

City of Culver City

YEAR-END REPORT AND AUDIT SUMMARY

FOR

FISCAL YEAR 2016-17

CITY OF CULVER CITY
Year-End Report and Audit Summary
FY 2016-17
General Fund and Other City Funds

INTRODUCTION

The purpose of this report is to summarize the results of the City's audited financial statements for the year ending June 30, 2017 (Fiscal Year 2016-17). The City Charter requires an independent, certified public accounting firm to audit the end-of-year financial statements. Preparation and responsibility for the financial statements rests with the City, and the independent auditor expresses an opinion about the statements based on their testing and review.

The firm of The Pun Group LLP performed the audit of the FY 2016-17 financial statements. This was the second year of their contract with the City. In the Independent Auditor's Report included in the City's Comprehensive Annual Financial Report (CAFR), The Pun Group LLP report that in their opinion the City's financial statements present fairly, in all material respects, the financial position of the City as of June 30, 2017. This report can be found on pages 1-3 of the CAFR.

The CAFR includes both government-wide financial statements, as well as the more traditional fund-level financial statements. The requirement for the government-wide financial statements are a result of Governmental Accounting Standards Board (GASB) Statement No. 34, implemented by Culver City in FY 2003-04. The idea behind government-wide statements was to collapse all of the various activities of the governmental entity into a single 'snapshot' view, so that the overall financial health and condition of the entity could be more easily understood by investors and other readers of the financial statements. However, this government-wide view does not easily relay to the reader the financial position of those monies where the City has wide discretion versus those where it has very little discretion. This information is more easily understood from the traditional fund-level financial statements. For this reason, this report is based on the fund-level financial statements. Those interested in more information on the government-wide financial statements should refer to Management's Discussion and Analysis on pages 5 through 20 of the CAFR.

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

Governmental funds are used to account for functions that are principally supported by taxes and intergovernmental revenues. The City maintains 29 individual governmental funds. These funds are further categorized into special revenue funds, capital projects funds, debt service funds and the general fund. Special revenue funds typically are used where there is a legal or other requirement to separately track certain types of funding. Capital projects funds are used to account for capital or infrastructure improvements. Debt service funds account for the issuance and repayment of debt (the City currently has no active debt service funds). All other governmental activities, not required to be accounted for separately, are handled through the City's General Fund. This is the fund for which the City Council has the most discretion, and includes most of the core operating activities

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

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

This report will spend the most time discussing the General Fund, since this is the fund that faces the most financial pressure to provide desired services based on finite resources. The other fund types will be discussed first. The focus of this report is on the actual results for FY 2016-17, and it does not look forward to the current or future fiscal years. This will occur in the upcoming FY 2017-18 Mid-Year Budget Report.

ENTERPRISE FUND SUMMARY

The table below summarizes the financial results for the City's three enterprise funds for FY 2016-17:

Funds	Beginning Net Assets	Revenues & Transfers in	Expenses & Transfers Out	Ending Net Assets	Unrestricted Net Assets
Refuse Disposal	(6,225,930)	13,098,050	12,254,241	(5,382,121)	(7,383,160)
Municipal Bus Lines	18,997,640	32,460,304	24,888,458	26,569,486	(12,384,419)
Sewer Enterprise	40,867,030	9,056,479	9,076,812	40,846,697	15,643,038
Municipal Fiber Network	69,637	31,090	1,430,316	(1,329,589)	(9,089,020)

The overall position of the Refuse Disposal Fund continues to be affected by the implementation of GASBs 68 and 75, where net pension and OPEB liabilities totaling \$11.1 million were recorded, causing the net assets of the fund to be negative. On an operational basis, revenues exceeded expenses by \$0.8 million for the year. Unrestricted net position of the fund (assets not restricted by outside sources or invested in capital) is also negative, and will likely remain that way until the long-term amortization of the net pension and OPEB liabilities is substantially complete.

The Municipal Bus Lines Fund had revenues and transfers in excess of expenses by \$7.6 million, primarily due to project expenses for funds received in the prior year. This fund also continues to be significantly affected by GASBs 68 and 75, with net pension and OPEB liabilities totaling \$24.6 million recorded. Based on the somewhat unpredictable nature of certain transportation funding sources, it is important to keep careful watch on this fund to ensure expenses are aligned with incoming resources. Unrestricted net position of the fund is negative as a result of GASBs 68 and 75, and will likely remain that way until the long-term amortization of the net pension and OPEB liabilities is substantially complete.

The Sewer Enterprise Fund expenses exceeded revenue by \$20,300 for the year. The fund was less impacted by GASBs 68 and 75 due to the low number of staff members in this fund. The \$15.6

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

The construction for the Municipal Fiber Network is still continuing. The funding for this project was provided through a loan from General Fund to design and construct an open access network where Internet Service Providers (ISP) will utilize the City's fiber infrastructure to service the business community. Other than investment earnings, this fund is not expected to begin generating revenue until late in FY 2017/18.

INTERNAL SERVICE FUND SUMMARY

The table below represents the financial results for the City's four internal service funds for FY 2016-17:

Funds	Beginning Net Assets	Revenues & Transfers in	Expenses & Transfers Out	Ending Net Assets	Unrestricted Net Assets
Equipment Replacement	16,076,436	1,875,294	1,692,422	16,259,308	8,720,361
Equipment Maintenance	(8,593,081)	7,659,899	7,843,397	(8,776,579)	(8,841,875)
Risk Management	(11,120,358)	6,931,017	7,390,137	(11,579,478)	(11,580,688)
Central Stores	(134,427)	1,275,940	1,345,595	(204,082)	(204,082)

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

The overall position of the Equipment Maintenance Fund continues to be affected by the implementation of GASBs 68 and 75, where net pension and OPEB liabilities totaling \$9.5 million were recorded. The purpose of this fund is to allocate the repair and maintenance charges of the City's fleet out to the departments where the vehicles are in service. On an operational basis, for FY 2016-17 expenses exceeded revenues and transfers by \$183.5 thousand. Unrestricted net position of the fund will remain negative as a result of GASBs 68 and 75 until the long-term amortization of the net pension and OPEB liabilities is substantially complete.

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

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

SPECIAL REVENUE FUND SUMMARY

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

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

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

Funds	Beginning Fund Balance	Revenues & Transfers in	Expenditures & Transfers Out	Ending Fund Balance
Gas Tax	1,755,746	773,470	900,592	1,628,624
Prop A Local Return	945,872	729,264	741,499	933,637
Prop C Local Return	1,119,780	607,528	669,653	1,057,655
Measure R	395,141	453,653	367,107	481,687
Operating Grants	(376,331)	1,162,780	1,253,623	(467,174)
Section 8 Housing	1,241,713	1,503,706	1,508,021	1,237,398
Art in Public Places	1,680,625	526,493	161,397	2,045,721
Community Development	196,113	46,835	729	242,219
CDBG	-	28,060	28,060	-
Landscape Maintenance	296,269	99,589	94,785	301,073
Park Facilities	1,356,025	53,605	25,956	1,383,674
Asset Seizure	1,237,456	223,018	456,629	1,003,845
Parking Authority	3,542,902	8,435,499	5,081,557	6,896,844
Urban Runoff Mitigation	5,981,710	871,166	206,259	6,646,617
Capital Grant	26,537	94	-	26,631
Building Surcharge	718,414	234,098	46,416	906,096
Economic Development	3,442,539	6,854	3,450,000	(607)
CC Housing Authority	27,599,842	17,717,945	672,498	44,645,289

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

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

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

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

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

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

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

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

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

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

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

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

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

Urban Runoff Mitigation is used to account for all activities associated with the mitigation and clean-up of urban water runoff.

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

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

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

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

CAPITAL PROJECTS FUND SUMMARY

The table below represents the summary financial activity for the City's capital projects funds for FY 2016-17. Descriptions of each fund are included below the table.

Funds	Beginning Fund Balance	Revenues & Transfers in	Expenditures & Transfers Out	Ending Fund Balance
2002 Cooperative	14,077,024	77,205	10,992	14,143,237
2004 Cooperative	2,797,051	9,949	-	2,807,000
2011 Cooperative	(803,702)	-	-	(803,702)
2011 Bond	13,976,446	2,870	9,202,608	4,776,708
Cooperative Projects - (as restated) *	10,163,391	125,575	3,517,359	6,771,607
1993 Tax Exempt Bond	2,696,277	7,510	969,552	1,734,235
Capital Improvement Grants	(936,815)	2,874,977	5,005,304	(3,067,142)
Capital Improvement & Acquisition	4,589,700	5,813,866	3,894,810	6,508,756
CDBG Capital	-	159,010	159,010	-

* For details refer to (Note 18) in CAFR

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

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

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

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

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

GENERAL FUND

General Fund Overview

Fiscal Year 2016-17 continued to experience a noticeable recovery in the overall economy, as well as the local economy. Total revenues for the year were \$110.5 million, which was \$3.1 million, or 102.9% of the amount budgeted. The increase consists of \$2.7 million in operational revenues performing better than expected in categories such as Property Tax, Measure Y, Public Safety Sales Tax (PSAF), Business Tax and Real Property Transfer Tax. Fiscal Year 2016-17 expenditures totaled \$109.9 million, ending the year \$5.6 million less than budgeted. Community Development and Public Works were attributable for \$4.0 million of this variance, ending the year respectively at \$2.7 million and \$1.3 million under budget. A significant portion of this savings was for approved one-time enhancements for contract services that will be carried over for use in the current year. Overall, the variance between ending revenue and expenditures for the year was \$0.6 million. The use of surplus generated during Fiscal Year 2016-17 will be discussed further in this report.

Revenue Detail

Overall, General Fund revenues were \$110.5 million, or 2.9% higher than the budgeted estimates.

GENERAL FUND REVENUES					
	2015-16 ACTUALS	2016-17 ADJUSTED BUDGET	2016-17 ACTUALS	% RECEIVED	BUDGET VARIANCE
Property Tax	6,825,467	7,113,802	8,103,563	113.9%	989,761
Sales Tax	21,127,062	20,523,000	20,229,791	98.6%	(293,209)
Measure Y	9,117,121	9,256,000	9,343,596	100.9%	87,596
Public Safety Sales Tax (PSAF)	413,254	383,000	424,108	110.7%	41,108
Business Tax	12,299,395	12,473,000	13,373,055	107.2%	900,055
Franchise Tax	1,408,672	1,410,000	1,408,686	99.9%	(1,314)
Real Prop Trans Tax	3,802,089	2,200,000	2,907,756	132.2%	707,756
UUT - Electricity	6,613,138	6,216,521	6,113,707	98.3%	(102,814)
UUT - Gas	954,796	992,988	1,042,718	105.0%	49,730
UUT - Water	1,321,314	1,334,527	1,420,660	106.5%	86,133
UUT - Telecommunications	4,697,432	4,681,220	4,622,627	98.7%	(58,593)
UUT - Cable TV	957,390	909,520	904,791	99.5%	(4,729)
TOT	7,572,077	7,875,000	7,566,579	96.1%	(308,421)
Comm/Ind Dev Tax	1,228,747	900,000	631,600	70.2%	(268,400)
Licenses & Permits	4,224,283	4,095,185	3,960,642	96.7%	(134,543)
Intergovernmental	4,309,822	4,479,859	4,546,854	101.5%	66,995
Charges for Services	10,495,458	10,026,903	10,935,773	109.1%	908,870
Fines & Forfeitures	4,323,432	4,504,710	5,080,610	112.8%	575,900
Use of Money & Prop	849,088	793,400	692,450	87.3%	(100,950)
Cost Allocation Rec	4,239,143	4,566,731	4,571,731	100.1%	5,000
Other Revenue	530,133	371,027	410,895	110.7%	39,868
Other - Transfers	1,700,000	2,229,660	2,180,000	97.8%	(49,660)
TOTAL GENERAL FUND	\$109,009,314	\$107,336,053	\$110,472,193	102.9%	\$3,136,139

- Property Tax receipts finished the year higher than budgeted by 13.9% or \$1.0 million. Improved assessed valuations and additional one-time pass-through payments of incremental property taxes generated by the former redevelopment agency were largely attributable for the higher than anticipated revenues for the year.
- Sales Tax, Measure Y and Public Safety Sales Tax (PSAF) combined are the General Fund's largest revenue source. While Fiscal Year 2016-17 receipts were budgeted at \$30.2 million, the total of these sources closed at \$30.0 million or 98.6% of the budgeted total.
- Continued economic growth was a driver in increased Business Tax receipts during the year. Business Tax revenue outpaced budgeted totals by 7.2% or \$0.9 million, ending the year at \$13.4 million.
- Real Property Transfer Tax came in higher than estimated by 32.2% or \$0.7 million. This revenue source is dependent on real estate sales transactions occurring, and can vary wildly from year to year making it difficult to estimate. The sale of a significant commercial property can greatly inflate the amount received in a particular year. Most of this revenue is considered 'one-time' for forecasting purposes.

- Transient Occupancy Tax were budgeted for FY 2016-17 with anticipation of continued pace of 4.0% annual growth. There was a drop Transient Occupancy Taxes received after November 2016. It is not totally clear whether this was related to the 2016 election or other factors. The final amount received for the fiscal year was \$7.6 million or 96.1% of the budget estimate.
- Commercial/Industrial Development Tax is another revenue that is very hard to predict, and varies significantly from year to year. It is completely dependent upon new commercial development activity. The amount realized in FY 2016-17 was 29.8% lower than budgeted, with ending receipts at \$0.6 million.
- Charges for Services were 9.1% or \$0.9 million higher than budgeted. This category consists of a variety of charges administered by virtually all City departments, with the most significant increases in PRCS and development/building related charges.
- Fines and Forfeitures is primarily comprised of red light camera violations, moving violations written by Culver City traffic enforcement in the Police Department, and parking violations. These sources were slightly higher than the budgeted by 12.8% or \$0.6 million.

Expenditure Detail

Total General Fund expenditures were \$109.9 million, or 95.1% of revised appropriations. Transfers out to other funds for capital projects for FY 2016-17 were 0.9% less than the adjusted budgeted. Ignoring transfers out, the operational expenditures ended \$5.6 million less than anticipated, primarily due to a number of projects underway with contractual service obligations that were delayed into the current year.

GENERAL FUND EXPENDITURES					
	2015-16 ACTUALS	2016-17 ADJUSTED BUDGET	2016-17 ACTUALS	% EXPENDED	BUDGET VARIANCE
Personnel Costs	79,114,554	86,663,973	84,366,656	97.3%	2,297,317
Operating O&M	17,543,341	24,144,226	19,282,268	79.9%	4,861,958
Capital	228,220	1,393,402	689,051	49.5%	704,350
Assumed Vacancy and O&M Savings	0	(2,296,472)	0	0.0%	2,296,472
Transfers	10,738,524	5,605,843	5,556,608	99.1%	49,235
TOTAL GENERAL FUND	\$107,624,639	\$115,510,972	\$109,894,582	95.1%	\$5,616,389

GENERAL FUND EXPENDITURES					
	2015-16 ACTUALS	2016-17 ADJUSTED BUDGET	2016-17 ACTUALS	% EXPENDED	BUDGET VARIANCE
Administration	1,590,594	1,584,950	1,562,820	98.6%	22,130
City Clerk	439,420	801,282	450,195	56.2%	351,087
City Attorney	2,191,461	2,416,346	2,387,745	98.8%	28,602
Finance	5,023,594	5,239,579	5,126,547	97.8%	113,032
Human Resources	1,122,876	1,324,757	1,272,636	96.1%	52,121
Information Technology	3,543,381	4,416,628	3,864,996	87.5%	551,632
Parks, Recreation & Community Svcs.	7,443,175	8,731,514	7,938,211	90.9%	793,303
Police	33,806,609	38,258,989	37,345,615	97.6%	913,375
Fire	21,490,702	22,737,355	22,633,094	99.5%	104,261
Community Development	7,113,386	10,190,438	7,491,868	73.5%	2,698,570
Public Works	10,343,397	12,088,288	10,785,437	89.2%	1,302,851
Non-Departmental	2,719,882	2,057,242	3,421,052	166.3%	(1,363,810)
Transfers	10,738,524	5,605,843	5,556,608	99.1%	49,235.13
Retiree Health Pre-funding	57,760	57,760	57,760	100.0%	-
TOTAL GENERAL FUND	\$107,624,761	\$115,510,972	\$109,894,583	95.1%	\$5,616,389

As is common, position vacancies during the course of the year create savings versus the budget. There is a lag time between when positions become vacant and when a recruitment process is completed and a new individual put in place. To the extent no vacancies occur during a particular year, the full budget appropriation authority would be required, and therefore such annual savings are considered one-time, or non-recurring.

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

- Personnel costs typically account for approximately 80% of the General Fund budget. Actual expenses for the fiscal year were \$84.4 million, or 97.3% of the budget.
- Retirement contribution rates to CalPERS resulted in a total spend of \$14.1 million, which was 98.5% of revised appropriations for the year.
- OPEB Prefunding for Retiree Medical expenses totaled \$4.0 million for the year, at 100% of the revised appropriations.
- Total transfers out totaled \$5.5 million from General Fund, with \$4.7 million to Capital Improvements & Acquisitions Fund 420 and \$0.8 million Urban Runoff Mitigation Fund 434 for necessary infrastructure projects.

CONCLUSION

Culver City finished FY 2016-17 with positive financial results. In the General Fund, with the exception of a one-time land transfer to the Successor Agency, total revenues exceeded expenditures by \$0.6 million. Pursuant to the updated financial policies adopted by the City Council in FY 2013-14, thirty percent (30%) of the adopted operating budget for the General Fund is to be reserved for future contingencies/emergencies. Accordingly, \$31.9 million has been committed to this purpose. The financial policies also call for forty percent (40%) of any surplus between revenues and expenditures after meeting the future contingencies requirement to be set aside in a Facilities Planning Reserve, for the future replacement or improvements of City facilities. Lastly, the updated financial policies call for ten percent (10%) of specific parks and recreation revenues to be set aside for the improvement of recreational facilities. Use of any of these reserves requires specific City Council action. Beyond these required reserves, there were \$22 million in remaining unassigned General Fund reserves as of June 30, 2017. Ultimate use of these funds remains uncertain. However, the City Manager will be presenting some options to the City Council as budget discussions for FY 2018-19 commence.

Even with the improving financial condition of the City, the General Fund Financial Forecast shows we must continue to remain vigilant about controlling costs due to the known significant increases in pension costs that are phasing in over the next five years. The updated forecast shows the City likely moving into a fairly substantial deficit situation as a result of increasing pension and other costs outpacing revenue growth. Measure Y is set to sunset in 2023 unless extended by the voters. Barring dramatic changes to current revenue projections, which staff does not foresee being the case, loss of Measure Y would result in the General Fund being in a catastrophic deficit situation. The forecast is assuming the removal of the sunset clause for Measure Y. Additionally, CalPERS adopted reductions to the assumed investment returns rate, which will increase employer contribution rates further. The General Fund Financial Forecast will be updated and discussed in much more detail during the FY 2017-18 Mid-Year Budget Report, as well as during the development of the FY 2018-19 budget.