

City of Culver City

**YEAR-END REPORT
AND AUDIT SUMMARY**

FOR

FISCAL YEAR 2017-18

CITY OF CULVER CITY
Year-End Report and Audit Summary
FY 2017-18
General Fund and Other City Funds

INTRODUCTION

The purpose of this report is to summarize the results of the City's audited financial statements for the year ending June 30, 2018 (Fiscal Year 2017-18). The City Charter requires an independent, certified public accounting firm to audit the end-of-year financial statements. Preparation and responsibility for the financial statements rests with the City, and the independent auditor expresses an opinion about the statements based on their testing and review.

The firm of The Pun Group LLP performed the audit of the FY 2017-18 financial statements. This was the third year of their contract with the City. In the Independent Auditor's Report included in the City's Comprehensive Annual Financial Report (CAFR), The Pun Group LLP report that in their opinion the City's financial statements present fairly, in all material respects, the financial position of the City as of June 30, 2018. This report can be found on pages 1-3 of the CAFR.

The CAFR includes both government-wide financial statements, as well as the more traditional fund-level financial statements. The requirement for the government-wide financial statements are a result of Governmental Accounting Standards Board (GASB) Statement No. 34, implemented by Culver City in FY 2003-04. The idea behind government-wide statements was to collapse all of the various activities of the governmental entity into a single 'snapshot' view, so that the overall financial health and condition of the entity could be more easily understood by investors and other readers of the financial statements. However, this government-wide view does not easily relay to the reader the financial position of those monies where the City has wide discretion versus those where it has very little discretion. This information is more easily understood from the traditional fund-level financial statements. For this reason, this report is based on the fund-level financial statements. Those interested in more information on the government-wide financial statements should refer to Management's Discussion and Analysis on pages 5 through 21 of the CAFR.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for functions that are principally supported by taxes and intergovernmental revenues. The City maintains 30 individual governmental funds. These funds are further categorized into special revenue funds, capital projects funds, debt service funds and the general fund. Special revenue funds typically are used where there is a legal or other requirement to separately track certain types of funding. Capital projects funds are used to account for capital or infrastructure improvements. Debt service funds account for the issuance and repayment of debt (the City currently has no active debt service funds). All other governmental activities, not required to be accounted for separately, are handled through the City's General Fund. This is the fund for which the City Council has the most discretion, and includes most of the core operating activities

that are familiar to citizens, such as Police, Fire, Park & Recreation, Public Works, general governmental activities, etc.

Proprietary funds account primarily for functions that are intended to recover all or a significant portion of their costs through user fees and charges. There are two types of proprietary funds: enterprise funds and internal service funds. Enterprise funds can be considered business-type activities, and are used to account for the Culver City Bus Line, Culver City Fiber Network, the refuse (solid waste) utility and the sewer utility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. Internal service funds are used by the City to account for self-insurance activities, vehicle operations and maintenance, equipment/vehicle replacement and central stores functions.

This report will spend the most time discussing the General Fund, since this is the fund that faces the most financial pressure to provide desired services based on finite resources. The other fund types will be discussed first. The focus of this report is on the actual results for FY 2017-18, and it does not look forward to the current or future fiscal years. This will occur in the upcoming FY 2018-19 Mid-Year Budget Report.

ENTERPRISE FUND SUMMARY

The table below summarizes the financial results for the City's three enterprise funds for FY 2017-18:

Funds	Beginning Net Assets	Revenues & Transfers in	Expenses & Transfers Out	Ending Net Assets	Unrestricted Net Assets
Refuse Disposal	(5,382,121)	14,767,214	14,811,894	(5,426,801)	(7,697,692)
Municipal Bus Lines	26,569,486	25,368,207	27,857,739	24,079,954	(12,255,755)
Sewer Enterprise	40,846,697	9,818,987	8,144,996	42,520,688	17,667,659
Municipal Fiber Network	(1,329,589)	25,426	1,720,771	(3,024,934)	(12,804,052)

The overall position of the Refuse Disposal Fund continues to be affected by the implementation of GASBs 68 and 75, where net pension and OPEB liabilities totaling \$11.3 million were recorded, causing the net assets of the fund to be negative. On an operational basis, expenses exceeded revenues by \$0.04 million for the year. Unrestricted net position of the fund (assets not restricted by outside sources or invested in capital) is also negative, and will likely remain that way until the long-term amortization of the net pension and OPEB liabilities is substantially complete.

The Municipal Bus Lines Fund had expenses and transfers in excess of revenues by \$2.5 million, primarily due to project expenses for funds received in the prior year. This fund also continues to be significantly affected by GASBs 68 and 75, with net pension and OPEB liabilities totaling \$25.8 million recorded. Based on the somewhat unpredictable nature of certain transportation funding sources, it is important to keep careful watch on this fund to ensure expenses are aligned with incoming resources. Unrestricted net position of the fund is negative as a result of GASBs 68 and 75, and will likely remain that way until the long-term amortization of the net pension and OPEB liabilities is substantially complete.

The Sewer Enterprise Fund revenues exceeded expenses by \$1.7 million for the year. The fund was less impacted by GASBs 68 and 75 due to the low number of staff members in this fund. The

\$17.7 million in unrestricted net position appears high, however the significant projects to improve or replace components of the Sewer system are underway.

The construction for the Municipal Fiber Network is still continuing. The funding for this project was provided through a loan from General Fund to design and construct an open access network where Internet Service Providers (ISP) will utilize the City's fiber infrastructure to service the business community. Other than investment earnings, this fund is not expected to begin generating revenue until late in FY 2018/19.

INTERNAL SERVICE FUND SUMMARY

The table below represents the financial results for the City's four internal service funds for FY 2017-18:

Funds	Beginning Net Assets	Revenues & Transfers in	Expenses & Transfers Out	Ending Net Assets	Unrestricted Net Assets
Equipment Replacement	16,259,308	2,113,520	1,846,819	16,526,009	8,720,361
Equipment Maintenance	(8,776,579)	7,898,772	8,375,699	(9,253,506)	(8,841,875)
Risk Management	(11,579,478)	6,202,833	8,634,070	(14,010,715)	(11,580,688)
Central Stores	(204,082)	1,323,706	1,361,864	(242,240)	(204,082)

The Equipment Replacement Fund is used to amortize and ultimately replace City equipment, primarily vehicles. The expenses can vary significantly from year to year based on what equipment is being replaced.

The overall position of the Equipment Maintenance Fund continues to be affected by the implementation of GASBs 68 and 75, where net pension and OPEB liabilities totaling \$9.9 million were recorded. The purpose of this fund is to allocate the repair and maintenance charges of the City's fleet out to the departments where the vehicles are in service. On an operational basis, for FY 2017-18 expenses exceeded revenues and transfers by approximately \$0.5 million. Unrestricted net position of the fund will remain negative as a result of GASBs 68 and 75 until the long-term amortization of the net pension and OPEB liabilities is substantially complete.

The Risk Management Fund has historically carried a negative fund position. In addition to actual expenses paid out for claims, judgments, attorneys, insurance premiums, etc., the fund also records the estimates for future claims and judgments as an expense. The City is not in a position to fully fund future estimated claims, so this fund will continue in an overall negative position. The fund has adequate cash flows to pay current costs based on its charge outs.

The Central Stores Fund accounts for the inventory of certain items that are used by departments frequently, and where it is more economical to purchase in bulk and then distribute the items as needed. Items are purchased and then 'sold' to the department that uses them. Much of the inventory carried supports the equipment maintenance function. The fund ended the year in a slightly negative position, but should recover to a positive position during the current fiscal year.

SPECIAL REVENUE FUND SUMMARY

The City currently utilizes twenty special revenues funds to account for various resources that are restricted in use. The monies accounted for in these funds are unavailable for discretionary City funding.

With two minor exceptions in the Operating Grants and Paratransit Funds, all special revenue funds ended the year with a positive or zero fund balance. The fund balance deficit in the Operating Grants Fund is not unusual due to timing issues with grant reimbursements.

The table below represents the summarized financial activity for the various special revenue funds. Below the table is a brief description of the purpose of each fund.

Funds	Beginning Fund Balance	Revenues & Transfers in	Expenditures & Transfers Out	Ending Fund Balance
Gas Tax	1,628,624	1,091,390	1,595,024	1,124,990
Prop A Local Return	933,637	760,314	752,278	941,673
Prop C Local Return	1,057,655	632,009	715,762	973,902
Measure R	481,687	470,502	732,661	219,528
Operating Grants	(467,174)	1,394,834	1,058,724	(131,064)
Section 8 Housing	1,237,398	1,472,014	1,512,055	1,197,357
Art in Public Places	2,045,721	922,268	250,894	2,717,095
Community Development	242,219	367,339	269,550	340,008
CDBG	-	28,237	28,237	-
Landscape Maintenance	301,073	77,539	38,319	340,293
Park Facilities	1,383,674	178,124	163,422	1,398,376
Asset Seizure	1,003,845	133,596	230,042	907,399
Parking Authority	6,896,844	5,621,777	3,466,423	9,052,198
Safe/Clean Water Protection	6,646,617	2,118,084	1,328,017	7,436,684
Capital Grant	26,631	303	26,934	-
Building Surcharge	906,096	411,062	239,263	1,077,895
Economic Development	(607)	607	-	-
Paratransit	-	254,280	311,343	(57,063)
Measure M	-	424,333	-	424,333
CC Housing Authority	44,645,289	417,081	1,351,518	43,710,852

Gas Tax Fund is used to account for state gasoline taxes received by the City. These funds may be used for street maintenance, right-of-way acquisition and street construction.

Proposition A Local Return Fund is used to account for Proposition A funds received from the state. Proposition A funds are voter approved local sales taxes for transportation-related activities. Proposition A, approved by voters in 1980, is a one-half of one percent (0.5%) tax on retail sales in Los Angeles County. The collection of this tax is administered by the County, which returns twenty five percent (25%) of the collections to cities within the County. The balance of Proposition A tax funds are used for rail development (35%) and discretionary purposes (40%). Almost the entire discretionary portion is used to fund bus service provided by Metro and 16 other municipal bus

operators within the County, including Culver City Municipal Bus Lines.

Proposition C Local Return Fund is used to account for Proposition C funds received from the state. Proposition C, approved by voters in 1990, is an additional one-half percent (0.5%) tax on retail sales in Los Angeles County. Proposition C funds are allocated to the construction and operation of the bus transit and rail system (40%), expansion of rail and bus security (5%), construction of commuter rail transit centers, park and ride lots, and freeway bus stops (10%), and other transit related improvements to freeways and state highways (25%). Each year, more than \$1 billion dollars is generated in local transportation revenue.

Measure R Fund is used to account for Measure R funds. Measure R is a one-half cent (0.5%) sales tax approved by Los Angeles County voters in November 2008 and is to be used to fund new transportation projects and programs. The Transportation and Public Works departments utilize the majority of this funding.

Operating Grants Fund is used to account for operating grant funds resulting from the City's federal, state and local operating grants, and the qualified expenditures of these restricted funds.

Section 8 Housing Fund is used to account for assistance provided by the Federal government dedicated to sponsoring subsidized housing for low-income families and individuals. The Housing Division in the Community Development Department is responsible for managing and administering Culver City's Section 8 Housing Choice Voucher Program (HCVP) to provide rental subsidies for qualified low-income households.

Art in Public Places Fund is used to account for the "Art in Public Places" program. The revenues for this Fund come from developer in-lieu fees.

Community Development Fund is used to account for funds received from new development impact fees collected on non-residential construction in excess of 5,000 square feet. These fees may only be used to fund street improvements, traffic controls and traffic management projects.

CDBG Fund is used to account for Community Development Block Grant (CDBG) funds, and the qualified expenditures of these restricted funds for administrative expenditures such as personnel costs.

Landscape Maintenance Fund is used to account for benefit assessment district funds received from homeowners for special landscaping services of certain properties within the City.

Park Facilities Fund is used to account for funds received from development impact fees assessed on subdivision/residential development. These fees may be used for the improvement and expansion of public parks and park facilities throughout the City.

Asset Seizure Fund is used to account for funds received from federal and local seized and forfeited properties. Such funds may be used for the detection and prevention of criminal activity, and the apprehension of criminals through Drug Abuse Resistance Education (D.A.R.E.), and other law enforcement programs.

Parking Authority Fund is used to account for the operations of the Culver City Parking Authority, which currently includes the Cardiff Parking Structure. These funds may be used for parking related

operations and infrastructure improvements.

Safe/Clean Water Protection is used to account for all activities associated with the mitigation and clean-up of urban water runoff.

Capital Grant Fund is used to account for grants that involve the purchase of capital equipment items that do not require construction or otherwise fall under what would be considered a capital project.

Building Surcharge Fund is used to account for funds received from a four percent (4%) surcharge on certain development related permit fees. The surcharge is used by the City to fund digital imaging and storage of plans and documents, and technology improvements and maintenance to enhance customer service.

Economic Development Fund was previously used to account for revenue and resources provided for economic development related programs and activities as part of a cooperation agreement between the City and former Culver City Redevelopment Agency. This fund is being closed out in FY 2017/18.

Paratransit Fund is used to account for the portion of sales tax to be used to transport seniors and people with disabilities. Prior to FY 2017-18, financial transactions for this Fund were recorded under Operating Grants Fund.

Measure M Fund is used to account for Measure M funds. Measure M is a one-half cent (0.5%) sales tax approved by Los Angeles County voters in November 2016 and is to be used to fund new transportation projects and programs. The Transportation and Public Works departments utilize the majority of this funding.

Housing Authority Fund is used to account for the assets and liabilities of the Low/Moderate Income Housing Fund of the dissolved Culver City Redevelopment Agency. These funds may be used only for qualified low/moderate income housing projects and programs.

CAPITAL PROJECTS FUND SUMMARY

The table below represents the summary financial activity for the City's capital projects funds for FY 2017-18. Descriptions of each fund are included below the table.

Funds	Beginning Fund Balance	Revenues & Transfers in	Expenditures & Transfers Out	Ending Fund Balance
2002 Cooperative	14,143,237	-	14,143,237	-
2004 Cooperative	2,807,000	-	2,807,000	-
2011 Cooperative	(803,702)	803,702	-	-
2011 Bond	4,776,708	-	4,776,708	-
Cooperative Projects	6,771,607	23,705,604	16,709,610	13,767,601
1993 Tax Exempt Bond	1,734,235	-	1,734,235	-
Capital Improvement Grants	(3,067,142)	4,023,255	2,258,205	(1,302,092)
Capital Improvement & Acquisition	6,508,756	6,466,245	5,456,607	7,518,394
CDBG Capital	-	144,324	154,773	(10,449)

The 2002 Cooperative Fund, 2004 Cooperative Fund, 2011 Cooperative Fund, 2011 Bond Fund, and 1993 Tax Exempt Bonds Fund are all related to agreements between the City and the former CCRA to spend remaining bond proceeds on eligible projects. These funds were all combined into a single fund in FY 2017/18 to simplify the accounting and reporting.

Cooperative Projects Fund is used to account for former Redevelopment Agency unrestricted tax increment funds. These assets (primarily land held for resale) were transferred to the City under the 2011 Cooperation and Implementation Agreement (Agreement) and may only be used for qualified capital projects identified in the Agreement.

Capital Improvement Grants Fund is used to account for grant funds awarded to the City by federal, state and local grant agencies for capital improvements, and the qualified expenditure of these restricted funds. Due to reimbursement timing issues, this fund can carry a negative fund balance.

Capital Improvement and Acquisition Fund is used to account for capital projects that are not otherwise funded by a special revenue fund or other specifically identified by the source of funding. Project funding is mainly from general revenues allocated by action of the City Council.

CDBG Capital is used to account for Community Development Block Grant (CDBG) funds, and the qualified expenditures of these restricted funds for capital improvement projects.

GENERAL FUND

General Fund Overview

Fiscal Year 2017-18 continued to experience a noticeable recovery in the overall economy, as well as the local economy. Total revenues for the year were \$128.9 million, which was \$6.7 million, or 105.5% of the amount budgeted. The increase consists of \$6.1 million in operational revenues performing better than expected in categories such as Property Tax, Real Property Transfer Tax, Commercial/Industrial Development Tax, Licenses and Permits, and Charges for Services. Fiscal Year 2017-18 expenditures totaled \$125.1 million, and despite the \$10.0 million transfer included for the establishment of a tax-exempt Section 115 Trust to address the unfunded pension liabilities owed to CalPERS, it ended the year \$7.9 million less than budgeted. Community Development and Police were attributable for \$4.5 million of this variance, ending the year respectively at \$2.9 million and \$1.6 million under budget. A significant portion of this savings was for approved one-time enhancements for contract services that will be carried over for use in the current year. Overall, the variance between ending revenue and expenditures for the year was \$3.8 million. The use of surplus generated during Fiscal Year 2017-18 will be discussed further in this report.

Revenue Detail

Overall, General Fund revenues were \$128.9 million, or 5.5% higher than the budgeted estimates.

GENERAL FUND REVENUES					
	2016-17 ACTUALS	2017-18 ADJUSTED BUDGET	2017-18 ACTUALS	% RECEIVED	BUDGET VARIANCE
Property Tax	8,103,563	8,818,623	9,447,323	107.1%	628,700
Sales Tax	20,229,791	21,279,197	21,023,821	98.8%	(255,376)
Measure Y	9,343,596	9,679,000	9,696,444	100.2%	17,444
Public Safety Sales Tax (PSAF)	424,108	425,000	442,080	104.0%	17,080
Business Tax	13,373,055	13,300,000	13,168,013	99.0%	(131,987)
Franchise Tax	1,408,686	1,424,000	1,439,743	101.1%	15,743
Real Prop Trans Tax	2,907,756	2,900,000	4,343,548	149.8%	1,443,548
UUT - Electricity	6,113,707	6,400,000	6,290,487	98.3%	(109,513)
UUT - Gas	1,042,718	1,027,000	998,872	97.3%	(28,128)
UUT - Water	1,420,660	1,400,000	1,527,883	109.1%	127,883
UUT - Telecommunications	4,622,627	4,276,000	4,253,201	99.5%	(22,799)
UUT - Cable TV	904,791	878,000	900,332	102.5%	22,332
TOT	7,566,579	7,750,000	7,903,787	102.0%	153,787
Comm/Ind Dev Tax	631,600	900,000	1,731,434	192.4%	831,434
Licenses & Permits	3,960,642	5,318,000	6,279,281	118.1%	961,281
Intergovernmental	4,546,854	4,855,168	5,124,827	105.6%	269,659
Charges for Services	10,935,773	11,204,985	13,406,599	119.6%	2,201,614
Fines & Forfeitures	5,080,610	5,064,550	5,823,281	115.0%	758,731
Use of Money & Prop	692,450	787,000	757,653	96.3%	(29,347)
Cost Allocation Rec	4,571,731	4,569,306	4,569,296	100.0%	(10)
Other Revenue	410,895	716,519	592,742	82.7%	(123,777)
Other - Transfers	2,180,000	9,185,650	9,185,650	100.0%	-
TOTAL GENERAL FUND	\$110,472,193	\$122,157,998	\$128,906,296	105.5%	\$6,748,299

- Property Tax receipts finished the year higher than budgeted by 7.1% or \$0.6 million. Improved assessed valuations and additional one-time pass-through payments of incremental property taxes generated by the former redevelopment agency were largely attributable for the higher than anticipated revenues for the year.
- Real Property Transfer Tax came in higher than estimated by 49.8% or \$1.4 million. This revenue source is dependent on real estate sales transactions occurring, and can vary wildly from year to year making it difficult to estimate. The sale of a significant commercial property can greatly inflate the amount received in a particular year. Most of this revenue is considered 'one-time' for forecasting purposes.
- Commercial/Industrial Development Tax is another revenue that is very hard to predict, and varies significantly from year to year. It is completely dependent upon new commercial development activity. The amount realized in FY 2017-18 was 92.4% higher than budgeted, with ending receipts at \$1.7 million.
- Licenses & permits are fees collected for recovering the cost of regulating various activities. The \$1.0 million increase in revenue was attributed to street, building, electrical, plumbing and heating permits issued.

- Charges for Services were 19.6% or \$2.2 million higher than budgeted. This category consists of a variety of charges administered by virtually all City departments, with the most significant increases in development/building, film permits/ambulance fees, and PRCS related charges.

Expenditure Detail

Total General Fund expenditures were \$125.1 million, or 94.1% of revised appropriations. The significant increase in Personnel Costs as illustrated below is due to an establishment of a tax-exempt \$10.0 million transfer made to Section 115 trust to address the unfunded pension liabilities owed to CalPERS. Transfers out to other funds for capital projects for FY 2017-18 were 10.2% less than the adjusted budgeted. Ignoring transfers out, the operational expenditures ended \$7.3 million less than anticipated, primarily due to a number of projects underway with contractual service obligations that were delayed into the current year.

GENERAL FUND EXPENDITURES					
	2016-17 ACTUALS	2017-18 ADJUSTED BUDGET	2017-18 ACTUALS	% EXPENDED	BUDGET VARIANCE
Personnel Costs	84,366,656	97,833,481	95,487,459	97.6%	2,346,022
Operating O&M	19,282,268	31,238,596	24,270,365	77.7%	6,968,230
Capital	689,051	942,479	571,577	60.6%	370,902
Assumed Vacancy and O&M Savings	0	(2,364,760)	0	0.0%	2,364,760
Transfers	5,556,608	5,326,780	4,784,999	89.8%	541,782
TOTAL GENERAL FUND	\$109,894,583	\$132,976,576	\$125,114,399	94.1%	\$7,862,176

GENERAL FUND EXPENDITURES					
	2016-17 ACTUALS	2017-18 ADJUSTED BUDGET	2017-18 ACTUALS	% EXPENDED	BUDGET VARIANCE
Administration	1,562,820	1,569,447	1,564,810	99.7%	4,637
City Clerk	450,195	29,965	0	0.0%	29,965
City Attorney	2,387,745	2,505,471	2,409,822	96.2%	95,649
Finance	5,126,547	5,252,937	5,124,622	97.6%	128,315
Human Resources	1,272,636	2,376,958	2,245,845	94.5%	131,113
Information Technology	3,864,996	4,848,501	4,204,850	86.7%	643,651
Parks, Recreation & Community Svcs.	7,938,211	9,206,884	8,625,511	93.7%	581,374
Police	37,345,615	41,106,605	39,538,514	96.2%	1,568,091
Fire	22,633,094	24,452,825	23,287,918	95.2%	1,164,907
Community Development	7,491,868	11,252,431	8,326,059	74.0%	2,926,372
Public Works	10,785,437	13,080,753	11,618,847	88.8%	1,461,906
Non-Departmental	3,421,052	12,407,748	13,321,954	107.4%	(914,206)
Transfers	5,556,608	4,825,402	4,784,999	99.2%	40,403.31
Retiree Health Pre-funding	57,760	60,648	60,648	100.0%	-
TOTAL GENERAL FUND	\$109,894,583	\$132,976,576	\$125,114,399	94.1%	\$7,862,177

As is common, position vacancies during the course of the year create savings versus the budget. There is a lag time between when positions become vacant and when a recruitment process is completed and a new individual put in place. To the extent no vacancies occur during a particular

year, the full budget appropriation authority would be required, and therefore such annual savings are considered one-time, or non-recurring.

There were several expenditures items that were beyond or significantly less than revised appropriations of special note:

- Personnel costs typically account for approximately 80% of the General Fund budget. Actual expenses for the fiscal year were \$95.5 million, or 97.6% of the budget.
- Retirement contribution rates to CalPERS resulted in a total spend of \$15.2 million, which was 95.3% of revised appropriations for the year.
- OPEB Prefunding for Retiree Medical expenses totaled \$4.2 million for the year, at 100% of the revised appropriations.
- Total transfers out totaled \$4.9 million from General Fund, with \$4.7 million to Capital Improvements & Acquisitions Fund 420 and \$0.85 million Safe/Clean Water Protection Fund 434 for necessary infrastructure projects.

CONCLUSION

Culver City finished FY 2017-18 with positive financial results. In the General Fund, total revenues exceeded expenditures by \$3.8 million. Pursuant to the updated financial policies adopted by the City Council in FY 2013-14, thirty percent (30%) of the adopted operating budget for the General Fund is to be reserved for future contingencies/emergencies. Accordingly, \$34.8 million has been committed to this purpose. The financial policies also call for forty percent (40%) of any surplus between revenues and expenditures after meeting the future contingencies requirement to be set aside in a Facilities Planning Reserve, for the future replacement or improvements of City facilities. Lastly, the updated financial policies call for ten percent (10%) of specific parks and recreation revenues to be set aside for the improvement of recreational facilities. Use of any of these reserves requires specific City Council action. Beyond these required reserves, there were \$22.1 million in remaining unassigned General Fund reserves as of June 30, 2018. Ultimate use of these funds remains uncertain. However, the City Manager will be presenting some options to the City Council as budget discussions for FY 2019-20 commence.

Even with the improving financial condition of the City, the General Fund Financial Forecast shows we must continue to remain vigilant about controlling costs due to the known significant increases in pension costs that are phasing in over the next five years. The updated forecast shows the City likely moving into a fairly substantial deficit situation as a result of increasing pension and other costs outpacing revenue growth. Measure Y is set to sunset in 2023 unless extended by the voters. Barring dramatic changes to current revenue projections, which staff does not foresee being the case, loss of Measure Y would result in the General Fund being in a catastrophic deficit situation. The forecast is assuming the removal of the sunset clause for Measure Y. Additionally, CalPERS adopted reductions to the assumed investment returns rate, which will increase employer contribution rates further. The General Fund Financial Forecast will be updated and discussed in much more detail during the FY 2018-19 Mid-Year Budget Report, as well as during the development of the FY 2019-20 budget.