MEETING DATE: February 24, 2014

AGENDA ITEM: Receipt and Filing of the Fiscal Year 2013/2014 Mid-Year General Fund Budget Monitoring Report, and (2) Approval of Proposed Budget Amendments.

ATTACHMENTS

City of Culver City

MID-YEAR BUDGET REPORT
FISCAL YEAR 2013-14
Through December 31, 2013

INTRODUCTION

This Mid-Year Budget Report presents an overview of the City's operating revenues and expenditures for the first half of Fiscal Year 2013-14 as compared to budgeted amounts, explaining any notable aberrations or trends in the numbers. The revenue and expenditure information in this report is organized into two sections: General Fund and Other Major Funds.

An important component to the ongoing management of the City's annual budget process, the Mid-Year Budget Report's purpose is threefold. First, it illustrates the City's focus on monitoring its revenues and expenditures, with the intent to proactively respond to unanticipated changes or emerging trends. Secondly, and equally important, the report is to provide fiscal transparency of City finances as the City is ultimately accountable to its residents for the use of revenue. Finally, an important reason to provide such information is that it serves as a starting point for preparing the FY 2014-15 Budget.

The close of December encompasses the first six months of the City's fiscal year, presenting an ideal point of analysis to determine the viability of the adopted budget, or if and where adjustments should be considered. The Finance Department Staff has reviewed all line items and compared actual results against budget expectations, historical trends, seasonality and other known factors affecting either revenue or spending streams to determine if recommendations for reductions or increases should be made. As the defined mid-point of the fiscal year, although the presumed expectation is that most categories should be at 50%, City revenues historically lag expenditures at this point in the fiscal year because of year-end accounting adjustments to major revenues and because the bulk of the property tax and business licenses revenues are received later in the fiscal year.

REPORT HIGHLIGHTS:

- A notable new revenue source for the City is the **Measure Y – Sales Tax**. In November 2012, Culver City voters approved Measure Y which increased the City's sales tax by one half cent beginning April 2013. **Measure Y – Sales Tax revenues are on pace with expectations** for the second quarter of FY 2013-14. The year-end revenue total is projected at $7.8 million.

- The City's overall general fund operating revenues are above expectations for the first half of FY 2013-14. **General Fund Operating Revenues** through December are **$31.202 million**, or 18.28**%** than the same period last year. Analysis suggests the City's overall General Fund revenues are expected to outpace the current revised budget total for the fiscal year. **It is therefore recommended budgeted revenues be increased by $3,563,588 to $93,836,848**.

- **General Fund Expenditures** through December total **$41.731 million,** or 12.75% higher than the same period last year.

- A brief mid-year overview is included in this report for Enterprise Funds and Internal Service Funds, both of which appear to be operating within expectations. Additional requests include an update to the Equipment Replacement Fund of $30,000 to implement a new Chair Replacement Program and an increase to Sewer Fund revenues in the amount of $624,618.92 per the revised Engineering Report.

The following pages present the detailed discussion of the City's Mid-Year actual results and recommendations by revenue and expenditure categories.

GENERAL FUND

GENERAL FUND REVENUES

At the time of the Fiscal Year 2013-14 Adopted Budget, it was estimated that revenues would be mostly level with FY 2012-13, with overall increases attributable chiefly to the addition of the Measure-Y Sales Tax and the sale of two City-owned properties. This estimate marked the first time in a number of years where recurring revenues would cover ongoing expenditures. As of the December 31, 2013, General Fund operating revenues are displaying modest growth, exceeding estimated revenues with receipts totaling $31.202 million, or 33.25% of the current revised revenue budget at the close of the 2nd Quarter. This percentage is less than the 50% one would presume as the mid-year total due to payments received in July and/or August for many of the major revenue categories such as sales tax, utility taxes, property tax, transient occupancy tax and business tax being accrued back to the prior fiscal year. Receipts through December 2013 are $4.8 million, or 18.3%, higher than the same period last year, with increases largely driven by Charges for Services, Licenses and Permits, and Business Taxes.

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

GENERAL FUND REVENUES

	2012-13 REVENUE AS OF 12/31/2012	2012-13 REVENUE TOTAL	2013-14 REVENUE AS OF 12/31/2013	2013-14 REVISED BUDGET TOTAL	PROJECTED REVENUES 2013-14
Property Tax	1,481,751	6,291,986	1,507,560	4,225,000	4,025,000
Sales Tax	4,529,522	18,095,663	4,629,416	18,821,614	18,821,614
Sales Tax - Measure Y	0	1,163,591	1,818,944	7,800,000	7,800,000
Public Safety Sales Tax (PSAF)	122,369	338,601	163,715	350,000	350,000
Business Tax	408,159	10,253,802	475,437	10,050,000	10,300,000
Franchise Tax	336,875	1,399,727	326,349	1,350,000	1,350,000
Real Property Transfer Tax	599,363	2,382,116	794,318	1,500,000	1,500,000
Electricity UUT	2,859,534	5,976,520	3,054,192	6,000,000	6,100,000
Gas UUT	280,979	978,089	315,678	1,000,000	950,000
Water UUT	602,962	1,252,729	824,001	1,200,000	1,300,000
Telecomm UUT	2,471,468	5,396,223	2,080,599	5,550,000	5,250,000
Cable UUT	211,592	915,247	282,811	750,000	900,000
Transient Occupancy Tax (TOT)	2,215,074	5,195,349	2,389,493	5,000,000	5,250,000
Commercial/Industrial Dev. Tax	196,484	405,100	709,654	450,000	950,000
Licenses and Permits	1,290,306	2,604,208	2,083,986	2,579,000	3,500,000
Intergovernmental	15,371	3,495,781	33,425	3,565,506	3,565,506
Charges for Services	3,344,525	7,270,433	3,824,963	6,954,315	7,400,000
Fines and Forfeitures	1,279,431	3,543,606	1,796,424	3,507,000	4,000,000
Use of Money & Property	588,436	1,425,760	611,561	1,597,000	1,500,000
Interfund Revenues	2,132,379	4,588,157	1,938,003	3,851,498	3,851,498
Transfers In	1,431,823	2,407,298	1,541,615	2,723,230	2,723,230
Other Revenues	89,274	950,291	126,602	1,449,098	2,450,000
	26,487,678	**86,330,279**	**31,328,746**	**90,273,260**	**93,836,848**

- **Property Tax –** As of the close of the 2nd Quarter, the City has received $1.51 million in Property Tax, which is slightly higher at 1.7% more than this point last year. However, last year's total included a significant one-time payment from the Successor Agency that is not expected to recur this year. Additionally, a lawsuit between the Los Angeles Unified School District and Los Angeles County reached conclusions that will further decrease the amount normally expected from the Successor Agency. Due to this, the recommendation is to reduce the Property Tax budget by $200,000 to $4.025 million.

- **Sales Tax –** Sales Tax receipts as of current mid-year exceed prior year mid-year totals by 2.2%. Only 24.6% of the budgeted revenues have been received because at this point in the fiscal year only four months of receipts have been recorded. In accordance with government accounting standards, sales tax revenues received in July and August are moved back to the prior fiscal year because the actual transactions took place in the prior year.

- **Sales Tax - Measure Y –** In the November 2012 election, Culver City voters approved a sales tax increase which went into effect in April 2013. The City is on track to achieve the current revised budgeted total of $7.8 million in Measure – Y revenue.

  It is important to note in the upcoming years, the additional revenue generated from the Measure-Y Sales Tax will be instrumental in helping to balance the City's budget. However, the sales tax increase sunsets in nine years (March 31, 2023); so unless extended the additional revenue does not fully address the City's structural deficit. As evinced in the *General Fund Financial Forecast: FY 2014-15 - FY 2020-21 Report,* the City must continue strides to manage revenues in an efficient and sustainable manner, and control expenses accordingly in order to continue progress toward long-term fiscal health.

- **Business Tax –** Business Tax renewals are due by the end of February. As of December 31st, a higher than normal rate of renewals have been received for this time of year. Revenues have increased by 16.5% compared to this same period last year and it is anticipated to outperform the budget projection. It is therefore recommended that the Business Tax revenue budget be increased by $250,000.

- **Utility Users Taxes (UUT) –** Most Utility Users Taxes are outperforming revenues received compared with the same period last year. In accordance with the same accounting standards that apply to sales tax receipts, UUT receipts in July are moved back to the prior fiscal year, so at this point in the year only five months of receipts have been recorded. With accrual calculations taken into account, receipts have grown in all UUT areas with Gas and Telecom UUTs as exceptions.

  Gas UUT is performing lower than the same levels last year, and receipts are lower than projected in the Adopted Budget. Therefore, it is recommended that the Gas UUT projection be reduced by $50,000. Similarly, Telecom UUT is performing lower than the same levels as last year, and receipts have not grown as much as expected. Therefore, it is recommended that the Telecom UUT budget be reduced by $300,000.

  It is further recommended that the Electricity UUT projection be increased by $100,000; Water UUT increased by $100,000; and Cable UUT increased by $150,000. These increases align with growth rates as noted for each UUT area and will essentially offset the reduced revenue projections from Gas and Telecom UUTs.

- **Transient Occupancy Tax (TOT) –** In April 2012, Culver City voters approved a measure to increase the Transient Occupancy Tax (TOT) from 12% to 14%. Due to increased occupancy rates coupled with the higher tax rates, current year receipts are $2,389,493 or 7.9% higher than this point last year.

  In accordance with the same accounting standards that apply to UUT receipts, receipts in July are moved back to the prior year, so at this point in the year five months of receipts have been recorded. Based on the growth in receipts, it is recommended that the TOT budget be increased by $250,000.

- **Real Property Transfer Tax –** Real Property Transfer Tax is difficult to predict as it relies on high value property sales, which fluctuate tremendously from month to month. At this point in the fiscal year, receipts are 32.5% higher than they were at this point last year; however, this may have no bearing on the remainder of the year. For this reason, no recommendations are being made in this area at this time beyond continued monitoring of this account.

- **Commercial/Industrial Development Tax –** Compared to last year, Commercial/Industrial Development Tax receipts have increased by $513,170 or 111.11%, exceeding the total budgeted amount for the entire year. This is reflective of an overall increase in construction activity. With the revised budget already achieved, it is recommended that the budget for Commercial/Industrial Development Tax be increased by $500,000.

- **Licenses & Permits –** Like the Commercial/Industrial Development Tax, Licenses and Permits revenue is driven by residential and commercial construction activity. Mid-year revenues total $2.084 million which accounts for 81% of the adopted budget total, surpassing last year's mid-year total by 61%. Due to the increased construction activity, it is recommended that the budget for Licenses and Permits be increased by $921,000.

- **Intergovernmental Revenue –** Intergovernmental revenue is mostly comprised of the motor vehicle license fees from the State Department of Motor Vehicles. The majority of this revenue is received in January and May.

- **Charges for Services –** The Charges for Services category is comprised of a variety of revenues ranging from recreation fees to police services and plan checks. At this point in the year, overall revenues are 14.4% higher than last year. Building permit fees received are already at 119% of total budget revenues for the year as of the close of December. Due to increased construction activity, it is recommended that Charges for Services be increased by $445,685.

- **Fines and Forfeitures –** Fines and Forfeitures category is primarily comprised of red light camera violations and moving violations written by Culver City traffic enforcement, and parking violations written by Culver City parking enforcement. Current year revenue is $516,993 higher than this point last year. It is recommended that Fines & Forfeitures budget be increased by $493,000.

- **Use of Money and Property –** Use of Money and Property includes interest income and income from the rental of city property. Overall this category is in line with previous year receipts for this period. Because of this, it is recommended that the Money & Property budget be reduced by $97,000 to better align with the ending FY 2012-13 revenue total.

- **Other Revenues** – Other Revenues is comprised of loan payments, land sale proceeds, donations and miscellaneous revenues. There is currently $1 million budgeted for the sale of two City-owned properties. Originally proposed for sale last year, the amount was adjusted down from $2 million to $1 million in the current year budget to account for the risk of the sale not being realized. With the increased probability of both properties being sold, it is recommended that the budget for Land Sale Proceeds account be adjusted to original estimates – an increase of $1 million.

The recommended Mid-Year revenue adjustments total **$3.56 million** in increases above the current revised budget.

GENERAL FUND EXPENDITURES

Overall, General Fund expenditures through mid-year are **$41.73** million or **45.75%** of projected appropriations, which is slightly higher when compared to this point last fiscal year.

The table below provides a comparison between the first six months of Fiscal Year 2013-14 and Fiscal Year 2012-13:

GENERAL FUND EXPENDITURES	2012-13 EXPENDITURE AS OF 12/31/2012	2012-13 EXPENDITURE TOTAL	2013-14 EXPENDITURE AS OF 12/31/2013	2013-14 REVISED BUDGET TOTAL	2013-14 PROJECTED EXPENDITURES
ADMINISTRATION	579,031	1,283,248	619,256	1,334,685	1,324,095
CITY CLERK	135,873	355,336	137,789	420,548	417,745
CITY ATTORNEY	653,899	1,685,020	830,117	1,832,018	1,763,819
FINANCE	1,964,238	4,414,704	2,064,735	4,789,345	4,604,170
HUMAN RESOURCES	491,323	1,090,615	565,881	1,179,380	1,135,650
INFORMATION TECH.	1,254,752	2,703,103	1,564,094	3,107,559	3,105,302
PARKS, REC. & COMMUNITY SVCS	2,940,282	6,403,661	3,115,130	7,110,407	6,784,812
POLICE DEPARTMENT	13,255,174	29,227,373	14,272,165	33,048,439	31,810,778
FIRE DEPARTMENT	7,584,759	16,987,109	8,089,334	18,167,136	18,036,873
COMMUNITY DEVELOPMENT	2,361,219	5,314,945	2,610,543	6,019,464	5,887,703
PUBLIC WORKS	4,179,354	9,201,039	4,343,069	10,159,704	9,818,795
NON-DEPARTMENTAL	1,339,353	2,977,273	1,500,983	3,729,208	3,829,504
Transfers	272,133	572,649	2,017,525	2,570,491	2,572,932
Retiree Health Pre-funding	-	1,983,167	-	137,800	137,800
TOTAL EXPENDITURES	**37,011,390**	**84,199,242**	**41,730,621**	**93,606,183**	**91,229,978**

Total expenditures are $4.7 million or 12.8% higher than this point last year. The mid-year expended average for Departments is 45.8% of budgeted expenditures. There are only a few departments that are outside of the normal percentage range for mid-year expenditures. This is mainly due to the timing of expenses during the year:

- The Information Technology department is slightly over the 50% mark at mid-year due to the majority of funding for annual software license fees being expended in the first six months.

- The City Clerk's Office is significantly under the current average due to expenses for the upcoming City Council election not being expended yet. These expenses will be shown in the latter six months of the fiscal year.

Based on the number of vacancies and spending trends, it is projected that the current year General Fund expenditures will total $91.23 million. This is $2.38 million lower than the Adjusted Budget and 8.3% higher than the total expenditures last fiscal year. The increase from last year is mainly due to employee bargaining group MOU changes, employer paid retirement increases, an increased contribution to the retiree health prefunding trust fund, and a transfer to the Successor Agency in the amount of $1,462,118 in order for the Successor Agency to satisfy requirements necessary to receive a 'Finding of Completion' from the Department of Finance

OTHER MAJOR FUNDS

A brief overview follows for the City's Enterprise and Internal Service Funds.

ENTERPRISE FUNDS

The City has three Enterprise Funds: Refuse, Transportation, and Sewer, which account for the provision of direct services to the general public where all or a substantial portion of the costs involved are paid in the form of user charges or fees for such services.

- **Refuse Disposal Fund** was established to account for the operation of the City's refuse disposal, transfer station operation, recycling efforts, and street sweeping services.
- **Transportation Fund** is used to account for the operation, as well as the capital assets, of the City's Municipal Bus Lines. Other funding assistance comes from FTA Section 9 (Federal-Capital), TDA and STA (Capital and Operating), and Proposition A and Proposition C.
- **Sewer Fund** is used to account for revenues collected through sewer charge fees and sewer facilities charges. These funds are used for expenditures related to the operation and maintenance of sewer disposal facilities, capital projects, and debt service on bonds for sewer facility improvements.

At mid-year, the Refuse Fund expenditures are $5.468 million, or 41.6% of adjusted budget appropriations. This is approximately 2% ahead of expenditures at this time last year. A contributing factor to the low overall mid-year expenditure percentage is Refuse Disposal Fees being less than anticipated (33.2% of budget). Personnel costs are at 45.6% of budget at mid-year, and are expected to come in slightly below projections. The overall projected year-end expenditures are expected to come in at approximately 95.8% of the revised budget.

Refuse Disposal Fee receipts at mid-year are $1.38 million, or 39.8% of budgeted revenues. The payment from the County of Los Angeles for Refuse Fees that brings us to half-way point has been recorded in January. Bin Service and Tonnage Charges are recorded at higher than 50% on average at mid-year and are driven by increased home improvement and development activity. Overall Refuse Fund revenues are on track and are expected to be fully realized at fiscal year-end.

The Transportation Fund mid-year expenditures are $9.92 million, or 25.1% of adjusted budget appropriations. This is approximately 3% ahead of expenditures at this time last year.

The Transportation Fund currently has $14.77 million appropriated for capital outlay items. As of mid-year, only 0.5% of these funds have been expended. By year-end $3.3 million should be expended on the purchase of new transit buses, and approximately $1.2 million on various capital projects, which include facility capital projects and IT related capital items. The remainder of budgeted capital projects will be carried over to FY 2014-15. These include: CNG Station Compressor Project, Bus Signal Priority Project, Bus Stop Furnishings, and continued facility capital projects.

Transportation Fund revenues are $7.25 million or 23% of projected receipts. Much of this revenue will be received once expenditures for capital items are expended. Transportation Fund revenues are mostly a combination of Federal, State and Local funding sources along with farebox revenues.

Mid-year Sewer Fund operating expenditures are approximately $3.03 million, or 37% of adjusted budget appropriations. The low expenditure percentage at mid-year is mostly due to a lower than estimated payment to the City of Los Angeles for the Hyperion Treatment Plant. Personnel costs are at 45.2% of revised projections.

Sewer Fund revenues at mid-year are $3.83 million, or 47% of budget. Sewer operating receipts from property taxes have been recorded in January, which brings the receipts to 55.02% of budgeted revenues. Sewer Fund revenues are also on track to be fully realized at fiscal year-end. Updates to the Engineering Report from consultants at NBS recommend that revenues be increased by $624,618.92.

INTERNAL SERVICE FUNDS

The Internal Service Funds are used to account for services and commodities furnished by designated funds of the City to user departments of the City.

- **Equipment Replacement Fund** is used to hold annual replacement payments from designated user departments and to use those funds to purchase equipment for general City purposes.
- **Equipment Maintenance & Fleet Services (EMFS) Fund** accounts for all activities of the City's central equipment maintenance operations, the costs of which are distributed among designated user departments.
- **Self-Insurance Fund** receives and disburses funds pertaining to the public liability and workers' compensation insurance programs. It also funds the Employee Disability (IOD) program for employee long-term work-related disabilities.
- **Central Stores** accounts for the timely purchase of needed materials, supplies and auto parts in advance of actual need. Departments are billed as items are issued for use.

At mid-year, Equipment Replacement Fund expenditures are $874,000, or 32.7% of adjusted budget appropriations. This amount is entirely associated with vehicle/equipment purchases. The total revised budget appropriation amount of $2.67 million is projected to be expended by year end for the City Council approved vehicle/equipment purchases for FY 2013-14.

Equipment Replacement revenues, which are the contributions from the various funds for replacement costs, will be fully recognized at year-end. These are recorded on a monthly basis, and at mid-year are 50.0% of budget. A new Chair Replacement Program throughout City Hall is being presented for implementation in the current fiscal year. The recommended expenditure increase is $30,000 to cover estimated costs.

The EMFS Fund mid-year expenditures are $3.33 million, or 41.9% of adjusted budget appropriations. The low percentage is mostly due to fuel expenditures in the amount of $537,700 being 33.1% of revised budget appropriations at mid-year.

EMFS Fund revenues are on track to be fully realized at fiscal year-end. All expenditures will be covered to ensure this Fund continues to operate in a financially prudent manner.

The Self-Insurance Fund (SIF) expenditures at mid-year are $3.8 million, or 48.0% of adjusted budget appropriations. This is 16.2% ahead of last year at this time. The increase is attributable to claims/settlements being 87% higher than this point last year.

Personnel expenditures are significantly down at mid-year at $304,000, or 27.7% of adjusted budget appropriations. At this point last year, personnel expenditures were $517,000. The decrease is mainly due to a lower number of injured-on-duty (IOD) incidents in FY 2013-14. Insurance premiums are slightly higher than the adjusted budget appropriations, but overall expenditures are projected to be within adjusted budget appropriations at year-end.

In order to reestablish the SIF fund reserves, an additional $1 million was allocated between the various funds who contribute to the SIF fund. Revenues for the SIF Fund are on track and will be fully realized at fiscal year-end.

The Central Stores Fund operations continue to be on track for FY 2013-14. Continued streamlining of purchasing practices and policies has enabled the City to save time and money by centralizing various purchases.

CONCLUSION

General Fund projections for Fiscal Year 2013-14 show total estimated revenues at $93.84 million, $3.56 more than the current revised budget total. Total expenditures are estimated at $91.23 million, $2.38 less than the revised budget. The projected ending result for the General Fund is a surplus of $2.61 million, an improvement over the $1.63 million estimated deficit in the Adopted Budget. There are currently no recommended changes in other City funds beyond continued monitoring.

The number of General Fund revenue budget increases can be assumed as indication of Culver City's rebounding economy. This Mid-Year Budget Monitoring Report illustrates sustained year-over-year growth in building activity, higher occupancy rates at hotels, rising property values, and increased retail sales. These signs of progress, however, come following years of fiscal challenges and distress. Continued monitoring of resources is yet a priority to ensure adequate funding for City services, public facilities, and infrastructure necessary to meet the community's present and future needs. This report should be considered in conjunction with the General Fund Financial Forecast, which takes a longer-term view of the City's financial position.

MID-YEAR RECOMMENDED EXPENDITURE CHANGES

DESCRIPTION	AMOUNT	
EXPENDITURES - GENERAL FUND		
Adjustments to Part-time Salaries for Afterschool Programs (10130233.411200)	$	5,400
Adjustments to Part-time Salaries for Rec & Enrichment Programs (10130212.411200)	$	3,250
Adjustments to Part-time Salaries for Youth Center Programs (10130260.411200)	$	10,300
Increase to budget for Economic Development to cover contractual obligations (10150120.619800)	$	125,000
TOTAL GENERAL FUND EXPENDITURE CHANGES	**$**	**143,950**
EXPENDITURES - OTHER FUNDS		
Additional budget needed to implement Chair Replacement Program (30716100.740100)	$	30,000
TOTAL OTHER FUND EXPENDITURE CHANGES	**$**	**298,950**

MID-YEAR RECOMMENDED REVENUE CHANGES

DESCRIPTION	AMOUNT	
REVENUES - GENERAL FUND		
Increase UUT-Electricity budget due to higher than projected revenues (10114400.312100)	$	100,000
Decrease UUT-Gas budget due to lower than projected revenues (10114400.312110)	$	(50,000)
Increase UUT-Water budget due to higher than projected revenues (10114400.312120)	$	100,000
Decrease UUT-Telecommunications budget due to lower than projected revenues (10114400.312130)	$	(300,000)
Increase UUT-Cable TV budget due to higher than projected revenues (10114400.312140)	$	150,000
Increase Business License Fee budget due to higher than projected revenues (10114400.315110)	$	125,000
Increase Business License Penalties budget due to higher than projected revenues (10114400.315120)	$	125,000
Increase Transient Occupancy Tax budget due to increased taxes and growth in receipts (10114400.318000)	$	250,000
Decrease Tax Increment-Pass-Through budget due to litigation impacting revenues (10116100.311220)	$	(200,000)

DESCRIPTION	AMOUNT
Increase Comm Industrial Develop Tax budget due to increased construction activity (10116100.319000)	$ 500,000
Increase Filming Permit budget due to higher than projected revenues (10130200.326000)	$ 50,000
Increase Building Permits budget due to increased construction activity (10150150.321000)	$ 497,200
Increase Bldg Standards Admin Surcharge budget due to higher than projected revenues (10150150.321010)	$ 2,500
Increase Other License & Permits - Bldg budget due to increased construction activity (10150150.321100)	$ 28,000
Increase Electric Permits budget due to increased construction activity (10150150.322000)	$ 65,000
Increase Residential Building Records budget due to higher than projected revenues (10150150.323000)	$ 18,000
Increase Plumbing and Heating budget due to increased construction activity (10150150.324000)	$ 150,000
Increase Outdoor Dining Permit budget due to higher than projected revenues (10160150.331200)	$ 100,300
Increase House Moving Permits budget due to higher than projected revenues (10160210.332000)	$ 10,000
Increase Court Fines - General budget due to higher than projected revenues (10140200.338100)	$ 281,714
Increase Vehicle Code Fines budget due to higher than projected revenues (10140200.338200)	$ 211,286
Increase Passport Processing Fee budget due to higher than projected revenues (10111100.353100)	$ 18,000
Increase Pool Rental & Passes budget due to higher than projected revenues (10130220.365520)	$ 55,000
Increase After School Program budget due to higher than projected revenues (10130233.365150)	$ 32,000

DESCRIPTION	AMOUNT
Increase Plan Check Fees budget due to increased construction activity (10145600.371300)	$ 50,000
Increase Plan Check Fees budget due to increased construction activity (10150150.371300)	$ 290,685
Decrease Interest Income budget due to lower than projected revenues (10116100.382000)	$ (97,000)
Increase Miscellaneous Revenue budget due to higher than projected revenues (10111100.386100)	$ 902
Increase Land Sale Proceeds budget due to increased probability of property sales (10116100.386350)	$ 1,000,000
TOTAL GENERAL FUND REVENUE CHANGE	**$ 3,563,587**
REVENUES - OTHER FUNDS	
Increase Sewer Operting Fees per revised engineering report from NBS (20460300.357100)	$ 624,619
TOTAL OTHER FUND REVENUE CHANGE	**$ 624,619**

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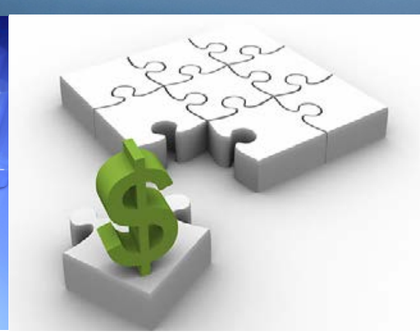
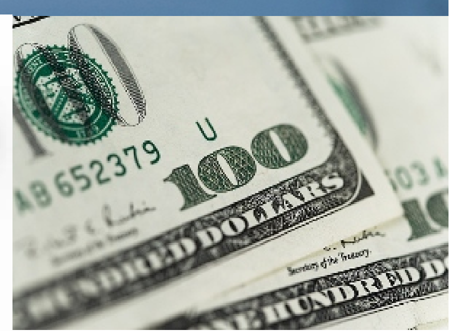
GENERAL FUND FINANCIAL FORECAST

FY 2014-15 - FY 2020-21





CITY OF CULVER CITY, CALIFORNIA

A current and long-range assessment of financial conditions and costs for City Services

CITY OF CULVER CITY

General Fund Financial Forecast

Fiscal Year 2014-15 To 2020-21

PREPARED BY:

FINANCE DEPARTMENT

JEFF S MUIR, CHIEF FINANCIAL OFFICER

MARY V. NOLLER, BUDGET & FINANCIAL OPERATIONS MANAGER
ERICA McADOO, SENIOR BUDGET MANAGEMENT ANALYST

February 24, 2014

CITY OF CULVER CITY
GENERAL FUND FINANCIAL FORECAST FY 2014-15 – FY 2020-21

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OVERVIEW AND SUMMARY

The General Fund Financial Forecast provides a current and long-range financial assessment addressing revenues, City services and programs, and financial reserve policies. The primary objective of the Forecast is to provide the City Council and the community with an early financial assessment and identify significant issues that need to be addressed in the budget development process. While typically the forecast looks out five years, the scope of this forecast has been extended out to FY 2020-21 in order to fully capture known increases in pension funding contributions.

The forecast information presented in this document combines projected resources, current service expenditures, and mandated expenditures to illustrate the financial impact to the General Fund and the ending balances for the fund. Recent revenue trends and economic assumptions (many of which can be found in the Economic Outlook section of this document) are used to develop these figures. Service expenditures required to sustain the current (FY 2013-14) level of services are used throughout the forecast period based in part on the rate of inflation. The net result of this combined data highlights any adjustments needed over the forecast period to maintain a balanced budget as required by City policy and state law. Many of the assumptions, projections, and cost estimates within this document are based on early and preliminary information that will be refined and changed as the FY 2014-15 Proposed Operating Budget is developed and presented to City Council.

GENERAL FUND

During the forecast period, total General Fund revenue is expected to change annually at rates ranging from a 1.4% reduction to 4.4% growth, with an overall average of 2.54% annual growth. The FY 2013-14 revenue forecast estimate is approximately $3.6 million higher than the current year revised budget, or an overall increase of 4%. Some significant increases in certain revenue categories that are not projected to be recurring account for a large portion of this increase. The rate of revenue change forecasted in FY 2014-15 over the FY 2013-14 Estimated Revenues is actually a 1.7% reduction, after factoring out certain non-recurring items (in particular, $2 million for sale of properties). Revenue growth beyond FY 2014-15 is forecasted at rates of 3.9% in FY 2015-16, 4.4% in FY 2016-17, 2.0% in FY 2017-18, 2.6% in FY 2018-19, 2.3% in FY 2019-20 and 1.2% in FY 2020-21.

Projections show that while revenue growth gradually increases over the forecast period, cost drivers over the same period will cause expenditures to catch up to, and exceed revenue growth by the end of the projection. This increased growth in expenditures over the forecast period is primarily due to increased costs for pensions (a certainty), anticipated cost-of-living increases, and anticipated general inflation in operating and maintenance accounts. The General Fund Forecast Schedule calls out additional revenues assumed as certain development projects are expected to come online throughout the forecast period. These revenues are further categorized into one-time and operating. The expenditures section shows the aggregate annual projected expenditures required to sustain the current FY 2013-14 level of services, with the assumptions provided later in this document. Displayed separately are transfers for infrastructure projects and assumed one-time expenditure costs. The additional expenditures/policy issues section includes amounts to illustrate the impacts of funding anticipated debt service costs for storm water discharge requirements from the General Fund. Also listed, for illustration purposes, are additional amounts towards infrastructure projects to reduce deferred maintenance, and increased pre-funding towards long-term liabilities. These items will be further considered and evaluated during the FY 2014-15 Budget Process and are shown in the schedule only to provide estimated impacts to the General Fund Available Fund Balance, and aid with the discussion for the potential uses of reserves in excess of the Contingency Reserve requirement.

In FY 2013-14, the General Fund Adopted Budget assumed using $982,407 in reserves in addition to anticipated revenues to cover expenditures. After review of six months of actual revenue and expenditure trends and other updated information, estimated improvements to revenues and modest expenditure savings result in an estimated $2.622 million surplus for the year. This should improve the total financial reserves of the General Fund to approximately $45.562 million, $18.709 million in excess of the 30% Contingency Reserve requirement. Specific FY 2013-14 assumptions and projections are further detailed in the separate Fiscal Year 2013-14 Mid-Year Report.

Utilizing economic and other data, General Fund revenues and expenditures have been forecasted out to FY 2020-21. This is expected to be the final year of major increases to pension costs due to phased in changes to actuarial assumptions and practices by CalPERS. The forecast shows that while revenues are expected to outpace expenditures during the next several years, by the end of the forecast period cost increases will drive the General Fund into a slight annual deficit situation. It is also critical to note that the forecast does not assume a recession. Finally, Measure Y is set to sunset on March 31, 2023. This represents an estimated $10.3 million in annual revenues by the end of the forecast.

This forecast argues for continued vigilance in controlling costs, encouraging economic development and a focus on maintaining service levels.

REVENUES

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

EXPENDITURES

Expenditures assumed in the Forecast are based on the current service level, or funding needed to provide today's level of recurring City services. FY 2013-14 expenditure estimates are based on an analysis of current fiscal year expenditure trends by using six months of actual expenditures to project estimated expenditure levels at the end of FY 2013-14. The FY 2014-15 base projection modifies current service costs for price changes and assumes the removal of one-time improvements. Inflation rates are also used to project certain non-personal services expenditures derived from Consumer Price Index (CPI) projections for each year from FY 2014-15 through FY 2020-21 (See Economic Outlook section for more detail on CPI projections used).

Cost-of-living adjustments for safety personnel (police and fire) are controlled by the Salary Initiative Ordinance (SIO), which provides that Culver City safety personnel receive one-half of salary adjustments provided by the City of Los Angeles and one-half of salary adjustments provided by the County of Los Angeles. Historically (prior to the recession), SIO increases averaged about 3% per year. Due to rising pension costs faced by all governments, including the City of Los Angeles and the County of Los Angeles, the SIO assumption for safety through this projection is 2% annually. While non-safety employees have not had cost-of-living adjustments the last few years, an assumption of 1.5% per year is built into this projection. Inflation in the City's contribution towards wellness benefits (health, dental, vision and life insurances) is estimated at the full 4% annual cap included in the bargaining agreements.

Of most significance are increases in the employer contribution rates to CalPERS. Based on the most recent actuarial report issued by CalPERS, these rates are expected to rise between FY 2014-15 through FY 2020-21 from 19.1% to 25.2% for non-safety, and from 39.2% to 52.4% for safety. Based on further actuarial and mortality changes currently being adopted by CalPERS, another 3.6% increase is estimated over this time for non-safety, and another 7.1% for safety.

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

Category	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Non-Safety COLA %	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Safety COLA %	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Non-Safety PERS Employer Rate Projection from CalPERS	19.06%	20.30%	21.50%	22.70%	24.00%	25.20%	25.20%
Safety PERS Employer Rate Projection from CalPERS	39.23%	41.90%	44.50%	47.10%	49.70%	52.40%	52.40%
Non-Safety Additional PERS for Mortality, etc.	0.00%	0.00%	0.72%	1.44%	2.16%	2.88%	3.60%
Safety Additional PERS for Mortality, etc.	0.00%	0.00%	1.42%	2.84%	4.26%	5.68%	7.10%
Health Insurance Inflation Rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Workers' Comp	-15.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Retiree Medical Insurance	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
OPEB Pre-Funding	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Office Supplies & Exp	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Travel / Training / Dues	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Public Notices / Ads	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Repair / Maintenance	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other O&M	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Equipment Maintenance Charges	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Equipment Amortization Charges	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Legal Services	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Contract Services	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Property Insurance Premiums	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Liability Reserve Charges	-15.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Capital	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Transfers	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

GENERAL FUND FORECAST

General Fund Forecast *[in thousands]*	2013-14 Estimate	2014-15 Projection	2015-16 Projection	2016-17 Projection	2017-18 Projection	2018-19 Projection	2019-20 Projection	2020-21 Projection
RESOURCES								
Beginning Balance (Excluding Contingency Reserve)	17,830	18,709	16,921	15,821	14,337	11,567	8,206	3,759
CURRENT REVENUES								
Operating Revenue	91,837	92,421	94,811	97,275	100,531	102,922	105,965	108,764
Additional Operating Rev from Development	0	69	342	1,129	261	738	490	0
One-Time Revenue - Development	0	78	997	1,975	1,600	1,400	1,020	0
One-Time Revenue - Sale of Properties	2,000	0	0	0	0	0	0	0
TOTAL CURRENT REVENUES	**93,837**	**92,568**	**96,150**	**100,379**	**102,392**	**105,060**	**107,475**	**108,764**
EXPENDITURES								
Current Service	89,509	91,441	94,076	97,160	100,376	103,708	107,139	109,836
Infrastructure / Facilities Projects	943	1,000	1,000	1,000	1,000	1,000	1,000	1,000
One-time Costs - Elections & Other	763	250	325	250	325	250	325	250
1% Assumed Savings - Vacancies, O&M, etc.	0	(914)	(941)	(972)	(1,004)	(1,037)	(1,071)	(1,098)
TOTAL EXPENDITURES	**91,215**	**91,776**	**94,460**	**97,438**	**100,697**	**103,921**	**107,393**	**109,988**
ANNUAL SURPLUS / (DEFICIT)	**2,622**	**792**	**1,690**	**2,942**	**1,695**	**1,139**	**82**	**(1,225)**
ADDITIONAL EXPENDITURES/POLICY ISSUES								
Storm Water Discharge Requirements				3,500	3,500	3,500	3,500	3,500
Increased Infrastructure Funding		1,000	1,000					
Increased Pre-Funding of Long-Term Liabilities		1,000	1,000					
Additional Expenditures	0	2,000	2,000	3,500	3,500	3,500	3,500	3,500
CONTINGENCY RESERVE REQUIREMENT	***26,853***	***27,432***	***28,223***	***29,148***	***30,113***	***31,112***	***32,142***	***32,951***
ENDING AVAILABLE BALANCE	**18,709**	**16,921**	**15,821**	**14,337**	**11,567**	**8,206**	**3,759**	**(1,775)**

GENERAL FUND FORECAST SCHEDULE EXPLANATION

BEGINNING BALANCE

"Beginning Balance" reflects the amount of funds available for use at the beginning of the fiscal year. The balance is the result of the net prior year-end revenues-to-expenditures, except in years projected to have a negative ending balance. The Beginning Balance does not include the City's Contingency Reserve.

CURRENT REVENUES

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

EXPENDITURES

"Current Service" shows the aggregate annual projected expenditures required to sustain the current FY 2013-14 level of services throughout the forecast period. Separately listed are the projected minimum annual contributions towards needed infrastructure and facilities capital improvement projects. Additionally, an anticipated amount for miscellaneous one-time expenditure needs is factored in. Lastly, an assumption of 1% of annual expenditure savings against the projected budget amount due to position vacancies, unexpended Operations and Maintenance funding, etc., is included.

ADDITIONAL EXPENDITURE/POLICY ISSUES

These are the incremental cost of various items outside of the standard operating budget that are to be considered during policy discussions.

CONTINGENCY RESERVE REQUIREMENT

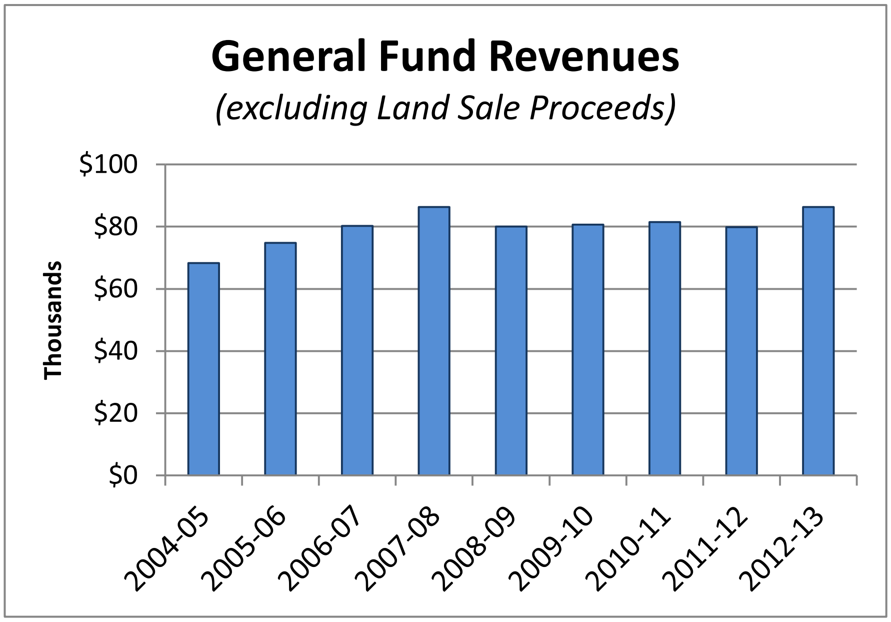
Represents the required General Fund Contingency Reserve amount based on thirty percent of Current Service and Infrastructure/Facilities Projects expenditures.

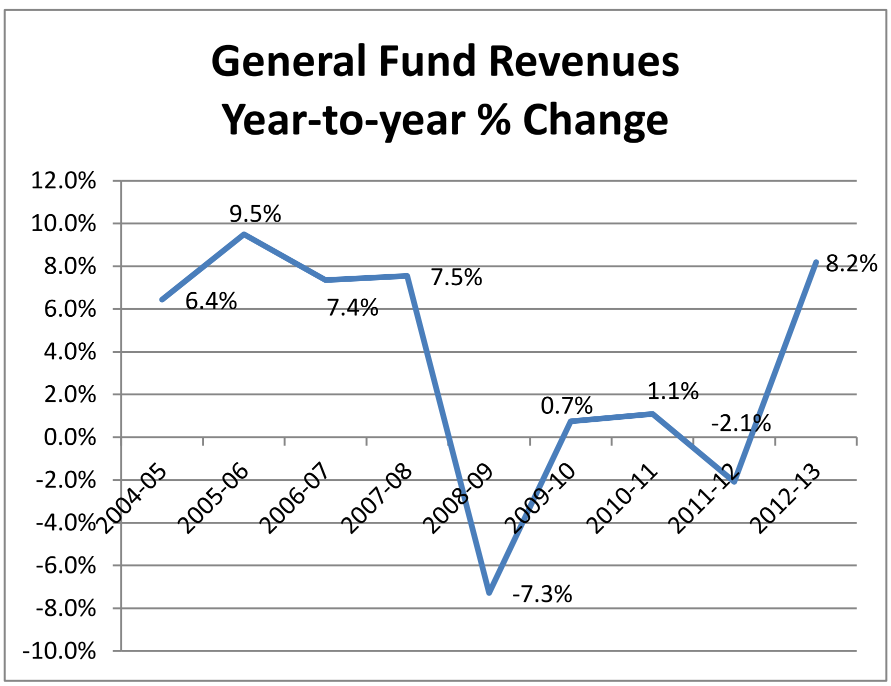
ENDING AVAILABLE BALANCE

Represents fund balance in excess of the Contingency Reserve Requirement. This amount can be appropriated towards one-time purposes by the City Council, pursuant to City financial policies.

Looking Back

Over the past ten years, General Fund Revenues have grown at an average rate of 3.5%, after factoring out land sale proceeds. However, during this period there was great volatility, with the housing bubble fueling revenue gains that were unrealistic in the long-term. The Great Recession saw revenues reduced and then flat for several years. Fiscal Year 2012-13 saw total General Fund revenues recover to the pre-recession high from Fiscal Year 2007-08. The graphs below represent the ten year history of total General Fund revenues, as well as the year-to-year changes.





Looking Forward

The FY 2013-14 revenue forecast estimate is approximately $3.6 million higher than the current year revised budget, or an overall increase of 4%. Some significant increases in certain revenue categories that are not projected to be recurring account for a large portion of this increase. Over the forecast period, these revenues are expected to increase at an average annual rate of 2.54%, with annual rates of change ranging from negative 1.35% in FY 2014-15 (over the FY 2013-14 estimate) to a high of 4.4% in FY 2017-18.

General Fund Forecast of Current Revenues
(in thousands)

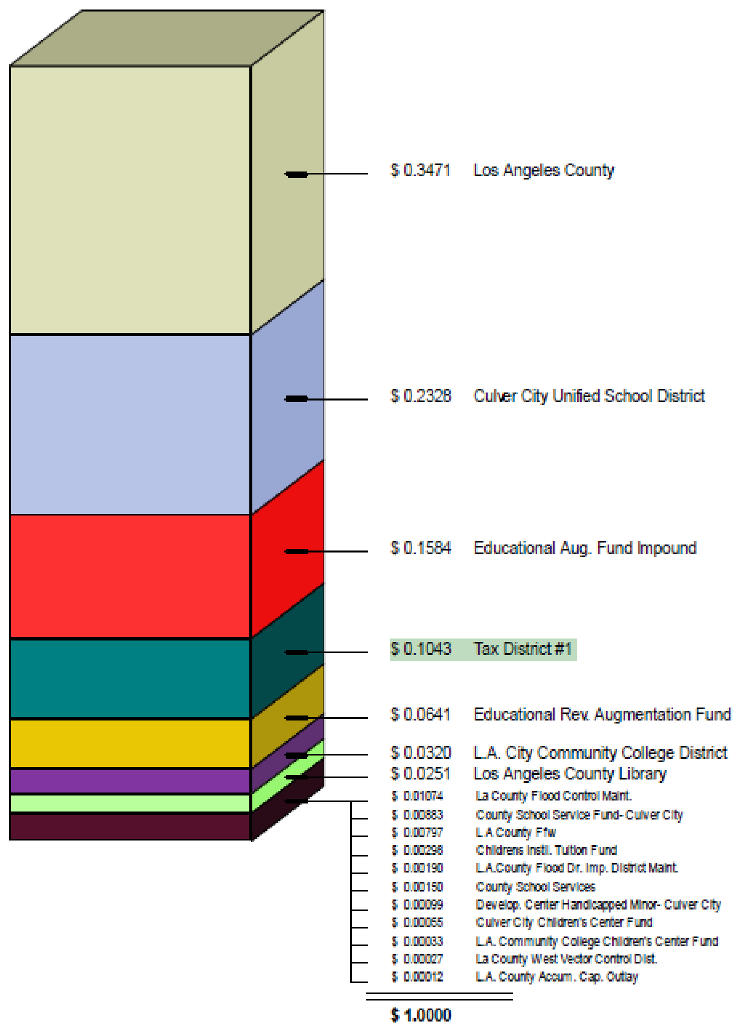
	2013-14 Estimate	2014-15 Projection	2015-16 Projection	2016-17 Projection	2017-18 Projection	2018-19 Projection	2019-20 Projection	2020-21 Projection
Property Tax	4,025	4,428	4,871	5,017	5,168	5,297	5,403	5,511
Sales Tax	18,822	19,311	20,007	20,843	21,613	22,283	23,166	23,899
Measure Y	7,800	8,304	8,603	8,962	9,294	9,582	9,961	10,277
PSAF Tax	350	359	371	383	395	407	419	432
Business License Tax	10,300	10,532	10,773	11,071	11,496	11,925	12,273	12,589
Franchise Tax	1,350	1,370	1,391	1,412	1,433	1,454	1,476	1,498
Real Prop. Transfer Tax	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
UT. User Tax (Elect.)	6,100	6,283	6,492	6,681	6,910	7,118	7,323	7,504
UT. User Tax (Gas)	950	979	1,012	1,041	1,077	1,109	1,141	1,169
UT. User Tax (Water)	1,300	1,326	1,357	1,396	1,444	1,488	1,531	1,569
UT. User Tax (TEL)	5,250	5,040	4,838	4,644	4,458	4,280	4,152	4,027
UT. User Tax (Cable TV)	900	882	856	822	789	765	750	735
Transient Occupancy Tax	5,250	5,408	5,570	5,737	6,575	6,707	7,217	7,737
Comm/Ind. Dev. Tax	950	450	450	450	450	450	450	450
Licenses and Permits	3,500	3,150	3,245	3,342	3,442	3,545	3,651	3,761
Intergovernmental	3,566	3,619	3,673	3,728	3,784	3,841	3,899	3,957
Charges For Service	7,400	6,660	6,860	7,066	7,278	7,496	7,721	7,953
Fines and Forfeitures	4,000	4,120	4,244	4,371	4,502	4,637	4,776	4,919
Use Of Money And Property	1,500	1,530	1,561	1,592	1,624	1,656	1,689	1,723
Interfund Revenues	3,851	3,929	4,008	4,088	4,170	4,253	4,338	4,425
Other Revenues	450	450	450	450	450	450	450	450
Transfers In	2,723	2,791	2,679	2,679	2,679	2,679	2,679	2,679
Operating Revenue Sub-total	**91,837**	**92,421**	**94,811**	**97,275**	**100,531**	**102,922**	**105,965**	**108,764**
Recurring New Development Revenues								
Sales Tax		38	209	120		208	37	
Business Tax		4	54	172	167	78	39	
Transient Occupancy Tax				709		368	368	
UUT		27	79	128	94	84	46	
Additional Operating Revenue	**0**	**69**	**342**	**1,129**	**261**	**738**	**490**	**0**
		0.71%	2.88%	3.42%	2.43%	2.85%	2.70%	2.17%
One-Time Revenues								
One-Time Development Permit Fees		78	997	1,975	1,600	1,400	1,020	
Property Sale Proceeds	2,000							
TOTAL GF REVENUES	**93,837**	**92,568**	**96,150**	**100,379**	**102,392**	**105,060**	**107,475**	**108,764**

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

REVENUES	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Property Tax	10.00%	10.00%	3.00%	3.00%	2.50%	2.00%	2.00%
Sales Tax	2.60%	3.40%	3.10%	3.10%	3.10%	3.00%	3.00%
PSAF TAX	2.60%	3.40%	3.10%	3.10%	3.10%	3.00%	3.00%
Business License Tax	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Franchise Tax	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Real Property Transfer Tax	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Utility Users Tax - Electricity	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Utility Users Tax - Gas	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Utility Users Tax - Water	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Utility Users Tax - Telecomm	-4.00%	-4.00%	-4.00%	-4.00%	-4.00%	-3.00%	-3.00%
Utility Users Tax - Cable TV	-2.00%	-3.00%	-4.00%	-4.00%	-3.00%	-2.00%	-2.00%
Transient Occupancy Tax	3.00%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%
Commercial/Industrial Dev Tax	-52.60%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Licenses and Permits	-10.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Intergovernmental	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Charges for Services	-10.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Fines and Forfeitures	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Use of Money and Property	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Interfund Revenues	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other Revenues	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transfers-In	2.50%	-4.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Annual Projected % Change	**3.95%**	**-1.35%**	**3.87%**	**4.40%**	**2.00%**	**2.61%**	**2.30%**

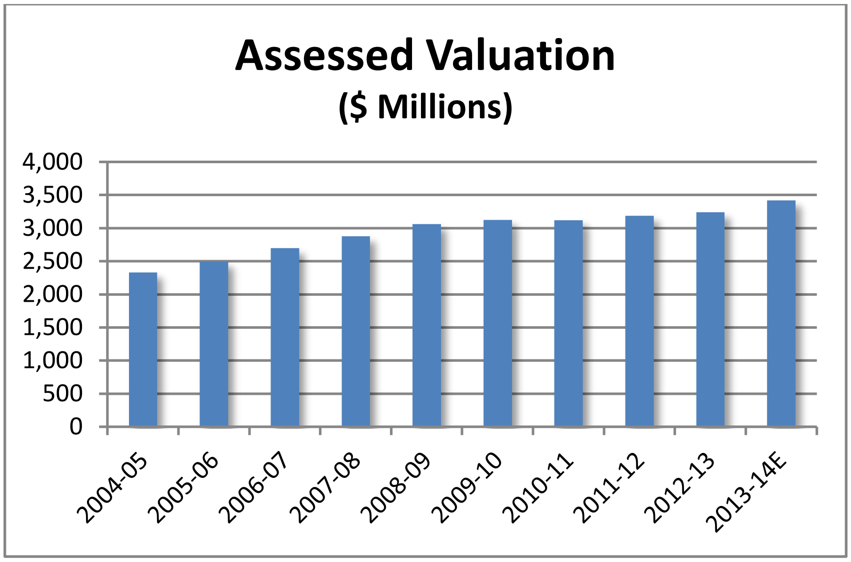
PROPERTY TAX

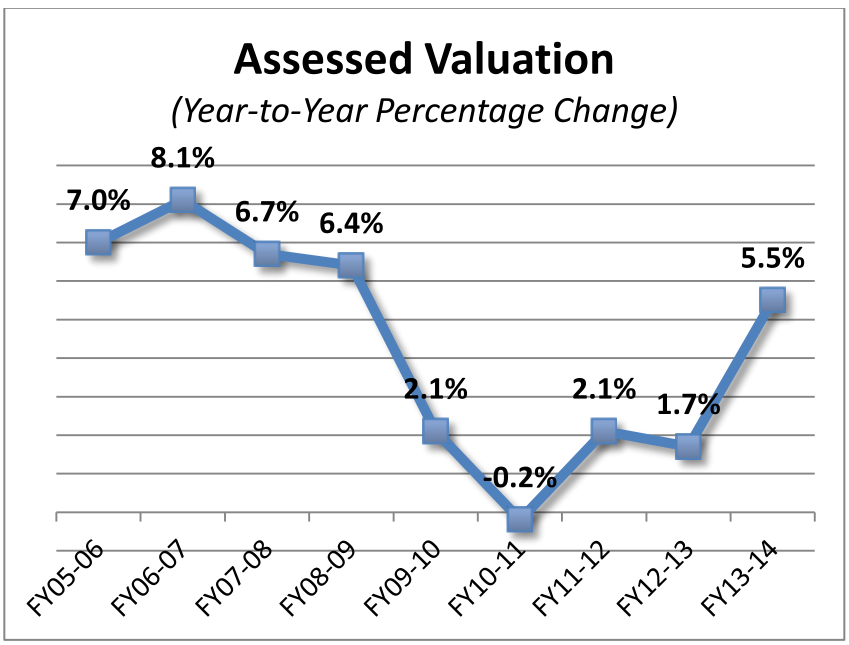
The valuation of property in the City is determined by the Los Angeles County Tax Assessor, except for public utility property which is assessed by the State Board of Equalization. The County levies a base tax of one percent of assessed valuation (subject to annual growth limitations of two percent).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



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

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





A significant recovery in the housing market returned assessed valuation growth in FY 2013-14 to over 5%. It is expected that this level of growth will begin to taper off in FY 2014-15 and trend back down towards the 2% inflationary assumption over the span of the forecast. However, it is also anticipated that annual property tax transfers from the Successor Agency to the Culver City Redevelopment Agency will increase in FY 2014-15 and FY 2015-16, and carry forward.

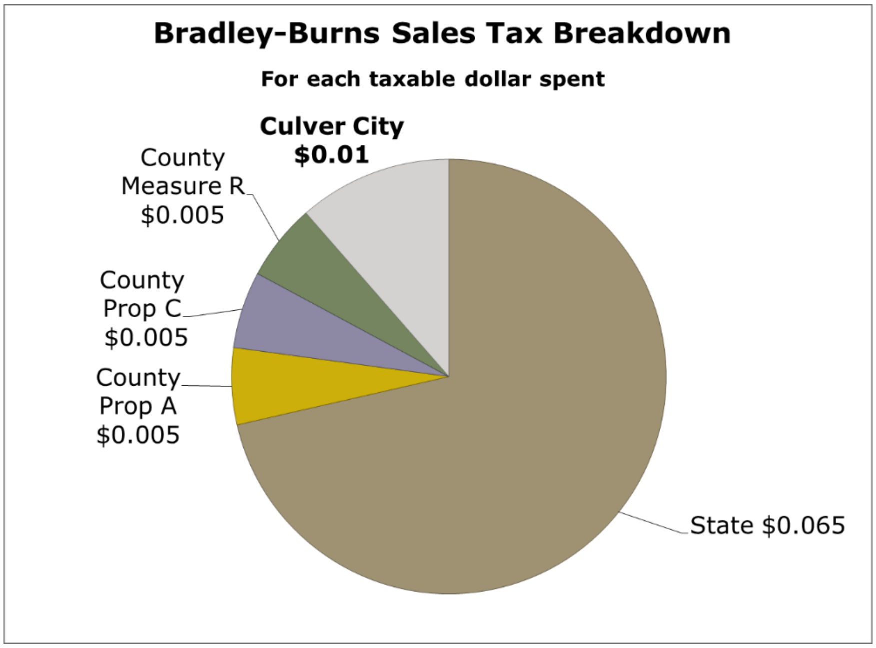
Projected Annual Rates of Change

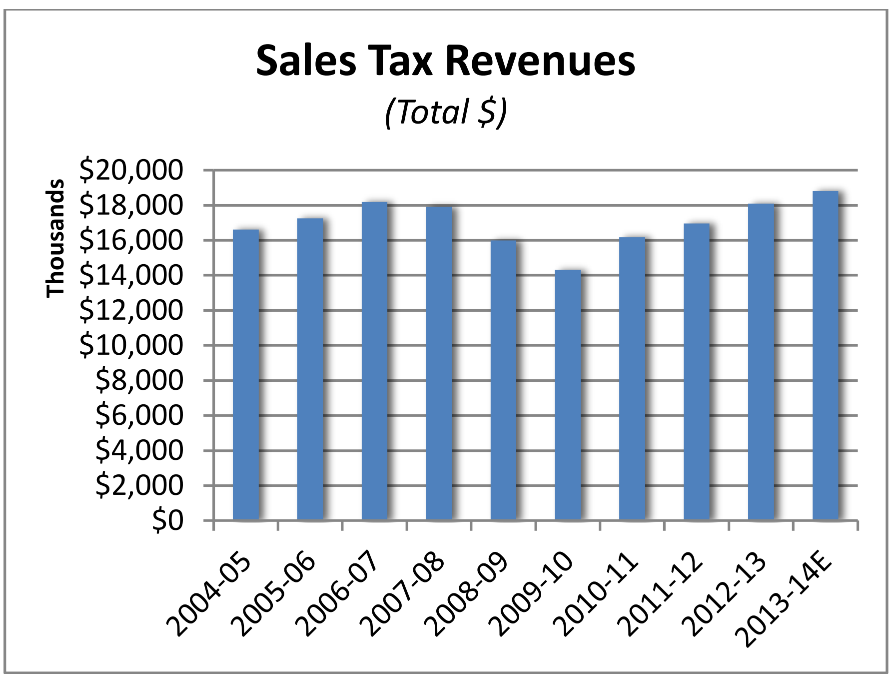
FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
10%	10%	3%	3%	2.5%	2%	2%

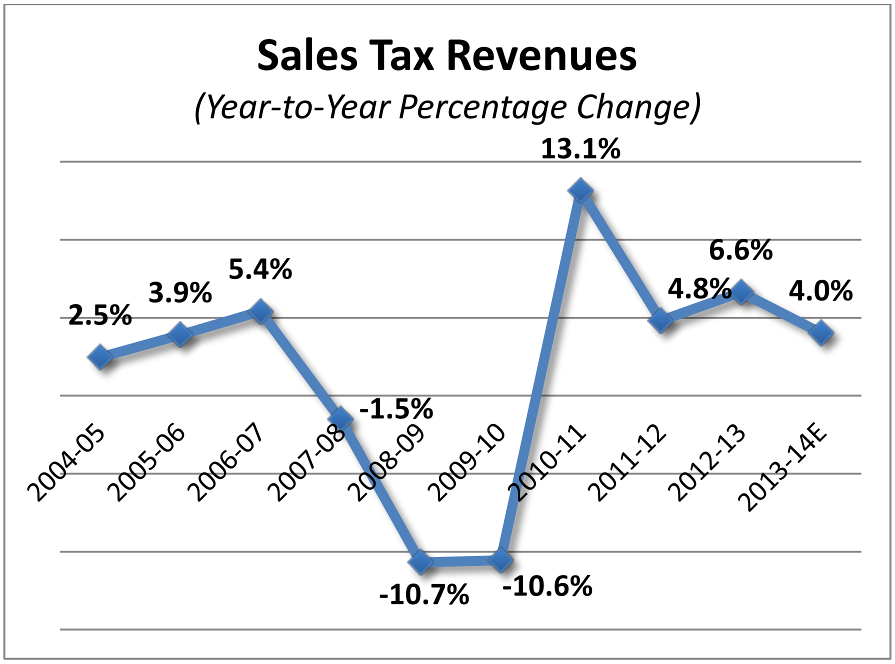
SALES TAX

Bradley-Burns Sales Tax

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







Sales Tax is the City's largest revenue source representing approximately 20.4 percent of estimated Fiscal Year 2013-14 General Fund revenue. This revenue source is very volatile based on economic conditions. This is evidenced by the dramatic drops during the recession. Significant recovery has occurred, and modest growth is projected during the balance of the projection, based on input from the City's sales tax consultant.

Public Safety Sales Tax (PSAF)

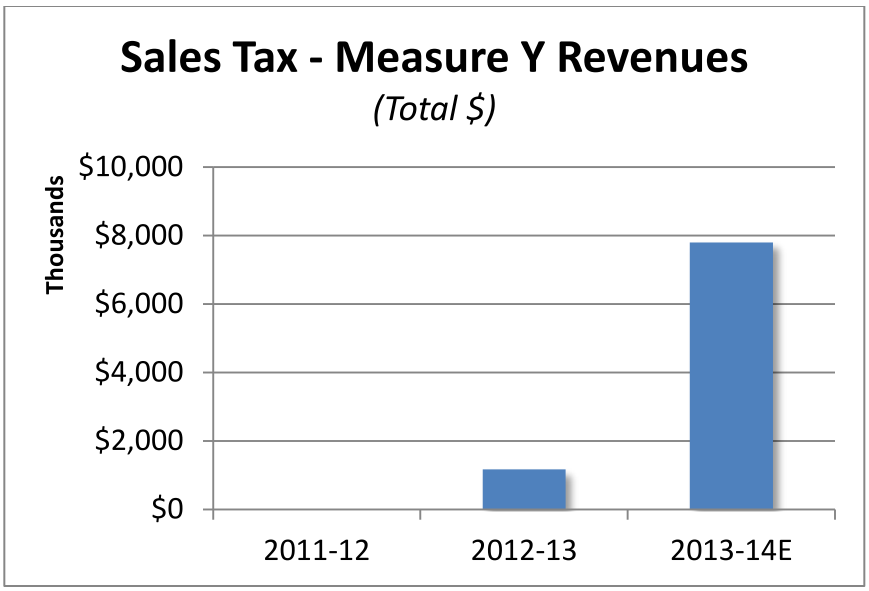
The City also receives one-half percent levy of the Public Safety Sales Tax, approved by the voters in November 1993. For FY 2013-14, revenues are estimated to be $350,000. Changes in this revenue source are forecasted at the same level as sales tax.

Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
2.6%	3.4%	3.1%	3.1%	3.1%	3%	3%

MEASURE Y

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

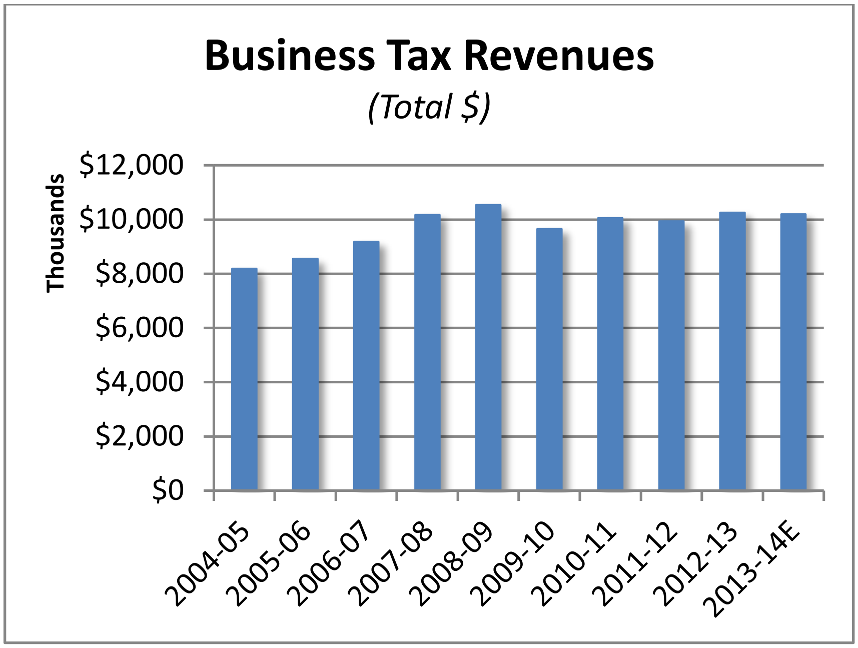


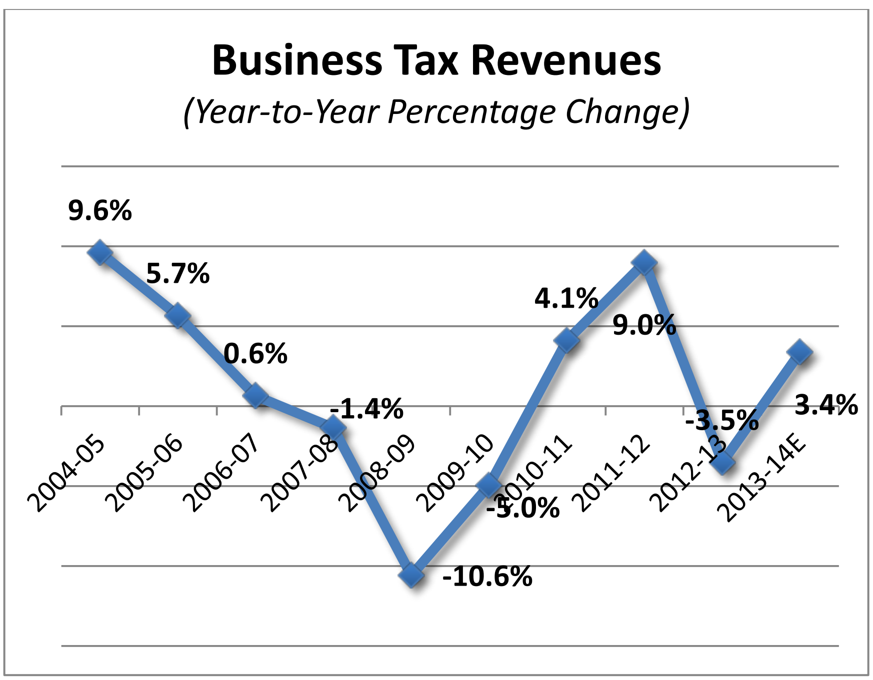
Projected Percentage of Bradley-Burns

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
43%	43%	43%	43%	43%	43%	43%

BUSINESS LICENSE TAX

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



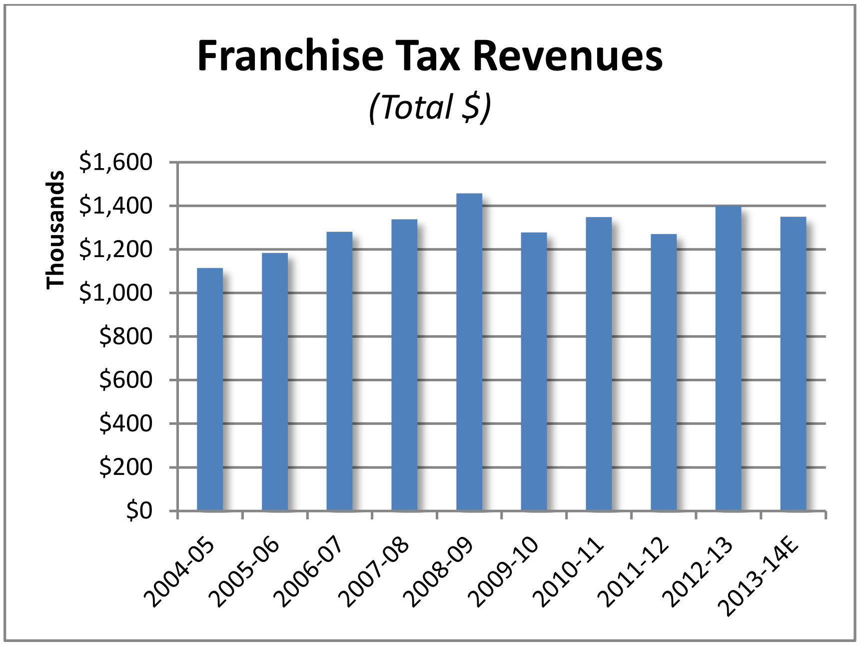


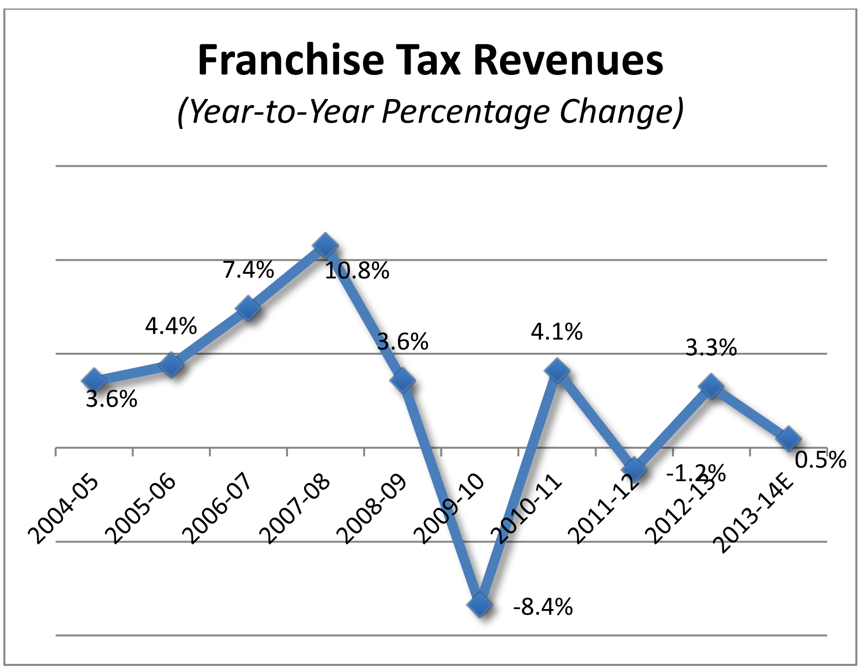
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%

FRANCHISE TAX

The City imposes fees on gas, electric, cable television and oil pipeline companies for the privilege of using City streets. Although there is year-to-year variation, this revenue has consistently remained between $1.2 million and $1.4 million for the last eight years.



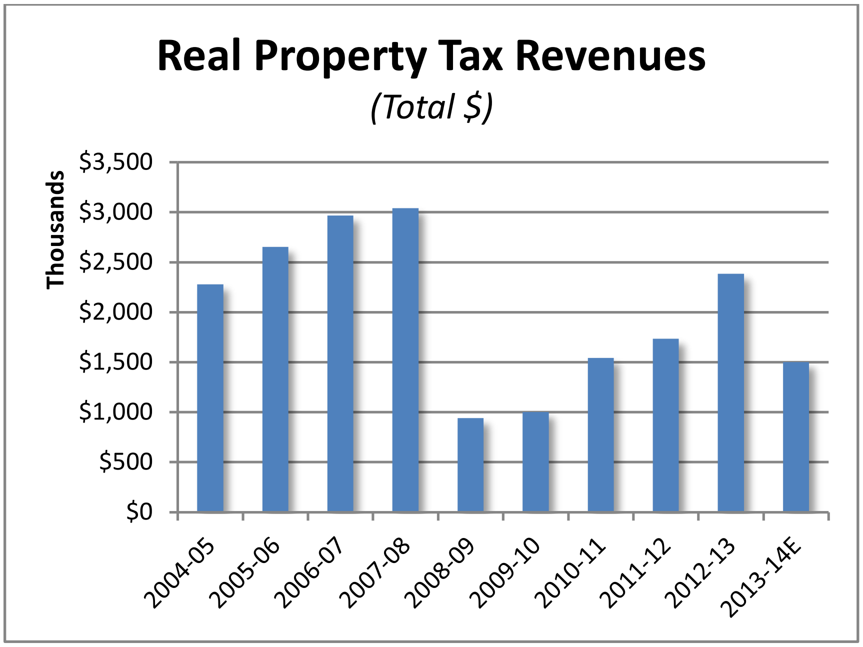


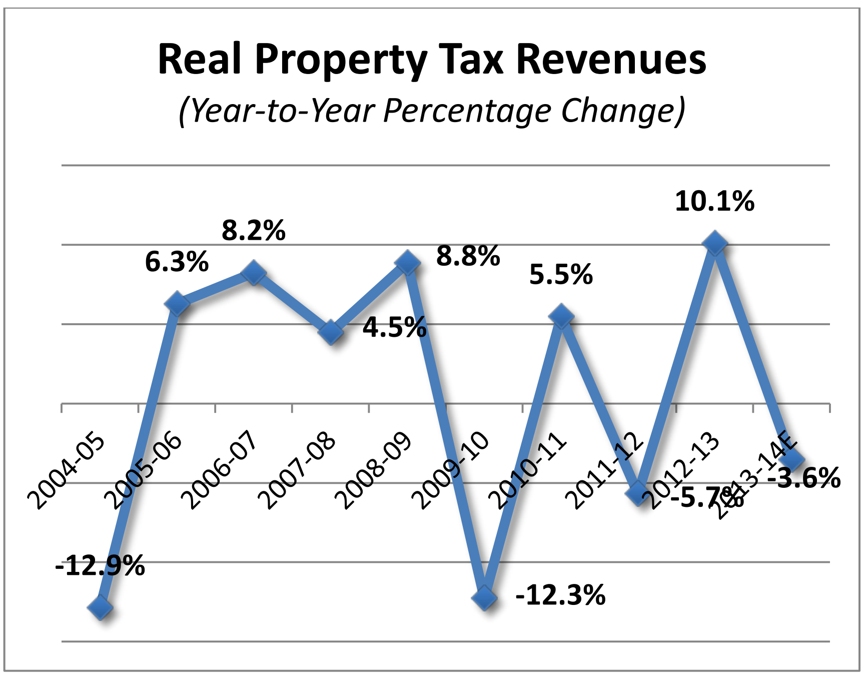
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

REAL PROPERTY TRANSFER TAX

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



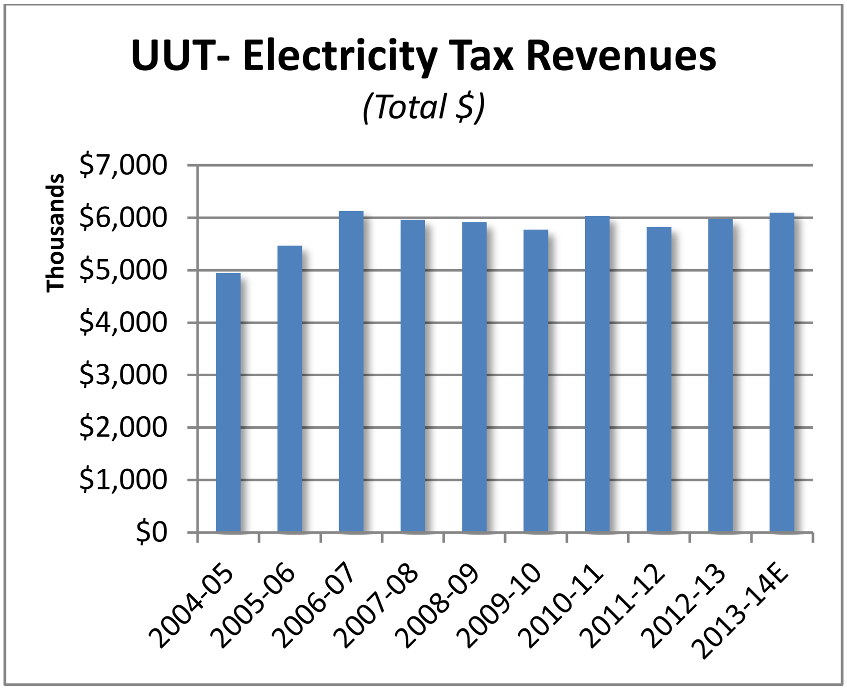


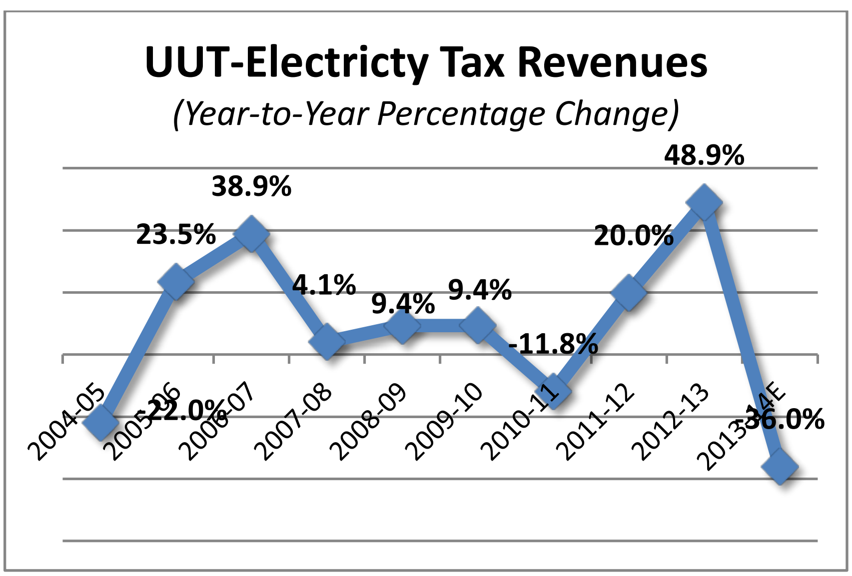
Projected Annual Rates of Change

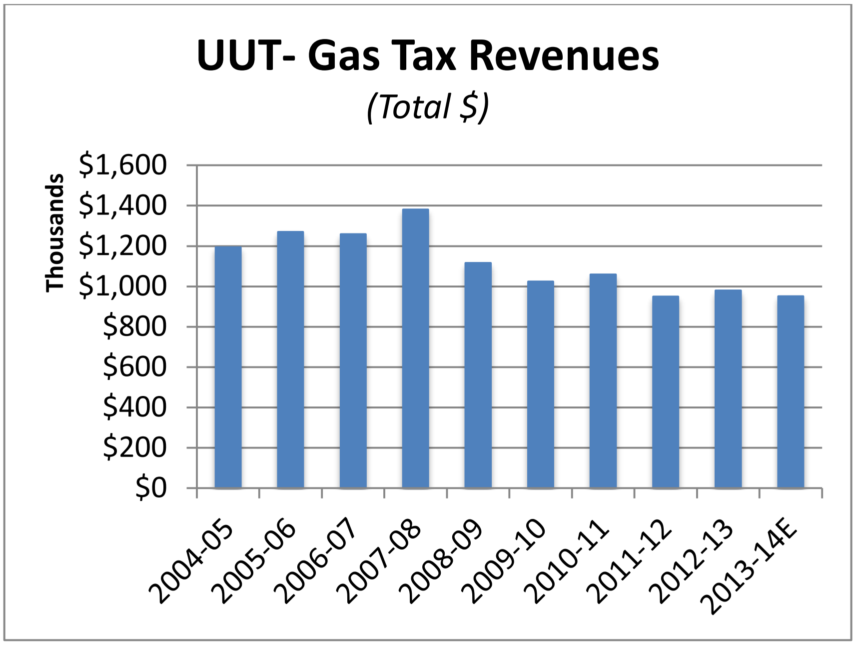
FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
0%	0%	0%	0%	0%	0%	0%

UTILITY USERS TAX (UUT)

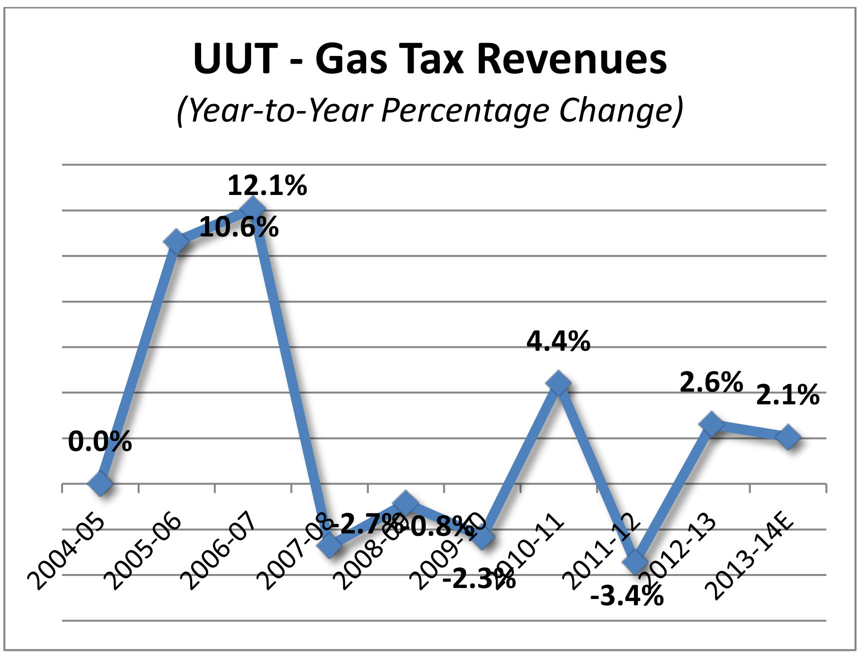
As authorized by the Culver City Municipal Code, an 11.0 percent utility tax is levied on electricity, water, gas, cable TV, and both wired and cellular/mobile telephone service. Utility taxes are collectively the second largest revenue source for the General Fund. Seasonal and annual weather fluctuations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



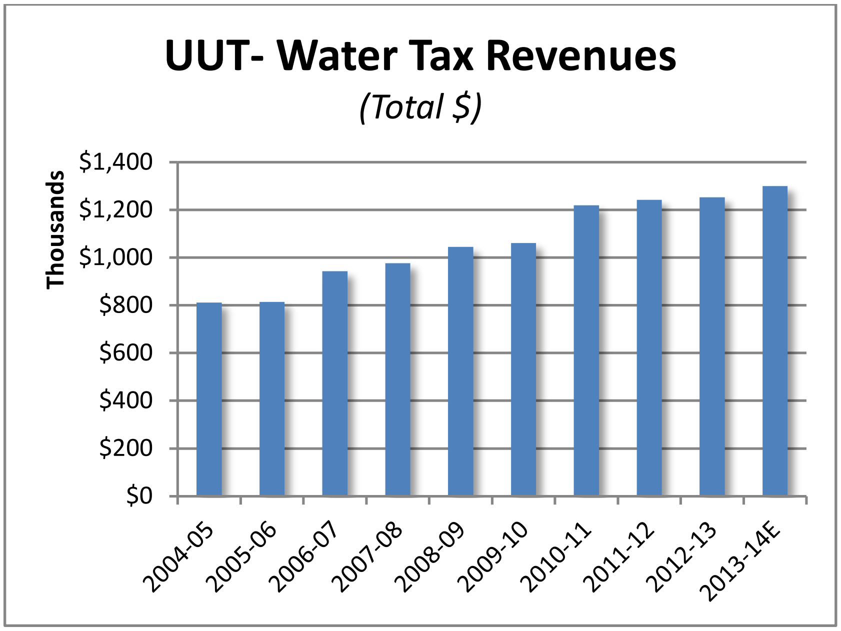


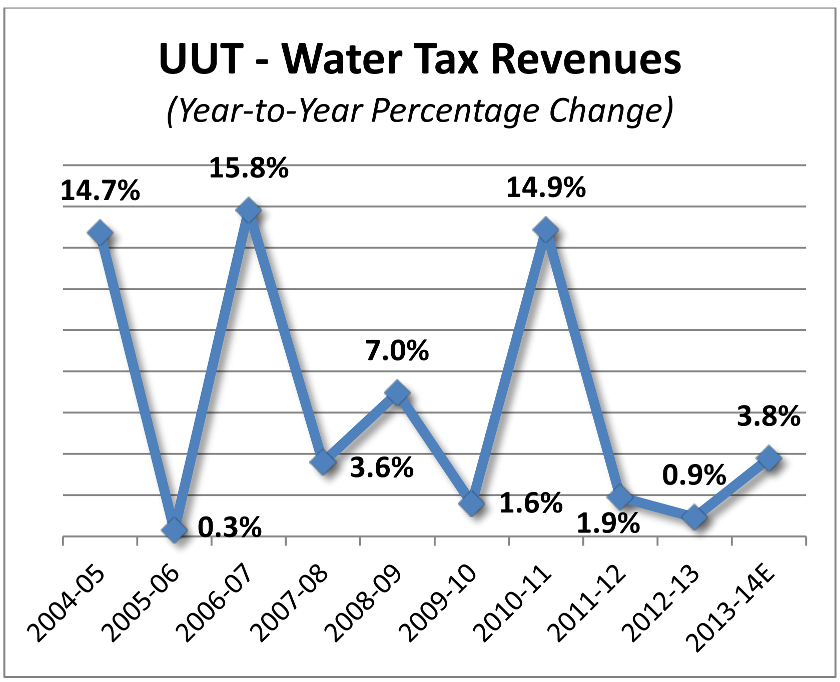


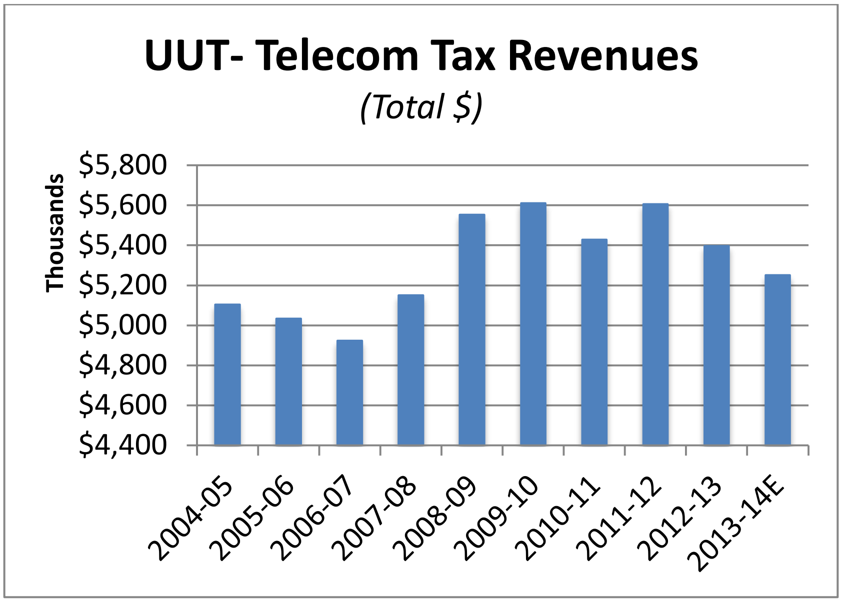
UUT- Gas Tax Revenues
(Total $)
Thousands
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14E

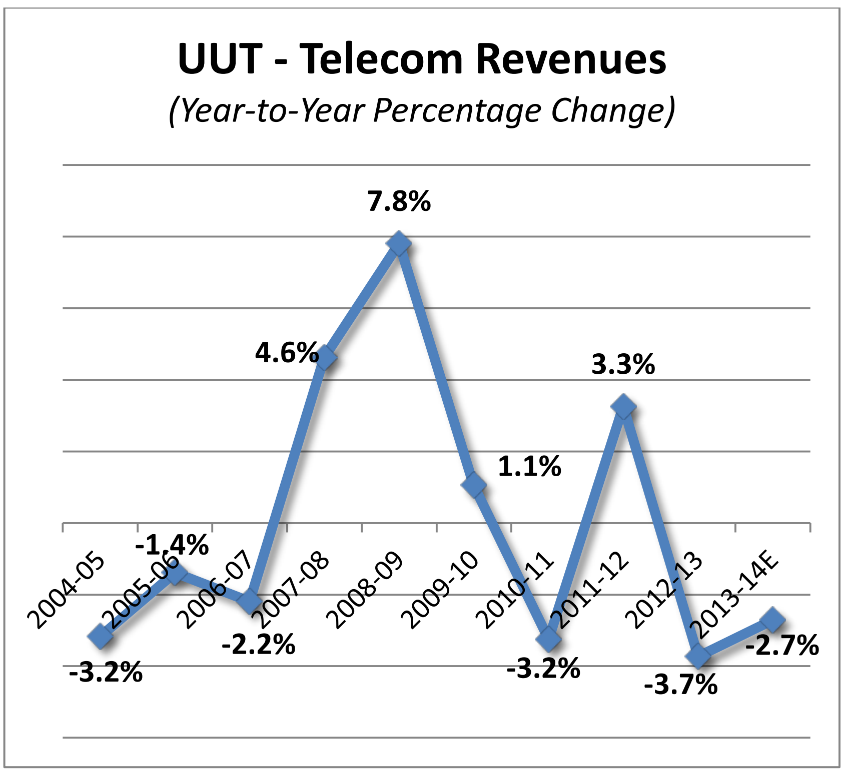


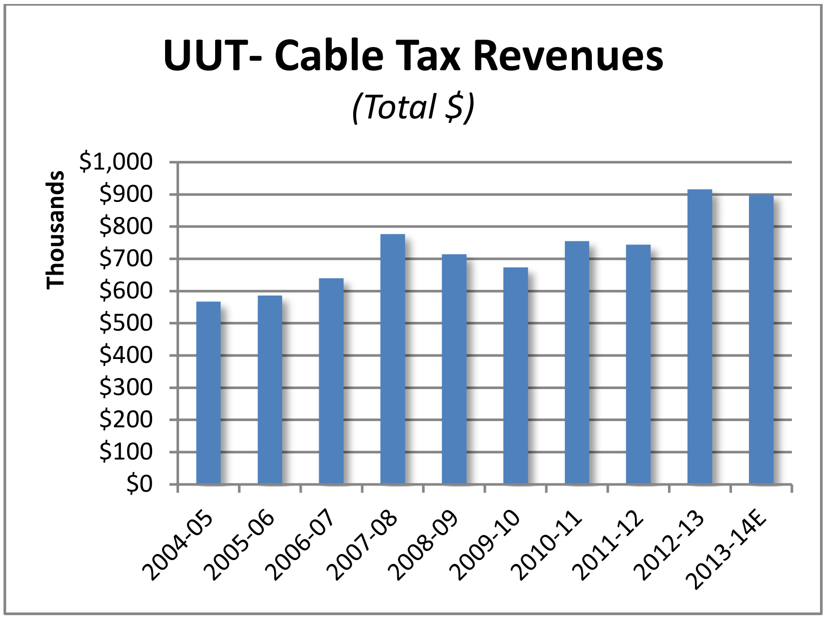
UUT - Gas Tax Revenues
(Year-to-Year Percentage Change)
0.0%
10.6%
12.1%
-2.7%
-0.8%
-2.3%
4.4%
-3.4%
2.6%
2.1%
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14E

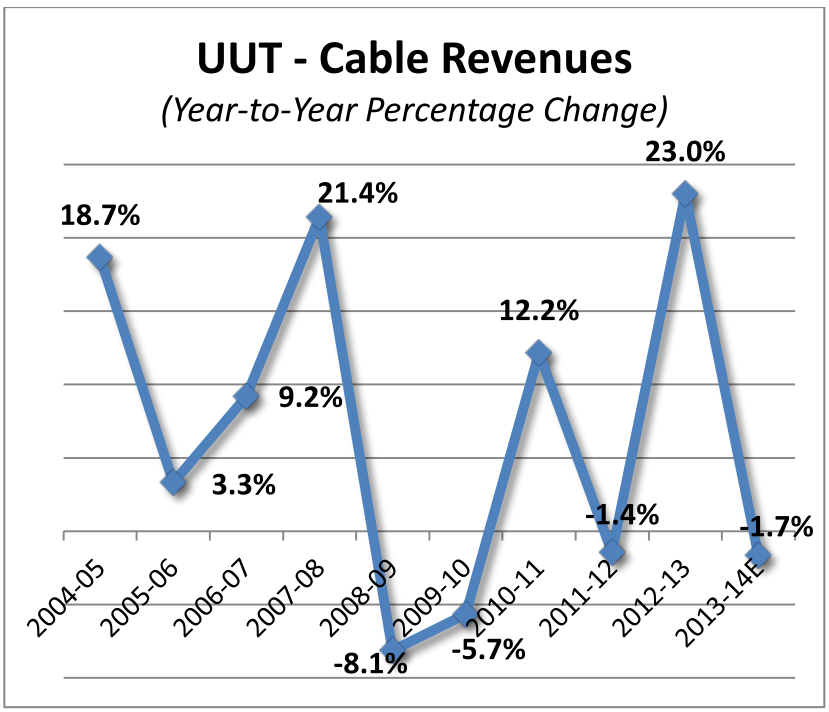

UUT- Water Tax Revenues
(Total $)
Thousands
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14E


UUT - Water Tax Revenues
(Year-to-Year Percentage Change)
14.7%
0.3%
15.8%
3.6%
7.0%
1.6%
14.9%
1.9%
0.9%
3.8%
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14E


UUT- Telecom Tax Revenues
(Total $)
Thousands
$5,800
$5,600
$5,400
$5,200
$5,000
$4,800
$4,600
$4,400
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14E


UUT - Telecom Revenues
(Year-to-Year Percentage Change)
-3.2%
-1.4%
-2.2%
4.6%
7.8%
1.1%
-3.2%
3.3%
-3.7%
-2.7%
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14E



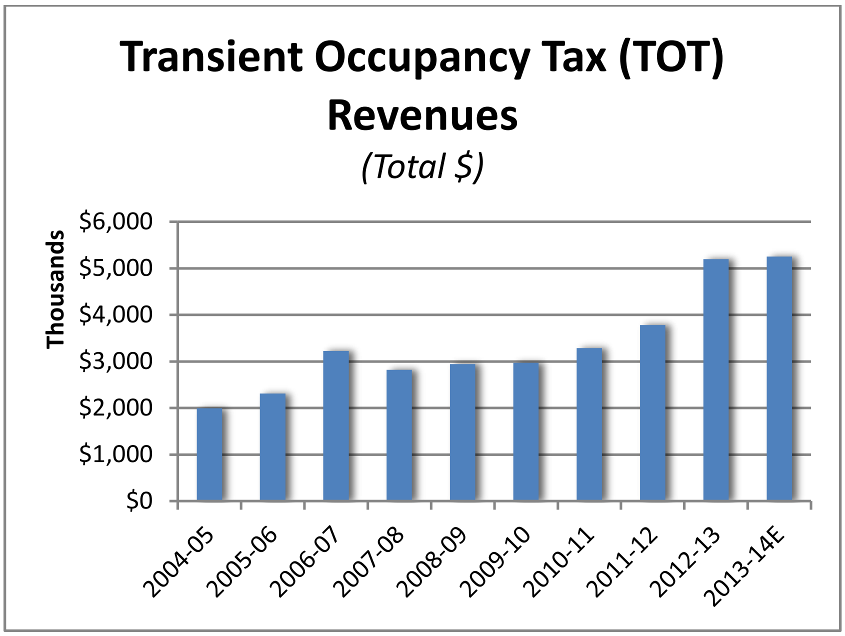


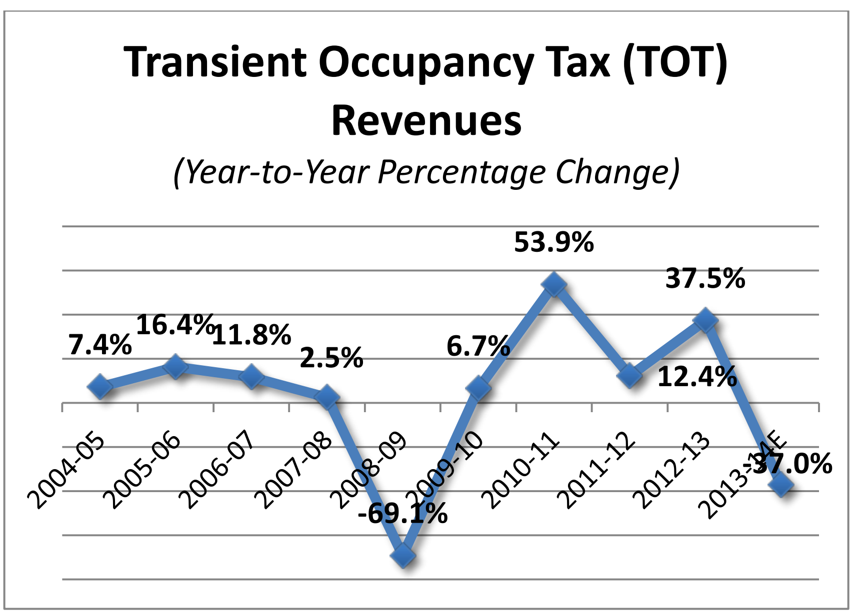
Projected Annual Rates of Change

	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
Electricity	3%	3%	2%	2%	2%	2%	2%
Gas	3%	3%	2%	2%	2%	2%	2%
Water	2%	2%	2%	2%	2%	2%	2%
Telecom	-4%	-4%	-4%	-4%	-4%	-3%	-3%
Cable	-2%	-3%	-4%	-4%	-3%	-2%	-2%

TRANSIENT OCCUPANCY TAX (TOT)

The Culver City Municipal Code authorizes the City to levy a tax for the privilege of occupying lodgings on a transient basis. In April 2012, Culver City residents approved a ballot measure that increased the rate from 12.0 percent to 14.0 percent (a 16.67% rate increase), to be consistent with surrounding cities. This revenue source performed at a record level in FY 2012-13, with a 37% increase over the prior year. This was well beyond the 16.67% increase in the tax rate. Tourism has improved in the region, with occupancy and nightly room rates both rising.



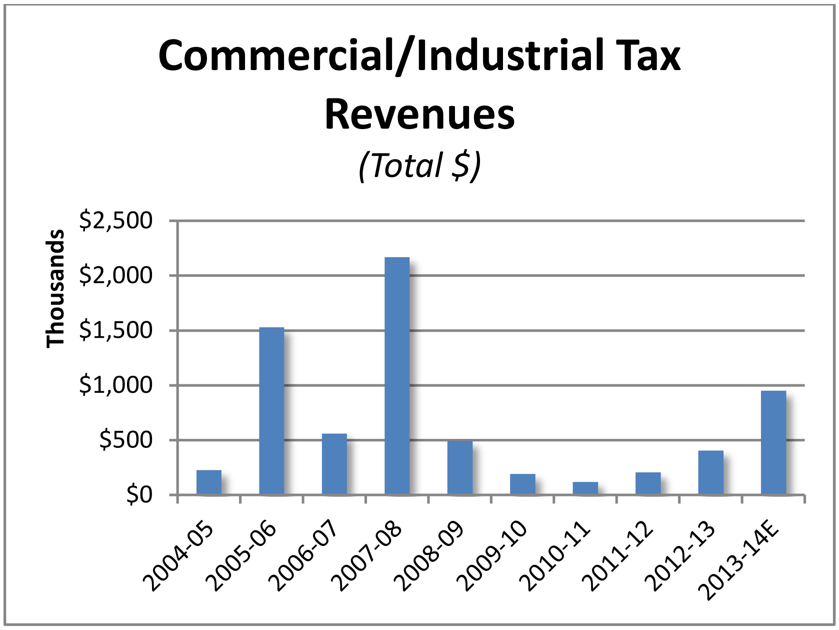


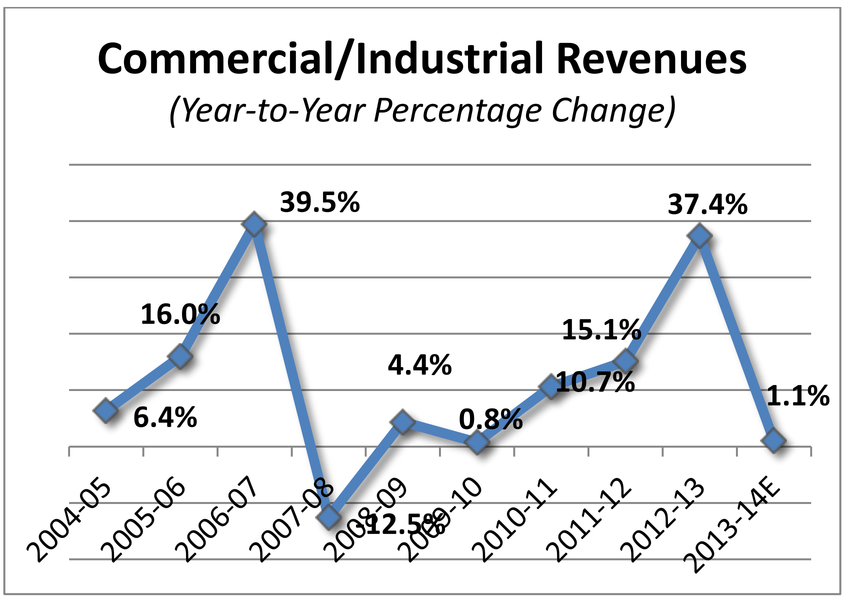
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
3%	3%	3%	2%	2%	2%	2%

COMMERCIAL/INDUSTRIAL DEVELOPMENT TAX

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



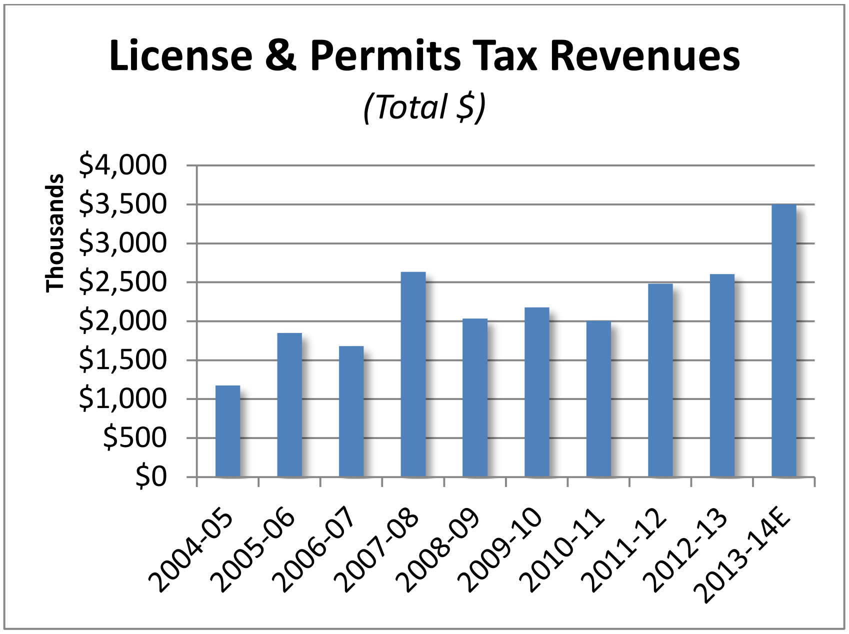


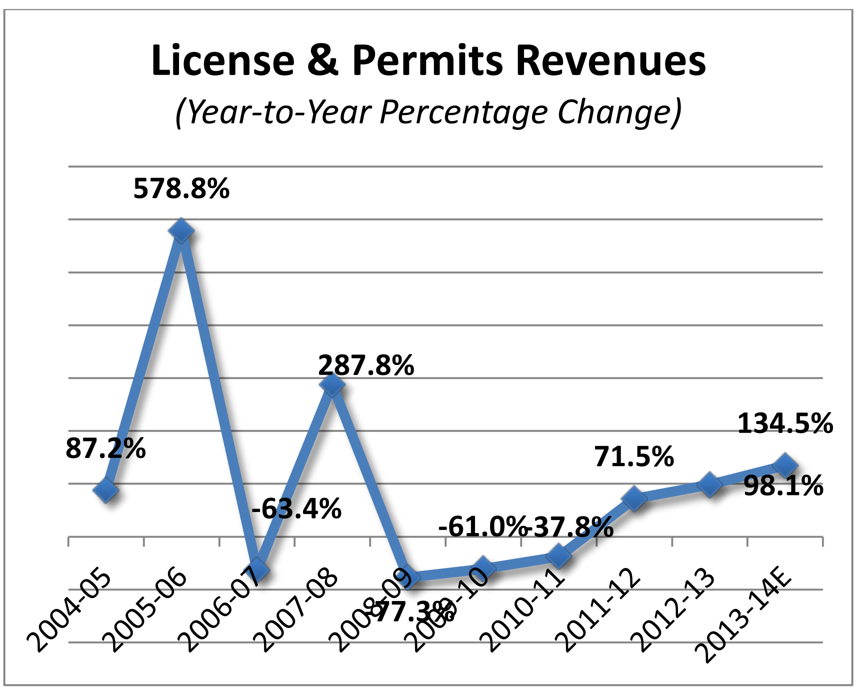
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
-52.6%	0%	0%	0%	0%	0%	0%

LICENSES AND PERMITS

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



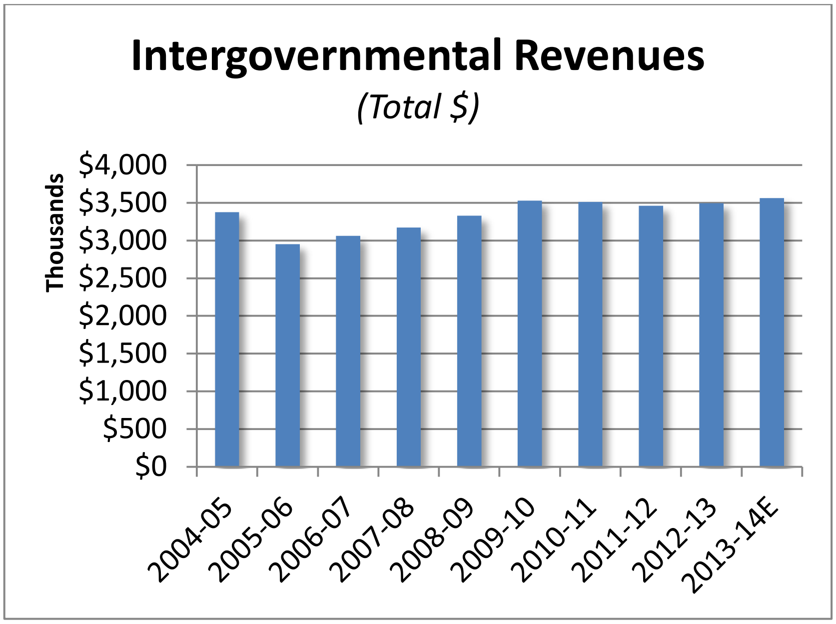


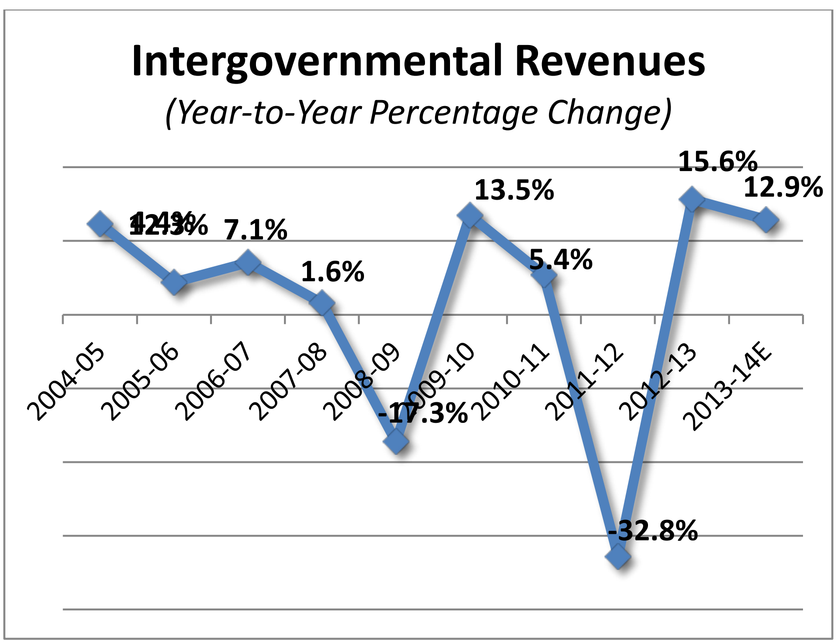
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
-10%	3%	3%	3%	3%	3%	3%

INTERGOVERNMENTAL

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



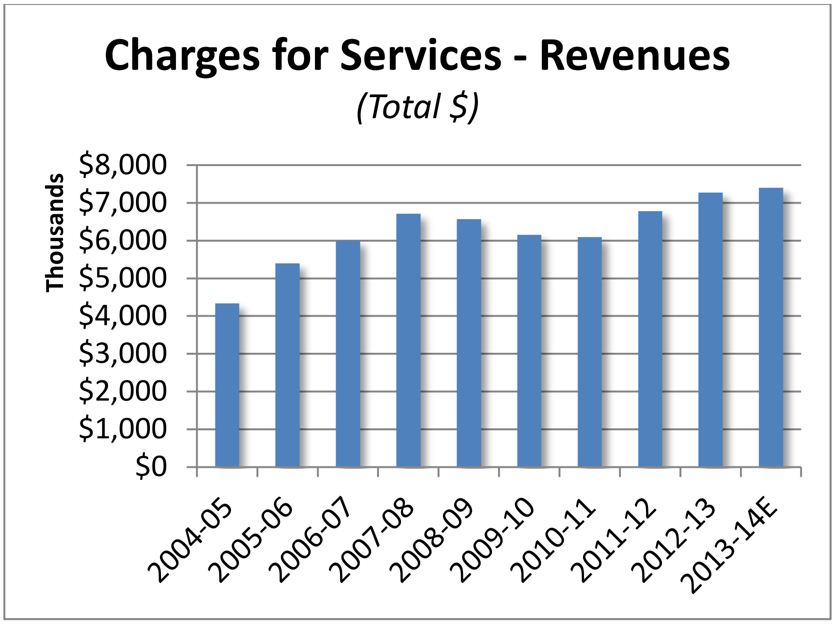


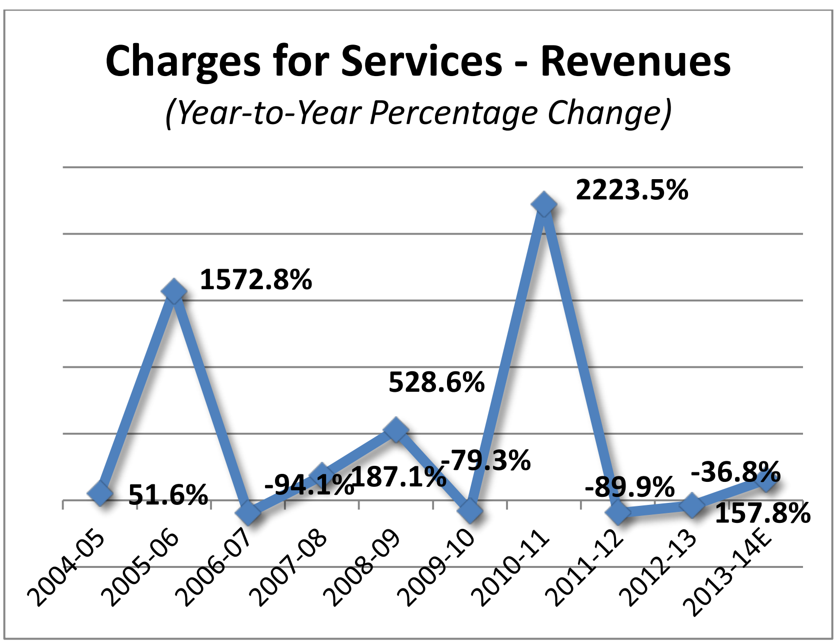
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

CHARGES FOR SERVICES

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



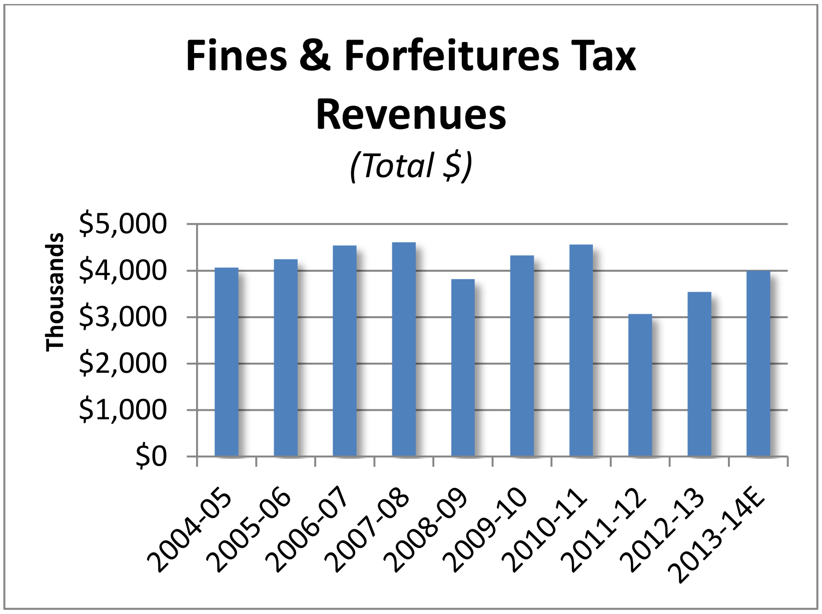


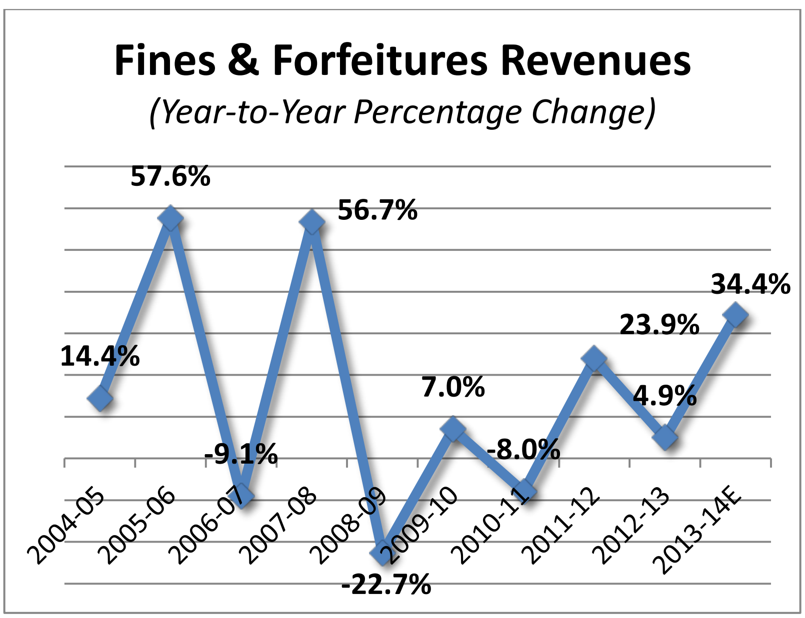
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
-10%	3%	3%	3%	3%	3%	3%

FINES AND FORFEITURES

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



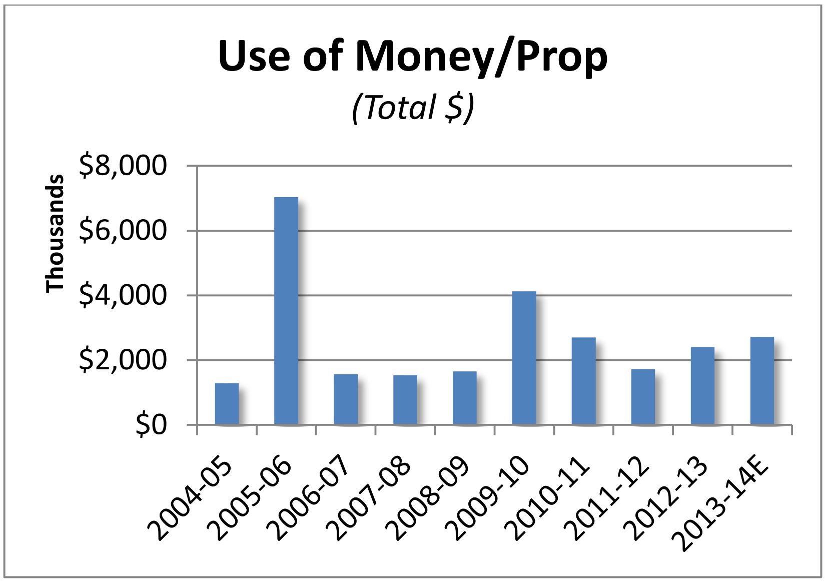


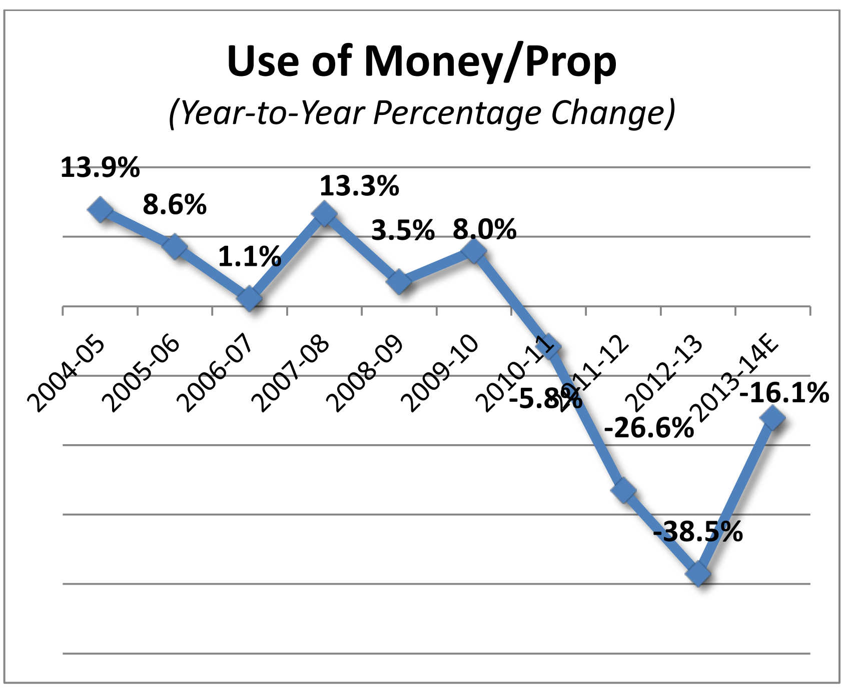
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
3%	3%	3%	3%	3%	3%	3%

USE OF MONEY AND PROPERTY

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



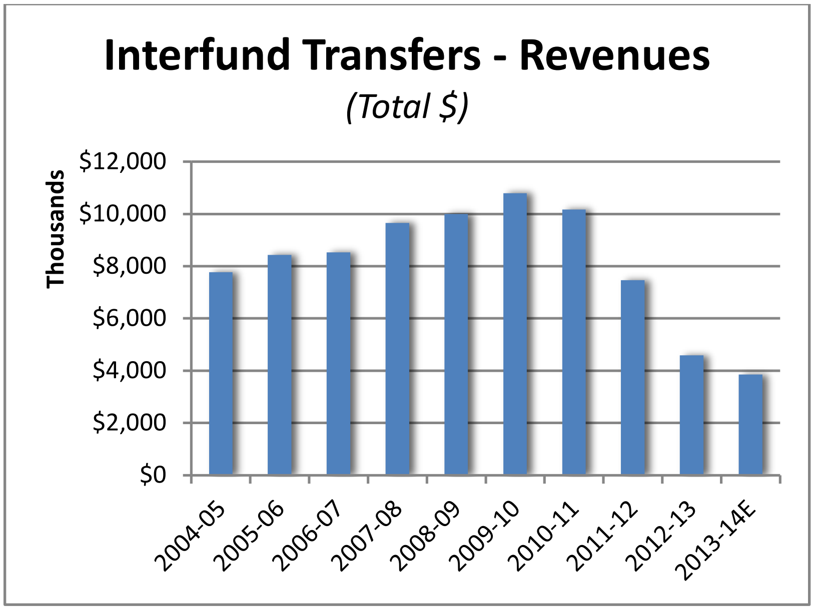


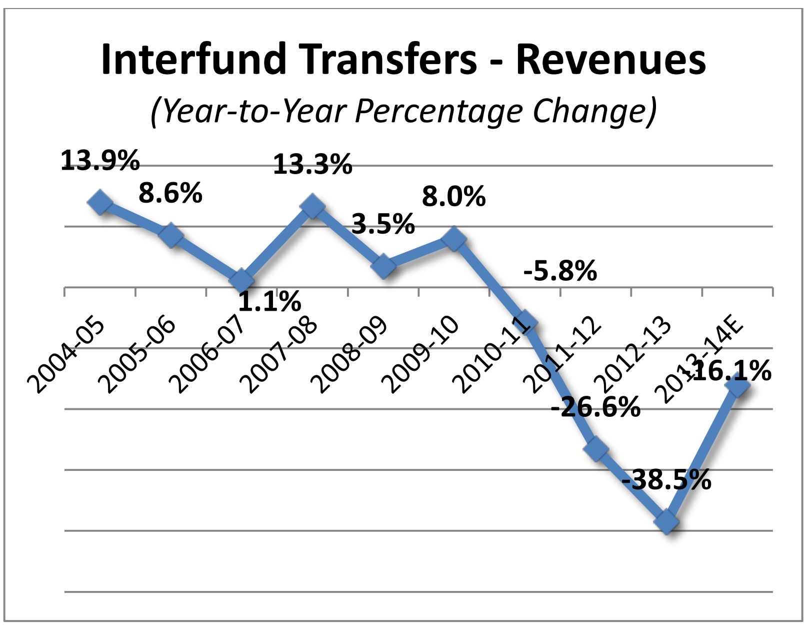
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
2%	2%	2%	2%	2%	2%	2%

INTERFUND TRANSFERS

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



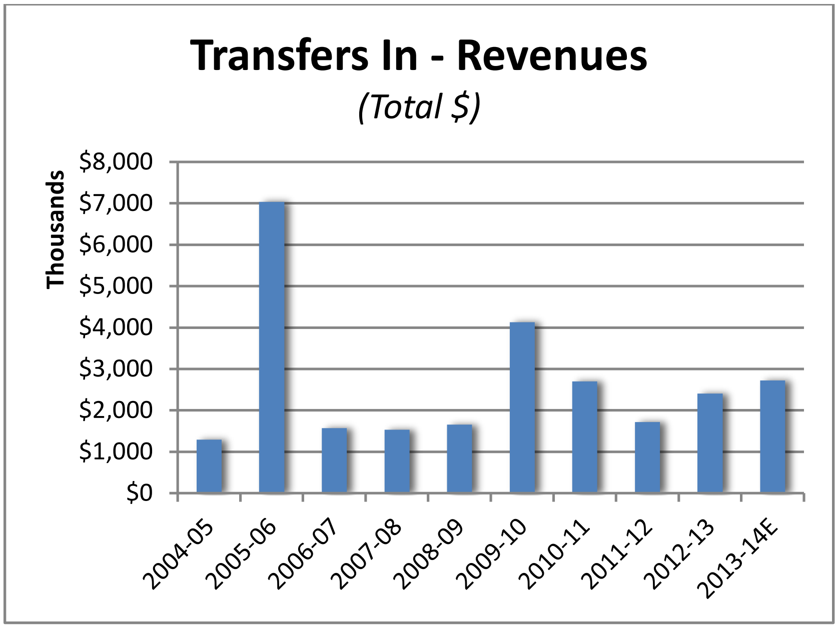


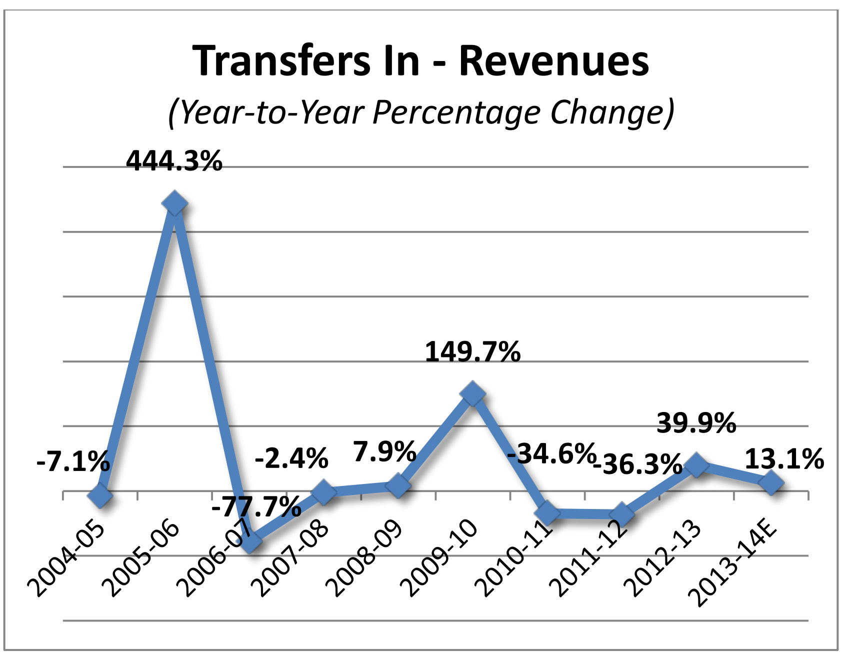
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
2%	2%	2%	2%	2%	2%	2%

TRANSFERS IN

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



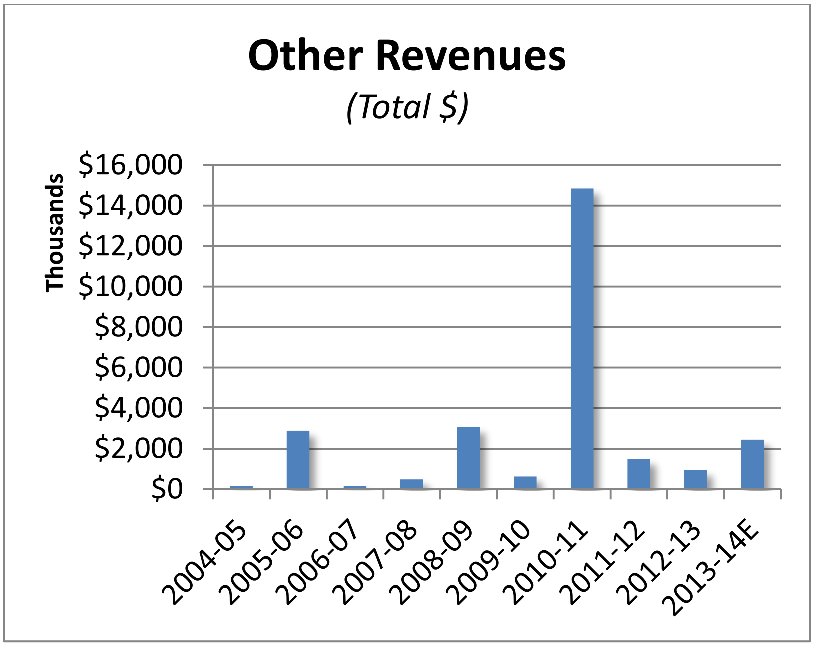


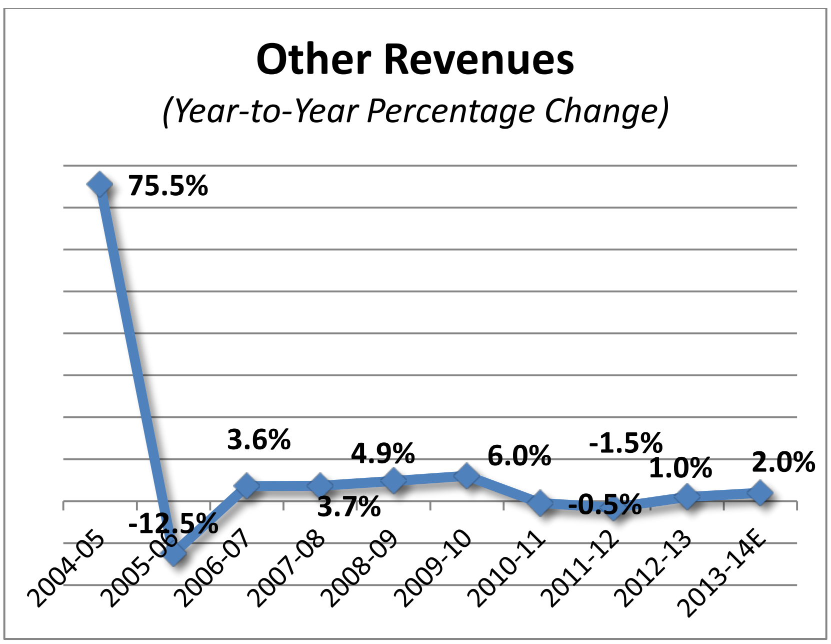
Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
2.5%	-4%	0%	0%	0%	0%	0%

OTHER REVENUES

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





Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
0%	0%	0%	0%	0%	0%	0%

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

Storm Water Discharge Requirements

Culver City, along with other public agencies, is subject to meeting requirements under the National Pollutant Discharge Elimination System (NPDES) permit program. The new Municipally Separate Storm Sewer (MS4) Permit imposes severe restrictions on Total Maximum Daily Loads (TMDLs) for certain pollutants, eight of which affect Culver City. Compliance with these TMDLs will be very difficult to meet, and extremely costly. It is currently estimated that the City may be responsible for as much as $50 million in needed infrastructure investments to comply. The forecast includes a debt service estimate for financing these improvements through a bond issue, if the General Fund were responsible for servicing the debt. It also includes several hundred thousand dollars annually for operating and maintenance costs. Staff will be working to identify alternative financing methods so that the General Fund is not responsible for the costs. Absent such an alternative, the debt service amount was included to show the effect on fund balance over the forecast period.

Additional Infrastructure Funding

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

Additional Pre-funding of Long-Term Liabilities

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

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

As indicated on the main forecast page, total financial reserve levels are currently at approximately 53%, and are forecasted to remain at this level throughout the forecast. The Contingency Reserve will only be utilized to meet one or more of the following events:

- A catastrophic loss of critical infrastructure requiring an expenditure of greater than or equal to five percent (5%) of the General Fund, Operating Budget, as defined above.
- A State or Federally declared state of emergency where the City response or related City loss is greater than or equal to five percent (5%) of the General Fund, Operating Budget.
- Any settlement arising from a claim or judgment where the loss exceeds the City's insured policy coverage by an amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.
- Deviation from budgeted revenue projections in the top three General Fund revenue categories, namely, Sales Taxes, Utility Users' Taxes and Business Taxes in a cumulative amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.
- Any action by another government that eliminates or shifts revenues from the City amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget.
- Inability of the City to meet its debt service obligations in any given year.
- Any combination of factors 1) a.-f. amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget in any one fiscal year.
-

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

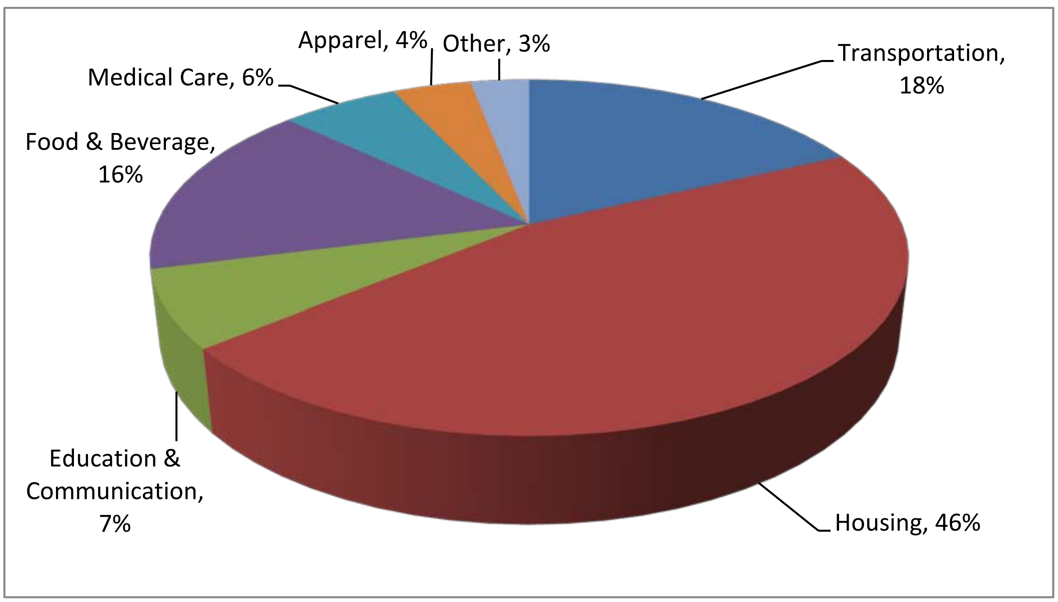
ECONOMIC OUTLOOK & PERSPECTIVE

OVERVIEW

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

INFLATION

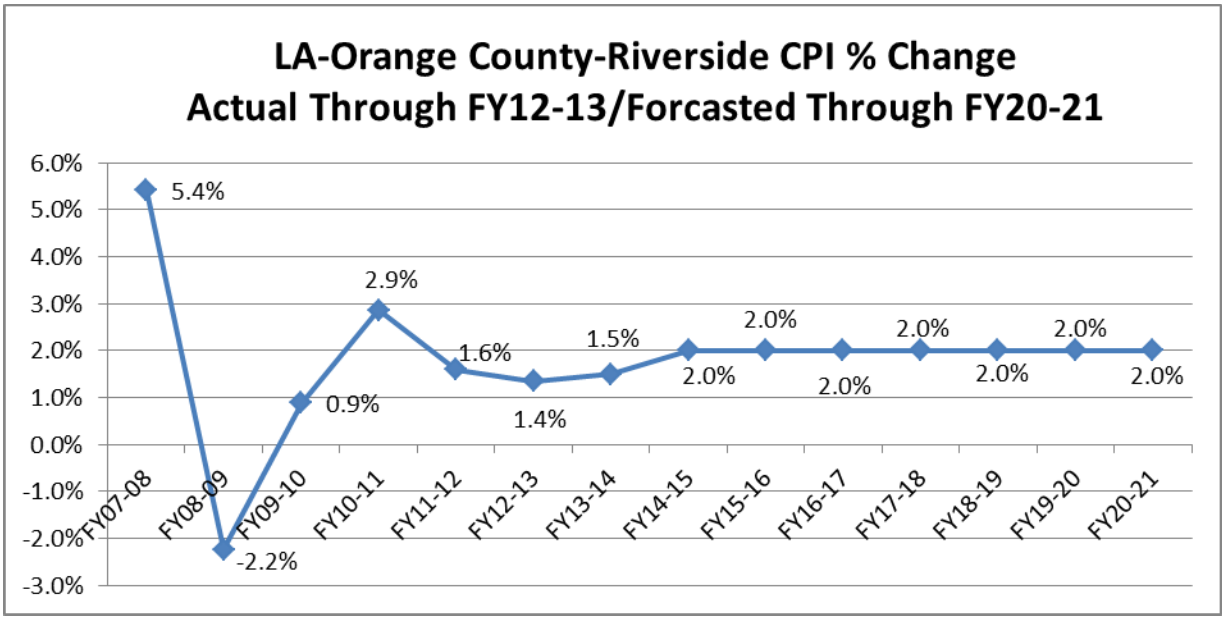
The Consumer Price Index (CPI), commonly referred to as the inflation rate, measures the average price change for a market basket of consumer goods and services. This basket of goods contains a wide array of items, ranging from food and gasoline to college tuition and medical supplies. The CPI does not,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



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

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

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



Source: Department of Labor

REGIONAL ECONOMIC CONDITIONS

The following information is an excerpt from the Los Angeles County Economic Development Corporation's 2013-2014 Mid-Year Economic Forecast & Industry Outlook, prepared by the The Kyser Center for Economic Research.

With nearly 10 million residents, Los Angeles County is the most populous county in the nation. Its population is larger than that of 42 states. If it were a country, it would have the 21st largest economy in the world, just ahead of Iran and just behind Switzerland.

Los Angeles County carried momentum from a strong second half of last year into the first half of this year, with year-to-year percentage job gains that outpaced the nation and the state. Many local industries added jobs since the start of the year. The unemployment rate has fallen rapidly so far this year, dropping into single-digit territory for the first time since late 2008. Housing prices have experienced hefty increases since the start of the year. All in all, the first half of 2013 brought significant and much needed improvements in the local economy.

Employment

During the first five months of this year, nonfarm jobs in Los Angeles County increased at an average year-to-year rate of 1.9%, on par with the state and ahead of the 1.6% growth rate nationally. Total nonfarm employment for the county averaged 3.91 million during the first five months of the year, the highest level since 2008. Job gains over the past several months drove the county unemployment rate down from 10.8% in May 2012 to 9.2% this past May, but a normal unemployment rate (7.0% to 7.5%) is still years away.

Average employment through the first five months of 2013 rose in all private sector industries, except for manufacturing. The largest gains were in leisure and hospitality (the second largest private sector industry by employment in the county), professional, scientific, and technical services (the county's fifth largest by employment), and administrative and support services. Health care and social assistance (the county's largest industry by employment) continued its long-term trend of job gains. These four industries accounted for four out of five jobs created during the first part of 2013. Construction also added a significant number of jobs and experienced the largest year-to-year percentage gain at 11.6%. Following the trend of recent years, both manufacturing and government sector jobs lost ground.

Entertainment and Trade

The entertainment industry and the transportation and trade industry are two of the most visible industries in Los Angeles County. The motion picture and sound recording sector accounts for most of the county's entertainment industry employment. Motion picture and sound recording jobs have been more volatile than usual since the start of the year, beginning the year with a January employment figure of 106,500, rising to 131,600 in March, and dropping to 112,100 in May. Part of this volatility is typical of the seasonal employment patterns found in the industry from one year to the next. Nevertheless, average industry employment since the start of the year was 120,500, 3.3% higher compared to a year earlier. Industry job gains reflect an increase in industry activity: On-location film production through the first two quarters of this year rose 13.1% compared to the same time a year earlier.

International trade passing through the ports and LAX depends on the condition of both the national and global economies. The San Pedro Bay ports of Los Angeles and Long Beach are the two largest container ports in the nation and Los Angeles International Airport (LAX) is one of the busiest air cargo terminals in the nation. Much of the nation's imported consumer goods from Asia and the Pacific Rim enter the United States through the twin ports. The number of TEUs (twenty-foot equivalent units) moving through the ports during the first half of this year increased by 2.5% over the first half of 2012. For all of 2013, a gain of 2.2% is projected to 14.4 million TEUs. If achieved, TEU throughput would be at its highest level since 2008, but still fall short of the pre-recession peak of 15.8 million units in 2006. The value of two-way trade through the Los Angeles Customs District (LACD) is a broader measure of trade volume. LACD two-way trade rose to a record of $403.4 billion last year. Year-to-date through May, trade is up by 1.6%, with a slight increase expected for all of this year. As economies around the globe (including the U.S.) accelerate in 2014, two-way trade will also pick up.

Professional Services and Technology

The professional, scientific, and technical services industry is the fifth largest in Los Angeles County. Firms in this industry employ a wide array of professionals, including architects, engineers, and attorneys. It is an important but often overlooked source of highly compensated jobs in the local economy. Industry employment stood at 267,000 in 2012, up 3.5% from a year earlier. Growth is expected to continue in this sector over the next two years, with projected gains of over 9,000 jobs this year and nearly 12,000 jobs next year.

The technology sector, which includes manufacturing and service industries in aerospace, information technology, electronics, and biomedical technology, employed 184,000 workers in 2012, up 2.4% from a year earlier. Like the professional, scientific, and technical services industry, it is a source of highly compensated jobs in the local economy. From January through May of this year, average employment in this sector rose 1.8% and is expected to post modest gains this year and next.

Conclusion

The Los Angeles County economy will continue to advance on many fronts through the rest of this year and into 2014. Population should cross the 10 million threshold in 2014, while nonfarm jobs in Los Angeles County should grow by 1.7% for all of this year and 1.3% 2014. Even so, it may be 2015 or 2016 before nonfarm employment exceeds the pre-recession peak of 4.12 million reached in 2007. The largest gains for 2013 are expected in leisure and hospitality, health care, professional, scientific and technical services, and construction. Job losses will continue in manufacturing, but government jobs may end the year roughly flat, with a slight gain expected next year.

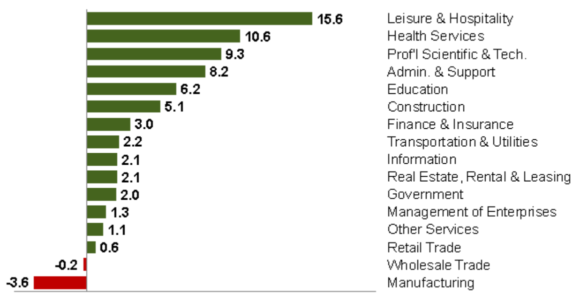
With these employment gains, total personal income will also grow. A 2.1% gain is expected this year and a 4.9% increase is projected for 2014. Similarly, taxable retail sales will increase by 3.1% this year and by 3.8% next year, following a 10.3% surge in 2012.

While the general outlook is positive, there are concerns about the impact of federal budget cuts on specific segments of the local economy. In particular, defense-related cuts may lead to civilian job losses locally. It remains to be seen whether these cuts will be implemented and how deeply they will affect the local aerospace industry.

Los Angeles County Snapshot

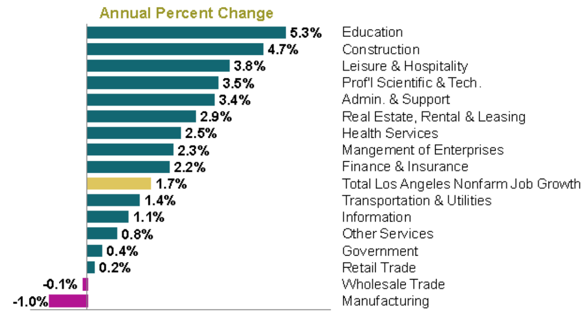
Los Angeles County Employment Growth, 2013

Total nonfarm job growth forecast for 2013 (thousands): 65.7 jobs



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

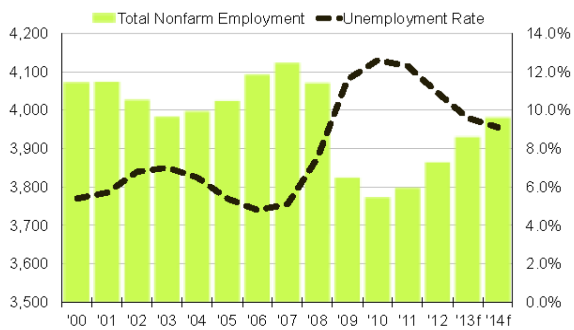
Los Angeles County Employment Growth, 2013



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

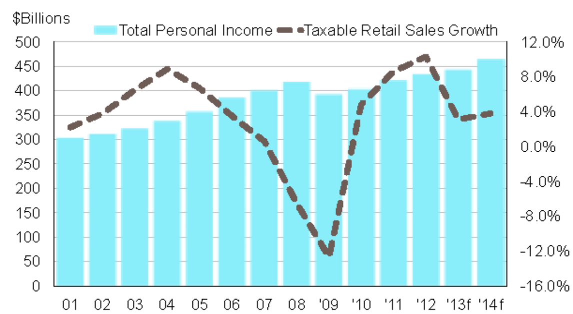
Los Angeles County Employment

Annual average in thousands, 2012 benchmark



Source: EDD Labor Market Information Division; forecast by LAEDC

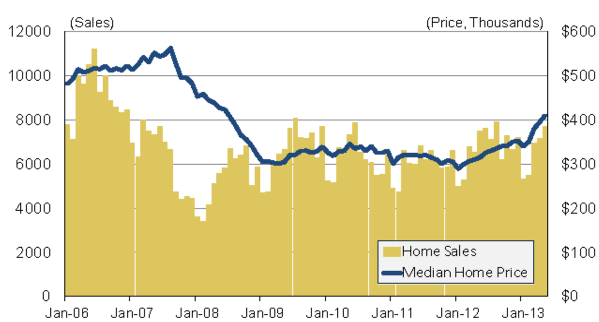
Los Angeles County Personal Income & Retail Sales



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

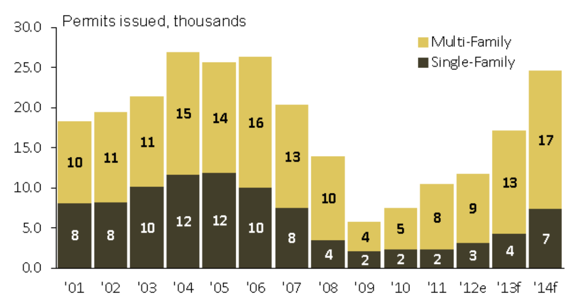
Home Sales & Median Prices Los Angeles County

New and existing, single-family homes and condos



Source: California Real Estate Research Council; DataQuick

Residential Building Permits Issued in Los Angeles County



Source: CIRB, California Homebuilding Foundation; forecast by LAEDC