MEETING DATE: January 28, 2008

AGENDA ITEM : Presentation and Discussion of an Update of the Comprehensive Financial Master Plan.

ATTACHMENTS

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CITY OF CULVER CITY

The HEART of SCREENLAND

INCORPORATED 1917

Culver CITY

Comprehensive Financial Plan

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE

INTRODUCTION

PURPOSE

The purpose of this Updated Comprehensive Financial Plan is to provide a continuing perspective on the financial condition of each of the City's major appropriated funds. It is intended to be a planning tool to aid on-going capital and operating budget decision-making by providing insight into the long-term implications of today's policy choices and budgetary decisions.

Information contained in this updated financial plan includes items that were added and approved during the fiscal 2007-08 and 2008-09 budget process, and also other City Council approved programs and projects outside of the budget process.

INTRODUCTION/ABOUT THE CITY

The City of Culver City was incorporated in 1917, operates under a charter modified by voters in 2006, and has a City Council/City Manager form of government. The five-member City Council is elected at-large. The City is located on the Westside of Los Angeles County, generally situated north of LAX, southeast of Santa Monica, south of Beverly Hills and southwest of West Hollywood. The City is five (5) square miles with a residential population slightly over 40,790, and a daytime population of approximately 60,000. Culver City is a full-service city with its own Police Department, Fire Department, Municipal Bus Line, and Public Works Department, which includes a Sanitation Division. The City has approximately 694 full-time employees.

The population of Culver City is broken down as follows: White (59%), African American (12%), Asian (12%), Other (11%), and persons reporting two or more races (6%); approximately 24% of the population reports being of Hispanic or Latino origin[1]. The median age of a Culver City resident is 38 years old; with 43% of the population over age 45; 30% age 25-44; and 27% under the age of 24. The median household income is $60,000, compared to a median household income of $41,500 for Los Angeles County. Approximately 72% of Culver City residents have had at least some college education, with 17% holding a graduate degree.[2]

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[1] Hispanics may be of any race, so they are also included in applicable race categories.
[2] All information contained in this, and the previous paragraph is from the U.S. Census Bureau: 2000 Census Data.

Culver City has a strong economic base, with approximately 25% of the City being zoned for commercial/industrial use. Culver City prides itself on being the "Heart of Screenland," with the film industry being an important part of Culver City's identity; however, there is also a strong presence in the department store, auto dealership, business/industrial, and restaurant industries. Some large commercial businesses located in the City include Sony Pictures Studios, Costco, Best Buy and Target.

The City's total Adopted Budget for 2007-08 is approximately $134 million (excluding internal service funds), with a General Fund budget of approximately $81 million. Public Safety expenditures account for approximately 54% of the General Fund budget.

BACKGROUND

The financial environment that municipal governments operate in has changed drastically over the last several years. Federal and state funding has decreased while unfunded mandates have increased, forcing cities to become more financially independent. State legislation and voter-initiated propositions (e.g. Prop 13, Prop 218) have restricted the way cities raise revenues and levy taxes, forcing cities to become more financially responsible by increasing efficiency and cost effectiveness. Changes to financial reporting requirements by the Government Accounting Standards Board (GASB) have increased financial transparency[3], forcing cities to be more financially accountable. As a result, cities have had to make the tough decision of reducing certain programs/services, contracting out their services, or finding other financing mechanisms to maintain their finances in order to continue to provide the same level of service to their residents.

In addition, a string of devastating natural disasters over the past few years (i.e. hurricanes and tsunamis), recent devastating wildfires in California caused both by nature and by human activity, and ever increasing threats to national security has taught cities they will need to be prepared to deal with emergencies without relying heavily on state and/or federal aid.

Double digit percentage increases in personnel costs, such as medical insurance premiums, pension costs, retiree medical benefits, and workers' compensation costs, continue to severely limit the availability of financial resources for the City's day-to-day operations, including maintenance, capital projects, and unfunded future liabilities.

This document discusses the current economic environment the City is operating in and identifies the revenue constraints and basic operational expenses that must be met. It discusses potential positive and negative impacts facing the City, and how the City might be affected should they be realized.

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[3] For example: GASB 34 required cities to track and report fixed assets and GASB 45 will require cities to report retiree medical benefits as a liability.

ECONOMIC OVERVIEW 2007

BACKGROUND OVER THE LAST YEAR

The United States economy had several ups and downs during 2007. We saw the Dow Jones Industrial Average break the 14,000 mark for the first time in history; then plunge into the high 12,000's just a short time later. The Federal Reserve cut rates by 0.25% in December 2007, in hopes it would boost consumer confidence. A rate cut is not expected to be enough to offset the ongoing housing slump, but it will hopefully ease the impact on consumer spending, which accounts for approximately 70% of economic activity. There is talk the Federal Reserve may again look at reducing the rate in the near future.

To compound the impact of a slumping housing market, the Federal Reserve has also been continually concerned with inflationary pressures. For the twelve months ended November 30, 2007, the Consumer Price Index for all urban consumers (CPI-U) increased 4.3%. As a point of reference, the last time CPI-U exceeded 4% on a year over year basis (i.e. December to December) was in 1990 when it was 4.2%. Please note that 1990 was the year prior to a recessionary business cycle[4]. The Los Angeles area (LA-Riverside-OC) CPI-U rose by 0.6% in November, following a 0.5% increase in October. The overall LA area index is 4.2% higher than a year ago.

December 2007 marked the 52nd consecutive month of job growth in the US, but the national unemployment rate rose from 4.7% in November to 5.0% in December. As of November 2007, the Los Angeles area rate was 5.2% and the California unemployment rate was 5.6%. These rates are slightly higher than a year ago, but employment numbers continue to hold steady in California and hopefully will do so through this next year. The national unemployment rate is causing greater concerns on the economic front, though, and some economists are starting to lean more towards signs of a recession than just a few months ago.

OUTLOOK

The consensus among most forecasters is that the national and state economies will experience very little growth during the next year, if any. A number of factors are placing significant pressure on the economy, most notably: 1) fluctuating oil prices, 2) a major slowing of sales in the housing market, 3) Writers' Guild strike, and 4) projected $14+ billion shortfall in California state budget for fiscal 2008-09..

Oil prices have continued to fluctuate over the past few years consistently edging higher and higher, which drives up the cost of goods (most notably consumable goods) and services, to consumers by increasing the cost of production and delivery. Recently worldwide there have also been several oil-spill accidents that have contributed, though slightly, to the oil situation.

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[4] Source: U.S. Department of Labor, Bureau of Labor Statistics

The recent "mortgage crisis," which prompted a sharp increase in property foreclosures, has further hurt an already slowing housing market. Many industry experts are unsure of the length or magnitude of the mortgage problem; however, it has significantly impacted the banking industry as many mortgage companies have filed for bankruptcy or have been involved in a number of large consolidations (e.g. Bank of America's acquisition of Countrywide Home Loans). Additionally, most economists agree that the mortgage crisis has impacted economies and stock markets worldwide.

Just recently a deal was announced by the Bush Administration that would assist approximately 1.2 million homeowners nationwide whose rates are coming due for adjustment to freeze their mortgage rates, thus heading off potential foreclosure or bankruptcy. There is much controversy surrounding this deal, and it is unclear how much of an effect it would have on the economy and affected homeowners in the long-run.

The current Writers' Guild strike, which began November 5, 2007, could potentially have a significant negative impact on Culver City and the surrounding Los Angeles area economy. Culver City has two major studios, Sony Studios and The Culver Studios, both of which are major economic entities within the city. The last Writers' Guild strike in 1988, which lasted 22 weeks, was estimated to have cost the Los Angeles area economy approximately $500 million in lost revenue. Presently, the entertainment industry contributes an estimated $30 billion a year to the Los Angeles economy, or about $80 million a day. Forecasters have estimated a strike today lasting as long as the one 20 years ago could cost approximately $1 billion in lost revenues to the area.

A continued walkout does not affect only the writers. It also affects thousands of other workers, from crew members and actors to talent agents and studio office employees. Current reports suggest that most all scripted TV shows are expected to stop production in mid-December, causing the loss of approximately 15,000 jobs and costing the Los Angeles economy about $21 million a day in direct production spending.

The most visible sign of the strike for Culver City has been the less crowded restaurants in downtown during the daytime hours. However, the most significant impact will be a slowdown of business-to-business sales activity as production of new movie and television episodes ceases. Business to business sales activity is a significant source of sales tax and business tax revenues. Since major production has only recently started to die down, it is unknown at this time to what degree the strike has had on the City's revenues. Staff will continue to follow this issue closely as data becomes available.

In mid-December articles began to appear regarding the State facing a $14 billion budget deficit and the Governor's plans to declare a "fiscal emergency." Some of the factors contributing to this shortfall include:

- A revised – and lower – current-year revenue forecast, driven in part by the continuing slump in the housing sector and the ongoing effects of the subprime mortgage collapse.
- Increased firefighting costs related to this fall's wildfires in Southern California.
- Legal challenges that have delayed implementation of Indian gaming compacts.
- Lower estimated local property tax revenues, which affect the state's share of K-14 school funding.
- An appellate court decision in a lawsuit over teachers' retirement funding.

In the State of the State address by the Governor, the Governor revealed his plans to close the gap (the $14 billion represents approximately 12% of the State's General Fund) primarily through cuts to State programs in his proposed 2008-09 budget. There was immediate Democratic reaction against the proposed budget. Although the Governor's proposed budget does not currently include diverting local government revenues or transportation monies, these items may be placed on the table as further budget discussions ensue between the parties. Proposition 1A, which was passed in 2004, does provide more protections to local governments than in the past, but the Governor has already declared a "fiscal emergency" and with a two-thirds vote of the State Legislature the State can divert funds from local governments twice in any ten year period with certain other conditions. Propositions 1A protections do not extend to Redevelopment Agencies, which means that the Redevelopment Agency may once again be looking at diversions of tax increment.

Depending on how these and other factors play out over the coming months, consumer confidence could be negatively affected. Rising energy and raw material costs and the increased cost to borrow money reduces a consumer's disposable income. As consumers' disposable income subsides and they begin to lose confidence in the economy, they tend to save their money rather than spend it. The City's single largest source of revenue (i.e. sales tax) is highly dependent on consumer confidence and consumer spending.

In addition to the negative impact on the economy, consumer confidence and consumer's overall wealth, the housing slowdown also impacts property values, which in turn impacts the property tax revenues of the City and, to a greater extent, the Redevelopment Agency. Declining housing property values also impacts residents' overall wealth. A reduction in wealth may encourage consumers to save rather than spend and cause residents to become averse to paying additional taxes, which may be needed to maintain service levels.

To date, the West Los Angeles and Culver City areas have been relatively stable and have not seen the sharp decline in housing prices that other areas have experienced (e.g. Riverside and San Bernardino counties). However, a prolonged slowdown in the housing market may put significant downward pressure on Culver City property values in the future.

Community investment has been one of the main reasons that the City has been able to weather the storm. A number of high profile projects initiated by the Redevelopment Agency, including the downtown construction of Pacific Theatres and the Cardiff, Ince, and Watseka parking structures, as well as the renovation of Kirk Douglas Theatre have helped to attract people and businesses to Culver City.

The recent approval of the renovation and expansion of the Westfield Shopping Center located in the Fox Hills area is anticipated to assist Culver City in bringing in increased revenues in future years. There are plans to add an additional 167,000 sq. ft. to the existing mall, which includes additional retail and restaurant areas. Currently there are also plans for a Target store to move into the old Robinson's May location of the mall, and the anticipated opening of this store is for October 2009. Final renovations and expansion of the entire mall are projected to be complete in fiscal 2010-11.

Future projects, such as downtown Parcel B and development associated with the Washington/National specific plan area centered around the proposed METRO EXPO Light Rail Station, will ensure that Culver City remains a hot spot on the West side. The realignment of Washington Boulevard from Culver Boulevard at Main Street to Ince is expected to be completed in April 2008. This project will create an area for a plaza, and allow for further development of retail shops, which is expected to commence in the near future.

Another major project funded partially by the Redevelopment Agency is the new Fire Station #3 being constructed in the Fox Hills area. The current Fire Station #3 on Segrell Way is too small to maintain current and future needs. The new station will consist of two-stories and be 12,216 sq. ft. for Fire Department staff dormitories, offices, ancillary uses, and apparatus room. Construction began in September 2007, with completion scheduled to be in July 2008. An additional $1,527,000 was approved by the City Council in June 2007 to fund increased construction costs for this project. Further discussion is included later in this report.

All of these investments in the community have paid off, and are expected to continue to pay off, by keeping Culver City's revenues strong, especially sales, property, and business license taxes.

REVIEW AND UPDATE OF THE CITY'S FINANCIAL POLICY

Culver City's current financial policy, Council Policy Statement Number 5002, was first adopted in 1995. The purpose, as stated in the policy, is to establish long- and short-range financial policies for the City. The guidelines contained in this policy had not been reviewed in a number of years, and staff recommended the policy be updated and expanded to cover a wider range of policies and procedures. The updated policy was subsequently adopted by City Council in July 2007. This will improve the City's fiscal stability by helping City officials make financial decisions and plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can lead to improvement in bond ratings, a lower cost of capital, and a minimum of unexpected impacts upon taxpayers and users of public services.

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE
for the
GENERAL FUND

INTRODUCTION

The General Fund is the largest fund of the City. It is used to finance most of the basic municipal functions including general administration, police, fire, community development and parks, recreation and community services. The General Fund is used to account for resources traditionally associated with government, which are not required to be accounted for in another fund including property taxes, sales taxes, business taxes, utility taxes, transient occupancy taxes, licenses and permits, and fines and forfeits.

Departments within the General Fund are categorized as either General Administration Departments or Operating Departments. Departments within General Administration include: City Manager's Office, which includes Budget & Finance and Human Resources; City Clerk; City Attorney; City Treasurer; Information Technology; and Non-Departmental. Operating Departments are: Parks, Recreation, and Community Services; Police; Fire; Community Development; and Public Works.

Departments and Divisions within the General Fund rely on general taxes, such as sales tax and utility taxes, as well as recouping costs from fees for services, such as plan check fees and meeting room charges.

FISCAL YEAR 2007-08 HIGHLIGHTS

There were a number of enhancements approved during the fiscal 2007-08 budget process, some of which are related to the reorganization of several departments. There were also several on-going and one-time enhancements that were approved to enable departments and divisions to improve the effectiveness and efficiency of service delivery to residents and internal customers (other departments/divisions.) One-time enhancements were approved based on one-time monies from prior fiscal years or known receipts during fiscal 2007-08. Following are some of the major highlights of fiscal 2007-08:

- Citywide Reorganization Plans include:
    - Reducing three positions in the City Manager's Office and reassigning current staff to maximize resources. One Assistant City Manager will assume the duties of the City Clerk after April 2008 when the position will cease being an elected position. The other Assistant City Manager

will assume the duties of the Risk Manager. By consolidating these duties and departments, it will allow the sharing of resources and should realize cost savings for the City.

- Creation of a Finance Department. A newly created Chief Financial Officer position will oversee the functions of City Controller and City Treasurer. The City Treasurer's position will cease as an elected position after April 8, 2008. The consolidation of the Finance Department requires relocating and combining the Budget and Finance staff, and Purchasing administrative staff with the current City Treasurer Department. This will improve efficiency and enhance the financial operations.
- Creation of an Enforcement Services Division. An Enforcement Division was created and placed under the direction of the Community Development Director. This new division consolidates the functions of the existing Code Enforcement and Park Patrol Divisions.
- Creation of a new Division in Public Works Department entitled Environmental Programs and Operations. This division consists of Refuse, Environmental Management, and Sewer Operations. This division consolidates all of the environmental related functions and takes some of the burden from the Engineering Division.
- Reallocation of positions within the Parks, Recreation and Community Services Department so positions with similar functions are working together more closely.

- Miscellaneous general classification positions that were identified in the salary survey as being below market average were brought to within 5% of median, per agreement with the Culver City Employee Association and Culver City Management Group.
- Regular Part-time classifications in Parks, Recreation and Community Services were approved salary increases to bring them more in-line with neighboring cities. This was the first increase for these classifications in several years.
- The City Council approved an actuarial study to identify the OPEB amount associated with the City's future retiree medical benefits.
- Implemented an updated fees and charges schedule, which better reflects the City's true cost of doing business.
- Approved the purchase of several departmental equipment items for Fire and Police, such as:
  - Portable Laser to provide high development in latent fingerprint evidence.
  - Electronic Parking Citation Writers.
  - Digital Photographic Equipment for forensic lab
  - Ninety (90) tasers
  - Holmatro tool set and conversion kits for current inventory
  - Five (5) thermal imagers
  - Twenty (20) fire shelters
- Approved funding for a State Mandated Housing Element Update

PROJECTIONS AND ANALYSIS OF REVENUES AND EXPENDITURES

OVERVIEW

The worksheets for the five-year forecasts of revenues and expenditures are included as attachments to this report. The worksheets include the projected revenues from all of the City's revenue sources and appropriations for all City funds over the next five years. The 2007-08 and 2008-09 information contained in the worksheets includes appropriations adopted and approved by City Council during the last budget process in June 2007. It also includes appropriations approved by City Council outside of the budget process (i.e. capital improvement projects, etc.).

Using the methodology and assumptions described in the following section, staff developed a five-year base projection of revenues and expenditures. Staff has also prepared a number of alternate revenue and expenditure projections based on potential loss of UUT revenue, future economic development/land use policy decisions, and possible service level enhancements.

FORECASTING METHODOLOGY: REVENUES

In order to develop a reasonable five-year forecast of General Fund revenues, it is important to analyze past data to establish a trend over time. Therefore, ten years of actual data (1997-98 through 2006-07) and two years of budgeted data (2007-08 and 2008-09) were collected and analyzed. The average annual growth rate served as the basis for the forecast, with adjustments being made as appropriate to more closely reflect the current state of the economy. This was the same forecasting method used in the first comprehensive financial plan, and was found to be the most accurate and useful.

Using the average annual growth rate methodology produces a somewhat conservative growth rate by smoothing out extraordinary revenue gains and dips. A limitation of this methodology is it does not account for structural changes in revenue generation, such as a new tax being implemented during the time period or a significant change in the economic base. To capture some of the structural changes, staff has adjusted the appropriate revenues up or down accordingly.

Staff also worked with Keyser Marston Associates, a real estate firm, who provided the City with revenue projections based on development projects that were most likely to be developed within the City during the next five years, and also for those that had been completed during fiscal 2006-07. A major outcome of the projections showed that, in most cases, the methodology used by staff to project the revenue for the plan is fairly close to the results provided by the consultant, within a reasonable margin of variance.

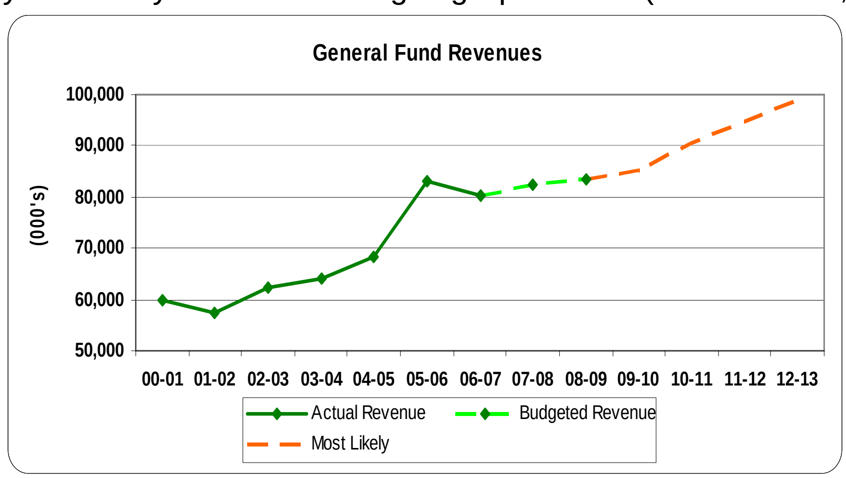
The base revenue projection over the next five years is what staff considers to be "*most likely*" based on current economic conditions. The underlying assumption for the most likely scenario is that the overall economy will remain rather stale for the next couple of fiscal years with a slight downturn factored in for 2009-10. Despite looming economic pressures (i.e. state budget problems, increasing oil prices, slowing housing market, increase foreclosure rate, and increasing interest rates), the most likely scenario assumes that an increase in some revenues (e.g. fees and charges, new development impact fees, etc.) will be sufficient to cover poorer performing revenues. Overall, the most likely scenario assumes General Fund revenues will grow at approximately 4% per year, which is consistent with the average annual growth rate over the last ten years, which has also included downturns in the economy.

In addition to the most likely scenario, staff has included three additional scenarios. One scenario includes the potential loss of a portion of the UUT revenues if the voters do not approve modernizing the UUT ordinance at the April 2008 election. Another scenario includes additional revenues based on land use (i.e. height and density restrictions) policy decisions for different areas and projects in the City, which are the Washington/National site, the Fox Hills area, commercial mixed use corridors, the proposed Entrada development, and Jefferson Blvd development. The last scenario includes an estimated annual required contribution for OPEB related payments, which the City is required to begin reporting in fiscal 2007-08 per GASB Statement No. 45.

BACKGROUND OF FORECAST

Over the past five years, there have been a number of circumstances that have created a somewhat hostile revenue environment for cities. In 2000, the stock market bubble burst; then on September 11, 2001 the World Trade Center in New York was attacked. The sequential timing of these two events had severe economic implications. As was the case across the nation, the resulting economic downturn was a severe hit to the City's General Fund; a hit which took almost two years from which to recover.

Then, just when the General Fund began to recover, the California Legislature decided to divert revenues that many cities rely on to fund on-going operations (i.e. sales tax, property tax, and vehicle license fees) into the State's coffers in an effort to address the State's financial woes. This put an additional strain on the City's resources.



In exchange for the loss of revenue, cities were successful in negotiating a compromise with the California governor to support Proposition 1A, which made it much more difficult for the legislature to divert City revenues in the future. In 2006-07, the take-away of the "ERAF" revenue diversion that was initiated in 2004-05 was restored. For fiscal 2004-05 and 2005-06, the State took approximately $971,000 each year from Culver City.

As a result of voter approval of Proposition 1A in 2004, the revenue forecasts for the next five years assume the state will not take away any more of the City's revenues. However, given the current $14+ billion state deficit projected by the Legislative Analyst's Office for fiscal 2008-09, the threat of state take-aways has resurfaced.

In the State of the State address, the Governor revealed his plans to close the projected gap of $14+ billion primarily through cuts to state programs. The Governor's proposed 2008-09 budget does not currently include diverting local government revenues or transportation funds; however, these items may be placed on the table as further budget discussions with the legislature ensue. Proposition 1A does provide for more protections to local governments than in the past, but the Governor has already declared a "fiscal emergency" and with a two-thirds vote of the legislature, the State can divert local funds twice in any ten year period with certain other conditions.

If the State were to approve and exercise this provision and ultimately take away funds from the City, it is recommended to utilize one-time funds wherever possible in order to lessen the burden on the recurring revenues of the General Fund.

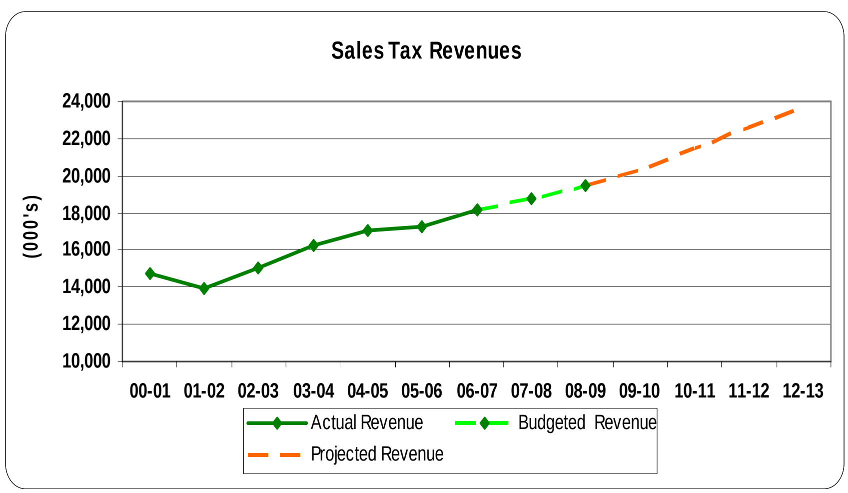
The following section discusses some of the City's major revenues more in-depth and provides information on the assumptions that were made in forecasting those revenues.

DISCUSSION OF SPECIFIC REVENUE PROJECTIONS

Sales Tax

Sales tax is the City's single largest source of revenue, and is approximately 23% of adopted revenues for fiscal 2007-08. Despite moderate economic growth over the last five years, sales tax revenues have remained relatively strong; growing at an average annual rate of approximately 5% since 2000-01. This is a result of the City's investment in the community and the Redevelopment Agency's success in reducing blighted areas within the City, which has helped to attract and retain business and expand the economic base.

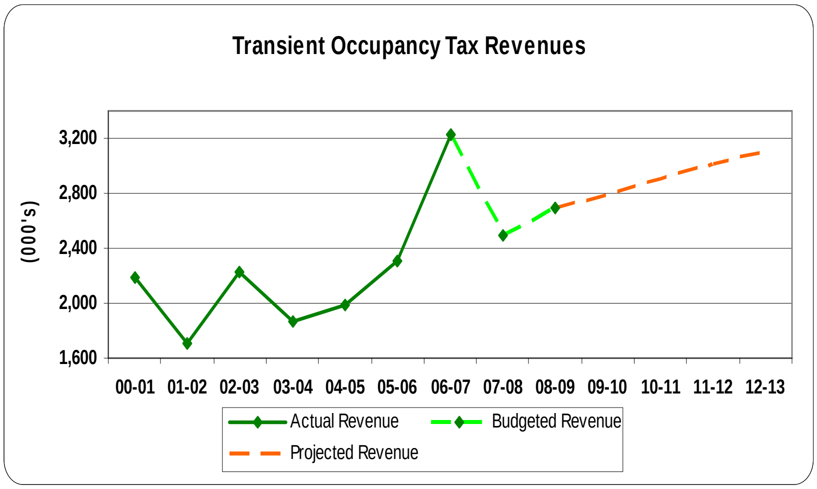
Culver City is fortunate to have a diverse economic base, which includes retail sales outlets, automobile dealerships, restaurants, manufacturing, and the entertainment industry. A diverse economic base is beneficial as it helps to lessen the blow in poor economic conditions.



Based on the City's continued commitment to community investment through redevelopment and economic development activities, sales tax revenues have remained relatively stable over the past few fiscal years. However, sales tax is volatile as it is highly dependent on the economy and consumer confidence. As previously discussed, current economic conditions may have an adverse impact on consumer confidence and disposable income. Consequently, sales tax projections shown in this chart over the next five years are relatively conservative and increase between 4% - 5% per year. During the mid-year review, it will be recommended to decrease the sales tax estimate by $450,000 in fiscal 2007-08 and by $400,000 in fiscal 2008-09. Due to the current Writer's Guild strike and state of the economy, this has been deemed a prudent fiscal decision based on current sales tax revenue receipts to date. Higher than anticipated one-time new development revenues in 2007-08 will assist in filling the gap left by this adjustment.

Transient Occupancy Tax (TOT)

Transient Occupancy tax is levied on occupied hotel/motel rooms and is currently 12% of the room rate. TOT revenues are directly related to the health of the travel industry. Over the last five years, TOT revenues have been highly volatile. There was a 22% drop in TOT revenue between 2000-01 and 2001-02, followed by a 30% increase in revenues the following year, followed by another decline of 16% between 2002-03 and 2003-04. Events such as September 11th or large hotel closures, which have an adverse impact on people's travel habits, also have an adverse impact on TOT revenues.



Since 2002-03, TOT revenues have stabilized somewhat and current hotel renovation projects are expected to continue to generate stable revenues. The spike in revenues in 2006-07 was the result of a payment for back owed taxes due to a bankruptcy settlement. This forecast has assumed moderate TOT growth over the next five years.

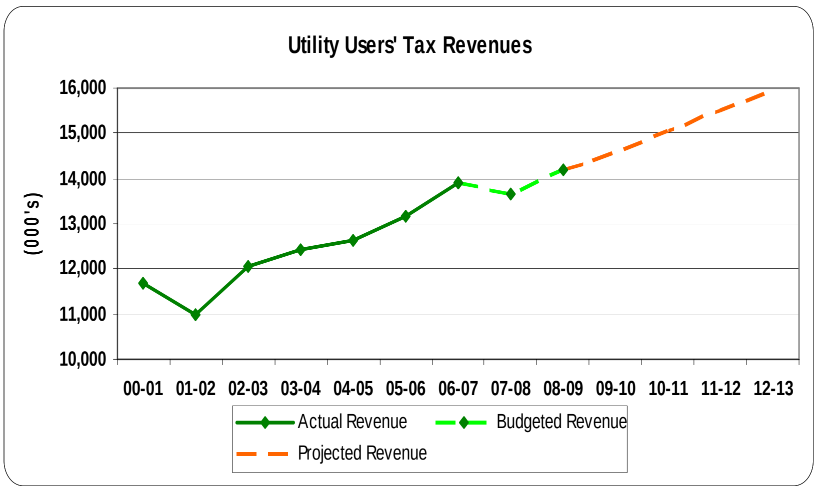
An issue regarding Transient Occupancy Taxes that will be monitored closely by staff in future months deals with the collection of TOT from on-line booking services. A growing portion of hotel bookings are being conducted through on-line booking services[1]. Guests who book such rooms online are charged the local TOT based on the marked-up rate they pay, but the on-line company only remits to the hotelier the discounted wholesale room rate and only the TOT collected on that lower rate. Hotels then pass on

[1] A study done in 2005 estimated approximately 20% of hotel rooms were booked on-line. It is safe to assume this percentage has increased in the last two years.

to the city the TOT they receive from the online booking company, but these amounts are based on the wholesale rate charged to the booking company, not the full rate charged to the room occupant. To date it is unknown how much revenue Culver City may be getting "shortchanged," and staff will closely monitor all activity associated with this issue and take appropriate action to ensure the City receives its fair share of TOT revenues.

It is important to note, though, that even with the above mentioned issue, TOT revenues are expected to continue to remain steady over the next five years.

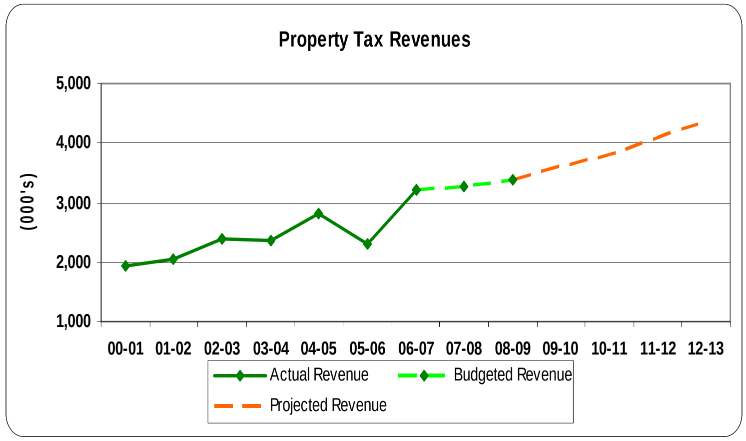
Utility User's Tax
Utility User's Taxes (UUT) are levied on a number of utilities, including electric, gas, water, telephone, and cable. Currently, Culver City's UUT rate is 11% of utility charges. UUT revenues have remained relatively consistent over the last ten years and are dependent on utility rates and consumption. However, there is not necessarily a high positive correlation between utility rates and UUT revenues. Instead, there is a slight negative correlation as higher utility rates often encourage consumers to conserve use.



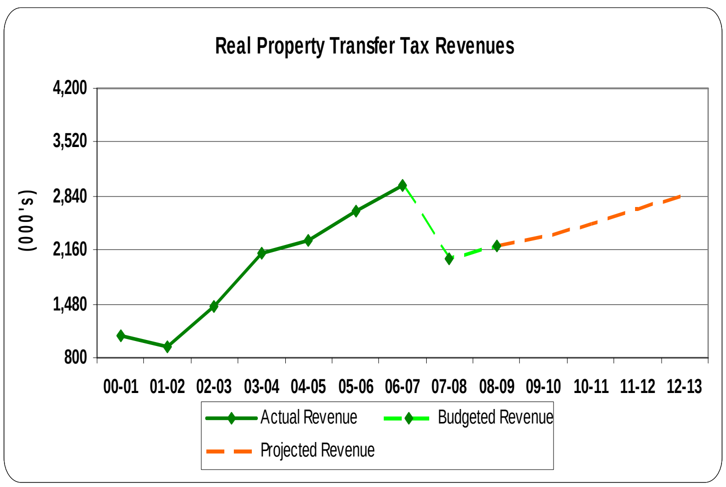
Despite recent increases in some utility rates, it is not expected that the City will realize a corresponding increase in UUT revenues. Further complicating projections of future UUT revenues is the status of the telephone UUT revenues. In May 2006, the IRS discontinued collecting certain telephone utility related taxes, mainly as they apply to cell phones. Since most cities in California with a UUT reference the IRS code to define the tax base, this action by the IRS has jeopardized the collection of certain utility taxes for many California cities, including Culver City. It may take a few years to sort out the legal issues, but there is a potential for loss of a significant portion of the City's UUT revenues. In response, Culver City has placed a measure on the April 2008 ballot for voter consideration to modernize the ordinance pertaining to this item.

Since the outcome of the election cannot be known at this time, the potential loss of this revenue in future years has been factored into one of the scenarios under negative impacts facing the City. In addition, there has been recent increased popularity of solar energy, which also may impact the City's UUT revenue; however, the degree of the impact is still unknown at this time and further research is needed to determine the true effect. The City budgeted funds in fiscal 2007-08 for a photovoltaic preliminary engineering study. This study is in process.

Property Tax and Real Property Transfer Tax

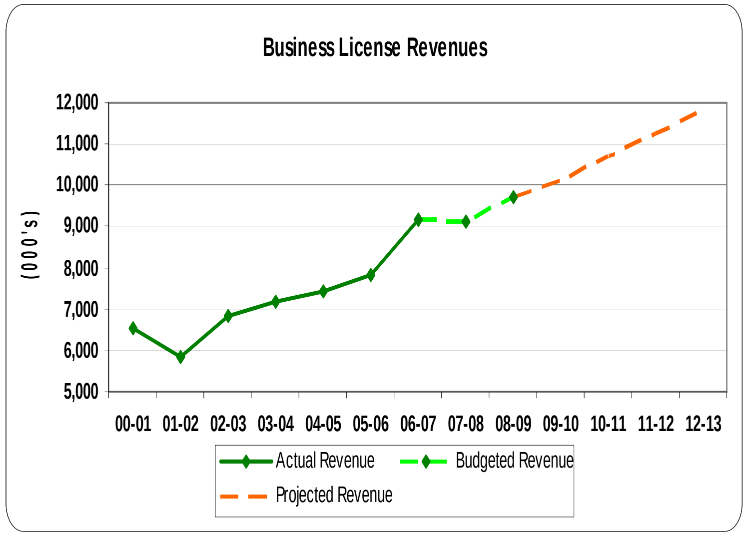


Over the last decade, and especially in the past five years, southern California experienced a population boom. The housing supply has not been able to keep up with the rapid increase in population. As a result, real estate has been at a premium. Prop 13, passed by the voters in 1978, capped the property tax rate at 1% of assessed values and permitted a maximum 2% increase in assessed value annually. As a result, the assessed value of many properties is well below market value. Property values are re-assessed when there is a transfer of ownership.



Culver City's property tax revenue has grown relatively consistently over the past five years, averaging an annual growth rate of approximately 8%. Recently, there has been a significant slowdown in the housing market. As a result, both Property Tax and Real Property Transfer Tax revenues are projected to slow somewhat over the next five years. A "Most-Likely" projection for Property Tax is approximately a 4% growth for 2009-10, and a slight increase to 5% in 2010-11 and 6% in 2011-12. Real Property Transfer Tax revenues are projected to increase 5% in 2009-10, stay steady in 2010-11 and increase to 6% beginning in 2011-12. It is expected that despite the potential of a continued sluggish housing market, current development activities will help to sustain property values in Culver City and the Westside over the next five years, which should help in keeping Property Tax and Real Property Transfer Tax revenues relatively stable.

Business Tax

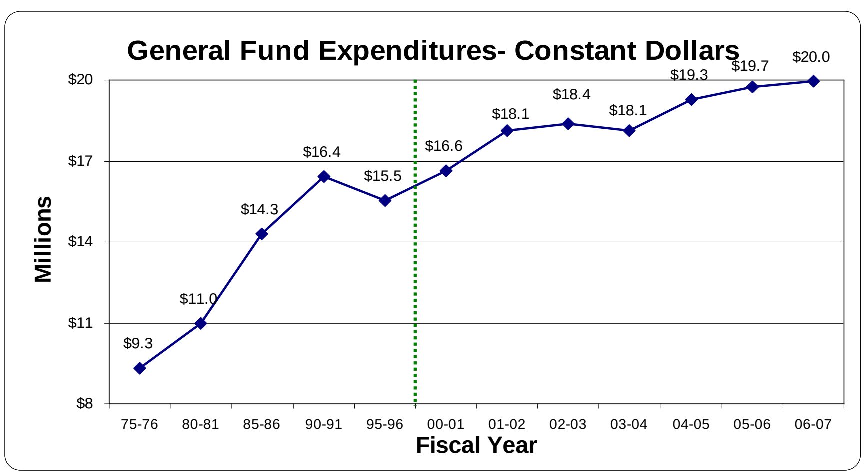


All entities conducting business in Culver City are required to pay a Business Tax annually. This tax has experienced relatively stable growth over the past five years, a testament to the growing economic base in the City. During the 2006-07 budget preparation process, Business Certificate application fees were reviewed. As a result, the City Council approved an increase to the Business Certificate application fees, which had not been increased since the early 1990's. This should generate some additional on-going revenue for the City.

All Other Revenue

All other revenues make up approximately 36% of the General Fund. The most significant of which are Charges for Services. During 2006-07, a comprehensive user fees and charges rate study was performed by an outside consultant. This aided the City in establishing a baseline for all current fees and charges as well as recommended new fees the City considered in order to adequately recoup the cost of providing certain services. This study resulted in the increase of approximately $715,000 in additional revenues to the City, mainly to recoup the cost of services performed.

EXPENDITURES



Culver City has been able to maintain a moderate- to high-level of service to its residents, even during the very difficult fiscal times mentioned previously in this report. Over the last 30+ years, the City has grown both economically and in population, which constantly places pressure on the available resources the City is able to use in order to maintain services that positively contribute to the quality of life for its residents. Above is a chart showing the City's General Fund expenditures in constant dollars going back to 1975. The chart jumps in five-year intervals and then gives actual yearly data from 2000-01 until 2005-06, and preliminary actual data for 2006-07.

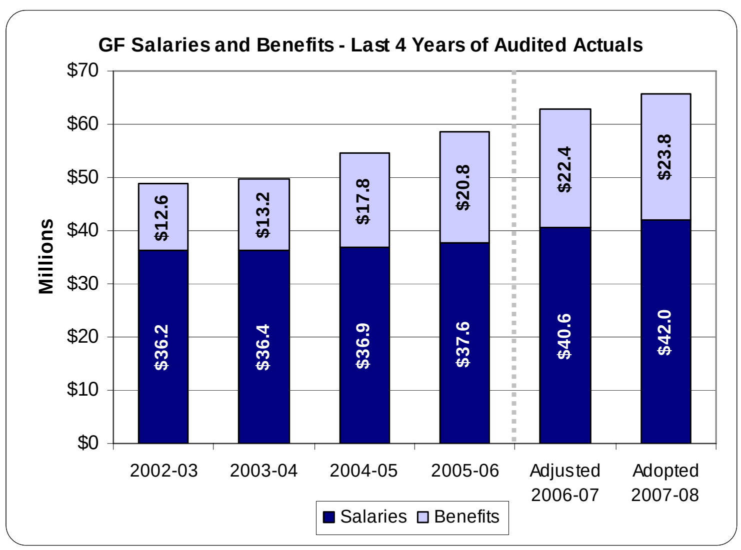
FORECASTING METHODOLOGY: EXPENDITURES

The expenditure forecasts were predicated on the goal of maintaining the present level of City services, along with addressing service level changes and other new projects. For this updated analysis a combination of historical trends, assumptions, and judgments were taken into consideration when forecasting the base-line for expenditure growth for the next five years. The conclusion was to use an average growth rate based on anticipated increases over the next five years. Since personnel costs are the major portion of the City's General Fund expenditures, they were the driving force in calculating the average percentage increase applied to expenditures for this analysis.

There are a few drawbacks in using an average growth rate to calculate expenditures, especially on those tied to economic forces. While some expenses are driven by economic forces, many are based on set increases from year to year, such as cost-of-living adjustments which will be discussed further in the document.

While preparing and analyzing different scenarios and assumptions for the updated Comprehensive Financial Plan, the base expenditure information was kept the same for the different scenarios being discussed in order to have a "constant" for comparison purposes with revenues. This base enables staff to measure the gap between anticipated revenues and expenditures, and impacts, both positive and negative, which have the potential of affecting the City in the near future. The City currently does not have the resources necessary to maintain its existing 30% reserve policy starting in the next few years.

PERSONNEL COSTS



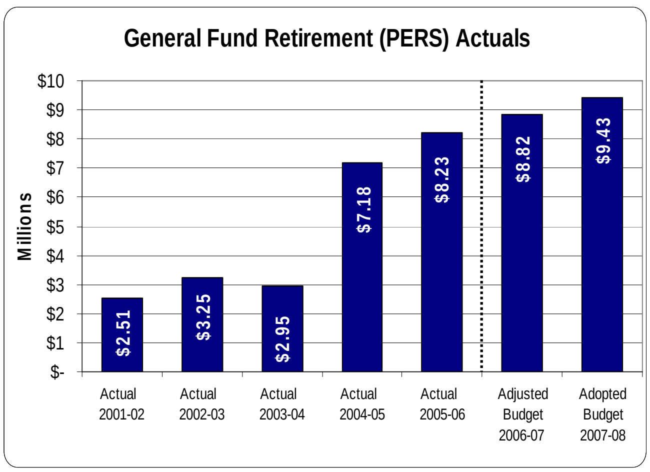
Approximately 80%, or $65.8 million, of the City's Adopted Fiscal 2007-08 General Fund operating budget is attributable to personnel costs. The City currently has Memorandums of Understanding (MOUs) with all six bargaining groups, and will begin negotiations again in 2008 with Fire Safety personnel. During prior negotiations, it was a challenge to forecast with certainty what the overall personnel costs growth would be over the next five years. With the adoption of the most current MOUs, the personnel costs and percentages were incorporated into the Plan through the adopted and approved budgets for 2007-08 and 2008-09 to give the most up-to-date forecast information. This information incorporates salary, retirement, medical, and other negotiated personnel cost increases.

The City has a unique situation with its public safety salary increases based on an initiative that was approved by voters in the 1950's. The Safety Salary Initiative ties Culver City public safety employee salary increases to those of the LAPD and LA County Sherriff's salary increases. As mentioned previously, public safety makes up 54% of the General Fund budget. Cost-of-living adjustments for Public Safety personnel historically have grown at a much faster pace than Miscellaneous personnel. Pension costs are also significantly higher for public safety personnel than for miscellaneous employees.

As can be seen by the graph, benefits have grown at a much faster pace than salary over the last six years. This is mostly attributable to increasing medical costs and escalating pension costs.

PENSION COSTS AND BENEFITS

As was mentioned previously in this document, pension costs have skyrocketed, not only for public entities, but also for private entities. CalPERS had exceptionally good years in the late 1990's, which enabled Culver City to become super-funded. At that time, the City did not contribute to CalPERS and also negotiated increased retirement benefits with all six of its bargaining groups, just like many other cities. When the economy went down, CalPERS costs shot up and left Culver City, and many other cities, scrambling to cover the increased costs. The above graph shows the increased retirement costs over the last six years. In 2006-07, CalPERS adopted a new formula to calculate member contributions using a 15 year smoothing methodology to avoid these huge fluctuations to members in the future.



Medical costs continue to grow at a faster pace than many personnel costs. The City received estimates from CalPERS for the 2008 medical insurance premiums which show them to be approximately 12% higher than 2007 premiums. Culver City also offers medical coverage for its retirees and their beneficiaries. It is evident the City needs to find options/solutions for healthcare cost containment. During the last round of labor negotiations, it was agreed upon by all bargaining groups that employees would begin paying 5% of their medical insurance premiums. Employees who retired after January 1, 2007 also will pay 5%. Retirees who retired prior to this date will still have their full medical insurance premiums paid by the City.

OPERATING AND MAINTENANCE

In order for the City to balance its General Fund operating budget, the City did not include any budgetary percentage increases to Department's operating and maintenance budgets during fiscal 2004-05 through 2006-07. Historically, this increase had been approximately three percent per year, based on an average CPI rate. Not including this increase caused the City to lag in necessary funds to cover its operating and maintenance needs. A three percent increase for operating and maintenance was included in the 2007-08 and 2008-09 budgets. A three and one-half percent increase was incorporated into the projections for the remaining years.

MAJOR ISSUES

Culver City, like many cities in California, has been hit hard with increasing costs that it has little or no control over. These costs include medical insurance premiums, pension costs, and worker's compensation. In addition to these ever-increasing costs, the City is also facing major deferred maintenance and unfunded liability issues. In 2005, the City had a $24 million unfunded pension liability. PERS has initiated "smoothing" techniques that will enable the City to stabilize the annual pension payment and avoid the peaks and valleys in pension rates experienced previously; however, our Safety pension plan shows a trend of increasing future unfunded liability due to this "smoothing" methodology. This issue needs to be addressed in the near future.

The City recently received the 2008-09 PERS percentage rates. Miscellaneous contribution rates decreased slightly, and Public Safety rates increased. Overall, though, the aggregate percentage amount is higher than 2007-08. The 2008-09 approved budget includes a slight overall increase in the PERS rate percentage, so this new information did not impact forecasted numbers.

The City needs to create replacement funds that will enable it to meet ongoing needs without sacrificing ongoing funding for current operating expenses. While the City has been very proactive in meeting its upfront needs, it has not set-up a steady revenue source for funding ongoing capital improvement projects, deferred maintenance and growing unfunded liability for items such as future pension and retiree medical costs. In order to start setting aside funds, the City needs to take decisive action. Consequently, sufficient set-aside funding would be available when the obligation payment is due.

In November, the City Council approved a professional services contract with Aon Consulting to conduct an actuarial study to determine the City's outstanding unfunded OPEB retiree liability with regards to GASB 45 reporting. This outstanding amount is estimated to be in the millions of dollars. As a start, the City Council approved setting aside $100,000 in the fiscal 2007-08 budget towards this unfunded liability until a study could be formally conducted.

It should be noted that the approved $100,000 is only a fraction of the amount to fully fund the expected actuary-recommended contribution. A little over one year ago an atuary performed a summary analysis of Culver City data and estimated an annual required contribution figure of $9.8 million. This figure would be inclusive of the current costs paid by the City for retiree medical of approximately $3.4 million, and would therefore result in an additional requirement of $6+ million per year. While GASB 45 does not require funding the liability (it requires only reporting the liability on the City's

financial statements), the difference between the actuarially computed contribution and the actual contribution will be reflected on the City's audited financial statements as a liability, which could affect the City's future credit rating and cost of borrowing.
Once the final results of the actuarial study are received, staff will analyze the findings and work with the appropriate staff members and Council subcommittees to come up with recommendations for full City Council consideration. Staff members from Human Resources, City Manager's Office, Budget & Finance, and City Treasurer's Department have previously attended workshops on GASB 45 and OPEB related issues. Information obtained from these workshops will also be used in correlation with the consultant's findings to determine the most practical and fiscally sound recommendations to present for City Council consideration based on the City's current financial situation.

The City is also facing state mandates for Stormwater cleanup that are expected to cost tens of millions of dollars to implement. The City needs to start making plans now on what funding will be used so that the General Fund is not placed in the situation of paying these ongoing mandated costs.

ADDITIONAL NEEDED RESOURCES

During the preparation of the first Comprehensive Financial Plan, staff met with Departments to identify what resources were needed in order to continue to maintain the current level of service, and what resources would be needed in the near future due to anticipated service level increase or expected needs. During the budget process for fiscal 2007-08 and 2008-09, some of these resources were approved and included in the budget. Approximately $925,000 in on-going (personnel costs) and one-time costs were included in fiscal 2007-08, and approximately $942,000 in fiscal 2008-09.

To rebuild the Self-Insurance Fund fund balance, an additional $500,000 is being allocated among four funds beginning in fiscal 2008-09. The General Fund's portion of this amount is $445,000 (see Self Insurance Fund section of the Comprehensive Financial Plan for a more detailed discussion of the fund's balance). This amount drops to $427,000 in 2009-10 and is anticipated to continue for another five years. This amount is spread among General Fund departments using the same formula currently used to calculate workers compensation and liability reserve charges, and is based on an experience rate. The other funds that are part of the allocation to the rebuilding the Self-Insurance Fund are the Refuse Fund, Sewer Fund, Redevelopment Agency, and City Garage Fund.

DEFERRED MAINTENANCE, UNFUNDED CAPITAL NEEDS

During fiscal 2006-07, two assessment studies were completed that identified the City's annual deferred maintenance needs for building infrastructure and parks. Public Works has a program that is updated on an as-needed basis for street infrastructure maintenance.

- Deferred Maintenance – Building: Per the assessment study on the City's building facilities, the annual amount recommended for deferred maintenance of

the City's building infrastructure is $480,000 beginning in fiscal 2007-08, with an annual inflationary increase of 4%. In fiscal 2007-08, approximately a little over $400,000 was able to be budgeted for building maintenance capital improvement projects. The Unfunded Capital need is approximately $4,015,000.
- Deferred Maintenance – Parks: Per the assessment study of the City's parks, the annual amount recommended for deferred maintenance is $98,000 beginning fiscal 2007-08, with an annual inflationary increase of 4%. The Unfunded Capital Need is $868,000.
- Deferred Maintenance – Streets: Currently the backlog of street repair is approximately $18 million. This is significantly less than it was a few years ago, and much of the success in reducing this backlog has been due to the fact the City has been able to fund street repair with the use of General Fund funds, Gas Tax funds, and Grant funds. The annual deferred maintenance need to maintain this backlog is approximately $2.2 million.

Currently, the City does not have the resources necessary to fund the full amount of the unfunded capital needs or the necessary deferred maintenance needs each fiscal year. The preservation and growth of our revenue base needs to be a major focus in the coming fiscal years so that an appropriate level of funding will be available to address these needs.

	07-08	**08-09**	**09-10**	**10-11**	**11-12**	**12-13**
Deferred Maint.*	$2.78	$2.80	$2.83	$2.85	$2.88	$2.90
Unfunded Capital*	$22.88	→	→	→	→	→
Total*	$25.66	$2.80	$2.83	$2.85	$2.88	$2.90

** Amounts shown in millions.*

SCENARIOS

Following are three scenarios for discussion. The first (Scenario A) takes a business as usual approach, with conservative revenue and expenditure projections. This scenario includes information from the 2007-08 and 2008-09 budget process and other City Council approved items since July 1, 2007. The second (Scenario B) includes the potential loss of cellular and wireless UUT revenues. The third (Scenario C) includes future economic development and land use options. The fourth (Scenario D) includes an estimated contribution if the City were to decide to fully fund retirement benefits as a result of GASB 45.

GENERAL FUND SCENARIO A:

This scenario takes the base information for revenues and expenditures discussed above and calculates it out five years from fiscal 2007-08. Fiscal 2008-09 does include approved appropriations from the June 2007 budget process. Also included in this scenario are additional appropriations, specifically in the one-time expenditure category, which were approved outside of the budget process. Two of the major appropriations in this category are:

- $1,527,000 for additional construction costs for Fire Station #3 capital improvement project, approved by City Council on June 18, 2007; and
- $1,622,098 for a Public Safety Record Management System, approved by City Council on November 14, 2007.

These items were funded by excess reserves in the General Fund, mainly due to surplus and one-time revenues received in prior years. Proceeds expected from the sale of the three lots currently housing the existing Station #3 is expected to help offset the additional funding that was needed for the additional construction costs. For purposes of forecasting, the proceeds from the sale are projected to be received in fiscal 2008-09.

Anticipated new economic development revenues for Sales Tax are incorporated in future fiscal years, beginning in fiscal 2009-10. These amounts include new revenues from the Westfield Mall renovation and expansion, for which construction is set to begin in early 2008. Projected completion of the mall renovation and expansion is marked for fiscal 2009-10. Approximately 167,000 sq.ft. of new retail space is being added. The additional Sales Tax revenue in fiscal 2009-10 is estimated to be $300,000, and is counted for only six months of the fiscal year. Estimates grow to $800,000 for the full year of fiscal 2010-11.

A large retailer scheduled to move into the Westfield Mall within the next 18 months is a Target store. Culver City currently has an existing Target store located in a prime location within the city, which has also historically maintained a healthy sales tax base. Provisions need to be researched and analyzed in the very near future, though, in the occurrence the current Target is closed or the location is sold and demolished for other use. The City needs to put a plan in place that would guarantee protection of the existing revenue base currently received from this location.

The fiscal 2007-08 and 2008-09 reserve percentage, including one-time revenues, is above 30%, but this is not sustainable under current financial constraints. Beginning in fiscal 2009-10 the projection shows this percentage falling to approximately 28.32%, and to 24.21% in 2010-11. One-time revenue, such as the sale of land, is keeping the percentage at a reasonable level. Recurring expenditures still outpace recurring revenues, and will continue to do so over the five-year time-frame shown.

One-Time (Non-recurring) Revenues

A category of revenues that has received greater attention the last few years are those categorized as one-time, or non-recurring, revenues. These are normally revenues that do not occur on a regular basis, such as the sale of land (i.e. Warner Lot) or additional revenue receipts from audit findings (i.e. Business License, TOT). The current General Fund Fund Balance includes one-time revenues received by the City in prior years, which has assisted the City in funding many one-time purchases (non-personnel related costs), and also helped fund capital improvement projects, such as the Public Safety RMS system recently approved by the City Council. Several of the larger one-time revenues from the last few fiscal years are listed on the spreadsheet to show the extent of the total amount the City has received.

City staff has been extremely thorough over the years in ensuring that one-time revenues only cover one-time expenditures. Each budget year, one-time revenues are forecast and used as a base when reviewing and approving necessary one-time increases and/or enhancements to the City's budget. It has never been the practice of the City to have one-time revenues cover recurring expenditures

GENERAL FUND SCENARIO B:

This scenario includes all information from Scenario A, and adds one additional issue: the potential loss of a portion of the Utility User's Tax revenues if the voters do not approve modernizing the Utility User's Tax ordinance at the April 2008 election. Current legal challenges in other jurisdictions could threaten the City's revenue collected on cellular and wireless charges. If the ordinance is not updated and the City was to lose this revenue, the loss to the City would be approximately $3+ million a year. On top of this, non-cellular (land-line) revenues from Telephone UUT have consistently been dropping as more and more people have been moving toward wireless phones and similar media for communications.

Since it is unknown if, or when, the City will lose this revenue, a decision was made to show the potential loss beginning in fiscal 2010-11. The calculation of the reserve percentage shows a drop of over 3.25% in this fiscal year from Scenario A. Regardless of the year this might be lost, the approximate reduction is more than 3% of revenues.

GENERAL FUND SCENARIO C:

This scenario includes all information from Scenario A and adds additional information based on potential land use policies (i.e. height and density requirements) and economic development. The areas and projects in which information has been analyzed are the Washington/National site, the Fox Hills area, commercial mixed use corridors, the proposed Entrada development, and Jefferson Blvd development. These areas/projects have been identified by the Community Development Department as underdeveloped areas that have significant land area with potential for development or large projects.

Consultants from Keyser Marston Associates estimated the financial impacts of proposed developments based on information provided to them by Community Development and Finance staff. The financial impact included in the Plan represents the net difference between estimated increased revenues generated from the project area and estimated increased service costs from the resulting development. Please note that the estimates provided in Scenario C are simply meant to demonstrate the impact of development on the City's finances. These estimates are based on potential development as envisioned by staff based on current possibilities. The estimates do not necessarily represent actual proposed or planned projects.

Based on figures from the analysis, if the City and Redevelopment Agency aggressively pursued all of the potential developments identified, or substantially similar developments, the City could ultimately see a net increase in revenues of approximately $2 million per year. While this does not fix the projected deficit problem, it does provide an avenue outside of reducing services or increasing taxes to improve on-going revenues. These projects would also likely generate fairly significant one-time revenues such as development and impact fees. For purposes of this analysis, it is assumed the additional revenues would be received incrementally over several years, with the first year being 2009-10.

GENERAL FUND SCENARIO D:

The fourth scenario includes all information from Scenario A and adds in annual costs to fund the OPEB contribution beginning in fiscal 2008-09. The actuarial analysis being conducted by Aon Consulting will not be completed until February, so this final calculation of the annual required contribution if the City were to fully fund the retirement obligation is not known at this time. However, a little over one year ago an actuary performed a summary analysis of Culver City data and estimated an annual required contribution figure of $9.8 million. This figure would be inclusive of the current costs paid by the City for retiree medical of approximately $3.4 million, and would therefore result in an additional $6+ million per year. This is a very real scenario, in that there is no question the City will be required to address this matter. The only fact that remains to be seen is if the final actuarial analysis results in a dramatically different number than the estimate, which is probably not likely.

For purposes of this scenario, the assumption is that the City would decide to fully-fund the retirement obligation and elect to 'ease' into fully paying the additional $6+ million over three years, with $2 million showing in fiscal 2008-09, $4 million showing in fiscal 2009-10 and $6 million showing in fiscal 2010-11. It is important to understand, however, that any choice to pay less than the actuarially determined annual required contribution will result in a requirement to record the difference as a liability on the City's government-wide financial statements. In this case, there would be a $6 million liability showing at the end of fiscal 2009-10.

There is currently no legal requirement to fully fund or fund any portion of the annual required contribution; however, this increasing liability on the City's financial statements will affect the City's credit rating and costs of borrowing. Future negotiations to reduce retiree medical contributions by the City could result in lowering this number, but it will be calculated based on the current agreements.

SCENARIO A

Includes implementation of Strategic Workforce Planning

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
GENERAL FUND (101) - Preliminary Beginning Balance	**31,772,000**	**29,818,000**	**28,166,000**	**24,769,890**	**22,118,340**	**18,792,510**
Fiscal Year Net Change						
Total Recurring Revenue	72,932,000	76,254,000	78,834,000	82,667,000	86,268,000	90,105,000
Total Interfund Transfers (Admin. Charges)	5,872,000	6,081,000	6,263,000	6,514,000	6,775,000	7,046,000
Projected New Westfield Revenue	0	0	300,000	800,000	840,000	882,000
Total One-Time Revenue	3,620,000	2,000,000	0	0	0	0
Total Revenue Projection	82,424,000	84,335,000	85,397,000	89,981,000	93,883,000	98,033,000
Total Recurring Expenditures	78,477,000	83,183,000	87,824,000	92,146,000	97,085,000	102,254,000
Reduce Personnel Costs 0.5%/year to 5% (Attrition/Best Mgmt Practice)	0	0	(364,890)	(767,450)	(1,210,170)	(1,695,440)
Total One-Time Expenditures	5,801,000	2,704,000	1,234,000	1,154,000	1,234,000	1,154,000
Total Expenditures Projection	84,278,000	85,887,000	88,693,110	92,532,550	97,108,830	101,712,560
Total FY Recurring Operating Surplus/Deficit	327,000	(848,000)	(2,062,110)	(1,397,550)	(1,991,830)	(2,525,560)
Current Set-aside for OPEB	100,000	100,000	100,000	100,000	100,000	100,000
General Fund - Preliminary Ending Balance (Operating)*	**29,818,000**	**28,166,000**	**24,769,890**	**22,118,340**	**18,792,510**	**15,012,950**
General Fund Reserve Percentage (Recurring)	**38.00%**	**33.86%**	**28.32%**	**24.21%**	**19.60%**	**14.93%**
General Fund Reserve Percentage (Not Including One-time Revenues)	**33.38%**	**31.46%**	**28.32%**	**24.21%**	**19.60%**	**14.93%**
General Fund - Balance (Carried Forward)	29,818,000	2,505,000	(3,692,110)	(9,168,660)	(15,344,490)	(22,000,050)
Total Deferred Maintenance**	2,778,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
Total Unfunded Capital	22,883,000	0	0	0	0	0
Total Deferred Maintenance & Unfunded Capital Projection	25,661,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
General Fund - Ending Balance (ALL)	**4,157,000**	**(296,000)**	**(6,517,110)**	**(12,018,660)**	**(18,220,490)**	**(24,903,050)**
General Reserve Percentage (Recurring)	**5.30%**	**-0.36%**	**-7.42%**	**-13.04%**	**-18.77%**	**-24.35%**

** Identified one-time revenues previously received and recorded include:*

1st payment from Warner Lot (05-06)	*2,620,000*
Receipts from TOT audit/other (06-07)	*650,000*
Loan Receivable from RDA (06-07)	*505,818*
Int. Income from Refunding Bonds (06-07)	*500,000*
Documentary Tax Audit Receipts (05-06)	*313,086*
Documentary Tax Audit Receipts (06-07)	*762,400*
Sub-total	***5,351,304***

*** Includes buildings, streets and parks.*

SCENARIO B

Includes implementation of Strategic Workforce Planning

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
GENERAL FUND (101) - Preliminary Beginning Balance	**31,772,000**	**29,818,000**	**28,166,000**	**24,769,890**	**19,118,340**	**12,747,510**
Fiscal Year Net Change						
Total Recurring Revenue	72,932,000	76,254,000	78,834,000	82,667,000	86,268,000	90,105,000
Total Interfund Transfers (Admin. Charges)	5,872,000	6,081,000	6,263,000	6,514,000	6,775,000	7,046,000
Projected New Westfield Revenue	0	0	300,000	800,000	840,000	882,000
Total One-Time Revenue	3,620,000	2,000,000	0	0	0	0
Total Revenue Projection	82,424,000	84,335,000	85,397,000	89,981,000	93,883,000	98,033,000
Potential Loss of UUT	0	0	0	(3,000,000)	(3,045,000)	(3,090,675)
Revised Total Revenue Projection	82,424,000	84,335,000	85,397,000	86,981,000	90,838,000	94,942,325
Total Recurring Expenditures	78,477,000	83,183,000	87,824,000	92,146,000	97,085,000	102,254,000
Reduce Personnel Costs 0.5%/year to 5% (Attrition/Best Mgmt Practices)	0	0	(364,890)	(767,450)	(1,210,170)	(1,695,440)
Total One-Time Expenditures	5,801,000	2,704,000	1,234,000	1,154,000	1,234,000	1,154,000
Total Expenditures Projection	84,278,000	85,887,000	88,693,110	92,532,550	97,108,830	101,712,560
Total FY Recurring Operating Surplus/Deficit	327,000	(848,000)	(2,062,110)	(4,397,550)	(5,036,830)	(5,616,235)
Current Set-aside for OPEB	100,000	100,000	100,000	100,000	100,000	100,000
General Fund - Preliminary Ending Balance (Operating)	**29,818,000**	**28,166,000**	**24,769,890**	**19,118,340**	**12,747,510**	**5,877,275**
General Reserve Percentage (Recurring)	**38.00%**	**33.86%**	**28.32%**	**20.92%**	**13.30%**	**5.84%**
General Fund Reserve Percentage (Not Including One-time Revenues)	**33.38%**	**31.46%**	**28.32%**	**20.92%**	**13.30%**	**5.84%**
General Fund - Balance (Carried Forward)	29,818,000	2,505,000	(3,692,110)	(12,168,660)	(21,389,490)	(31,135,725)
Total Deferred Maintenance**	2,778,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
Total Unfunded Capital**	22,883,000	0	0	0	0	0
Total Deferred Maintenance & Unfunded Capital Projection	25,661,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
General Fund - Ending Balance (ALL)	**4,157,000**	**(296,000)**	**(6,517,110)**	**(15,018,660)**	**(24,265,490)**	**(34,038,725)**
General Reserve Percentage (Recurring)	**5.30%**	**-0.36%**	**-7.42%**	**-16.30%**	**-24.99%**	**-33.29%**

** Identified one-time revenues previously received and recorded include:*

1st payment from Warner Lot (05-06)	*2,620,000*
Receipts from TOT audit/other (06-07)	*650,000*
Loan Receivable from RDA (06-07)	*505,818*
Int. Income from Refunding Bonds (06-07)	*500,000*
Documentary Tax Audit Receipts (05-06)	*313,086*
Documentary Tax Audit Receipts (06-07)	*762,400*
Sub-total	***5,351,304***

*** Includes buildings, streets and parks.*

SCENARIO C

Includes implementation of Strategic Workforce Planning

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
GENERAL FUND (101) - Preliminary Beginning Balance	**31,772,000**	**29,818,000**	**28,166,000**	**25,469,890**	**24,218,340**	**22,892,510**
Fiscal Year Net Change						
Total Recurring Revenue	72,932,000	76,254,000	78,834,000	82,667,000	86,268,000	90,105,000
Total Interfund Transfers (Admin. Charges)	5,872,000	6,081,000	6,263,000	6,514,000	6,775,000	7,046,000
Projected New Westfield Revenue	0	0	300,000	800,000	840,000	882,000
Land-Use Planning and Density	0	0	700,000	1,400,000	2,000,000	2,080,000
Total One-Time Revenue	3,620,000	2,000,000	0	0	0	0
Total Revenue Projection	82,424,000	84,335,000	86,097,000	91,381,000	95,883,000	100,113,000
Total Recurring Expenditures	78,477,000	83,183,000	87,824,000	92,146,000	97,085,000	102,254,000
Reduce Personnel Costs 0.5%/year to 5% (Attrition/Best Mgmt Practices)	0	0	(364,890)	(767,450)	(1,210,170)	(1,695,440)
Total One-Time Expenditures	5,801,000	2,704,000	1,234,000	1,154,000	1,234,000	1,154,000
Total Expenditures Projection	84,278,000	85,887,000	88,693,110	92,532,550	97,108,830	101,712,560
Total FY Recurring Operating Surplus/Deficit	327,000	(848,000)	(1,362,110)	2,450	8,170	(445,560)
Current Set-aside for OPEB	100,000	100,000	100,000	100,000	100,000	100,000
General Fund - Preliminary Ending Balance (Operating)	**29,818,000**	**28,166,000**	**25,469,890**	**24,218,340**	**22,892,510**	**21,192,950**
General Reserve Percentage (Recurring)	**38.00%**	**33.86%**	**29.12%**	**26.50%**	**23.88%**	**21.08%**
General Fund Reserve Percentage (Not Including One-time Revenues)	**33.38%**	**31.46%**	**29.12%**	**26.50%**	**23.88%**	**21.08%**
General Fund - Balance (Carried Forward)	29,818,000	2,505,000	(2,992,110)	(7,068,660)	(11,244,490)	(15,820,050)
Total Deferred Maintenance**	2,778,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
Total Unfunded Capital**	22,883,000	0	0	0	0	0
Total Deferred Maintenance & Unfunded Capital Projection	25,661,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
General Fund - Ending Balance (ALL)	**4,157,000**	**(296,000)**	**(5,817,110)**	**(9,918,660)**	**(14,120,490)**	**(18,723,050)**
General Reserve Percentage (Recurring)	**5.30%**	**-0.36%**	**-6.62%**	**-10.76%**	**-14.54%**	**-18.31%**

** Identified one-time revenues previously received and recorded include:*

1st payment from Warner Lot (05-06)	*2,620,000*
Receipts from TOT audit/other (06-07)	*650,000*
Loan Receivable from RDA (06-07)	*505,818*
Int. Income from Refunding Bonds (06-07)	*500,000*
Documentary Tax Audit Receipts (05-06)	*313,086*
Documentary Tax Audit Receipts (06-07)	*762,400*
Sub-total	***5,351,304***

*** Includes buildings, streets and parks.*

SCENARIO D

Includes implementation of Strategic Workforce Planning

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
GENERAL FUND (101) - Preliminary Beginning Balance	**31,772,000**	**29,818,000**	**26,266,000**	**18,969,890**	**10,418,340**	**1,192,510**
Fiscal Year Net Change						
Total Recurring Revenue	72,932,000	76,254,000	78,834,000	82,667,000	86,268,000	90,105,000
Total Interfund Transfers (Admin. Charges)	5,872,000	6,081,000	6,263,000	6,514,000	6,775,000	7,046,000
Projected New Westfield Revenue	0	0	300,000	800,000	840,000	882,000
Total One-Time Revenue	3,620,000	2,000,000	0	0	0	0
Total Revenue Projection	82,424,000	84,335,000	85,397,000	89,981,000	93,883,000	98,033,000
Total Recurring Expenditures	78,477,000	83,183,000	87,824,000	92,146,000	97,085,000	102,254,000
Reduce Personnel Costs 0.5%/year to 5% (Attrition/Best Mgmt Practices)	0	0	(364,890)	(767,450)	(1,210,170)	(1,695,440)
Potential Annual Payments for OPEB Related Funding Needs	100,000	2,000,000	4,000,000	6,000,000	6,000,000	6,000,000
Total One-Time Expenditures	5,801,000	2,704,000	1,234,000	1,154,000	1,234,000	1,154,000
Total Expenditures Projection	84,378,000	87,887,000	92,693,110	98,532,550	103,108,830	107,712,560
Total FY Recurring Operating Surplus/Deficit	327,000	(2,848,000)	(6,062,110)	(7,397,550)	(7,991,830)	(8,525,560)
General Fund - Preliminary Ending Balance (Operating)	**29,818,000**	**26,266,000**	**18,969,890**	**10,418,340**	**1,192,510**	**(8,487,050)**
General Reserve Percentage (Recurring)	**38.00%**	**31.58%**	**21.69%**	**11.40%**	**1.24%**	**-8.44%**
General Fund Reserve Percentage (Not Including One-time Revenues)	**33.38%**	**29.17%**	**21.69%**	**11.40%**	**1.24%**	**-8.44%**
General Fund - Balance (Carried Forward)	29,818,000	605,000	(9,492,110)	(20,868,660)	(32,944,490)	(45,500,050)
Total Deferred Maintenance**	2,778,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
Total Unfunded Capital**	22,883,000	0	0	0	0	0
Total Deferred Maintenance & Unfunded Capital Projection	25,661,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
General Fund - Ending Balance (ALL)	**4,157,000**	**(2,196,000)**	**(12,317,110)**	**(23,718,660)**	**(35,820,490)**	**(48,403,050)**
General Reserve Percentage (Recurring)	**5.30%**	**-2.64%**	**-14.02%**	**-25.74%**	**-36.90%**	**-47.34%**

** Identified one-time revenues previously received and recorded include:*

1st payment from Warner Lot (05-06)	*2,620,000*
Receipts from TOT audit/other (06-07)	*650,000*
Loan Receivable from RDA (06-07)	*505,818*
Int. Income from Refunding Bonds (06-07)	*500,000*
Documentary Tax Audit Receipts (05-06)	*313,086*
Documentary Tax Audit Receipts (06-07)	*762,400*
Sub-total	***5,351,304***

*** Includes buildings, streets and parks.*

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE
for
Refuse Fund

INTRODUCTION

The Refuse Fund is an Enterprise Fund that was established to provide for municipal waste removal and recycling services from the residential, commercial, and industrial areas of the City. The Refuse Fund also provides funds for a city-wide street sweeping contract and operation of a transfer station to transport non-hazardous solid wastes to material processors for reuse or recycling or to disposal sites as appropriate. The refuse operation strives to provide efficient and effective municipal waste removal services and recover the maximum volume of recyclable or reusable material from the waste stream.

Residential crews provide weekly trash and recycling removal service to family dwellings consisting of up to four units in size. Residents are billed annually for the trash services through the LA County tax collection system.

Commercial collection crews provide scheduled and non-scheduled trash removal to all businesses and multi-family residential units consisting of more than four units. The commercial collection crews also service pedestrian receptacles located throughout the City and remove large bulky items set out by residents and businesses. Businesses and property managers are billed monthly for the commercial service that occurs during the month.

The Transfer Station receives and processes non-hazardous municipal solid wastes and transfers it to large transfer vehicles to be hauled to sanitary landfills or salvage or recycling facilities. Personnel at the Transfer Station are also responsible for inspecting wastes to determine if hazardous or toxic materials are in the waste stream and to remove and store such materials for up to 90 days until disposal arrangements can be made in accordance with Federal and State Regulations.

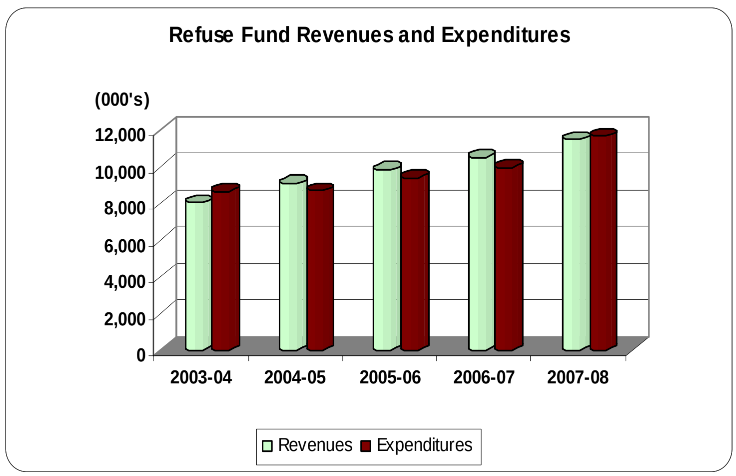
As an enterprise fund, the Refuse Fund charges customers for the provision of services. Operating expenses include the cost of providing service, administrative expenses, street-sweeping, recycling outreach, and acquiring, replacing, and maintaining capital assets (e.g. maintenance of the Transfer Station and replacing old refuse vehicles). In order to ensure that revenues are sufficient to cover operating costs, refuse removal rates are reviewed annually and adjusted as necessary.

FISCAL YEAR 2007-08 HIGHLIGHTS

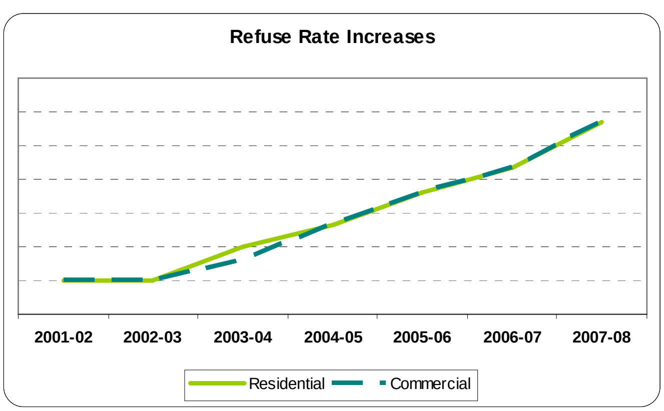
The Adopted 2007-08 Budget includes a number of staffing changes to increase the efficiency of the operations, including reclassifying a secretary position to an Associate Analyst. Additionally, the 2007-08 budget includes:

- 10% increase in commercial and residential refuse disposal rates
- Purchase of 6 new CNG Refuse Side Loader Trucks to replace older Trucks (funding from Equipment Replacement Fund)
- Funding to replace the in-ground scales for out-bound trucks
- Residential Recycling will be enhanced to once a week collection beginning in 2008
- Remodeling of the Transfer Station office and repair to the roof at the Transfer Station

BACKGROUND



Prior to 2003-04, there had been no increase in residential or commercial refuse collection fees for more than five years. However, personnel costs, landfill fees, fuel prices, and regulatory fees continued to increase. As a result, the Refuse fund was operating at a deficit during the early 2000's. To address this issue, a rate study was done prior to the adoption of the 2003-04 budget and rates were increased 10% for residential customers and 6% for commercial customers.



The following year, rates were increased again (6% residential, 10% commercial). To cover prior year deficits and restore the Fund's reserve, rates have been continually increased for all customers in 2005-06 (8%), 2006-07 (6%), and 2007-08 (10%). Although the gap is closing, the Fund is now faced with large, incremental increases in solid waste disposal costs.

The County Sanitation District is anticipating significant solid waste disposal cost increases as local landfill capacity is depleted over the next twenty years. In order to smooth this transition, the disposal charges for the City's refuse that is taken to the Sanitation District landfills (which handles the majority of the City's refuse) will increase at a rate of approximately 10% to 12% per year over the next twenty years. Currently, disposal costs represent approximately 15% of the operating costs of the Public Works Department Sanitation Division.

In addition to increasing personnel costs and disposal costs discussed above, the other costs to provide municipal waste services continue to increase as well. The Refuse Fund maintains a fleet of large sanitation trucks and heavy equipment, which require a more rigorous maintenance and replacement schedule. A number of sanitation vehicles are scheduled for retirement in 2007-08. Per the City's policy, these trucks will be replaced with trucks fueled by Compressed Natural Gas (CNG), which are much cleaner and better for the environment than diesel. Culver City is proud to be a leader in purchasing environmentally responsible vehicles; however, the cost to purchase and maintain CNG powered vehicles is greater than traditional diesel powered vehicles. As more vehicles are manufactured due to mandate requirements, the cost is expected to decrease. This may not happen, though, for a few more years.

Currently, the additional cost for CNG vehicles runs about 25% more than traditional diesel-powered vehicles. Future rate increases will be necessary to ensure the financial stability of the refuse operation.

ECONOMIC OVERVIEW

Many of the same economic pressures constraining the General Fund are also impacting the Refuse Fund. Aside from escalating personnel costs and fuel prices, the limited availability of raw materials has greatly increased the price of steel. This has made new bins, replacement parts for older vehicles, and the purchase of new vehicles more expensive.

Additionally, as mentioned earlier, local landfill capacity will be depleted over the next twenty years. As a result, disposal costs will increase dramatically in the future as the transition from local landfills to rail haul disposal to more distant locations occurs. To account for and provide a smooth transition toward these dramatically increased waste disposal costs, the County Sanitation District is increasing the disposal costs it charges to its customers (such as Culver City) at an annual rate of approximately 11% over the next twenty years. The refuse fund expenditure projections take into account these projected disposal costs increases.

PROJECTIONS AND ANALYSIS OF EXPENDITURES

OVERVIEW

An important focus of the Refuse Fund over the next few years has to be improving its overall fiscal health to eliminate the fund's negative balance and develop a reserve. Additionally, the capital and operational needs of the Refuse fund that have been deferred over the last few years will have to be phased in on a priority basis as the revenue generated by fees for service allow. While increasing the fees is a necessity, we need to be cognizant of the effect it will have on Culver City residents and commercial businesses in the City.

DISCUSSION OF REVENUE PROJECTIONS

In order to restore and maintain the financial health of the Refuse Fund, commercial and residential waste removal fees will need to continue to be increased in the future. The revenue projections assume that there will be an increase of approximately 10% in FY 2008-09. With this increase and if current expenditures stay within the anticipated growth forecast, then the Refuse Fund should have a positive fund balance by the end of FY 2008-09.

After 2008-09 the rate increases are planned to be lowered to 5% per fiscal year. This will be reviewed in the future to ensure that these increases are sufficient to keep pace with operating costs. It is quite likely rates may need to be kept at a 10% increase per year for longer than projected in order to assist in generating revenue to cover proposed expanded operations and capital improvement needs for the Transfer Station to support on-going and expanded operations. This largely depends on the outcome of discussions currently underway with the City of Los Angeles or possible future agreements with other third parties for joint use of the Transfer Station facilities.

DISCUSSION OF EXPENDITURE PROJECTIONS

Personnel expenditures are forecasted to increase 4.0% across the board, with the exception of medical premiums. Medical premiums are forecasted to increase 12.5% in fiscal 2007-08, with small adjustments downward in subsequent years. Operating and maintenance expenses are forecasted to grow 3.5% per year. The exception to this could be garage expenses and amortization charges to the Equipment Replacement Fund. Fuel prices have become a large issue for all Funds that utilize vehicles in their operations. These expenses are difficult to forecast, and for the purpose of this analysis have had the same 3.5% growth rate associated with them.

A major challenge facing the Refuse Fund is identifying and receiving funding in order to cover needed upgrades and expansion of its operations. Anticipated upgrades and expanded services are discussed below:

- Transfer Station through-put tonnage increase from a maximum of 500 tpd to 750 tpd and is scheduled for implementation in 2008-09. This will allow increased revenue generation through the transfer station and will require additional long hauling which is currently projected to be handled through contract. Also, an additional Heavy Equipment Operator will be required for expanded hours of operation at the Transfer Station. In 2014-15 the Transfer Station through-put is anticipated to be further expanded from 750 tpd to 900 tpd. This will provide for further revenue generation through the Transfer Station and will require expanded contract operations, an additional loader, Heavy Equipment Operator, and Laborer.
- Capital Improvements needs over the next several years include repairs to the perimeter fencing, repairs to the Transfer Station fire sprinkler system, and implementation of storm water pollution prevention measures at the Transfer Station.
- Bulky Item/Illegal Dumps are an immediate need. To address the need for more responsive bulky item and illegal dumping pickup, a Driver and Collector will be proposed to be added in 2008-09. A Rear-Loader Truck was put into service in 2007-08.
- Field Supervisor Position is proposed to be added in 2008-09 to address code enforcement issues in the areas of scavenging, illegal dumping, unauthorized bins and refuse services and to provide increased safety monitoring.
- GPS Implementation is projected to be phased in over several years beginning with the Commercial Fleet and Roll-Off Trucks in 2007-08 and expanding to Long Haul Trucks in 2008-09 followed by remaining vehicles in 2009-10.
- Route Audits are proposed for 2008-09 after GPS system implementation which will allow for easier analysis of routes.
- Drive Cams will be installed in 2010-11 to provide valuable data for managers to help drivers develop safer driving habits.

Inclusion of these measures would increase the funds negative balance in the first two years with the fund balance becoming positive in fiscal 2012-13. Further analysis of these measures will be done in the coming year.

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Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
REFUSE FUND (202) - Preliminary Beginning Balance	**(198,000)**	**75,000**	**955,000**	**2,461,000**	**4,133,000**	**5,987,000**
Fiscal Year Net Change						
Total Recurring Revenue	11,484,000	12,499,000	13,749,000	14,575,000	15,451,000	16,378,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	11,484,000	12,499,000	13,749,000	14,575,000	15,451,000	16,378,000
Total Recurring Expenditures	11,211,000	11,619,000	12,243,000	12,903,000	13,597,000	14,323,000
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	11,211,000	11,619,000	12,243,000	12,903,000	13,597,000	14,323,000
Total Refuse FY Operating Surplus/Deficit	273,000	880,000	1,506,000	1,672,000	1,854,000	2,055,000
Refuse Fund - Preliminary Ending Balance (Operating)	**75,000**	**955,000**	**2,461,000**	**4,133,000**	**5,987,000**	**8,042,000**
Reserve Percentage (Recurring)	**0.67%**	**8.22%**	**20.10%**	**32.03%**	**44.03%**	**56.15%**

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CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE for the Transit Fund

INTRODUCTION

The Transit Fund is an Enterprise Fund that was established to provide efficient and effective public transportation services and high quality, low cost equipment maintenance services to the City of Culver City. The Culver City Municipal Bus Line, aka Culver CityBus, provides public transit services on seven regular routes throughout Culver City and the surrounding area and services a number of major employment, health, commercial, educational, and recreational centers in the area.

The Transportation Department is responsible for providing administration and oversight of Transit Fund operations. The Transportation Department also oversees the City's regional transportation planning activities and administers both the Equipment Replacement Fund and the activities of the Equipment Maintenance Division, which is responsible for equipment and vehicle maintenance. A more in-depth discussion of the Equipment Replacement Fund is included in the Equipment Replacement Fund section of this report.

As an Enterprise Fund, the Transit Fund charges customers for the provision of services via bus fares. However, the majority of the Fund's revenues are derived from other funding sources, including grants and appropriations from the state and federal governments.

Operating expenses include the cost of providing service, administrative expenses, and acquiring, replacing, and maintaining capital assets (e.g. maintaining and replacing the Bus Fleet). Since the Transit Fund is highly subsidized by other governmental agencies, their ability to increase or decrease bus fares to raise revenue has historically been highly restricted. This restriction was recently lifted, and Transportation may look to increase fares sometime in the future.

FISCAL YEAR 2007-08 HIGHLIGHTS

The Adopted 2007-08 Budget contains funding for a number of programs and studies to improve the efficiency and effectiveness of Culver CityBus, including:

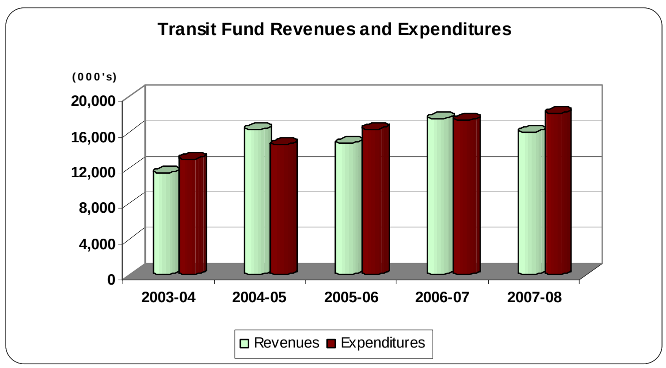
- A Line-by-Line Analysis to analyze the efficiency, effectiveness, and services provided by the current transit system
- A Service Plan to implement new service lines to new developments in and around Culver City
- Implementation of the Universal Fare System fareboxes and a Customer Relations Management program

Additionally, the Transportation Department relies heavily on funding from county, state and federal agencies. The FY 2007-08 State Budget negatively impacted the Transportation Department by diverting most of the state's gas tax "spillover" funds from mass transit funds to pay for General Fund expenses, such as school buses and past bond payments. By State law, the Transit Fund was set to receive more from the State Transportation Assistance account prior to the passage of the State's Budget. Unfortunately, the State also diverted those funds in the future as well, so even if there is no gas tax "spillover," those funds will continue to be diverted from the transit uses unless there is a permanent fix.

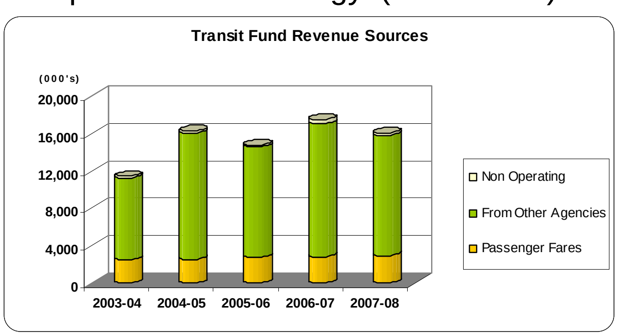
BACKGROUND

Culver CityBus is the second oldest municipally-owned bus line in the state of California, with over 75 years of tradition and experience behind our service. Culver CityBus was organized in 1928 by the late Mayor Reve E. Houck, with the aid of the City Council, after a dispute with the Pacific Electric Railway over rising fares. Service was initiated on March 4, 1928 when Mayor Houck drove a bus from Washington and Rimpau Boulevards to Venice to inaugurate municipal bus service.

Today, Culver CityBus proudly serves the Westside communities of Century City, Culver City, Mar Vista, Marina del Rey, Palms, Venice, Venice Beach, West Los Angeles, Westchester, and Westwood.



Culver CityBus is a nationally recognized operation whose fleet was recently ranked seventh of approximately five hundred North American programs in the national trade magazine, *Fleet Equipment* magazine. Culver CityBus is also a nationally recognized leader in transportation technology (Smart Bus) and environmental friendliness with all of the current fleet being fueled by compressed natural gas (CNG).



Currently, the Transit Fund has a healthy reserve and generally collects sufficient revenues to cover annual operational costs. However, the Transit Fund is highly subsidized with funds from other agencies, mostly county, state, and federal. In fact, approximately eighty percent (80%) of the Fund's revenues are from outside agencies. The major sources of the Transit Fund are the Federal Transportation Administration (FTA), the Transit Development Act, and Proposition A & C money (see Prop A & C section of this report for more information).

Consequently, depending on those agency's priorities, funding may be highly variable from year to year. Until recently, the Transit Fund did not have the flexibility to increase fares to cover increased expenditures. This restriction to increase fares has recently been lifted and Transportation may consider an increase in fares in the future.

Nevertheless, public transportation and traffic and congestion relief have been one of California's top priorities over the last decade. The Transit Fund's current financial position should allow it to continue to provide a high level of service to the Westside communities for years to come.

ECONOMIC OVERVIEW

With the population explosion in California over the last 10 – 15 years, dealing with the related increase in traffic and congestion has become one of the biggest challenges faced by Californians. As such, voters have approved a few funding sources that are specifically dedicated to funding transportation projects and public transportation operations. Propositions A & C are both sales taxes that have been approved by Los Angeles County voters. Since these funding sources are sales taxes, they are economically sensitive (see the Prop A & C section of this report for more information); however, they are much more stable than the alternative of relying on an annual appropriation from the state legislature.

In addition to Prop A & C, there are a number of state and federal grants programs that are used for transit operations. These funds are allocated annually and are subject to the existing political and economic climate. With an increasing number of federal dollars being diverted towards homeland security and the war in Iraq, the amount of funds available for transportation related projects and programs may begin to shrink in the near future.

PROJECTIONS AND ANALYSIS OF REVENUES AND EXPENDITURES

OVERVIEW

The Transit Fund is facing similar fiscal issues as the General Fund. Due to the ever-changing variables associated with these issues, it is difficult to realistically foresee more than two or three years into the future for certain funding sources, and even less in some cases. As was mentioned previously, the Transit Fund currently has a healthy reserve and would be able to stave off any unforeseen expenses that may occur in the very near future. Since the Transit Fund is heavily dependant on outside funding sources, it is imperative that it maintains sound oversight of its spending.

DISCUSSION OF REVENUE PROJECTIONS

Assumptions that were made in this analysis after fiscal 2007 include a 3.8% to 4.0% growth in local revenues, and a modest 3.0% growth in fare box revenues.

The Transit Fund is anticipating a little over $900,000 a year in funds relating to new bus services to Playa Vista from 2009-2011. These funds will assist in covering ongoing expenditures.

Infrastructure Bond 1B Funds for Public Transit were expected to be allocated during Fiscal 2008 through 2012 in the amount of $8.4 Million for Culver City. These bond monies will primarily fund Culver City's Aerial station and can be used towards other transit capital expenses. However, FY 2008 Bond funds allocated to Culver City were only $213,376. Since Metro received a disproportionately larger share of the funds, this year, they have agreed to backfill projects with Prop A and C funds as well as for future allocations.

With the estimated forecast of revenues over the next few fiscal years, it must also take into consideration the Formula Allocation Procedure employed by Metro to distribute local and state transit funding to all of the County's Municipal Bus Operators. With Metro's fare increases in July 2007, much of the region's funding will likely cause a shift towards Metro, to the detriment of all of the other Municipal Operators, including Culver City.

Most of the revenues received from other agencies are projected to remain growing at a fairly constant rate. However, it should be noted that some of those funds can be subject to change in the amount or eligibility at the will of those agencies.

DISCUSSION OF EXPENDITURE PROJECTIONS

To the extent possible, recurring operating expenditures are covered with recurring revenues. Personnel costs are estimated to grow 4.0% per current MOU negotiations, with medical premiums growing at 12.5% in fiscal 2007-08, and slightly less in subsequent years. Ongoing operating and maintenance costs are estimated to grow at approximately 3.5%. STA Funds can be used for operating expenses, and continued use of these funds for operating expenses is subject to an annual test based on expense growth versus the Consumer Price Index (CPI). Unfortunately, the Transit Fund did not pass the annual test, but has been able to continue to receive these funds for capital expenses.

The Transit Fund currently reimburses the General Fund for administrative charges, which increases between 3% - 4% per year primarily due to personnel cost increases. The administrative charges, or indirect costs, are determined through the Cost Allocation Plan prepared each year, which meets the compliance of Federal and State grants reimbursement guidelines. The Cost Allocation Plan allocates costs of services and programs to using Departments and Enterprise Funds based on the level of services received. Some of these services include payroll processing, information technology, financial, and communications services.

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
TRANSIT FUND (203) - Preliminary Beginning Balance	**8,562,000**	**6,503,000**	**11,220,000**	**12,561,000**	**13,510,000**	**14,029,000**
Fiscal Year Net Change						
Total Recurring Revenue	17,004,000	18,234,000	18,763,000	19,328,000	19,894,000	20,482,000
Total One-Time Revenue	3,539,000	5,289,000	2,300,000	2,300,000	2,300,000	1,400,000
Total Revenue Projection	20,543,000	23,523,000	21,063,000	21,628,000	22,194,000	21,882,000
Total Recurring Expenditures	16,174,000	18,806,000	19,722,000	20,679,000	21,675,000	22,709,000
Total One-Time Expenditures	6,428,000	0	0	0	0	0
Total Expenditures Projection	22,602,000	18,806,000	19,722,000	20,679,000	21,675,000	22,709,000
Total Transit FY Operating Surplus/Deficit	4,369,000	4,717,000	1,341,000	949,000	519,000	(827,000)
Transit Fund - Preliminary Ending Balance (Operating)	**6,503,000**	**11,220,000**	**12,561,000**	**13,510,000**	**14,029,000**	**13,202,000**
Reserve Percentage (Recurring)	**40.21%**	**59.66%**	**63.69%**	**65.33%**	**64.72%**	**58.14%**

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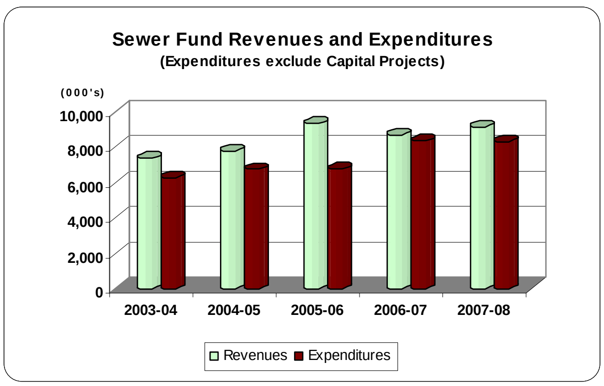
CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE for the Sewer Fund

INTRODUCTION

The Sewer Fund is an Enterprise Fund that was established to provide for conveyance, treatment, maintenance and repair services for the City's sewer system. The sewer crew of the Public Works Department Operations and Maintenance Division is funded by the sewer fund and is responsible for maintaining the City's system of subsurface gravity and pressurized sewer lines, sewer gauging devices, and sewage lift stations, including the pumps and auxiliary equipment.



The City charges customers for the provision of services through wastewater fees which are collected by an annual property assessment and deposited in the sewer fund. In addition to the maintenance of the sewer system in Culver City, the wastewater fees are used to pay the debt service for the City's pro-rata share of a wastewater revenue bond that was used to upgrade the Los Angeles Hyperion Wastewater Treatment Plant to meet EPA requirements. The Sewer Fund also pays for the City of Culver City's share of the Los Angeles Amalgamated Cities Capital Improvement Program for conveyance of Culver City sewage to that Treatment Plant.

FISCAL YEAR 2007-08 HIGHLIGHTS

The Adopted 2007-08 Budget includes a number of staffing changes to increase the efficiency of the operations, including reclassifying a number of positions, adding a Management Analyst (shared with the Refuse Fund), adding a Sr. Civil Engineer (shared with the General Fund), and an Associate Engineer. Additionally, the 2007-08 Budget includes:

- 10% increase in the Sewer Users' Charge
- $1,650,000 for sewer repair and pump station improvement projects

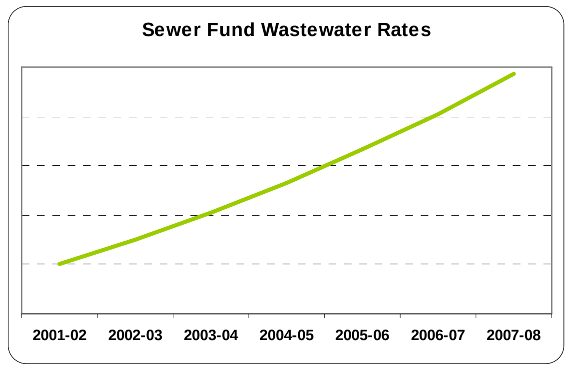
BACKGROUND

Prior to 2002-03, sewer wastewater fees had not been increased in more than ten years. However, personnel and operational costs, waste disposal fees, and costs to comply with state and federal mandates continued to increase. As a result, the Sewer Fund was operating at a deficit in the early 2000's. To address this issue, a rate study was done prior to the 2002-03 budget and wastewater rates were increased 10%. There have been rate increases in each subsequent fiscal year, including 2007-08.

ECONOMIC OVERVIEW

Sewer charges from the City of Los Angeles for use of the Hyperion Treatment Plant decreased by approximately 20% in 2007-08 from the prior year. Previously the City has seen large increases, and these are expected to begin again in fiscal 2008-09 and continue for the next few fiscal years. Additionally, the City must comply with new Waste Discharge Requirements established by the State Water Resources Control Board.

Currently, the Sewer Fund has a healthy reserve balance. No rate increase is anticipated for the next two fiscal years (FY 08-09 and 09-10); however, in order to avoid depleting the Sewer Fund's reserve balance, additional fee increases of 4% per year will be necessary in future fiscal years.



PROJECTIONS AND ANALYSIS OF EXPENDITURES

OVERVIEW

The Sewer Fund maintains an extremely healthy fund balance due to Wastewater Facility Bonds that were issued in 1992. These funds were used to fund the City's share of improvements to the Hyperion Wastewater treatment plant and to fund a local sewer replacement program.

DISCUSSION OF REVENUE PROJECTIONS

Revenue projections for the Sewer Fund are held at a steady 4% rate of growth with the exception of the next two years wherein revenue growth will be flat This places a steady increase in fees on users per year rather than hitting them with larger increases every few years. This increase is anticipated to be enough to cover ongoing operating and maintenance increases as well as ongoing sewer capital projects.

The current fund balance, of which the majority is from the Wastewater Facility Bonds, has been used to cover capital costs relating to sewer projects. If the anticipated projects are completed, this funding will be exhausted in 2013-14.. The main jump in cost indicated on the worksheet is the possible application cost (estimated at $25 million and spread over several years) and other costs to join the LA County Sanitation District. In exploring this option, the City is looking at the possibility of future savings by removing itself from the Amalgamated Cities Agreement with Los Angeles. Membership in the LA County Sanitation District would also provide the City with representation that it currently lacks under the Amalgamated Cities agreement. This idea is still in the conception phase. Staff is currently studying this option and more specific cost information will be available in the future.

DISCUSSION OF EXPENDITURE PROJECTIONS

Personnel costs are estimated to increase 4.0% per year, with medical insurance premiums to increase at a higher rate of 12.5% in fiscal 2007-08, with slight percentage adjustments downward in subsequent years. General operating and maintenance costs are anticipated to grow 3.0%. As mentioned previously, charges for the City's portion of the Hyperion Wastewater Treatment Plant are increased each year according to the operating and capital improvement needs identified by the City of Los Angeles. While it is anticipated that these increases will continue, it is difficult to determine by how much as the increases have not been consistent from year to year and longer term projections provided by the City of Los Angeles have not been reliable.

Locally, sewer Capital projects are planned and budgeted for each fiscal year at a normal level of between $1.5 and $2 million per year. Additional annual funding will be required if the City elects to consolidate sewer pump stations, an issue which is currently under study, or, as mentioned earlier, if it elects to seek connection to the Los Angeles County Sanitation District system. While there are unexpected sewer projects that occur, most are planned in concurrence with street work occurring in the City. All feasible options are taken into consideration to reduce disruption to residents while work is occurring.

The Sewer Fund currently reimburses the General Fund for administrative charges, which increase between 3% - 4% per year primarily due to personnel cost increases. The administrative charges, or indirect costs, are determined through the Cost Allocation Plan prepared each year. The Cost Allocation Plan allocates costs of services and programs to using Departments and Enterprise Funds based on the level of services received. Some of these services include payroll processing, information technology, financial, and communications services.

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Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
SEWER FUND (204) - Preliminary Beginning Balance	**24,291,000**	**19,709,000**	**20,521,000**	**18,596,000**	**16,421,000**	**13,823,000**
Fiscal Year Net Change						
Total Recurring Revenue	9,122,000	10,303,000	9,756,000	10,141,000	10,540,000	10,956,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	9,122,000	10,303,000	9,756,000	10,141,000	10,540,000	10,956,000
Total Recurring Expenditures	7,300,000	7,866,000	8,592,000	8,918,000	9,400,000	9,532,000
Total One-Time Expenditures	6,404,000	1,625,000	3,089,000	3,398,000	3,738,000	3,738,000
Total Expenditures Projection	13,704,000	9,491,000	11,681,000	12,316,000	13,138,000	13,270,000
Total Sewer FY Operating Surplus/Deficit	1,822,000	2,437,000	1,164,000	1,223,000	1,140,000	1,424,000
Sewer Fund - Preliminary Ending Balance (Operating)	**19,709,000**	**20,521,000**	**18,596,000**	**16,421,000**	**13,823,000**	**11,509,000**
Reserve Percentage (Recurring)	**269.99%**	**260.88%**	**216.43%**	**184.13%**	**147.05%**	**120.74%**

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CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE
for the
Equipment Replacement Fund

INTRODUCTION

The Equipment Replacement Fund (ERF) was established as a mechanism to ensure adequate funding for the replacement of the City's fleet of vehicles. The fund is overseen by the Equipment Maintenance and Fleet Services Division (EMFS) and the Budget & Finance Office.

FISCAL YEAR 2007-08 HIGHLIGHTS

The ERF has continued to maintain a healthy fund balance for several years; therefore, in an effort to reduce costs for operating departments, funding for the ERF fund was slightly reduced for 2007-08. Amortization charges to the effected General Fund operating departments were reduced from 100% to 75%. The ERF fund charges will be reviewed annually to ensure that the fund remains healthy.

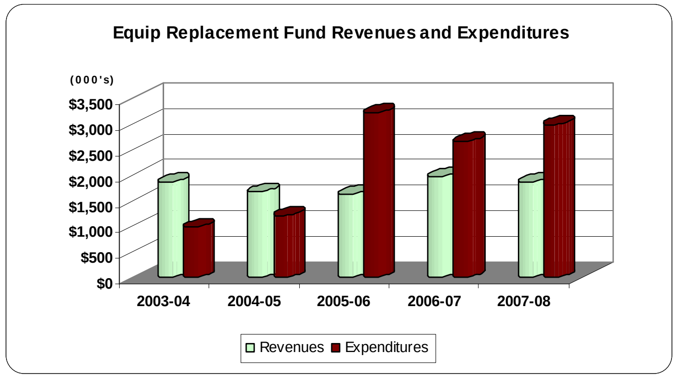
In 2007-08, there are a number of vehicles that are scheduled for replacement including:

- 12 Police Department vehicles (includes 6 black and whites)
- 1 Heavy Duty Dump Truck
- 6 Refuse Side Loader Trucks

BACKGROUND

The Equipment Maintenance and Fleet Services Division of the Transportation Department retains ownership, and has primary responsibility ("cradle to grave"), of all City equipment and vehicle assets. They also assist in overseeing the Equipment Replacement Fund (ERF) working closely together with the Budget & Finance Office. The Division works in conjunction with Purchasing when removing vehicles and equipment from permanent service in the disposal process. Usual methods for disposal are through auctions whereby the City can better use its resources in allowing an auction company to have the responsibility of shipping and selling the City's old vehicles and equipment.

The City obtains funds for the future replacement of vehicles and equipment through periodic rental rate charges (amortization) to the using departments and/or divisions over the expected life cycle of each unit. The City Treasurer invests the funds and credits interest or dividend earnings into the fund. The City Treasurer also places the residual (disposal) value of the assets back into the fund after the sale is finalized.



The ERF is self-supporting and is the main vehicle for budgeting and providing adequate funding for all vehicles and equipment for the City. The Equipment Maintenance Division establishes useful life (life cycles) for all types of vehicles and equipment that are incorporated into the technical amortization schedule managed by staff in the Budget & Finance Office. This amortization schedule guides departments in their annual cost for purchase-ownership and replacement costs for vehicles and equipment at the termination of the life cycle. This also becomes the fiscal budget for all City vehicle assets, except for vehicles in the Transportation Department (i.e. buses).

User departments justify and budget for the initial procurement of all capital assets. When the City receives new equipment, the Equipment Maintenance Division and the Budget & Finance Office add the vehicle and/or equipment into the main asset inventory systems (i.e. fleet management and accounting systems), establish an estimated useful life, calculate the future replacement costs, which include adjustments for CPI and inflation, then establish an amortization schedule for the new piece of equipment.

The Equipment Maintenance Division will communicate on an annual basis with all City Departments those vehicles and equipment that are eligible for replacement. This is based on the termination of life cycles, which then enables those vehicles and equipment to become replacement candidates. Life cycle analysis is the benchmark for replacing equipment. Each year during budget preparation, the Equipment Maintenance Division evaluates the vehicles and equipment that are eligible, or requested to be replaced. During this period, departments are required to submit their requests to replace or change their vehicles/equipment. Once the technical evaluations have been completed, the Division then assembles a recommendation for replacement including any new estimated purchase costs.

Because a particular piece of equipment is eligible for replacement (based on its useful life and amortization cycles), does not automatically guarantee the replacement. Many other factors go into the evaluation process to make certain the equipment is no longer feasible to retain, or is otherwise unusable in its originally designed capacity relative to the division's mission. Age, mileage, repair history, current condition, forecasted repair costs, depreciation and market value are included in the evaluation process. After the vehicle evaluations have been completed, the Equipment Maintenance Division meets and discusses the eligible equipment with the affected departments to:

- Review the list of equipment candidates
- Decide further whether to replace or retain the recommended vehicles and equipment.
- Aid the departments with a budget forecast
- Discuss necessary operational equipment needs

The Transportation Department, through the Equipment Maintenance Division, has established a City Council ERF Sub-Committee to inform the City Council of the ERF process and those equipment and vehicles eligible for replacement. A meeting is held each year during the budget preparation process with our ERF Sub-Committee and all departments that have vehicles for replacement to review the list of candidates, evaluate the recommendations, discuss any issues about the process or equipment, and approve the recommendations.

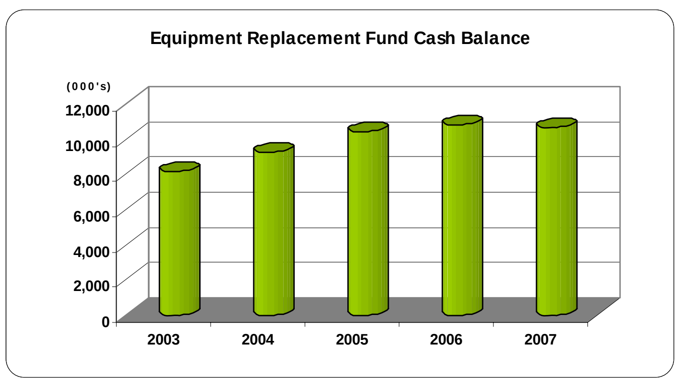
ECONOMIC OVERVIEW

In fiscal 2005-06, $1 million was "loaned" from the Equipment Replacement Fund to the Self-Insurance Fund to help cover a shortfall and assist in establishing a fund balance in this Fund. Once the Self-Insurance Fund is able to maintain a stable fund balance, this funding will be repaid to the Equipment Replacement Fund.

PROJECTIONS AND ANALYSIS OF EXPENDITURES

OVERVIEW

The Equipment Replacement Fund has continued to maintain a healthy fund balance for several years. This is mainly attributable to close oversight by the Equipment Maintenance Division and the Budget & Finance Division.



The strategy already in place for this Fund will continue to be administered. The Five (5) Year Forecast shows a continued healthy operation and is not recommended to be changed.

DISCUSSION OF REVENUE PROJECTIONS

The revenue projections for this fund are increased using a 3.5% inflation rate growth factor for forecasting purposes. Once the actual replacement cost of a vehicle is determined, this amount is entered into the spreadsheet. Until this time, an estimated budgeted amount is used for calculation purposes. Yearly contribution amounts are calculated based on this estimated future year replacement cost. Often vehicle replacement costs are less than the budgeted amount, thus enabling the fund to cover unanticipated or emergency replacements when authorized. This was the case with the early replacement purchase of three (3) Fire Engines, which were recently delivered to the City and are currently in service.

DISCUSSION OF EXPENDITURE PROJECTIONS

Each vehicle is entered into the amortization spreadsheet with the actual cost of the vehicle and estimated useful life. A formula is then calculated that gives the estimated replacement cost based in part on a 3.5% inflation growth rate per year. Once a vehicle has reached its useful life and is not recommended for replacement, only the 3.5% inflation growth rate on the vehicle is charged to the user Division.

The amounts currently showing on the Five (5) Year Forecast for Expenditures are based on anticipated replacements in upcoming fiscal years. As can be seen from the main worksheet for this fund, there is ample funding to cover purchases in fiscal 2007-08 and subsequent fiscal years.

Culver City

January 16, 2008

Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
EQUIPMENT REPLACEMENT FUND (307) - Preliminary Beginning Balance	**10,654,000**	**9,552,000**	**11,335,000**	**9,936,000**	**10,515,000**	**11,592,000**
Fiscal Year Net Change						
Total Recurring Revenue	2,043,000	2,044,000	2,103,000	2,165,000	2,229,000	2,295,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	2,043,000	2,044,000	2,103,000	2,165,000	2,229,000	2,295,000
Total Recurring Expenditures	3,145,000	261,000	3,502,000	1,586,000	1,152,000	1,278,000
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	3,145,000	261,000	3,502,000	1,586,000	1,152,000	1,278,000
Total ERF FY Operating Surplus/Deficit	(1,102,000)	1,783,000	(1,399,000)	579,000	1,077,000	1,017,000
ERF Fund - Preliminary Ending Balance (Operating)	**9,552,000**	**11,335,000**	**9,936,000**	**10,515,000**	**11,592,000**	**12,609,000**
Reserve Percentage (Recurring)	**303.72%**	**4342.91%**	**283.72%**	**662.99%**	**1006.25%**	**986.62%**

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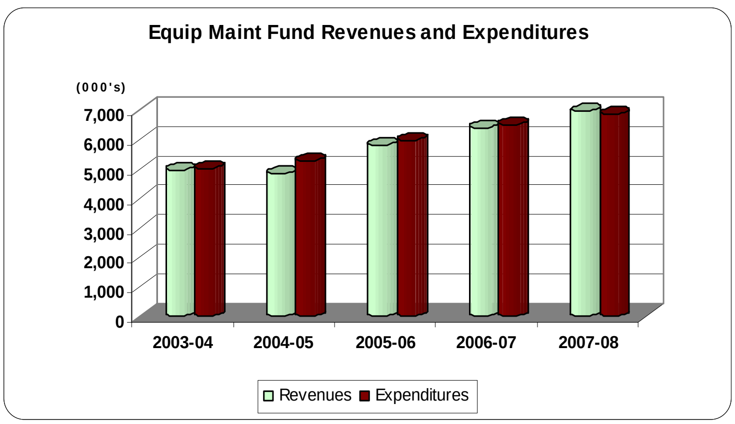
CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE
for
Equipment Maintenance and Fleet Services Fund

INTRODUCTION

The Equipment Maintenance and Fleet Services Division is an Internal Service Fund that was created to provide the City with safe, efficient, and cost-effective equipment and vehicle repair and replacement services. The Fleet Services Division, along with the Budget & Finance Office, is responsible for the administration and operation of the Equipment Replacement Fund.



The Equipment Maintenance and Fleet Services Division is a full-service operation that provides maintenance, repair, welding and asset replacement services for the City. The primary objective of the Equipment Maintenance Division is to provide fleet maintenance services that maximize equipment availability and reliability at the lowest possible cost to all users. As an internal service fund, all personnel and operating costs for the division are allocated to user departments based on their actual use of services.

FISCAL YEAR 2007-08 HIGHLIGHTS

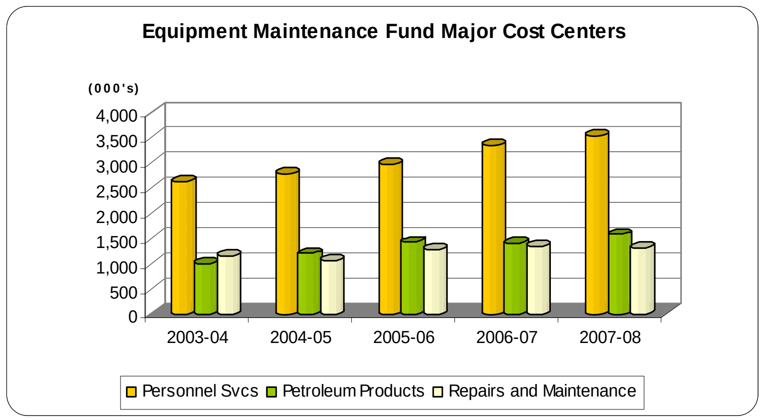
The Adopted 2007-08 Budget includes funding to continue to support the Division's extremely high level of service. The Equipment Maintenance and Fleet Services division's work program in 2007-08 includes:

- Continue to be recognized as one of North America's Top 100 Fleets (currently Culver City is number 7)
- Implement a new Employee Recognition Program in the Division
- Install, maintain, and monitor the new Automatic Vehicle Locator (AVL) system
- Develop a Business Plan to be used, in part, for the fleet certification program

BACKGROUND

The Equipment Maintenance and Fleet Services Division maintains a nationally recognized fleet that is a leader in environmental friendliness. All of the Culver CityBus' vehicles (transit buses), and many of the large refuse vehicles, are powered by clean burning CNG, which is much more environmentally responsible than traditional diesel power. However, they are also more complex and costly to maintain as they require parts that are not as readily available at this time and a workforce with an enhanced set of skills. The purchase of CNG vehicles has caused the costs to the Fund to increase dramatically over the past few years.

The three major cost centers that drive costs in the Equipment Maintenance Division are personnel costs, petroleum costs (including natural gas and unleaded and diesel fuel), and repairs & maintenance on vehicles and equipment.



Over the past four years, expenditures in the equipment maintenance fund have increased an average of almost 11% per year. This is due mainly to increases in petroleum prices and personnel costs, which have increased an average of 18% and 11% per year, respectively, over the last four years. Increases in personnel costs have included adjustments in salaries for certain positions to bring them more in line with the market, and additional technical staff.

The following section provides a brief discussion of economic overview, and the projected revenues and expenditures for the Equipment Maintenance Fund.

ECONOMIC OVERVIEW

The biggest challenge facing the Equipment Maintenance Fund over the next few years is dealing with increased costs of raw materials (i.e. steel) and energy (i.e. fuel). Oil prices continue to increase, recently hitting a high of $100 per barrel for crude oil. Since oil is a finite resource, the supply will continue to dwindle, which will continue to drive up prices over the long run.

As alternative energy vehicles (including CNG) become more available, economies of scale dictate that costs to operate and maintain those vehicles will decrease. With much of the Culver City fleet being converted to, or replaced by, CNG powered vehicles, it is hoped that a drop in CNG costs will offset increases in oil prices. However, until CNG vehicles become more accessible and widespread, petroleum costs in this fund are expected to continue to increase.

PROJECTIONS AND ANALYSIS OF REVENUES AND EXPENDITURES

OVERVIEW

The basic premise of an Internal Service Fund is to charge out for services rendered to user departments to recoup these costs. The ideal outcome is to have revenues and expenditures offset each other at the end of a fiscal year. Hourly rates are calculated based on current overhead (personnel, utilities, workers compensation rates, fuel, etc.), and charged to Divisions based on work performed.

Currently, the Division is working on a Business Plan to assist them in determining what needs they require in order to continue to provide a high-level of service to their users, and what revenue increases will be necessary to meet these needs. This information will be presented at a later date. As this report is updated, new information from the Business Plan will be incorporated.

DISCUSSION OF REVENUE PROJECTIONS

Recurring revenue is based directly on anticipated expenditures for a fiscal year. Each year rates are reviewed to see if they maintain an acceptable level of coverage over expenditures and are adjusted accordingly. In many cases, charge-outs to Departments for services do not cover all expenses of the Division. This has contributed to the current deficit in this Fund. The Charge for Services (Garage Charges) will be evaluated for the coming year to close the deficit gap by fiscal 2010-11. Currently, if Charges for Services can be increased by approximately 7% for the next two fiscal years, this should assist in closing the gap, all things held equal.

DISCUSSION OF EXPENDITURE PROJECTIONS

Personnel costs are estimated to grow at a 4.0% rate, with medical insurance premiums estimated to grow at approximately 12.5% in fiscal 2008-09, and then slightly less in subsequent years. Ongoing operating and maintenance costs are anticipated to increase at an estimated 4.0% overall (depending largely on petroleum costs).

Included in the operating and maintenance costs are fuel charges, which may grow at a faster rate.

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Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
EQUIPMENT MAINT. FUND (308) - Preliminary Beginning Balance	**(706,000)**	**(609,000)**	**(452,000)**	**(188,000)**	**148,000**	**565,000**
Fiscal Year Net Change						
Total Recurring Revenue	6,967,000	7,483,000	7,923,000	8,345,000	8,791,000	9,182,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	6,967,000	7,483,000	7,923,000	8,345,000	8,791,000	9,182,000
Total Recurring Expenditures	6,870,000	7,326,000	7,659,000	8,009,000	8,374,000	8,751,000
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	6,870,000	7,326,000	7,659,000	8,009,000	8,374,000	8,751,000
Total Equip. Maint. FY Operating Surplus/Deficit	97,000	157,000	264,000	336,000	417,000	431,000
Equip. Maint. Fund - Preliminary Ending Balance (Operating)	**(609,000)**	**(452,000)**	**(188,000)**	**148,000**	**565,000**	**996,000**
Reserve Percentage (Recurring)	**-8.86%**	**-6.17%**	**-2.45%**	**1.85%**	**6.75%**	**11.38%**

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CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE
for the
Self Insurance Fund

INTRODUCTION

The Self Insurance Fund is an internal service fund that was established to pay administration costs for the risk management program; pay salary continuance costs for employees injured at work; pay workers' compensation and liability claims costs; and secure excess insurance policies to protect the City's assets. As an internal service fund, all costs for the Self Insurance Fund are allocated to all operating departments using a formula that equitably distributes costs based on each department's actual use (i.e. experience rating).

The City is self-insured for general liability and workers' compensation and has been a member of the Independent Cities Risk Management Authority (ICRMA), a Joint Powers Authority risk sharing pool, for more than 20 years. The ICRMA provides a number of training classes throughout the year and services the City's three main insurance programs; excess General Liability, excess Workers' Compensation, and All-Risk Property.

FISCAL YEAR 2007-08 HIGHLIGHTS

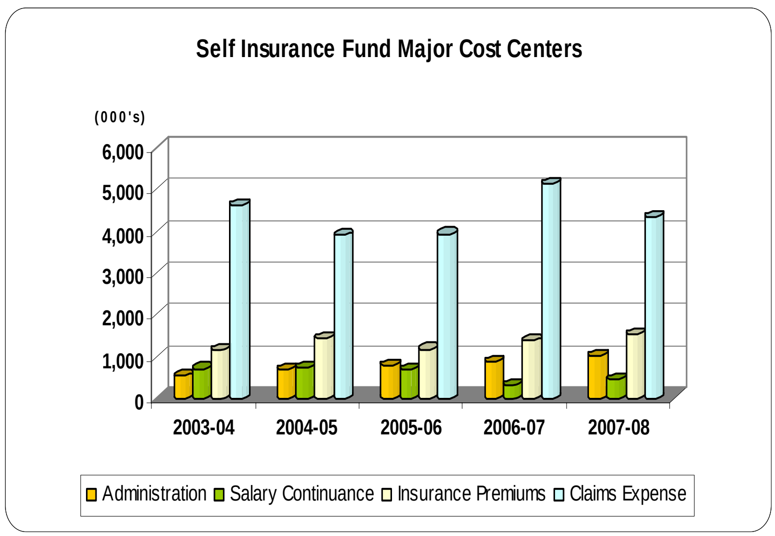
For Fiscal Year 2007-08, the Risk Management division refined the allocation formula to further improve the equity of the Self Insurance fund charges. The Adopted 2007-08 Self Insurance Fund operating budget decreased by 1% from the previous year due to a projected reduction in costs. However, a transfer of $3.6 million from the fund reserve is needed to cover costs associated with the Cranks/Tellefson hill slide litigation. Budget highlights for 2007-08 include:

- Reduce the Risk Manager position
- Reduce Salary Continuance budget by 34% to reflect a decrease in employee lost time
- Transfer of $3.6 million to CIP to repair the Cranks/Tellefson hillside
- No overall increase in insurance premiums

BACKGROUND

The two largest cost centers within the Self Insurance Fund are workers' comp related expenses and insurance premium costs. Over the past five years, both the workers' comp and insurance industries have experience significant increases. Insurance premiums have been on the rise since September 11, 2001. Subsequent natural disasters, such as hurricanes Katrina and Wilma, have caused insurance companies to re-evaluate their risks in other natural disaster prone areas, especially Southern California. Prior to September 11th, the City's insurance premiums were approximately $300,000 annually. Today, the City's cost for insurance premiums, excluding medical premiums, exceeds $1.3 million. This has placed added pressures on City resources.

Additionally, workers' compensation costs experienced large increases over the past five years. With double digit increases in medical costs and a system that was considered by many to be broken, the rapid increase in costs were not unique to Culver City and it caused a state-wide evaluation of the workers' compensation system. Lawmakers recognized that the system needed to be "fixed" and passed a large scale reform package in April 2004 (SB 899). SB899 has helped to reduce costs and stabilize the workers' compensation system somewhat; however, the costs for Culver City continue to be in the millions of dollars.



There were a few years when the City was facing a tight timeframe to balance its General Fund budget, and the allocation percentages for the worker's compensation charge and/or liability reserve charge to all departments/funds were reduced based on the projected sufficient reserve cash balance in the SIF. Historically, those charges were calculated based on the salary of the positions; consequently, if there were vacancies, the charges were not fully collected into the SIF. In addition to these two factors, staff was exploring another financing mechanism for this fund; however, the option was not viable. As a result, the cash reserves dropped significantly. In 2004-05, the cash reserve was just over $1 million.

In order to keep the Self Insurance Fund solvent, charges to departments were increased approximately $2.7 million in 2005-06 (60% increase) and $1 million was transferred into the Self Insurance Fund from the Equipment Replacement Fund.

In fiscal 2006-07, staff implemented a new formula that allocated expenses to departments based entirely on actual experience over a five-year period rather than payroll. For fiscal 2007-08 and 2008-09, staff has made further revisions to the allocation formula to ensure an equitable distribution of costs (more detail provided in the "Overview" section below).

The City will continue to implement best management practices to reduce insurance costs and the frequency and cost of workers' compensation claims; however, the Self Insurance program is moving in the right direction. Due to increased claims management and with the help of legislative improvements to the system, the City has already experienced a decrease in workers' compensation related expenses. As a result, the program has come in under budget for fiscal years 2005-06 and 2006-07 and has increased the reserve cash balance to approximately $5 million.

ECONOMIC OVERVIEW

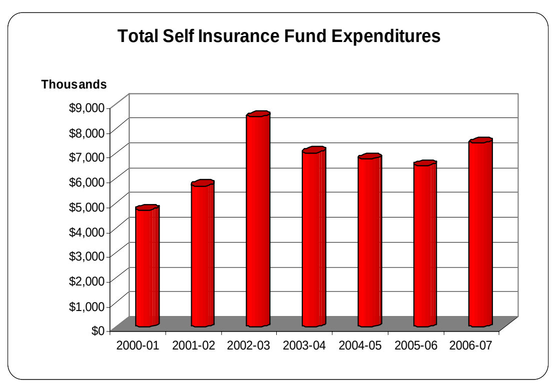
As previously mentioned, many of the Self Insurance Fund's costs are driven by factors outside of the City's control, including increased medical costs and the state of the insurance industry. For example, the 2006-07 policy year saw a dramatic increase in All Risk Property insurance. The earthquake insurance market collapsed as many insurance carriers dropped out of the market and stopped offering earthquake insurance. This was driven by three main factors: huge losses experienced by property insurance companies from hurricanes Katrina and Wilma, the introduction of new modeling software to estimate loss risks from natural disasters, and the 100 year anniversary of the San Francisco earthquake. With many providers leaving the earthquake market, the remaining few insurers had less price competition and demanded higher premiums and offered less coverage.

In the workers' compensation arena, there are two major components driving costs; medical cost inflation and legal challenges to the new legislation. Medical costs are expected to continue to increase as the baby boomer generation ages and require increased medical services. This will continue to put pressure on medical costs and consequently the costs to provide medical care to injured workers.

There have also been many legal challenges and ballot initiatives to overturn many cost containing measures included in SB 899. For the most part, these challenges have been relatively unsuccessful; however, a changing political environment may jeopardize the improvements to the system achieved by SB 899.

BACKGROUND

The graph on the right illustrates the dramatic increase in Self Insurance fund costs in the early 2000's, hitting a high mark in 2002-03. Costs have since decreased; however, they are still above what they were prior to 2002-03. As previously discussed, the main drivers for the increased costs are industry wide increases in both insurance premiums and workers' compensation costs. The major cost centers for the Self Insurance fund are illustrated below.

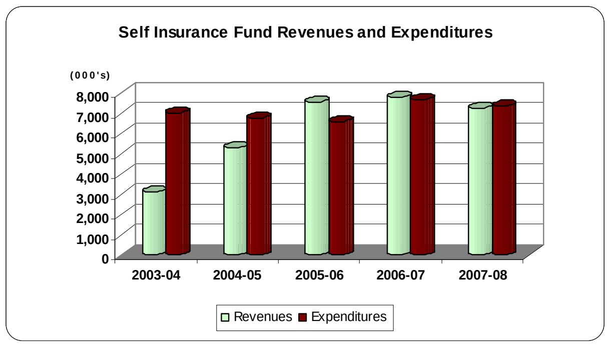


During this five year period, the Self Insurance Fund's cash reserve was used to fill the gap between revenues and expenditures. To minimize the impact of these increases, operating departments were not charged the full cost of the Self Insurance Fund. There was already a significant strain on resources that led to staff reductions in 2003-04. If the cash reserve had not been used to subsidize Self Insurance Fund's operations, there may have been a need to reduce staff even further. Now that the City's financial situation has somewhat stabilized, the City is focused on rebuilding the Self Insurance Fund's cash reserve to adequate levels by equitably charging all costs to operating departments.

PROJECTIONS AND ANALYSIS OF EXPENDITURES

OVERVIEW

Beginning in fiscal year 2006-07, staff implemented a formula to allocate all Self Insurance Fund expenses to departments based on an experience rating rather than payroll. In order to establish a relatively stable SIF charge and smooth out peaks and valleys in claims and insurance costs for each department, the allocation formula is based on a five year average of each department's actual claims costs.



For fiscal 2007-08 and 2008-09, staff has made further revisions to the allocation formula to ensure an equitable distribution of costs. Self Insurance costs will be divided into two categories: 1) fixed costs and 2) experience based costs. Fixed costs are the administration costs (personnel and operating costs) and insurance costs. The fixed costs are allocated to each division based on their portion of the City's total salary expense. Experience based costs are workers' compensation and general liability claims expenses and salary continuance costs. Experience based costs are allocated to each division based on a five-year average of their actual experience. This revision will make the Self Insurance Fund charges much more equitable and consistent with the method private insurance companies use to allocate premiums.

DISCUSSION OF EXPENDITURE PROJECTIONS

Expenditures are projected by calculating the five year average percentage change in each of the expenditure categories listed below:

1. Risk Management Administration
2. Salary Continuance for Injured Workers
3. Insurance Premiums
4. Liability Claims Costs
5. Workers' Compensation Claims Costs

The average percentage change for each category is reviewed and adjusted based on future operational needs and program expectations.

Risk Management Admin – The Risk Management Administration division comprises of staff and operations and maintenance costs. The Risk Manager position was eliminated in the fiscal 2007-08 budget, and the duties have been placed under one of the Assistant City Managers. The division currently has three (3) full time staff, including a Safety & Claims Coordinator, Safety Officer, and Claims Technician. Additionally, a number of positions in the City Attorney's office are partially funded in this division due to their involvement in managing the General Liability program. Also, 40% of the Assistance City Manager overseeing Risk Manager will be funded by the Self-Insurance Fund. It is assumed that the costs for this division will increase consistent with MOU increases, approximately 4%.

Salary Continuance – When an employee is injured on duty (IOD) and must miss work as a result, the City will pay that employee's full salary up to one year for public safety (per the Labor Code) and six months for general employees. During the period of time the employee is off work due to an injury, their salary and benefits are paid from the Self Insurance Fund rather than their respective department. This is to allow the department the option to use salary savings to hire temporary help until the injured employee returns. It is expected that, with increased claims management and preventative safety programs, salary continuance costs should decrease slightly over the next few years before leveling off and increasing consistent with MOU negotiated increases.

Insurance Premiums – Insurance premiums are widely variable from year to year. It is projected that the increase in insurance premiums will be slightly more than inflation (5% per year).

Liability Claims – It is almost impossible to accurately predict liability claims costs from year to year. However, historically claims costs have remained relatively stable. Therefore, liability claims costs are projected to be consistent with the projected inflation rate (3.5%).

Workers' Compensation Claims – Similar to Liability claims, it is extremely difficult to accurately predict workers' comp claims costs from year to year. Based on the recent evaluation of the program, it is projected that costs may be reduced further over the next few years before they stabilize. It is projected that workers' compensation claims will decrease approximately 2% per year for the next five years before leveling off and increasing commensurate with projected inflation (3.5%).

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Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
RISK MANAGEMENT FUND (309) - Preliminary Beginning Balance	**5,028,000**	**2,725,900**	**2,800,300**	**3,020,800**	**3,241,400**	**3,361,100**
Fiscal Year Net Change						
Total Recurring Revenue	7,070,000	7,220,000	7,726,000	8,105,000	8,500,000	8,914,000
Total One-Time Revenue	200,000	200,000	200,000	200,000	100,000	100,000
Total Revenue Projection	7,270,000	7,420,000	7,926,000	8,305,000	8,600,000	9,014,000
Total Recurring Expenditures	9,572,100	7,345,600	7,705,500	8,084,400	8,480,300	8,893,300
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	9,572,100	7,345,600	7,705,500	8,084,400	8,480,300	8,893,300
Total Risk Mgmt FY Operating Surplus/Deficit	(2,302,100)	74,400	220,500	220,600	119,700	120,700
Risk Mgmt Fund - Preliminary Ending Balance (Operating)	**2,725,900**	**2,800,300**	**3,020,800**	**3,241,400**	**3,361,100**	**3,481,800**
Reserve Percentage (Recurring)	**28.48%**	**38.12%**	**39.20%**	**40.09%**	**39.63%**	**39.15%**

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CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE
for
Operating Grant Funds

INTRODUCTION

The City has a number of operating grants that allow the City to provide a level of service that may not otherwise be feasible, including the Community Development Block Grant (CDBG), Senior Nutrition Program, and the COPS program. Operating grants are used to fund personnel and operations costs for specific activities allowed by the grant.

It is the City's policy to apply for grants that are directed toward achieving and maximizing external financial resources while protecting the integrity of the City's operating budget and long-term financial condition. When contemplating a grant application, the applying department must consider the fiscal impact and shall complete a financial analysis to measure the cost and benefit of the grant activity. If the cost of administering the proposed grant exceeds the grant amount or the matching requirement causes excessive burden on the City's financial resources, or the grant funded project creates significant ongoing operating costs, the department should choose not to apply.

It is the responsible department's obligation to ensure that all requirements and timelines set forth in the grant agreement are satisfied. The department is also responsible for following the policies and procedures laid out in the City's "Administrative Procedures for Grant Submission and Management."

Federal and State Grants are an important source of funds that the City can use to leverage its own money and maximize the level of service provided to the community. Many operating grants have strict procedures that must be followed or the City risks not being able to collect the funds. Therefore, the City must be diligent in adhering to requirements of the grant agreement to ensure the most effective and efficient use of resources.

FISCAL YEAR 2007-08 HIGHLIGHTS

The Adopted 2007-08 Budget continues funding for CDBG, the Senior Nutrition Program, Paratransit Services, Retired Seniors Volunteer Program, COPS, La Ballona Bikeway, and Air Quality Programs.

BACKGROUND

Grant fund opportunities are variable from year-to-year. Some operating grants are appropriated on a multi-year basis, but there is no guarantee that additional funds will be available once the grant expires.

Currently, the City has a number of programs that are funded in whole or in part by operating grants. These programs include the Disability Services Specialist through the Community Development Block Grant (CDBG), Senior Nutrition Program, Paratransit Services, Retired Seniors Volunteer Program, and the COPS program. The grant funds are used to fund personnel and operating costs associated with the grant activity.

CDBG funds are used for projects that meet the needs of the community in low-moderate income areas. CDBG funds are used to off-set personnel costs for managing the CDBG program as well as continued funding of the Disability Services Specialist and implementation of new projects that are approved by the CDBG Advisory Committee, which is a citizen participation committee. The Disability Services Specialist is a member of the Senior & Social Services Division.

The Senior Nutrition Program is administered by the Senior and Social Services Division and provides seniors who are sixty years and older with hot lunches on-site, home delivered meals to Culver City residents, telephone reassurance, and nutritional education. This program is intended to be 100% funded by the grant and donations.

The Paratransit Services program provides transportation to people who cannot use normal public transportation services. This is accomplished through deployment of City vans and contracts with cab companies licensed to operate in Culver City. This program is also intended to be 100% grant funded and is administered by the Senior and Social Services Division.

The Retired Seniors Volunteer Program is also administered by the Senior and Social Services Division. The mission of the program is to meet the critical needs of the community through volunteerism and to provide citizens age 55 and above with meaningful service opportunities that utilize their experiences, knowledge, skills, and wisdom. In order to meet these goals, the program matches seniors with volunteer opportunities in Culver City and surrounding areas.

ECONOMIC OVERVIEW

Operating Grant funding is variable from year-to-year based on the Granting Authority's (usually the Federal or State government) annual appropriation. With an increased amount of funds being appropriated for the war in Iraq, domestic funding for grants and other federally funded programs may begin to shrink.

This has been made apparent as the CDBG program was nearly eliminated entirely from the Federal budget for Fiscal 2006-07. In response to public opposition, the CDBG program was ultimately funded in the Federal budget; however, the funds were reduced significantly from the prior year. It is expected that, in light of current world events, many grant funds will be directed towards homeland security and defense type activities. As a result, there may be additional grant opportunities for public safety related activities in the future.

PROJECTIONS AND ANALYSIS OF EXPENDITURES

OVERVIEW

Because of the many variables that come into play with grant funding, it is very difficult to project any type of ongoing forecast or trend. Many of the operating grants the City receives are for one-time items and purchases of which most are special equipment. These one-time operating grants are listed on the Five (5) Year Forecast in fiscal 2007-08 and in some cases for 2008-09, but do not show any funding in future years. Only historical on-going operating grants are shown.

More often than not, operating grants are "reimbursable," meaning the City must spend (front) the money first and then submit the paperwork to be reimbursed by the granting authority. This creates a lag between the time the expense goes out and the reimbursement comes in. In a perfect situation the operating grant balance would be zero, but because of the reimbursable status of most grants, a negative balance is created until the funding is received from the granting authority.

For purposes of forecasting both ongoing operating grant revenues and expenditures, the **Senior Nutrition Program**, **Paratransit Services**, **Retired Senior Volunteer Program (RSVP)**, **Disability Services**, **La Ballona Creek Bikeway**, and **Air Quality Programs** are the only Divisions showing ongoing funding. Historically, these have had dedicated grant funding sources; although, any grant funding can be discontinued or reduced from one year to another.

For a few of the Divisions listed below, General Fund monies are used to supplement the grant to cover the entire cost of the program. It has been a goal of the City that all grant-funded programs be self-sufficient, but this goal is not feasible in all cases and will likely not be met in the near future.

DISCUSSION OF REVENUE PROJECTIONS

The **Senior Nutrition** Division receives its funding mainly from the County of Los Angeles. This funding is approved on a three to four year basis, and will be coming up for renewal this year. There is no indication at this time that the City will receive a lower amount than it currently receives, and is lobbying to receive an increased amount due to the number of meals served.

The **Paratransit Services** Division is mainly funded using Prop A Incentive funding, County Paratransit Reimbursement, and Prop C funding. The County Paratransit Reimbursement contract is up in 2008, and will be open to discussion with the County Department of Public Works. There is no indication at this time that funding will be reduced for this program. Funding for all except the Prop A Incentive funding was kept at a 4% growth per year for forecasting purposes. The Prop A Incentive funding is projected to grow by 2.1% per year. This may change in the future, but is not possible to predict.

The **Retired Senior Volunteer Program (RSVP)** is only grant funded by approximately one-third. The other portion is covered by the General Fund. The Corporation for National and Community Service designates funding for senior volunteer programs, and just renewed this funding for a three-year cycle.

The **Disability Services** Specialist is funded using Community Development Block Grant (CDBG) monies. As was discussed earlier, this funding has been reduced the last several years, and has the possibility of being eliminated in the future. Each year the funding is reduced, the General Fund has picked up the difference. Currently, the grant pays approximately 50% of the Specialist's position in fiscal 2007-08. Actual program expenditure including supplies and part-time personnel are supported by the General Fund.

For the four Divisions just discussed, strategies are currently being developed to address potential grant funding shortfalls and possible restructuring of the programs and were not included in this document. It is highly likely that these strategies will be introduced and presented during the upcoming budget process.

AB 2766 funding, which funds our **Air Quality Programs** Division, is expected to continue to be received, and is projected to grow by approximately 0.5% per year. The current per-year amount of funding is approximately $40,000 and is roughly based on the City's residential population (approximately $1 per resident [$1 x 40,000 = $40,000]). Currently, there is no legislation that is expected to change this formula.

Funding for the **La Ballona Creek Bikeway** is received from the Transportation Development Act Article 3 – Bicycle and Pedestrian Funds. This funding is granted to municipalities on a per capita basis and varies slightly from year-to-year. This funding helps cover some of the personnel expenses of our Public Works personnel who assist in maintaining the Bikeway. For revenue projections, this funding source has been held steady at the current funding amount. There is currently no formula or calculation to determine the amount to be allocated from year-to-year.

All other grant revenues shown in fiscal 2007-08 have been identified as one-time grants, and are not carried forward in projections.

DISCUSSION OF EXPENDITURE PROJECTIONS

Expenditures for personnel costs are forecasted to grow 4% per year, and medical insurance costs are forecasted to grow 12.5% in fiscal 2008-09, with slight reductions in percentage increases in subsequent years. Operating and maintenance costs are forecasted to grow by 3.5% per year. Ongoing personnel expenditures are found in the Senior Nutrition Division, Paratransit Division, Retired Senior Volunteer Program (RSVP), and Disability Services Division.

Each budget year, grant-funded Divisions must be reviewed to determine the amount of funding available. Grant funding is aggressively sought, and staff constantly keeps abreast of any changes in funding that may occur from year to year. They actively seek to at least maintain the current levels of grant funding. Appropriations for expenditures are made based on identified available funding for the upcoming budget year. If there is a gap between available funding and expenditures, all avenues are explored to close the gap before General Fund money is used.

Expenditures in the **Air Quality Programs** Division are currently projected at a steady rate. Funding in this Division is used for the City's Rideshare program through AQMD, and to help fund the additional cost of alternative-fuel vehicles, which is the policy of the City to purchase when feasible and available.

The **La Ballona Creek Bikeway** expenditures are set against the available revenue funding. Each year the City is contacted regarding the amount of funding it will receive per the Transportation Development Act Article 3 for this program and budgets accordingly.

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Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
GRANTS OPERATING FUND (414) - Preliminary Beginning Balance	**(287,000)**	**(273,600)**	**(292,500)**	**(297,800)**	**(329,100)**	**(389,400)**
Fiscal Year Net Change						
Total Recurring Revenue	1,140,000	1,125,000	1,006,000	1,020,000	1,035,000	1,049,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	1,140,000	1,125,000	1,006,000	1,020,000	1,035,000	1,049,000
Total Recurring Expenditures	1,126,600	1,143,900	1,011,300	1,051,300	1,095,300	1,139,300
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	1,126,600	1,143,900	1,011,300	1,051,300	1,095,300	1,139,300
Total Grants Op FY Operating Surplus/Deficit	13,400	(18,900)	(5,300)	(31,300)	(60,300)	(90,300)
Grants Operating Fund - Preliminary Ending Balance (Operating)	**(273,600)**	**(292,500)**	**(297,800)**	**(329,100)**	**(389,400)**	**(479,700)**
Reserve Percentage (Recurring)	**-24.29%**	**-25.57%**	**-29.45%**	**-31.30%**	**-35.55%**	**-42.10%**

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
CDBG-Operating (427) - Preliminary Beginning Balance	**5,000**	**4,000**	**0**	**(7,000)**	**(17,000)**	**(30,000)**
Fiscal Year Net Change						
Total Recurring Revenue	79,000	79,000	79,000	79,000	79,000	79,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	79,000	79,000	79,000	79,000	79,000	79,000
Total Recurring Expenditures	80,000	83,000	86,000	89,000	92,000	97,000
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	80,000	83,000	86,000	89,000	92,000	97,000
Total CDBG-Operating FY Operating Surplus/Deficit	(1,000)	(4,000)	(7,000)	(10,000)	(13,000)	(18,000)
CDBG-Operating - Preliminary Ending Balance (Operating)	**4,000**	**0**	**(7,000)**	**(17,000)**	**(30,000)**	**(48,000)**
Reserve Percentage (Recurring)	**5.00%**	**0.00%**	**-8.14%**	**-19.10%**	**-32.61%**	**-49.48%**

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE
for the
Capital Projects Funds

INTRODUCTION

The Capital Projects Funds were established to address the City's various capital and infrastructure improvement needs that are above and beyond the annual operating budget. Capital Improvement Projects (CIP) are critical as they represent an investment in the betterment of the community and are the City's main tool to address current deferred maintenance costs and prevent the increase of future deferred maintenance costs, including street paving, streetlight upgrades, and facility maintenance.

FISCAL YEAR 2007-08 HIGHLIGHTS

The Adopted 2007-08 CIP Budget includes funding for a number of projects that begin to address some critical deferred maintenance issues.

Facility and Equipment Maintenance

- Building Repairs ($265,000)
- Replacement of the A/C System at Police Station ($250,000)
- Park Facilities Improvement for deferred maintenance ($100,000)
- Playground Equipment Repair ($15,000)
- Replace Fencing at various parks and update Park Irrigation System ($30,000)

Street, Streetlight and Sidewalk Maintenance

- Minor Pavement and Concrete Improvement Program ($50,000)
- Residential Paving Program ($160,000)
- Median Island Rehab ($25,000)
- Street Light Upgrade ($380,000)
- Curb, Gutter, Sidewalk Repair ($100,000)

Traffic Improvement

- Traffic Signal Replacement/Upgrade ($10,000)
- Neighborhood Traffic Management Plan ($60,000)
- Fox Hills Area Traffic Signal Synchronization ($800,000)

Other Maintenance Projects

- Technology and Network Infrastructure ($100,000)
- Stormwater Discharge Program/NPDES ($1,352,000)
- Sewer system upgrade projects ($1,650,000)

Approximately $1.6 million in capital funding has also been approved for a public safety CAD/RMS/MDT system to increase information flow, reporting capabilities and operational efficiency for the Police Department; and an additional $1.5 million was approved for the construction of Fire Station #3, which is scheduled to be completed in June 2008.

Additionally, a number of major projects have been completed, or are scheduled to be completed, in fiscal year 2007-08. Some of the highlights include:

- Skateboard Park
- Dog Park Phase 2
- Police Department Firing Range
- Fire Station #3
- Sewer Improvement Projects
    - Flaxton/Whitburn/Drakewood/Eveward
    - Smiley/Blackwelder
    - Cranks/Northgate
    - Commonwealth Alley
    - Carson Street
    - Sewer Manhole Rehabilitation

BACKGROUND

The City has established a five-year Capital Improvement Plan which is reviewed and updated annually. The Capital Improvement Plan is a comprehensive document that identifies the City's capital improvement needs, potential funding sources for each need, a five-year projection of the project cost, and any ongoing operating and maintenance costs associated with the project.

The plan is designed to provide basic public improvements, facilities, and services that meet community needs and improve the quality of life for City residents. There are a number of factors involved in the prioritization and selection of projects to be funded, including:

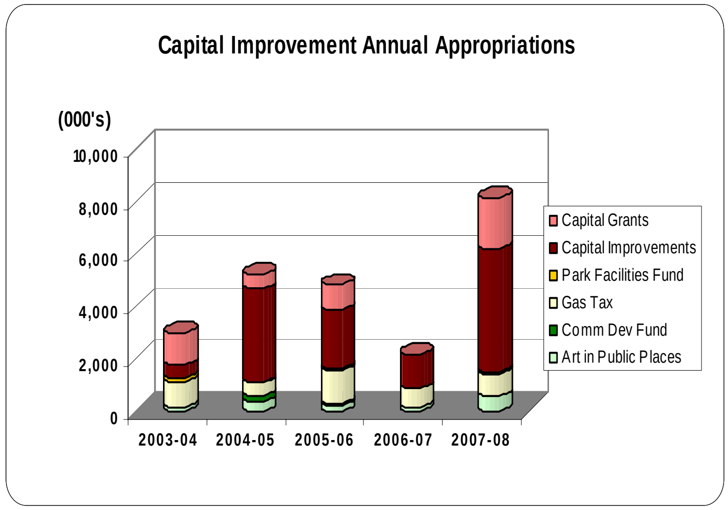
- Availability of funding;
- Utilization of existing facilities;
- Ability to meet projected, as well as existing, levels of need;
- Elimination of conditions dangerous to the health, safety and welfare of the public;
- Compliance with legal requirements;
- Reduction of maintenance and operations costs;
- Participation in Federal, State, Regional or Special District plans and programs;
- Consistency with goals and policies of the City's General Plan;
- Promotion of environmental quality.

During the annual budget process, funding for projects identified in the Capital Improvement Plan is appropriated based on the City's priority.

ECONOMIC OVERVIEW

BACKGROUND

Culver City has parks, streets, sidewalks, buildings, computers, etc., that must be maintained on an ongoing basis. Over the last fifteen years or so, the City has been unable to consistently generate sufficient funds to keep up with the annual maintenance of its infrastructure. As a result, that maintenance must be deferred to future years, which means that the project will continue to deteriorate, ultimately increasing the total maintenance cost. In short, the longer maintenance is put off, the more it will end up costing the City in the future.



With substantially increasing operational costs, funding available for Capital Projects has shrunk over the last few years. The graph to the right illustrates the variability in available funding from year-to-year. Without a consistent and reliable funding stream, many critical maintenance projects will continue to be deferred.

PROJECTIONS AND ANALYSIS OF REVENUES AND EXPENDITURES

OVERVIEW

Availability of funding for capital projects varies annually based on the financial condition of the General Fund. Often times, the City relies on one-time revenues received in previous fiscal years to fund capital projects. With no consistent funding stream, it is difficult to project how much funding will be available from year to year. At this time, only projects identified as high priority in the five-year Capital Improvement Plan are included.

A facility assessment study has been conducted that identified the maintenance needs of most City building facilities over the next twelve (12) years. The draft study was used as a guide to assist in appropriating funding for the fiscal 2007-08 budget year. The study is currently being updated, and is expected to be reviewed again in February 2008. Similarly, a park assessment study was conducted, and results from the draft report were used to assist with funding needs during the budget process for parks.

Additionally, the City has identified a number of infrastructure maintenance needs and has begun to quantify those needs by developing the following:

- Pavement Management System
- Building Infrastructure Master Plan

- Computer Replacement Fund
- NPDES/TMDL – (A CIP project has been created for this program to act as a funding source for mandated storm water cleanup issues, but the actual amount needed is still unknown at this point.

DISCUSSION OF REVENUE PROJECTIONS

As mentioned above, one of the City's greatest challenges has been to identify a steady revenue stream for capital projects. There are a number of other options for funding capital projects, including grant opportunities and issuing bonds. However, these options do not result in a stable, ongoing, long term revenue stream for capital projects. One of the policy challenges that will need to be addressed in the upcoming years is how to establish a revenue stream that will support the large backlog of capital project needs and ensure that, in the future, the City is able to consistently fund all necessary capital projects in order to reduce the current identified maintenance and operating costs.

CAPITAL GRANTS

It is the City's policy to apply for grants that are directed toward achieving and maximizing external financial resources while protecting the integrity of the City's operating budget and long-term financial condition. When contemplating a grant application, the applying department must consider the fiscal impact and shall complete a financial analysis to measure the cost and benefit of the grant activity. If the cost of administering the proposed grant exceeds the grant amount or the matching requirement causes excessive burden on the City's financial resources, or the grant funded project creates significant ongoing operating costs, the department should choose not to apply.

Grant funds for capital projects are appropriated, in most cases, only after a signed contract with the granting agency is received and a copy is forwarded to the Budget & Finance Division. Once the money is appropriated, it is the responsible department's obligation to ensure that all requirements and timelines set forth in the grant agreement are satisfied until the project is completed and all grant funds have been received. The department is also responsible for following the policies and procedures laid out in the City's "Administrative Procedures for Grant Submission and Management." The Budget & Finance Division is currently working with the City Treasurer's Office to monitor the project activities and meet with the team quarterly for reimbursement tracking purposes.

Federal and State Grants are an important source of funds that the City can use to leverage its own money and maximize the number of capital projects that can be funded in any given year. However, many grants have strict procedures that must be followed or the City risks not being able to collect funds once the project has been completed. Therefore, the City must be diligent in adhering to requirements of the grant agreement to ensure the most effective and efficient use of resources.

The **Community Development (New Development Impact) Fund** receives its funding from fees collected on new non-residential development in excess of 5,000 square feet. These fees are used to finance street improvements, traffic controls and traffic management projects. Currently there is a small amount of funding available in this fund. It is difficult to forecast future funding since it depends on actual development. Appropriations for expenditures are not budgeted above available revenue.

The **Gas Tax Fund,** also known as the Highway User's Tax, is a dedicated funding source that is generated from the $0.18 state tax per gallon of gasoline, diesel, and use fuel. This amount was set by legislative action in the mid-1990's, and has not changed since. Regardless of the price of a gallon of fuel, this amount stays the same. The City receives roughly about $750,000 per year in Gas Tax monies. While the City would like to receive increased funding in this category, it would take State legislative action in order to raise the tax per gallon amount.

The **Improvement & Acquisition (I & A) Fund** is funded mainly by one-time and audited surplus monies in the General Fund. In the recent past, most of the funding has been from one-time monies. Also, developer fees or other specific one-time general CIP monies, such as monies from Playa Vista, have been used to fund specific projects related directly or in part to projects affecting or in relation to the developer or grantor.

There is approximately $3.5 million appropriated for the development and building of the new Fire Station #3 in the Fox Hills area. One million dollars is anticipated to be received from the future sale of the three lots housing the existing Fire Station #3 on Segrell Way, and the other $1 million is a "loan" from the General Fund approved by the City Council. At the time the "loan" was approved, it was hoped that grant funding could be found to pay it back. Consequently, this $3.5 million may require General Fund funding.

DISCUSSION OF EXPENDITURE PROJECTIONS

The **Pavement Management Plan** calculates the current backlog for street paving at approximately $18.0 million. This would bring the condition of the City's streets up to an acceptable level. Approximately $2.2 million is needed annually just to keep the backlog at the current level ($18.0 million). Approximately $2.4 million is appropriated (includes new appropriations plus carryover funds) for street and alley improvements through fiscal 2008-09. Also, per a state ballot measure approved in November 2006, it is also anticipated that the City will receive approximately $1.3 million in additional funding for street purposes. This funding has not been included in the worksheets at this time. As with all deferred maintenance, the further in the future a street is repaired/repaved, the more it will cost.

In fiscal 2005-06, the City started the process of setting aside funds for **pavement, slurry seal, and computer/technology replacement**. This was accomplished by using one-time funds from new development activities in the General Fund. Currently, there is no dedicated revenue stream for these activities; therefore, the City will need to rely on available one-time monies to continue funding these items. In order to obtain funding other than one-time monies for capital projects, the City needs to be cognizant of all factors associated with the financing. A statement under "Capital Improvement Project Policies" in the recently updated and subsequently adopted financial policies addresses this issue and states:

> "The City must carefully seek and analyze the appropriate type of financing instrument appropriate for financing capital projects. Several options are available – general obligation debt, fee-supported debt, fund reserves, etc. All debt financing mechanisms shall be carefully considered and analyzed for fiscal benefit and cost effectiveness. Long-term borrowing shall be restricted to projects too large to be financed from current revenues (pay-as-you-go). Where possible, special assessment, revenue or other self-supporting bonds shall be used in lieu of general obligation bonds."

One of the largest capital project expenses facing the City is related to State-mandated cleanup of pollutants resulting from stormwater and urban runoff, specifically those that enter Ballona Creek and empty into Santa Monica Bay. This cleanup effort is an unfunded mandate by the State.

The City's **National Pollutant Discharge Elimination System** (NPDES) program was established to support the implementation of the Los Angeles County Municipal Stormwater NPDES Permit, and to comply with federal and state environmental (surface water quality) laws. This program covers all stormwater (and urban runoff) pollution prevention and mitigation issues including the stormwater plan check reviews, public outreach, commercial and industrial stormwater inspections, attending meetings, providing staff training, responding to complaints, applying for and managing grants, and managing the Transportation Yard and Transfer Station's General Industrial Stormwater NPDES Permits.

In-house staff was hired at the beginning of 2005 to manage the NPDES/Stormwater Program. The stormwater program manager oversees all of the stormwater issues within the City, including the public facilities, construction sites, businesses, and residential areas. With the adoption of total maximum daily loads (TMDLs) (surface water quality limits with strict quantitative limitations), all the municipalities in Los Angeles County (and across the state) are facing a situation where they may incur millions of dollars in financial obligations to satisfy the regulations over the coming decade. Beginning in 2005-06, the City is setting aside funds in the Capital Improvement Plan to address NPDES issues. Additionally, the City has been awarded a $1.25 million Prop 50 grant from the State for design and construction of various best management practices devices to reduce storm water pollution. More funds will need to be set-aside in order to meet the growing costs of this mandate.

The **Art Fund** is a dedicated funding source, and among other things is for the design, acquisition, commission, installation, improvement, maintenance and insurance of an art work; the sponsoring and/or support of performing arts; and for the acquisition and improvement of real property for the purpose of displaying art work. The **Art Fund** currently has a healthy reserve and receives its funding from developers who elect to give the City 1% of their development/construction costs rather than install artwork themselves. Depending on the scope of a project, this can amount to a large sum.

In the near future, anticipated expenditures are well within the level of available and expected revenues. Each year this is evaluated to ensure that funding is available for the proposed projects and administrative costs.

As mentioned previously in the revenue section, **Gas Tax** funding can only be used for street and road related purposes. This includes street and traffic light projects. Currently the City utilizes almost the full amount of funding received each year for Capital Projects, and also transfers a portion to the General Fund to pay for street related operating expenses. This funding has also been used as a matching source of funding for grants. It is not anticipated the City will receive a larger amount of revenue from this source, which would be dependent on a State legislative action.

Parks Facility Funding is received by the City from developments that do not include “green space” as part of the development. This funding source has not been a large source of revenue for the City in many years, and is used specifically on Park projects, such as park rehabilitation and improvements. When available, this funding has also been used as a matching source for grants awarded to the City. Currently, budgeted and projected expenditures do not exceed the available revenue amount.

The **Improvement and Acquisition (I & A) Fund** funds projects that are general or administrative in use. The available funding has been limited in previous years, and is mainly received from audited surpluses and one-time monies from the General Fund.

The **Parking Fund** receives its funding from meter monies and filming permits. A portion of this funding is transferred into the General Fund to cover parking and street related costs as part of General Fund operation. This funding has also been used for capital projects related to installation of parking meters.

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Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
ARTS FUND (413) - Preliminary Beginning Balance	**938,000**	**318,000**	**230,000**	**120,000**	**110,000**	**82,000**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	317,000	112,000	112,000	112,000	112,000	112,000
Total Revenue Projection	317,000	112,000	112,000	112,000	112,000	112,000
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	566,000	200,000	222,000	122,000	140,000	140,000
Total Expenditures Projection	566,000	200,000	222,000	122,000	140,000	140,000
Total Arts Fund FY Operating Surplus/Deficit	(249,000)	(88,000)	(110,000)	(10,000)	(28,000)	(28,000)
Arts Fund - Preliminary Ending Balance (Operating)	**689,000**	**230,000**	**120,000**	**110,000**	**82,000**	**54,000**
Reserve Percentage (One-time)	**121.73%**	**115.00%**	**54.05%**	**90.16%**	**58.57%**	**38.57%**

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
ASSET SEIZURES (416) - Preliminary Beginning Balance	**1,022,000**	**74,000**	**74,000**	**74,000**	**74,000**	**74,000**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	0	0	0	0	0	0
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	948,000	0	0	0	0	0
Total Expenditures Projection	948,000	0	0	0	0	0
Total Asset Seizures FY Operating Surplus/Deficit	(948,000)	0	0	0	0	0
Asset Seizures - Preliminary Ending Balance (Operating)	**74,000**	**74,000**	**74,000**	**74,000**	**74,000**	**74,000**
Reserve Percentage (One-time)	**7.81%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Culver City

January 16, 2008

Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
NEW DEVELOPMENT IMPACT (417) - Preliminary Beginning Balance	**79,000**	**25,000**	**28,000**	**31,000**	**34,000**	**37,000**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	3,000	3,000	3,000	3,000	3,000	3,000
Total Revenue Projection	3,000	3,000	3,000	3,000	3,000	3,000
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	57,000	0	0	0	0	0
Total Expenditures Projection	57,000	0	0	0	0	0
Total New Dev Imp FY Operating Surplus/Deficit	(54,000)	3,000	3,000	3,000	3,000	3,000
New Dev Imp - Preliminary Ending Balance (Operating)	**25,000**	**28,000**	**31,000**	**34,000**	**37,000**	**40,000**
Reserve Percentage (One-time)	**43.86%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Culver City

January 16, 2008

Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
GAS TAX (418) - Preliminary Beginning Balance	**1,070,000**	**126,000**	**158,000**	**158,000**	**158,000**	**158,000**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	753,000	753,000	753,000	753,000	753,000	753,000
Total Revenue Projection	753,000	753,000	753,000	753,000	753,000	753,000
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	1,697,000	721,000	753,000	753,000	753,000	753,000
Total Expenditures Projection	1,697,000	721,000	753,000	753,000	753,000	753,000
Total Gas Tax Fund FY Operating Surplus/Deficit	(944,000)	32,000	0	0	0	0
Gas Tax Fund - Preliminary Ending Balance (Operating)	**126,000**	**158,000**	**158,000**	**158,000**	**158,000**	**158,000**
Reserve Percentage (One-time)	**7.42%**	**21.91%**	**20.98%**	**20.98%**	**20.98%**	**20.98%**

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Parks (419) - Preliminary Beginning Balance	**250,000**	**218,000**	**208,000**	**223,000**	**238,000**	**253,000**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	40,000	25,000	25,000	25,000	25,000	25,000
Total Revenue Projection	40,000	25,000	25,000	25,000	25,000	25,000
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	72,000	35,000	10,000	10,000	10,000	10,000
Total Expenditures Projection	72,000	35,000	10,000	10,000	10,000	10,000
Total Parks Fund FY Operating Surplus/Deficit	(32,000)	(10,000)	15,000	15,000	15,000	15,000
Parks Fund - Preliminary Ending Balance (Operating)	**218,000**	**208,000**	**223,000**	**238,000**	**253,000**	**268,000**
Reserve Percentage (One-time)	**302.78%**	**594.29%**	**2230.00%**	**2380.00%**	**2530.00%**	**2680.00%**

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Improvements & Acquisition (420) - Preliminary Beginning Balance	**1,372,000**	**1,372,000**	**1,372,000**	**732,000**	**92,000**	**(548,000)**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	6,926,000	1,325,000	360,000	360,000	360,000	360,000
Total Revenue Projection	6,926,000	1,325,000	360,000	360,000	360,000	360,000
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	6,926,000	1,325,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Expenditures Projection	6,926,000	1,325,000	1,000,000	1,000,000	1,000,000	1,000,000
Total I & A Fund FY Operating Surplus/Deficit	0	0	(640,000)	(640,000)	(640,000)	(640,000)
I & A Fund - Preliminary Ending Balance (Operating)	**1,372,000**	**1,372,000**	**732,000**	**92,000**	**(548,000)**	**(1,188,000)**
Reserve Percentage (One-time)	**19.81%**	**103.55%**	**73.20%**	**9.20%**	**-54.80%**	**-118.80%**

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Parking Improvement (421) - Preliminary Beginning Balance	**1,121,000**	**1,215,000**	**1,343,000**	**1,500,000**	**1,687,000**	**1,905,000**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	944,000	978,000	1,007,000	1,037,000	1,068,000	1,100,000
Total Revenue Projection	944,000	978,000	1,007,000	1,037,000	1,068,000	1,100,000
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	850,000	850,000	850,000	850,000	850,000	850,000
Total Expenditures Projection	850,000	850,000	850,000	850,000	850,000	850,000
Total Parking Fund FY Operating Surplus/Deficit	94,000	128,000	157,000	187,000	218,000	250,000
Parking Fund - Preliminary Ending Balance (Operating)	**1,215,000**	**1,343,000**	**1,500,000**	**1,687,000**	**1,905,000**	**2,155,000**
Reserve Percentage (One-time)	**142.94%**	**158.00%**	**176.47%**	**198.47%**	**224.12%**	**253.53%**

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Capital Grants (423) - Preliminary Beginning Balance	**(370,000)**	**(370,000)**	**(370,000)**	**(370,000)**	**(370,000)**	**(370,000)**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	1,930,000	11,000	0	0	0	0
Total Revenue Projection	1,930,000	11,000	0	0	0	0
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	1,930,000	11,000	0	0	0	0
Total Expenditures Projection	1,930,000	11,000	0	0	0	0
Total Capital Grants FY Operating Surplus/Deficit	0	0	0	0	0	0
Capital Grants - Preliminary Ending Balance (Operating)	**(370,000)**	**(370,000)**	**(370,000)**	**(370,000)**	**(370,000)**	**(370,000)**
Reserve Percentage (One-time)	**-19.17%**	**-3363.64%**	**-100.00%**	**-100.00%**	**-100.00%**	**-100.00%**

Culver City

January 16, 2008

Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
CDBG-Capital (428) - Preliminary Beginning Balance	**(9,000)**	**(9,000)**	**(9,000)**	**(9,000)**	**(9,000)**	**(9,000)**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	237,000	189,000	0	0	0	0
Total Revenue Projection	237,000	189,000	0	0	0	0
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	237,000	189,000	0	0	0	0
Total Expenditures Projection	237,000	189,000	0	0	0	0
Total CDBG-Capital FY Capital Surplus/Deficit	0	0	0	0	0	0
CDBG-Capital - Preliminary Ending Balance (Capital)	**(9,000)**	**(9,000)**	**(9,000)**	**(9,000)**	**(9,000)**	**(9,000)**
Reserve Percentage (One-time)	**-3.80%**	**-4.76%**	**-100.00%**	**-100.00%**	**-100.00%**	**-100.00%**

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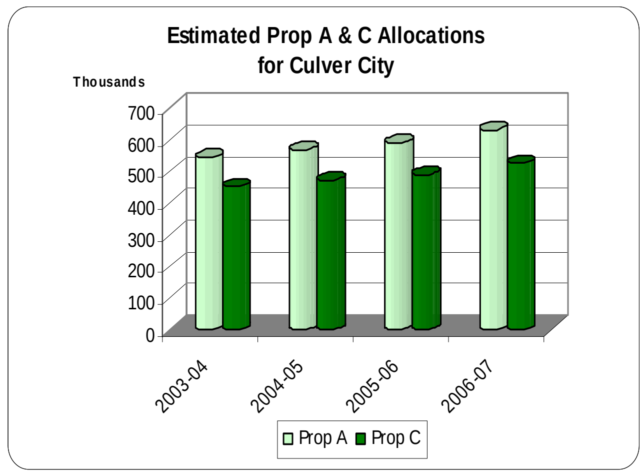
CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE
for the
Proposition A & C Funds

<u>INTRODUCTION</u>

Proposition A & C Funds are both voter approved local sales taxes for transportation-related activities. Proposition A, approved by voters in 1980, is a one-half of 1% tax on retail sales in Los Angeles County. The collection of this tax is administered by the County, which returns 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.



Proposition C sales tax, approved by voters in 1990, is an additional one-half of 1% tax on retail sales in Los Angeles County. The balance of Prop C tax 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 is generated in local transportation revenue.

<u>FISCAL YEAR 2007-08 HIGHLIGHTS</u>

The Adopted 2007-08 Budget includes Prop A funding in the amount of $669,442, which represents a 5.9% increase from the prior year, and Prop C funding in the amount of $542,911, which represents a 44% decrease from the prior year. The decrease in Prop C funds is primarily the result of additional funds being received in 2006-07 for transit projects.

BACKGROUND

As a condition of voter approval, twenty-five percent of the Proposition A tax revenues and twenty percent of the Proposition C tax revenues are earmarked for the Local Return Programs to be used by cities and the County of Los Angeles in developing and/or improving local public transit, paratransit and related transportation infrastructure. Local Return funds are allocated and distributed monthly to jurisdictions on a "per capita" basis by Metro. Most of these funds are expended on street improvement projects and maintenance and improvement to the Transportation facility.

Additionally, Culver City is eligible to receive additional Prop A and C funds because it operates its own bus line. Most of the additional money is used for Transportation Department operations.

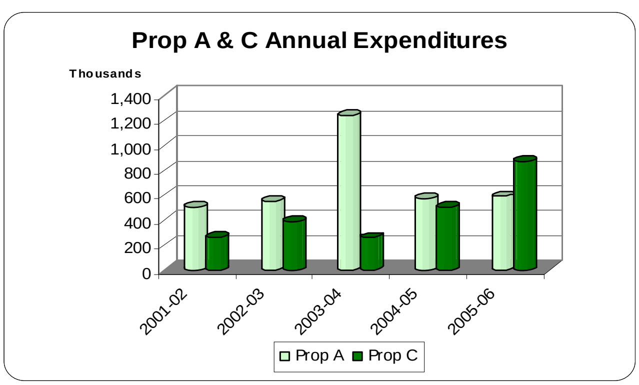
ECONOMIC OVERVIEW

Per voter approval, a portion of Prop A and C money is distributed to cities based on population; therefore, both of those funding sources are relatively stable. Any attempt to alter these funding sources would need voter approval. Given the current state of transportation in California, especially Southern California, it seems unlikely that voters would choose to reduce funding for transportation related projects in the near future. However, since Prop A and C are both sales taxes, they are economically sensitive.

Although sales taxes are economically sensitive, the diversity of the Los Angeles County economy makes Prop A and C taxes less subject to large annual swings in collections. Some communities may experience a decrease in sales tax while others experience an increase. Overall, the Los Angeles County economy is relatively robust, which helps to create an environment for a relatively stable funding source in Prop A and C sales tax receipts. A more in-depth economic outlook for sales tax is included in the “Economic Overview” section of the General Fund’s Comprehensive Financial Strategy.

PROJECTIONS AND ANALYSIS OF EXPENDITURES

OVERVIEW



Since Prop A & C are sales taxes, those funding sources are projected to be similar to the City’s sales tax projections over the next five years (i.e. approximately 4% per year). The graph below shows the annual Prop A & Prop C expenditures for the past five years. Prop A & C funds may be carried over if the entire amount received is not expended in the same fiscal year. As a result, there are some peaks and valleys in short term expenditures. However, over the long term, these peaks and valleys average out.

The projections in the Comprehensive Financial Plan assume that all Prop A & C monies received will be spent. Consequently, over the five year projection, revenues are equal to expenditures. As previously mentioned, Prop A & C receipts are projected to increase commensurate with the City's sales tax receipts (approximately 4%). Therefore, Prop A & C expenditures are projected to increase at a 4% rate as well.

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Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Prop A (415) - Preliminary Beginning Balance	**856,000**	**856,000**	**856,000**	**856,000**	**856,000**	**856,000**
Fiscal Year Net Change						
Total Recurring Revenue	669,000	692,000	720,000	749,000	779,000	810,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	669,000	692,000	720,000	749,000	779,000	810,000
Total Recurring Expenditures	669,000	692,000	720,000	749,000	779,000	810,000
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	669,000	692,000	720,000	749,000	779,000	810,000
Total Prop A FY Operating Surplus/Deficit	0	0	0	0	0	0
Prop A - Preliminary Ending Balance (Operating)	**856,000**	**856,000**	**856,000**	**856,000**	**856,000**	**856,000**
Reserve Percentage (Recurring)	**127.95%**	**123.70%**	**118.89%**	**114.29%**	**109.88%**	**105.68%**

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Prop C (424) - Preliminary Beginning Balance	**1,247,000**	**1,247,000**	**1,247,000**	**1,247,000**	**1,247,000**	**1,247,000**
Fiscal Year Net Change						
Total Recurring Revenue	543,000	562,000	584,000	607,000	631,000	656,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	543,000	562,000	584,000	607,000	631,000	656,000
Total Recurring Expenditures	543,000	562,000	584,000	607,000	631,000	656,000
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	543,000	562,000	584,000	607,000	631,000	656,000
Total Prop C FY Operating Surplus/Deficit	0	0	0	0	0	0
Prop C - Preliminary Ending Balance (Operating)	**1,247,000**	**1,247,000**	**1,247,000**	**1,247,000**	**1,247,000**	**1,247,000**
Reserve Percentage (Recurring)	**229.65%**	**221.89%**	**213.53%**	**205.44%**	**197.62%**	**190.09%**

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE
for
Section 8/Low Moderate Income Housing Fund

INTRODUCTION

Section 8 is a type of Federal assistance provided by the United States Federal government dedicated to sponsoring subsidized housing for low-income families and individuals. The Housing Agency 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 very low-income households.

The Housing Agency contracts with HUD to provide funding for approximately 338 families. The Division closely monitors all applicable Federal regulations to insure compliance. The Division inspects units annually and negotiates property upgrades with owners.

FISCAL YEAR 2007-08 HIGHLIGHTS

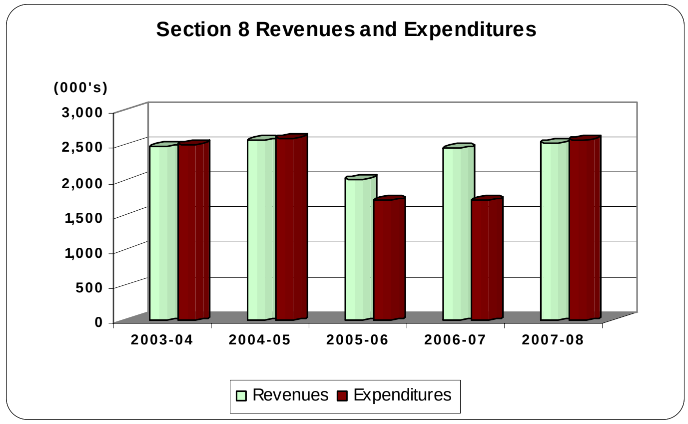
The Adopted 2007-08 Budget includes funding to continue to support the Section 8 program. Additions to the Section 8 work program in 2007-08 include:

- Purge of the Section 8 waiting list
- Develop Public Relations and Outreach campaign
- Meet with HUD LA Area field office to develop methods to improve lease-up rate
- Work with HUD Office of Inspector General to develop fraud investigation policy

BACKGROUND

Federal housing assistance programs began during the Great Depression to address the country's housing crisis. In the 1960s and 1970s, the federal government created subsidy programs to increase the production of low-income housing and to help low income families pay their rent.

In the 1970s, studies showed that the major low income housing crises was no longer substandard housing, but the high percentage of income spent on housing. In response, Congress passed the Housing and Community Development Act of 1974, which created the Section 8 program. In the Section 8 Program, tenants pay about thirty percent of their income for rent, while the rest of the rent is paid with federal money. The number of units a local housing authority can subsidize under its Section 8 programs is determined by Congressional funding.



Currently, the two main Section 8 programs are tenant-based vouchers and project-based vouchers. In the tenant-based program, eligible families with a certificate or voucher find and lease a unit and pay a portion of a reasonable rent. Their portion is based on income, generally around 30%. The local housing authority pays the owner the remaining rent, capped by the Fair Market Rent (FMR) or a fixed percentage thereof. The local housing authority determines the reasonable rent and the FMR is determined by the U.S. Department of Housing and Urban Development (HUD).

Local housing authorities can also choose to project-base up to 25% of their vouchers. Project based vouchers are linked to a particular apartment, not an individual family. Eligible families pay 30% of their income for rent while living in the apartment, but cannot take the voucher with them if they move.

Whether a voucher is tenant-based or project-based, all subsidized units must meet federal Housing Quality Standards, ensuring that the family has a healthy and safe place to live. Currently, there are no time limits for family participation in the program, though occasionally reform bills are introduced in Congress that suggest imposing time limits on the program.

In many localities, the waiting lists for Section 8 vouchers may be thousands of families long, with waits of three to five years. Families who participate in the program must abide by a series of rules and regulations, often referred to as “family obligations,” in order to maintain their voucher. In recent years, the HUD Office of the Inspector General has spent more time and money on fraud detection and prevention.

ECONOMIC OVERVIEW

The housing market boom over the last five years has made housing assistance programs for low-to-moderate income families increasingly important. In fact, there are a number of programs that the Culver City Housing Agency has had to discontinue because they are no longer feasible given the extremely high cost of housing and the affordability gap, including the Mortgage Assistance Program (MAP); however, there have been indications that the housing and real estate market is softening.

While a softening real estate market is good news for prospective buyers, it may put upward pressure on the rental market. As families sell their homes, they may need to move into an apartment, either temporarily or on a long term basis. This decreases the rental property supply and drives prices upward.

Additionally, Section 8 funding is variable from year-to-year based on annual appropriation of Congress. With an increased amount of funds being appropriated for the war in Iraq, domestic funding for grants and other federally funded programs may begin to shrink. Depending on the federal government's financial situation and priorities, there is a possibility that Section 8 funds will shrink which has been the case the last few years.

PROJECTIONS AND ANALYSIS OF EXPENDITURES

OVERVIEW

A more detailed policy discussion of the Housing Fund's finances, including the Section 8 program, will be initiated with the Redevelopment Agency Board in the upcoming months.

Revenues and expenditures for Section 8 Housing are based on available Section 8 funding, mainly received through HUD. For this reason, Revenues and Expenditures are shown to offset each other. Expenditures are never budgeted at a higher rate than known revenues.

DISCUSSION OF REVENUE PROJECTIONS

Because of the uncertainty of continued HUD funding, revenue projections are shown to grow at the same growth rate as expenditures. As mentioned above, the Section 8 Housing budget is prepared based on available HUD funding. This fund also currently has a positive fund balance to cover any revenue shortfall during a given fiscal year in case HUD funding is not fully received, or expenses run over projections due to uncontrollable circumstances.

DISCUSSION OF EXPENDITURE PROJECTIONS

Expenditure growth is based on anticipated personnel cost increases of 4.0%, general operating and maintenance cost increases of 3.5%, and medical insurance cost increases of up to 12.5% per year. The Housing Services and Rent Subsidy Payments, which make up the majority of the Division, have been held at a steady rate.

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Culver City

January 16, 2008

Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Section 8 Housing (426) - Preliminary Beginning Balance	**1,554,000**	**1,536,300**	**1,514,400**	**1,487,500**	**1,455,600**	**1,418,700**
Fiscal Year Net Change						
Total Recurring Revenue	2,555,000	2,555,000	2,555,000	2,555,000	2,555,000	2,555,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	2,555,000	2,555,000	2,555,000	2,555,000	2,555,000	2,555,000
Total Recurring Expenditures	2,572,700	2,576,900	2,581,900	2,586,900	2,591,900	2,596,900
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	2,572,700	2,576,900	2,581,900	2,586,900	2,591,900	2,596,900
Total Section 8 Housing FY Operating Surplus/Deficit	(17,700)	(21,900)	(26,900)	(31,900)	(36,900)	(41,900)
Section 8 Housing - Preliminary Ending Balance (Operating)	**1,536,300**	**1,514,400**	**1,487,500**	**1,455,600**	**1,418,700**	**1,376,800**
Reserve Percentage (Recurring)	**59.72%**	**58.77%**	**57.61%**	**56.27%**	**54.74%**	**53.02%**

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
INNOVATION FUND (312) - Preliminary Beginning Balance	**570,000**	**570,000**	**570,000**	**570,000**	**570,000**	**570,000**
Fiscal Year Net Change						
Total Recurring Revenue	0	0	0	0	0	0
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	0	0	0	0	0	0
Total Recurring Expenditures	0	0	0	0	0	0
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	0	0	0	0	0	0
Total Innovation FY Operating Surplus/Deficit	0	0	0	0	0	0
Innovation Fund - Preliminary Ending Balance (Operating)	**570,000**	**570,000**	**570,000**	**570,000**	**570,000**	**570,000**
Reserve Percentage (Recurring)	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Culver City						
January 16, 2008						
Description	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Landscape Maint. District (425) - Preliminary Beginning Balance	**65,000**	**65,000**	**65,000**	**65,000**	**65,000**	**65,000**
Fiscal Year Net Change						
Total Recurring Revenue	47,000	47,000	47,000	47,000	47,000	47,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	47,000	47,000	47,000	47,000	47,000	47,000
Total Recurring Expenditures	47,000	47,000	47,000	47,000	47,000	47,000
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	47,000	47,000	47,000	47,000	47,000	47,000
Total Landscape Maint. Dist. FY Operating Surplus/Deficit	0	0	0	0	0	0
Landscape Maint. Dist - Preliminary Ending Balance (Operating)	**65,000**	**65,000**	**65,000**	**65,000**	**65,000**	**65,000**
Reserve Percentage (Recurring)	**138.30%**	**138.30%**	**138.30%**	**138.30%**	**138.30%**	**138.30%**