) Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

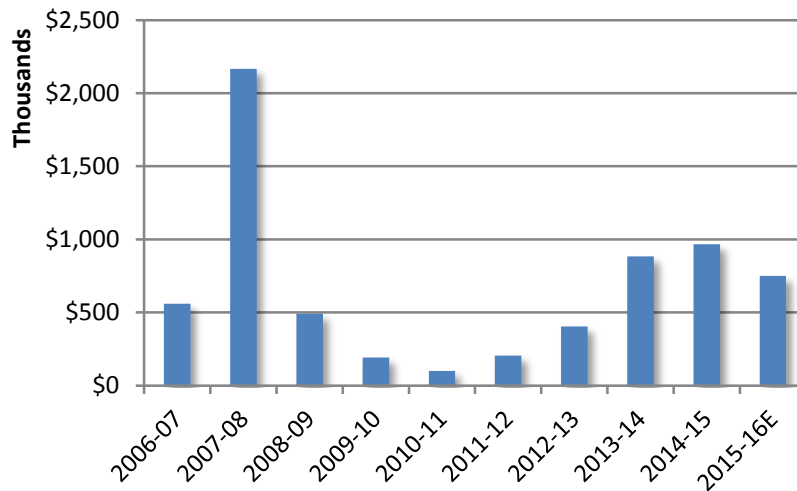
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

COMMERCIAL/INDUSTRIAL DEVELOPMENT TAX

In 1990, Culver City imposed a general tax on all commercial/industrial development in the City. The rate is \$25 for the first \$250,000 in building permit valuation and 1.5 percent of valuation thereafter. This is a tax that varies wildly from year-to-year depending on the level and type of new development activity that occurs in a given year, as evidenced by the graph below. The baseline estimate for this tax will be set at a flat \$450,000 for the duration of the projection.

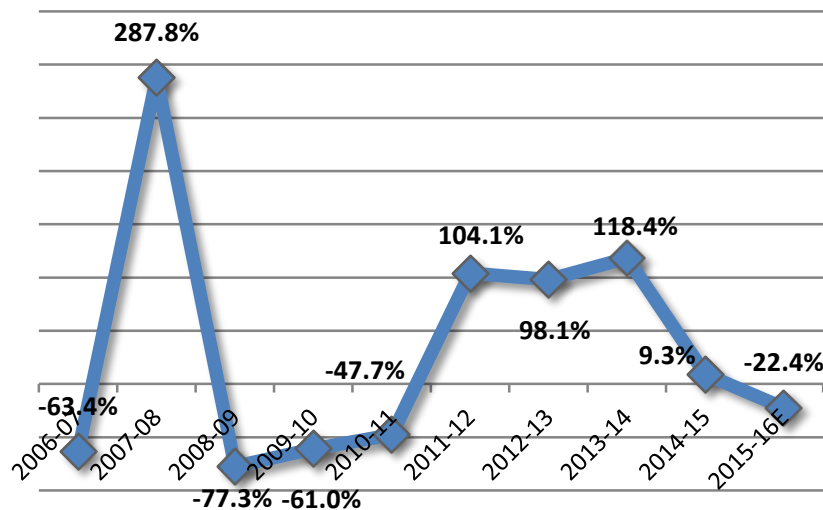
Commercial/Industrial Tax Revenues

(Total \$)



Commercial/Industrial Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

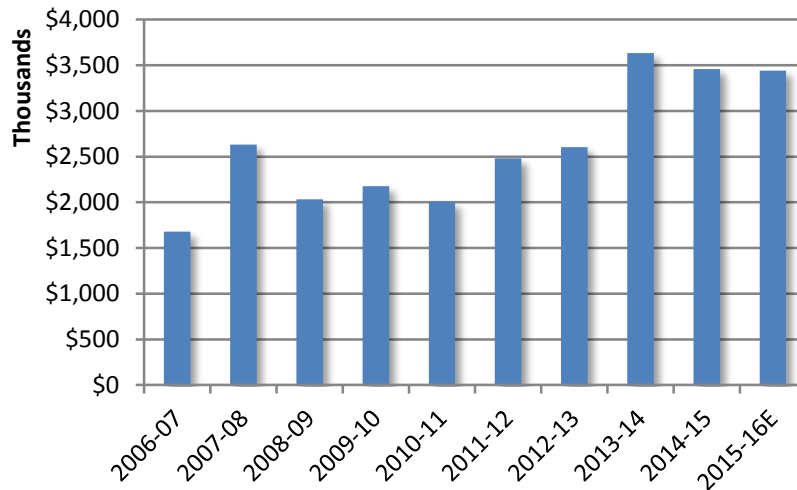
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
20.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

LICENSES AND PERMITS

The California Government Code and the State Constitution give cities the authority to assess certain license and permit fees as a means of recovering the cost of regulating various activities. Examples include building, electrical and plumbing permits, filming permits, taxi permits and police alarm permits.

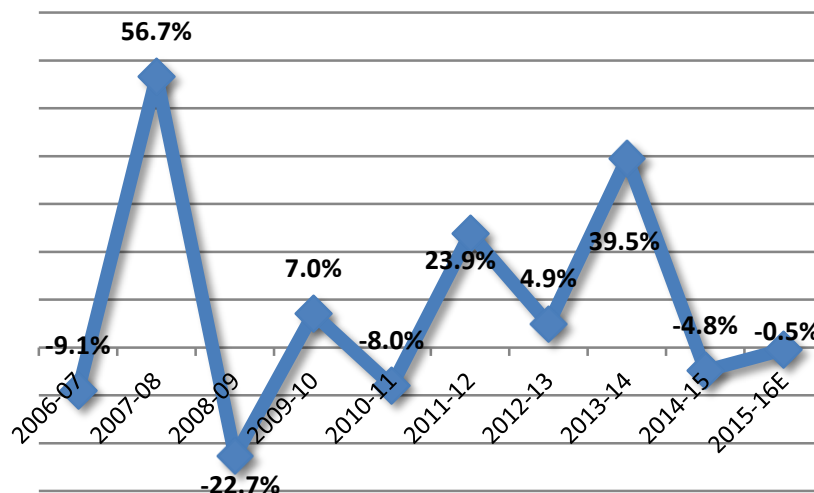
License & Permits Tax Revenues

(Total \$)



License & Permits Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

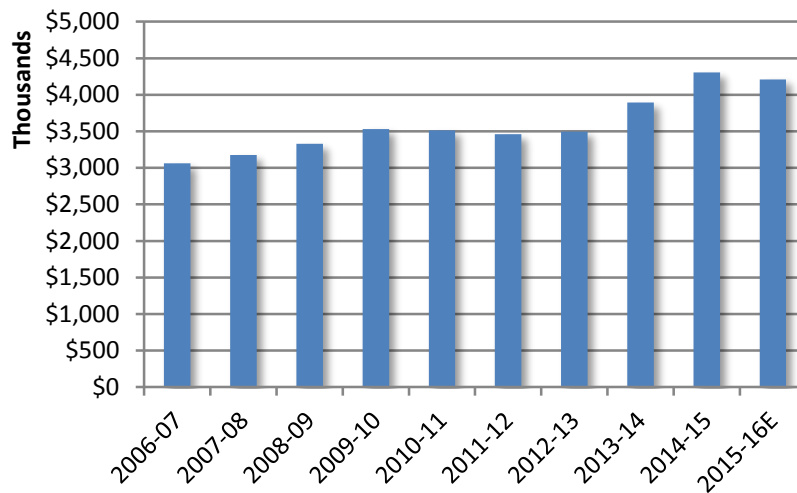
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

INTERGOVERNMENTAL

The primary revenue included in this category (approximately 98% of the total) is the state allocated motor vehicle in-lieu tax. Section 11005 of the State Revenue and Taxation Code imposes an annual license fee that was equivalent to 2.0 percent of the market value of motor vehicles before recent rate decreases enacted by the state. The code also specifies that 81.25 percent of the revenues are to be divided equally between cities and counties and apportioned on the basis of population. This revenue performs relatively consistently year-to-year.

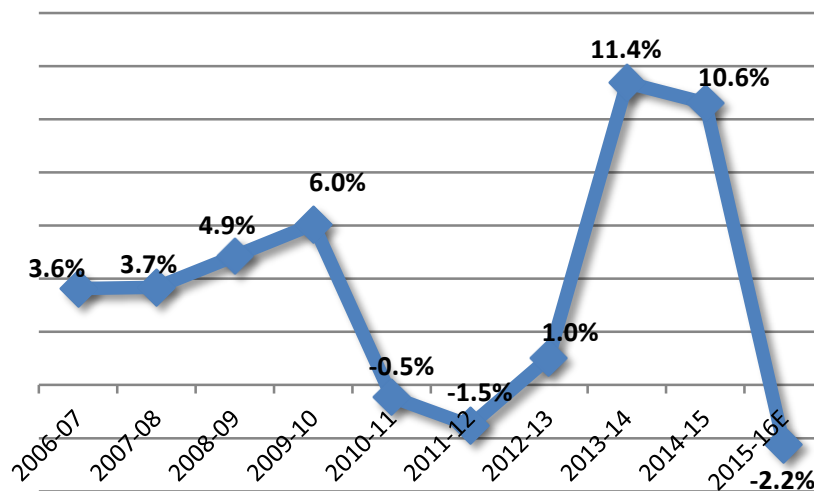
Intergovernmental Revenues

(Total \$)



Intergovernmental Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

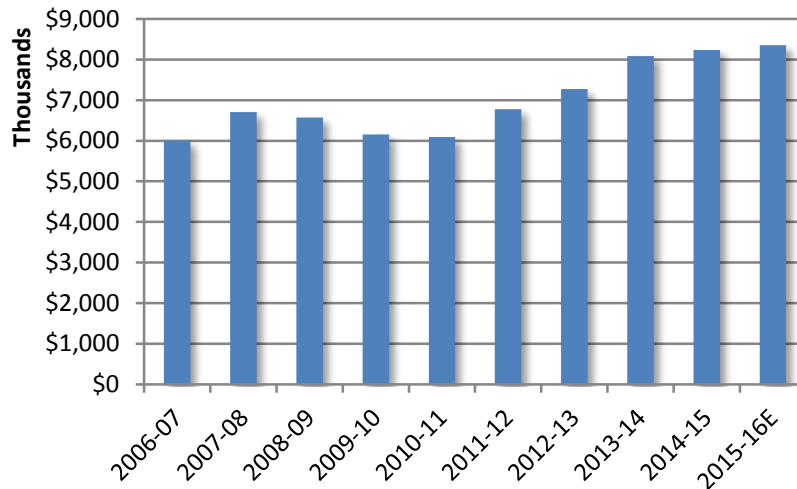
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

CHARGES FOR SERVICES

Service charges or fees are imposed on the user for a specialized service provided by the City under the rationale that benefiting parties should pay for the cost of that service rather than the general public. Examples of such services include various recreation program and facility rental fees, plan check fees and hazardous material fees. Increased development activity and demand for recreational facilities and programs has this revenue category trending upwards.

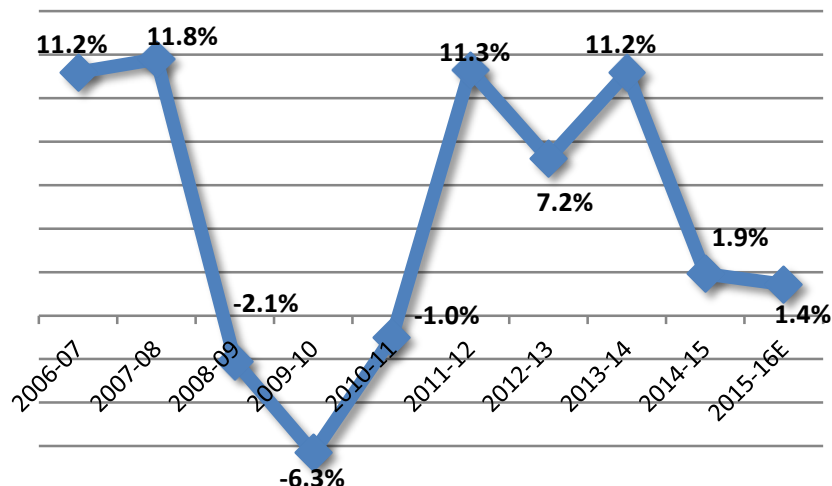
Charges for Services - Revenues

(Total \$)



Charges for Services - Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

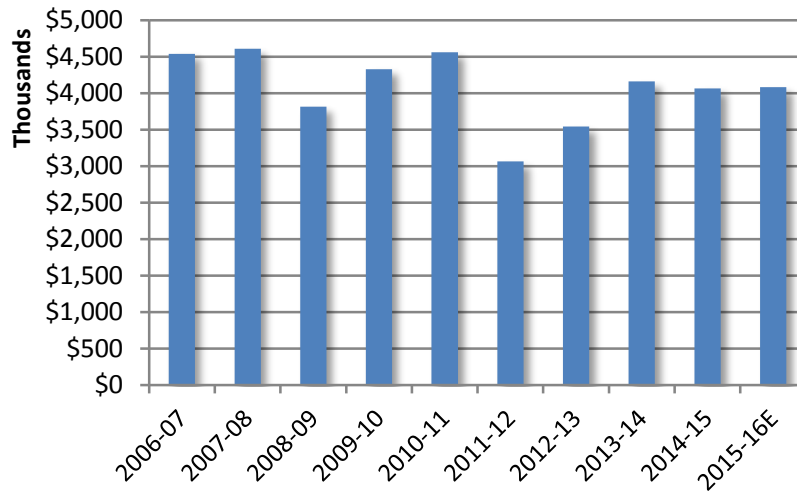
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

FINES AND FORFEITURES

The California Vehicle and Penal Codes impose fines and penalties for traffic violations and vehicular parking. The Culver City Municipal Code also imposes certain fines for parking violations. Moving violations (including the Photo Enforcement Program) are collected by the County of Los Angeles Superior Court and a portion distributed to the City, less a retainer for costs of administration. The City is responsible for parking fine collection. Significant street projects closed a number of Photo Enforcement intersections in prior years, but these systems are back online and revenues are trending back to their previous levels.

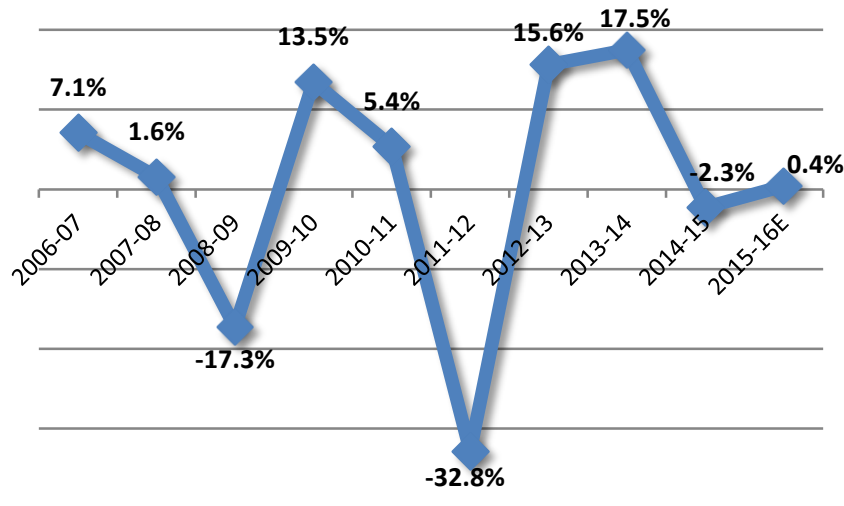
Fines & Forfeitures Revenues

(Total \$)



Fines & Forfeitures Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

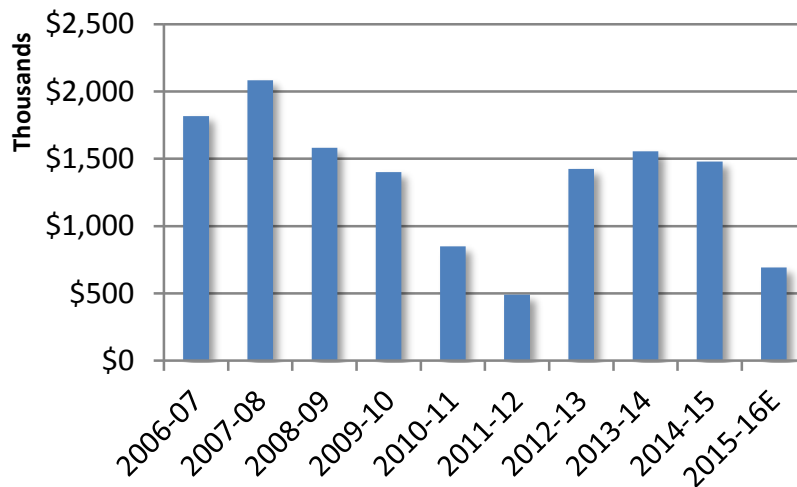
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

USE OF MONEY AND PROPERTY

This category of revenue includes interest earnings and lease income. The City pools its available cash from various funds and invests in differing instruments allowed under the City's Investment Policy approved by the City Council. These earnings have suffered dramatically based on record low interest rates for several years. Earnings are allocated to various funds on the basis of proportionate balances. In FY 2012-13, lease income from the Pacific Theaters was added to this category, but removed in FY 2015-16 due to the sale of property.

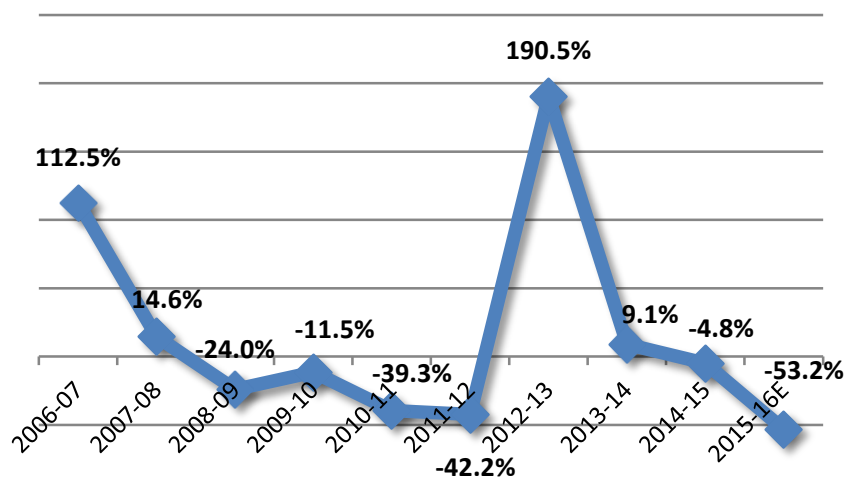
Use of Money/Prop

(Total \$)



Use of Money/Prop

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

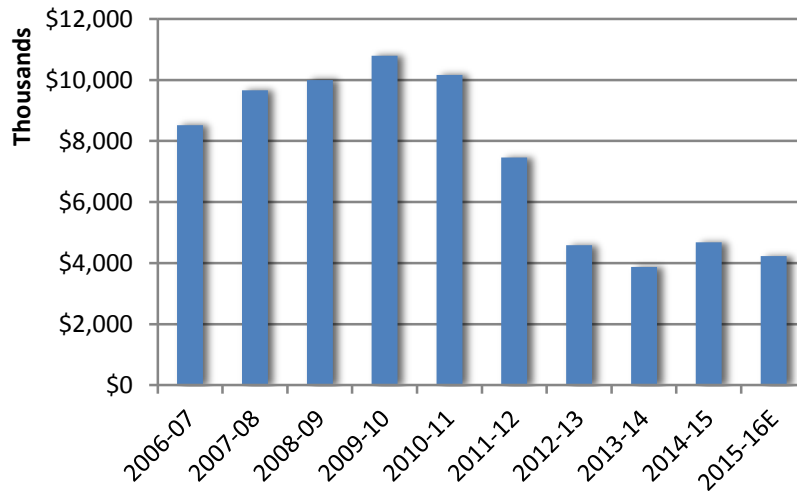
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
3.00%	3.00%	3.00%	3.00%	4.00%	4.00%	4.00%	4.00%

INTERFUND TRANSFERS

Revenues in this area are generally from repayments for city-wide overhead service costs. Culver City utilizes this category to monitor funds received from interagency billings and recovering the cost of providing general administrative and indirect services to other funds. This category included transfers from the former Redevelopment Agency for services provided by the General Fund. FY 2012-13 represents the first full year without such reimbursements.

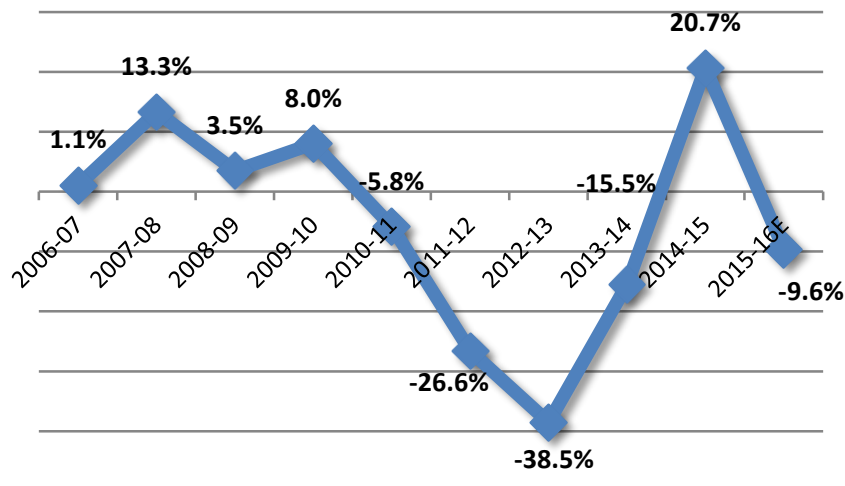
Interfund Transfers - Revenues

(Total \$)



Interfund Transfers - Revenues

(Year-to-Year Percentage Change)



Projected Annual Rates of Change

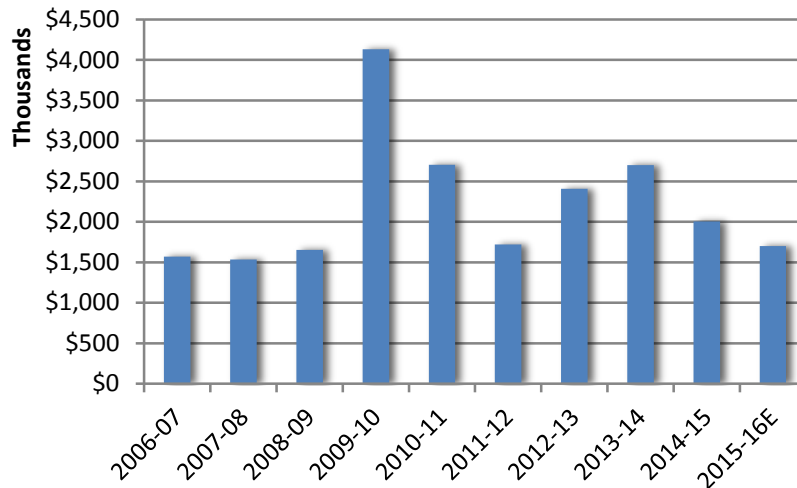
FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

TRANSFERS IN

Transfers-In are revenues from the movement of resources between funds to pay for specific activities. For any one transaction, the transfer-in and the transfer-out is classified in the same way, so that the total transfers-in for the entire municipality equal the total transfers-out.

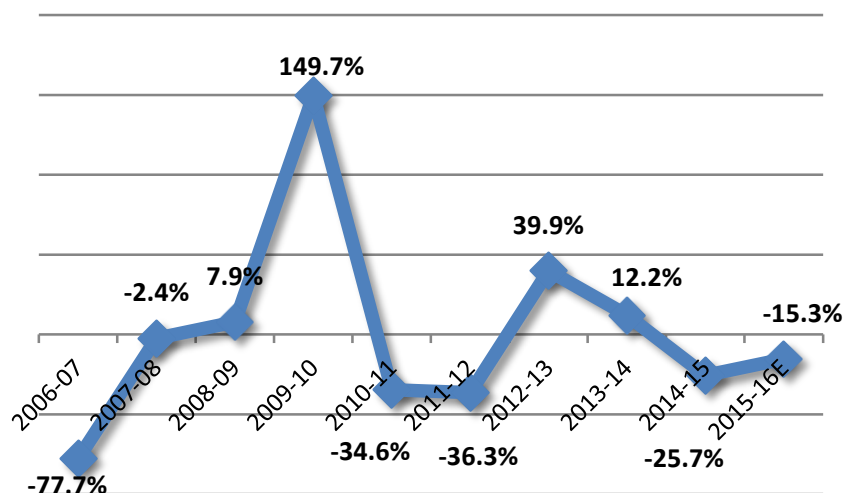
Transfers In - Revenues

(Total \$)



Transfers In - Revenues

(Year-to-Year Percentage Change)

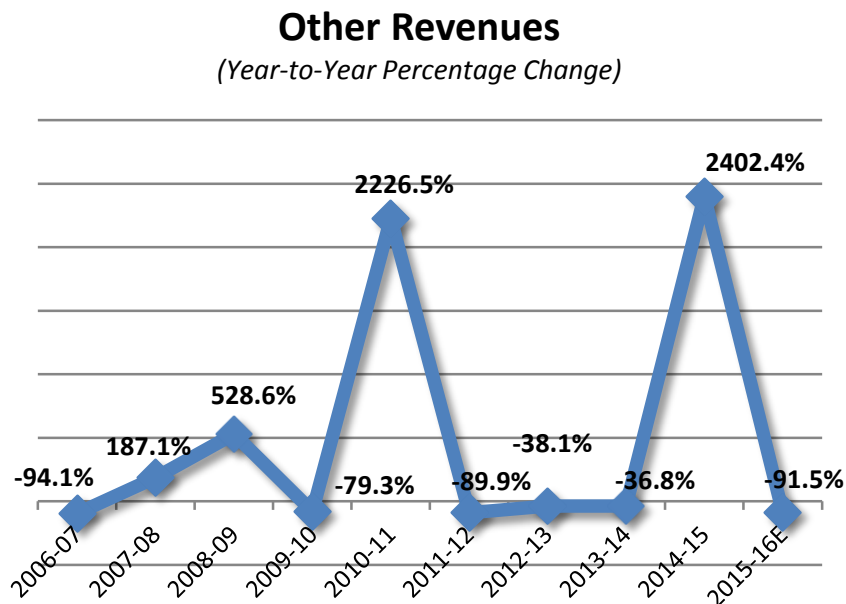
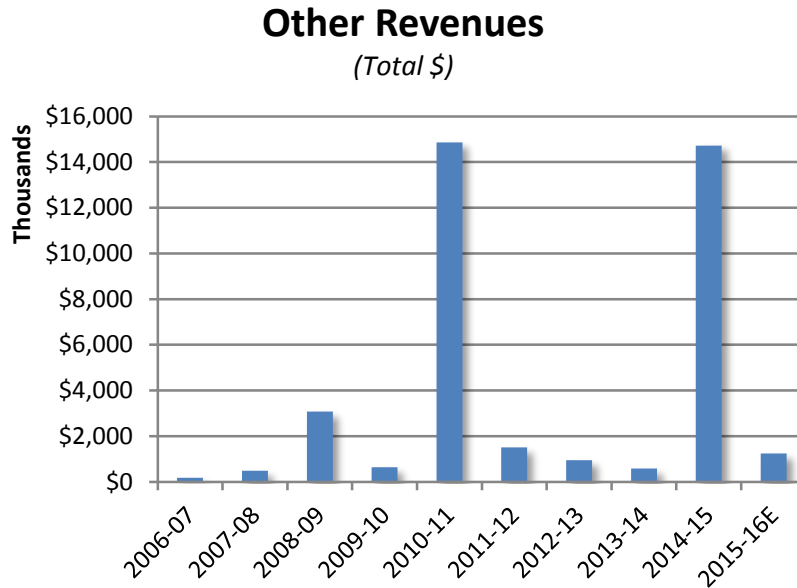


Projected Annual Rates of Change

FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

OTHER REVENUES

Other Revenues are generally proceeds that are one-time amounts not classified in any of the above-discussed revenue classifications. The significant spike in FY 2010-11 and 2014-15 involve the sale of a City property.



Projected Annual Rates of Change

FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24
-67.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

ADDITIONAL EXPENDITURES / POLICY ISSUES

In addition to funding current service levels, the City Council will also need to consider allocating funding for additional items in the coming years.

Storm Water Discharge Requirements

Culver City, along with other public agencies, is subject to meeting requirements under the National Pollutant Discharge Elimination System (NPDES) permit program. The new Municipally Separate Storm Sewer (MS4) Permit imposes severe restrictions on Total Maximum Daily Loads (TMDLs) for certain pollutants, eight of which affect Culver City. Compliance with these TMDLs will be very difficult to meet, and extremely costly. It is currently estimated that the City may be responsible for as much over \$100 million in needed infrastructure investments to comply. During Fiscal Year 2015-16, City Council approved \$4.5 million in funding from the General Fund to leverage a unique opportunity to partner with a large business to construct an infiltration system. A similar opportunity exists on Culver Boulevard in partnership with the City of Los Angeles, and matching funds for that project are assumed from the General Fund. Staff will be working to identify alternative financing methods so that the General Fund is not responsible for the future costs.

Additional Infrastructure Funding

A significant backlog of infrastructure and facility improvements (deferred maintenance) due to lack of funding exists, and has been documented in prior budgets and forecasts. With fund balance available in excess of the required Contingency Reserve, the City Council may explore increased annual funding towards such projects. Identifying a future revenue stream, or dedicating more General Fund resources, will ultimately be required.

Additional Pre-funding of Long-Term Liabilities

With significant long-term liabilities for pension and retiree medical costs, the City Council may explore utilizing fund balance in excess of the required Contingency Reserve towards increased pre-funding of these benefits, to save future interest costs. It is estimated by the City's actuary that each additional \$1 million contributed towards pension liabilities now equals \$5 million in taxpayer savings over twenty-five years. Similar, although slightly less, savings could be achieved by additional pre-funding into the retiree medical trust fund.

FINANCIAL RESERVES

The establishment and maintenance of appropriate reserves within the General Fund is critical to prudent financial management. The Government Finance Officers Association (GFOA) recommends that local governments, regardless of size, maintain a General Fund financial reserve amount of no less than one (8%) to two months (17%) of operating expenditures. The City's policy is to maintain a Contingency Reserve of thirty percent (30%). GFOA also lists increased levels of reserves as a factor credit rating agencies use to determine a municipality's creditworthiness.

As indicated on the main forecast page, total financial reserve levels are currently projected at approximately 66% of General Fund expenditures for Fiscal Year 2015-16, and are forecasted to decline over the life of the forecast in order to fund infrastructure needs. However, until the final year of the forecast when Measure Y would sunset, the Contingency Reserve is fully maintained. Pursuant to City Council policy, the Contingency Reserve may only be utilized to meet one or more of the following events:

- A catastrophic loss of critical infrastructure requiring an expenditure of greater than or equal to five percent (5%) of the General Fund, Operating Budget, as defined above.
- A State or Federally declared state of emergency where the City response or related City loss is greater than or equal to five percent (5%) of the General Fund, Operating Budget.
- Any settlement arising from a claim or judgment where the loss exceeds the City's insured policy coverage by an amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.
- Deviation from budgeted revenue projections in the top three General Fund revenue categories, namely, Sales Taxes, Utility Users' Taxes and Business Taxes in a cumulative amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.
- Any action by another government that eliminates or shifts revenues from the City amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget.
- Inability of the City to meet its debt service obligations in any given year.
- Any combination of factors above amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget in any one fiscal year.

Use of the Contingency Reserve must be approved by the City Council. Should the Contingency Reserve commitment be used, the City Manager shall present a plan to City Council to replenish the reserve within five years. Reserves beyond this level may be used for one-time expenditure purposes or to pay down long-term liabilities, in accordance with the City's financial policies.

City Council adopted financial policies also establish that for any fiscal year there is a gross surplus, 40% of that surplus will be placed in a Facilities Planning Reserve for future facilities improvements or enhancements. Additionally, each year 10% of certain Parks, Recreation and Community Services fees and charges are placed in a Recreational Facilities Reserve, to be used specifically for future recreational facilities improvements or enhancements.

ECONOMIC OUTLOOK & PERSPECTIVE

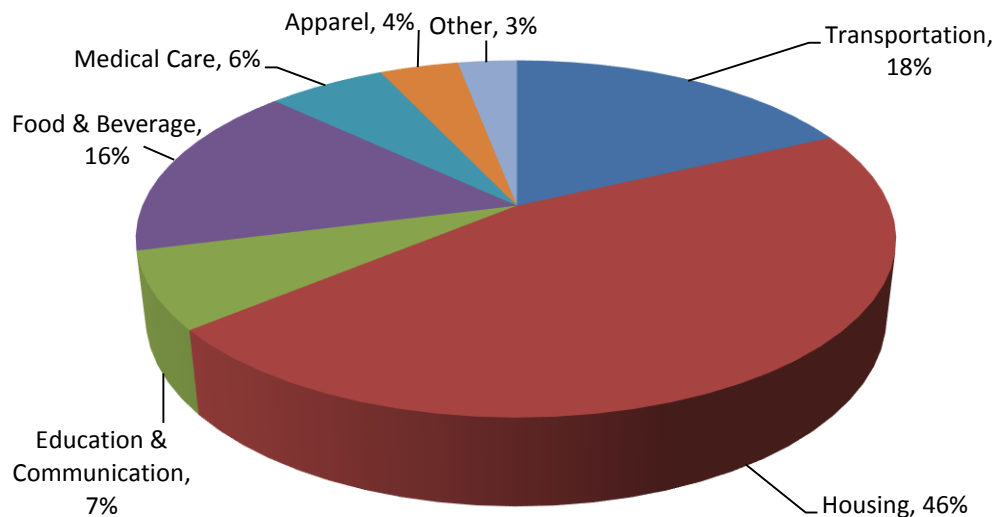
ECONOMIC OUTLOOK

OVERVIEW

A forecast of the City's finances recognizes that the City's fiscal health is directly linked to the success of the local, national, and global economies. In light of this relationship, the fiscal projections provided in this document are based, in large part, upon an analysis of historical and current economic trends. The historical data and forecast projections are provided by government and private organizations. This section provides projections for the local and national economies, which support the fiscal projections presented in this document.

INFLATION

The Consumer Price Index (CPI), commonly referred to as the inflation rate, measures the average price change for a market basket of consumer goods and services. This basket of goods contains a wide array of items, ranging from food and gasoline to college tuition and medical supplies. The CPI does not, however, include investments such as stocks or real estate.



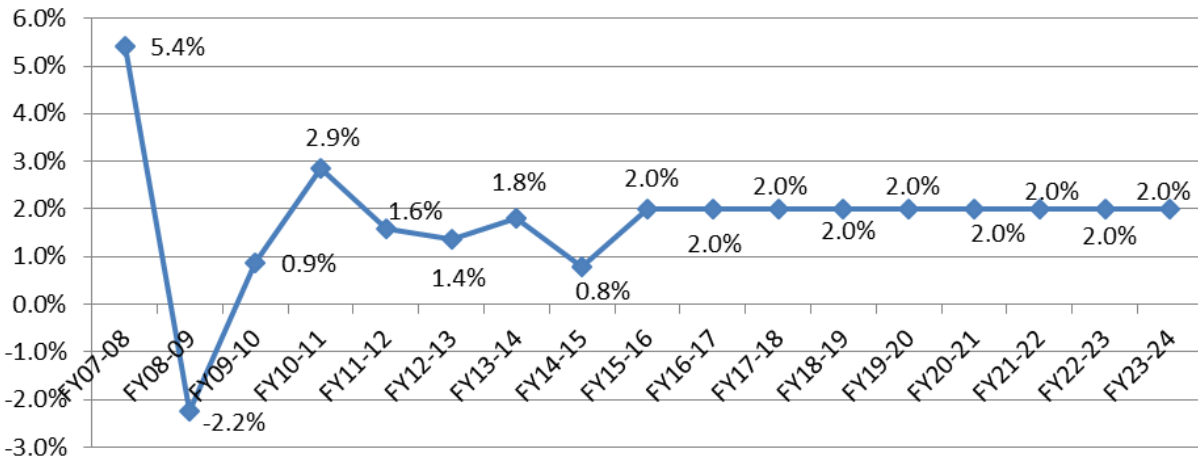
The Bureau of Labor Statistics has classified each expenditure item in this basket of goods into more than 200 categories. Each one of these categories is cataloged into eight major groups, as shown in the adjacent figure. For example, gasoline is listed under the transportation category and makes up 5.2% of the basket of goods.

The Consumer Price Index is used as the inflationary factor for specific non-personnel services expenditures to develop the General Fund and other fund's budget forecast. This allows the City to plan for possible increases in certain commodities and other costs in the coming years by taking into account rising prices.

Additionally, CPI also serves as a cost of living index. After reviewing data from the State Department of Finance, the Los Angeles Economic Development Corporation, and the UCLA Andersen Forecast, the projections for CPI have been developed and modified to reflect the City's budget cycle based on a fiscal year from July 1 to June 30.

LA-Orange County-Riverside CPI % Change

(Actual Through FY14-15/Forecasted Through FY23-24)



Source: Department of Labor

REGIONAL ECONOMIC CONDITIONS

The following information is an excerpt from the Los Angeles County Economic Development Corporation's 2016-2020 Economic Forecast & Industry Outlook, prepared by the The Kyser Center for Economic Research.

With over 10 million residents in 88 cities spread across nearly 4,100 square miles, Los Angeles County's population exceeds that of 43 states. In addition to its signature industries – entertainment, tourism and fashion – its enormous and diversified economy is home to the largest port complex in the Western Hemisphere and the largest number of manufacturing jobs of any county in the country. Other significant industries include health care, education and knowledge creation, and business services. If it were a country, Los Angeles County would be the twenty-first largest economy in the world.

The county has seen significant job growth in the last few years, with nearly 100,000 jobs added last year and about the same expected this year. With a 2.5% average annual increase during the first part of 2015, the county has consistently outpaced the nation in job growth. This has driven the unemployment rate down to 7.1% in July (seasonally adjusted), a full percentage point below July 2014 and the lowest since mid-2008. Moreover, most major industries added jobs throughout the first part of this year. The county economy benefited from broad-based growth which pushed wage and salary jobs to a record high, surpassing the county's pre-recession employment peak. Mining and logging was the only major industry to post a significant percentage decrease in jobs this year, while both the manufacturing and finance and insurance sectors experienced only slight declines.

Total personal income increased by 4.2% in 2014, and is expected to grow at the same rate both this year and in 2016. With negligible inflation this year, households will experience significant gains in purchasing power. Gains will be more modest next year, with inflation

expected at 2.2%. Similarly, per capita income will climb by 3.5% this year and 3.8% next year, after a 3.8% increase in 2014. Since much of the gain in income is expected to be spent, local consumption as measured by total taxable sales will rise by 4.6% this year and by 7.9% next year, following an increase of 7.1% in 2014. This means local sales and use tax revenues will continue to climb, putting local government agencies on a sounder financial footing.

Population growth is expected to slow this year and next, with the rate of growth at approximately 0.5% this year and 0.4% in 2016. Even so, the county will increase by approximately 50,000 residents over each of the next two years, equivalent to adding a city the size of Cerritos or Covina each year. Most of the recent population growth in Los Angeles County has been due to natural increase (births outnumbering deaths), while net migration was slightly negative last year. The county's high cost of living and lack of affordable housing units for low- and middle-income households are contributing to the slowdown in population growth.

Throughout much of the state, the housing market saw a bounce in 2015. Los Angeles County was no exception. The median sales price of a home in Los Angeles County was \$492,000 in July, up 4.7% compared with a year earlier. Moreover, sales of homes increased 9.6% year-to-date through the first seven months of this year, putting the market on track to surpass last year's total and match or surpass the 2013 sales total, which was the strongest year of the last eight years. New home construction finally accelerated in 2015 and should continue to do so next year. Of course, the other side of the housing story is affordability. The housing affordability index (HAI)¹⁴ in Los Angeles County was 30 in the second quarter of this year, meaning that 30% of households in the county can afford to buy the median priced home. Although the HAI was unchanged from a year earlier, affordability in Los Angeles County is about half that of the U.S., meaning that the cost of housing locally is twice that of the nation. This contributes to the county's perception as a high-cost place to do business. For a more detailed discussion of the region's housing market, see the [Real Estate and Construction](#) section of this report.

Trends in Major Industries

Like the nation and state, Los Angeles County experienced broad-based job gains in 2015 and is on track to add nearly 100,000 jobs this year. Job gains have occurred across most major industries, with record highs reached in professional, scientific and technical services, healthcare, and leisure and hospitality. To date through July, the largest job gains occurred in healthcare and social assistance, along with leisure and hospitality, each adding over 20,000 jobs. Government added 12,000 jobs, mostly at the local level. The fastest-growing sectors in percentage terms were construction, educational services, and leisure and hospitality. Job losses occurred in mining and logging, durable and nondurable goods manufacturing, and finance and insurance.

International Trade

With the largest port complex in the nation and the Western Hemisphere, international trade is a significant industry in the local economy. The twin ports had their third-best year in 2014 with throughput of 15.2 million containers and are on track this year to match or surpass last year's performance. Two-way trade through the Los Angeles Customs District hit a record-setting volume of \$416.6 billion in 2014. In year-to-date terms, two-way trade was six percent lower than a year ago through July, but much of that difference occurred in January and February, when the ports were coping with congestion and a labor dispute. With the recent surge in activity at the ports, there is a chance that two-way trade will recover by the end of the year.

The Kyser Center tracks employment in two industries that are part of the international trade and goods movement sector: transportation and warehousing, and wholesale trade. Transportation and warehousing added 3,100 jobs (2.1%) year-to-date through July, while wholesale trade employment rose by 8,800 jobs (4.0%), for a net gain of 11,900 jobs. Given the strength of the U.S. economy, imports have the potential to achieve new record high levels in 2015. However, the strength of the dollar and weakness of the nation's trading partners will make it more difficult to hit a new record on the export side. Regardless, the long-term prospects for the industry are promising, and continued increases in trade activity will bring additional jobs in logistics, goods movement, wholesaling, and distribution.

Entertainment

The entertainment industry is the part of the economy that is most closely associated with Los Angeles. The industry's largest component is the motion picture and sound recording industry, which is a part of the information services supersector. According to FilmL.A.,¹⁶ industry activity was mixed, with on-location television production days rising in yearly terms during the second quarter of this year, but feature films showing only a marginal increase and commercial production activity falling. Through July, motion picture and sound recording employment rose marginally (0.7%) from 118,300 jobs last year to 119,100 jobs. The revamped and expanded California Film Tax Credit might contribute to further increases in industry employment in the future, but it is still too early to judge its success or failure.

Professional Services and Technology

The professional services super-sector is the second largest in Los Angeles County with over 620,000 workers in July, surpassed only by healthcare and education with nearly 760,000 jobs. There are three major industries in this group: professional, scientific, and technical services; management of enterprises; and administrative, support and waste services. All have seen solid gains throughout the year.

The professional, scientific and technical services industry was the largest of the three with 290,000 jobs in July. The industry includes legal, accounting, architecture, computer systems design, consulting, research and advertising, and added 3,800 jobs through July year-to-date (1.3%). Management of enterprises, which encompasses corporate headquarters, is smaller

at 60,800 jobs, but it grew slightly faster (3.2%, or 1,900 jobs added) over the same period. Finally, the administrative, support and waste services sector added 5,200 jobs (2.0%) on a base of approximately 270,000. All three components of professional services and technology are expected see continued job gains this year and in 2016, both in absolute and in percentage terms.

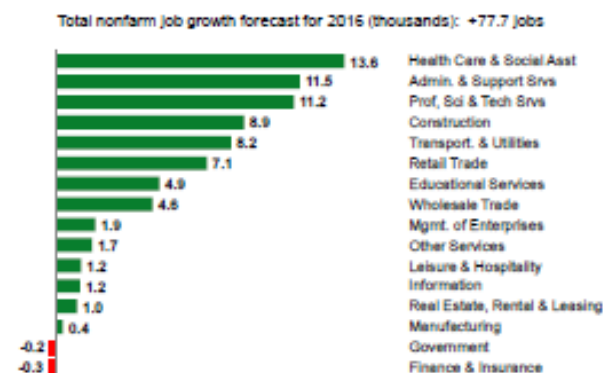
Looking Ahead

Los Angeles County has seen steady improvement over the past three years, a pattern that should continue through 2016. Long-standing segments of the economy have experienced solid job gains. Wage gains are expected over the next year across many occupations, especially those with the greatest number of job openings. Occupations that require higher education, specialized training or experience have generally seen the largest wage hikes in recent years.

Emerging industries tend to be less visible, at least when looking at official government statistics, but they are also on the rise. Through the first half of this year, the Los Angeles County/Orange County region was the third largest recipient of venture capital,¹⁷ after the Silicon Valley and the New York Metro Area. The Silicon Valley received about half of the \$31 billion, while the New York Metro Area received \$3.7 billion and Los Angeles/Orange County received \$3.1 billion. The leading recipients of venture capital funds flowing into the region are: software and IT services, medical devices, media/entertainment, and industrial/energy. Parts of Los Angeles County have become noteworthy for IT and online innovation, notably the I-405 Corridor from the Westside to the South Bay and Pasadena.

Los Angeles County Snapshot

L.A. County Employment Growth, 2016



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

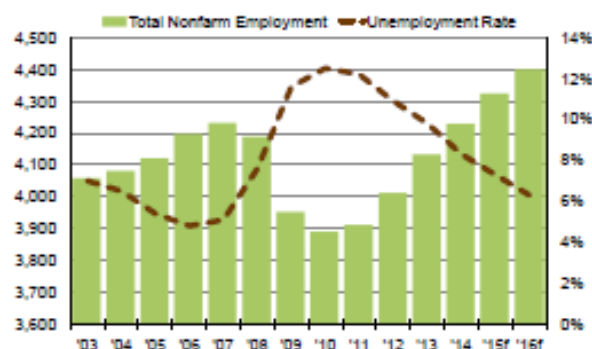
L.A. County Employment Growth, 2016



Source: CA EDD, Labor Market Information Division, forecast by LAEDC

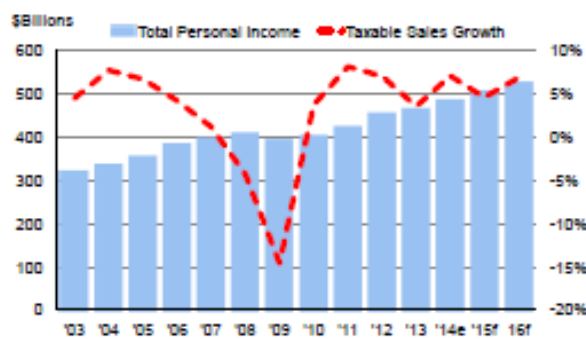
Los Angeles County Employment

Annual average in thousands, 2014 benchmark



Source: EDD Labor Market Information Division, forecast by LAEDC

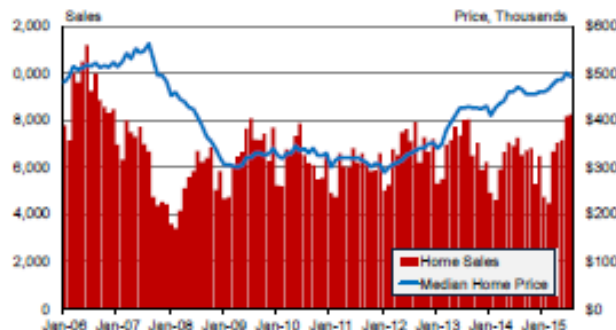
Los Angeles County Personal Income & Taxable Sales Growth



Source: California Board of Equalization, Dept. of Commerce, estimate & forecast by the LAEDC

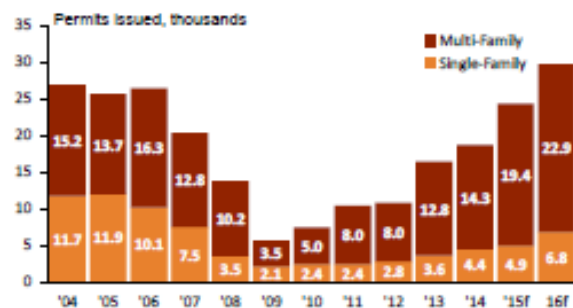
Home Sales & Median Prices

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

Residential Building Permits Issued in Los Angeles County



Source: CCRB, California Home Building Foundation, forecast by LAEDC