



Culver CITY

DAN PATACCHIA MEETING ROOM
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CULVER CITY, CALIFORNIA 90232-0507
CITY HALL Tel. (310) 253-6000
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FINANCE ADVISORY COMMITTEE

Wednesday, February 12, 2014

GORAN ERIKSSON, Chair
CRYSTAL ALEXANDER, Vice-Chair
ALLAN AZRAN, Member
DESMOND BURNS, Member
RICHARD HIBBS, Member
SEAN KEARNEY, Member
ALEJANDRO LARA, Member
STEVEN REITZFELD, Member
DAVID TROVATO, Member

PUBLIC COMMENT

The Finance Advisory Committee will listen to the public on any item on the agenda or item of interest that is not on the agenda. The Finance Advisory Committee cannot take action on any item not scheduled on the agenda. Such items may be referred for administrative action or scheduled on a future agenda.

If you wish to speak to the Committee, please complete a Speaker's Card and present it to the staff liaison before the agenda item is called. You will be called by name when it is your turn to speak to the Committee.

PUBLIC COMMENT FOR ITEMS ON THE AGENDA

Persons wishing to speak on agenda items will be called at the time the agenda item is brought forward. Comments will generally be limited to five minutes per speaker; however, a three-minute limit may be declared by the Chair for agenda items for which many Speaker Cards have been submitted.

PUBLIC COMMENT FOR ITEMS NOT ON THE AGENDA

A total of twenty minutes shall be devoted to audience participation at the beginning of the agenda. Speakers will be called on in the order cards were received by City staff. If additional time is needed, the committee chair will allow for same at the end of the agenda.

When your name is called, please stand and state your name and city of residence. Speakers must limit their comments to five minutes. A three-minute limit may be declared by the Chair if there are a large number of individuals desiring to address the Council.

AUTHORITY OF PRESIDING OFFICER

Section 611 of the City Charter provides that during any public meeting, all persons shall have the right to address the City Council, and any City commission, board or committee, subject to reasonable rules of decorum and time limits established by ordinance or the presiding officer. Therefore the presiding officer may, from time to time, establish different time limits than those listed in this Agenda in order to effectively conduct Committee business.

CELL PHONES AND OTHER DISTRACTIONS

Use of cell phones, pagers, and other communication devices is prohibited while the Committee meeting is in session. Please turn all devices off or place on silent alert and leave the meeting area to use. During the meeting, please refrain from applause or other actions that may be disruptive to the speakers or the conduct of City business.

MEETING INFORMATION

Finance Advisory Committee Meetings are regularly scheduled for the second Wednesday of every month. Committee Agenda information is available at least 72 hours before each meeting via posting at City Hall, and on the City website. Information may also be accessed by calling the Finance Department at (310) 253-5865.



Agendas are
Available on the web at
www.culvercity.org

Finance Advisory Committee REGULAR MEETING AGENDA

Wednesday, February 12, 2014
7:00 PM
Dan Patacchia Meeting Room

CALL TO ORDER & ROLL CALL:

Goran Eriksson, Chair
Allan Azran, Member
Richard Hibbs, Member
Alejandro Lara, Member
David Trovato, Member

Crystal Alexander, Vice-Chair
Desmond Burns, Member
Sean Kearney, Member
Steven Reitzfeld, Member

PLEDGE OF ALLEGIANCE

PUBLIC COMMENT – Items Not on the Agenda

CONSENT CALENDAR *(Consent Calendar items are considered to be routine in nature and may be approved by one motion. Public requests to discuss Consent Calendar items must be filed with the Secretary before the Consent Calendar is called.)*

C-1. Minutes of the January 8, 2013 Regular Meeting.

ACTION ITEMS *(Public requests to discuss Action Items must be filed with the Secretary before the item is called)*

A-1. Presentation and Discussion of General Fund Financial Forecast.

A-2. Updates from the Finance Advisory Committee Ad Hoc Subcommittees.

A-3. (1) Discussion of Approved Work Plan; (2) Discussion of the Creation of Subcommittees; (3) (If Desired) Creation of Subcommittees; and (4) (If Desired) Appointment of Members to Such Subcommittees.

A-4. Presentation and Discussion of Draft Financial Policies.

ITEMS FROM STAFF

S-1. Discussion of March Agenda.

ITEMS FROM COMMITTEE MEMBERS

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Public Comment for Items NOT On the Agenda

Chair Eriksson invited public comment.

No cards were received and no speakers came forward.

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Consent Calendar

Item C-1

Meeting Minutes

THE FAC PASSED A MOTION APPROVING THE MINUTES FOR THE SPECIAL MEETING OF DECEMBER 4, 2013 (ABSENT MEMBERS BURNS AND TROVATO).

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Action Items

Item A-1

Presentation and Discussion on Storm Water Compliance Requirements

Charles Herbertson, Public Works Director and City Engineer, discussed the magnitude of the issue; storm water requirements; financial implications; the Enhanced Watershed Management Plan; watersheds; deadlines; the Regional Water Quality Control Board; storm water permits; funding; and the County initiative.

Steven Fenton, Senior Engineer provided background on the issue; discussed legislation; plans for the future; affected water bodies; the new MS4 permit; total maximum daily loads; enhanced watershed management plans being developed; future funding needs; funding alternatives; the Los Angeles County funding measure; the Federal EPA; the Clean Water Act; the National Pollutant Discharge Elimination System (NPDES) permit program; Ballona Creek and Marina Del Rey harbor; the State Water Quality Control Act; the Water Control Boards; best management practices; trash and recycling receptacles; street sweeping; storm water inspections; development plans; trash screens; rain gardens; toxics; monitoring; cost sharing; partners; compliance; metals, toxic and bacteria; dry/wet; dewatering; shallow groundwater; runoff; time schedule order; citizen lawsuits; fines and civil penalties; the petition for review; feasibility of the

Action Items (Continued)

Item A-1

limits; third party lawsuits; minimum control measures; computer modeling; the Reasonable Assurance Analysis (RAA); regional projects; notices of intent; implementation, evaluation, and adaptation; the adaptive management process; area percentages; the rain barrel program; pervious pavement; the underground retention gallery; the implementation plans; the method of cost sharing; and types of funding mechanisms.

Discussion ensued between Members and staff regarding differences between property related fees and parcel taxes; the General Obligation Bond; the level of detail required; capital investments; sewer taxes; dry weather flows; wastewater; regional infiltration projects; water resource projects; the partnership with Golden State Water; state grant programs; the aquifer recharge; the Clean Water Clean Beaches initiative; providing the schools with in-kind services; partnering with the school district; Watershed Area Groups; crediting those properties that have eliminated discharge; low impact development; intrusive uses; current expenditures vs. future expenditures; the location of the City in the watershed; Culver City drainage areas; contamination by Los Angeles County; testing costs; the City of Los Angeles Environmental Management Group; the importance of working together; contingency plans; plan submittal; voting; the EPA classification of Ballona Creek; the numerical limits; the use attainability analysis; beneficial uses; upstream and downstream reach; status of the petition; objections by environmental groups; initial financing; the General Fund; lower interest rates; grants; capital investments; and startup costs.

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Item A-2

Updates from the Finance Advisory Committee Ad Hoc Subcommittees

Member Azran provided an update on the Communications Strategy and Measure Y Methodology subcommittee discussing OpenGov.com; the Subcommittee on Budget Process; the re-design of the City website; plans to review the web templates and layouts; capabilities of the new financial software; Measure Y proceeds; and similar Measures in other cities and their reporting procedures.

Discussion ensued between Members and staff regarding illustrating benefits to the City provided by the additional revenue from Measure Y; issues with providing specific figures; providing a link on the City website to additional Measure Y information; and the annual independent audit.

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Item A-3

(1) Discussion of Approved Work Plan; (2) Discussion of the Creation of Subcommittees; (3) (If Desired) Creation of Subcommittees; and (4) (If Desired) Appointment of Members to Such Subcommittees

Jeff Muir, Chief Financial Officer, provided a summary of the material of record.

Discussion ensued between Members and staff regarding materials distributed to Committee Members; duties of subcommittees; meeting minutes; reports; the Rental Assistance Program; prioritization; the budget; the budget calendar; and input on the City's long-term financial forecast.

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Item A-4

Discussion of the Finance Advisory Committee's Role in Providing Input for the Fiscal Year 2014-15 City Budget.

Jeff Muir, Chief Financial Officer, summarized the material of record.

Discussion ensued between Members and staff regarding the schedule; the mid-year budget; the financial forecast; Committee involvement; opportunity for input; specific recommendations; oversight; and Cultural Affairs.

Councilmember Clarke discussed dollar amounts related to programs and impacts of changes; budget recommendations; repercussions; and illustrating affects to Councilmembers.

Further discussion ensued between staff and Members regarding Member attendance of City Council meetings; analyzing reported financial impacts; the five-year forecast; retirement costs; storm drain costs; the staff recommendation for status quo; benchmarking; weighing in on recommendations of the Boards and Commissions; and the Finance budget.

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Items from Staff

Item S-1

Communication of Finance Advisory Committee Recommendations and Suggestions to City Council

Jeff Muir, Chief Financial Officer, provided a summary of the material of record.

Councilmember Clarke noted that while sometimes there is a disconnect with communication from certain Committees and Commissions, current methods of communication with the FAC were sufficient.

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Item S-2

Discussion of February Agenda

Jeff Muir, Chief Financial Officer, discussed upcoming agenda items.

Discussion ensued between staff and Members regarding the Work Plan; the Long-Term Financial Plan; reports from subcommittees; resolution of the payment of the redevelopment bond; subscribing to the Finance Advisory Committee group email on the City website; statistics from OpenGov.com; new users; publicizing the new tool; probable increased use with the release of the new budget; and efforts at transparency.

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Items from Committee Members

Responding to inquiry, Jeff Muir, Chief Financial Officer, reported that the City had received its Finding of Completion from the Department of Finance; he discussed General Fund exposure to the dissolution process; debt service; adjustments; establishing a reserve for debt service payments; tax increment; filing for the temporary restraining order and subsequent event notice; litigation over \$11 million; and the City bond rating.

Chair Eriksson reported that the Cultural Affairs Commission Chair had addressed the City Council and he provided a copy of her remarks for review; he discussed the upcoming Culver City salary survey; the Beverly Hills salary survey; and the State Controller website for government compensation in California.

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Adjournment

There being no further business, at 9:23 p.m., the Finance Advisory Committee adjourned its meeting to Wednesday, February 12, 2014 at 7:00 p.m. in the Dan Patacchia Meeting Room.

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Gracie Hasan
SECRETARY of the Culver City Finance Advisory Committee
Culver City, California

APPROVED

Goran Eriksson
CHAIR of the Finance Advisory Committee, Culver City, California

City of Culver City, California
Finance Advisory Committee Agenda Item Report

Meeting Date: 02/12/2014		Item Number: <u>A-1</u>	
AGENDA ITEM: Presentation and Discussion of General Fund Financial Forecast.			
Contact Person/Dept.: Jeff S. Muir/Finance		Phone Number: 310/253-5865	
Public Notification: (E-Mail) Meetings and Agendas – Finance Advisory Committee (01/03/14)			
Department Approval: Jeff Muir (02/06/14)			

RECOMMENDATION:

Staff recommends that the Finance Advisory Committee (FAC) receive a presentation on the General Fund Financial Forecast, hold discussion, and provide feedback to staff.

DISCUSSION:

Item 6 of the FAC Work Plan is to review and make recommendations for the long-term financial forecast. Staff has created a new format for the forecast, including summaries, discussion of assumptions, detail data for revenue categories, and an economic outlook. Generally speaking, the financial forecast is looking the best it has looked in a number of years. Revenues are continuing to improve, with an average of 2% overall growth throughout the projection. There are some significant expenditure pressures created by rising pension costs, assumed inflation and assumed cost-of-living adjustments. Staff will provide a thorough presentation of the report at the meeting, the assumptions going into the numbers, and answer questions from the committee. This item is scheduled for City Council on February 24, 2014. Staff is soliciting any comments or recommendations from the FAC on content or assumptions.

ATTACHMENTS:

General Fund Financial Forecast

MOTION:

That the FAC:

- (1) Receive a presentation of the General Fund Financial Forecast; and
- (2) Hold discussion; and,
- (3) Provide feedback to staff.

GENERAL FUND FINANCIAL FORECAST

FY 2014-15 - FY 2020-21

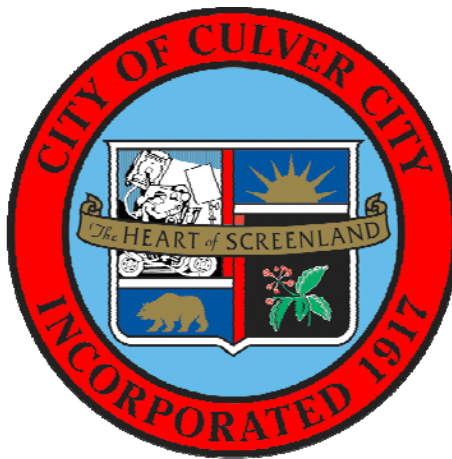


CITY OF CULVER CITY, CALIFORNIA
*A current and long-range assessment of
financial conditions and costs for City Services*

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

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 1.7% reduction to 4.3% growth, with an overall average of 2% 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 3.5% in FY 2015-16, 4.4% in FY 2016-17, 1.9% 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, anticipated cost-of-living increases, and 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 the anticipated transfer 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 to provide estimated impacts to the General Fund Available Fund Balance.

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 and a focus on maintaining service levels.

FORECAST METHODOLOGIES AND ASSUMPTIONS

REVENUES

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

EXPENDITURES

Expenditures assumed in the Forecast are based on the current service level, or funding needed to provide today's level of recurring City services. FY 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 %	0.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Safety COLA %	0.0%	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

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	17,782	16,885	15,572	12,919	9,651	5,272
CURRENT REVENUES								
Operating Revenue	91,837	92,109	94,159	96,537	99,706	102,038	105,020	107,757
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	92,256	95,498	99,641	101,567	104,176	106,530	107,757
EXPENDITURES								
Current Service	89,509	90,531	93,201	96,252	99,434	102,731	106,127	108,802
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	(905)	(932)	(963)	(994)	(1,027)	(1,061)	(1,088)
TOTAL EXPENDITURES	91,215	90,876	93,594	96,540	99,765	102,954	106,391	108,964
ANNUAL SURPLUS / (DEFICIT)	2,622	1,380	1,904	3,102	1,802	1,222	140	(1,208)
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	27,159	27,960	28,876	29,830	30,819	31,838	32,641
ENDING AVAILABLE BALANCE	18,709	17,782	16,885	15,572	12,919	9,651	5,272	(238)

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.

GENERAL FUND REVENUES

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 2.0%, with annual rates of change ranging from negative 1.7% in FY 2014-15 (over the FY 2013-14 estimate) to a high of 4.3% in FY 2016-17.

General Fund Forecast of Current Revenues (in thousands)

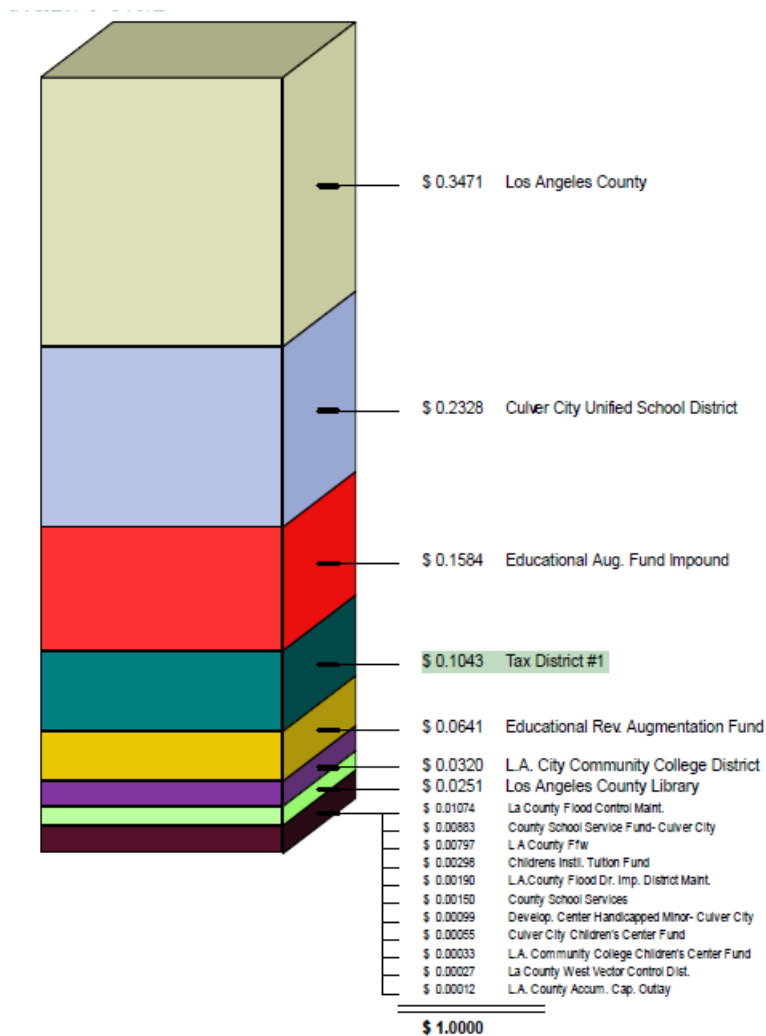
	2013-14 Estimate	2014-15 Projection	2015-16 Projection	2016-17 Projection	2017-18 Projection	2018-19 Projection	2019-20 Projection	2020-21 Projection
Property Tax	4,025	4,166	4,312	4,441	4,574	4,688	4,782	4,878
Sales Tax	18,822	19,311	20,007	20,843	21,613	22,283	23,166	23,899
Measure Y	7,800	8,304	8,603	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	10,506	10,720	10,989	11,384	11,782	12,097	12,379
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	4,620	4,412	4,236	4,109	3,986
UT. User Tax (Cable TV)	900	873	847	813	780	757	742	727
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	1,515	1,530	1,545	1,560	1,576	1,592	1,608
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	92,109	94,159	96,537	99,706	102,038	105,020	107,757
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
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	92,256	95,498	99,641	101,567	104,176	106,530	107,757

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	3.50%	3.50%	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	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
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%	-4.50%	-4.50%	-4.00%	-3.00%	-3.00%
Utility Users Tax - Cable TV	-3.00%	-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	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
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%

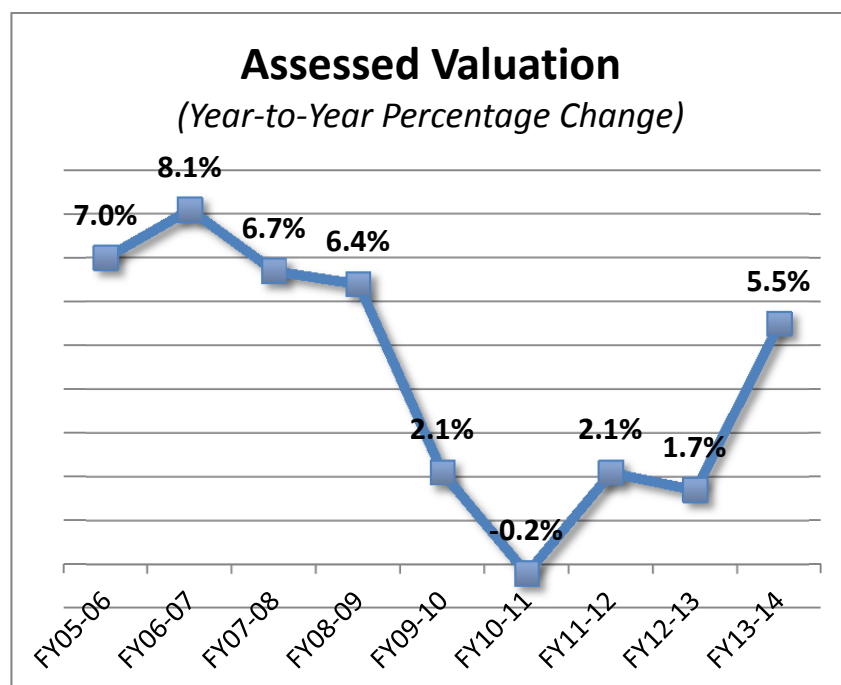
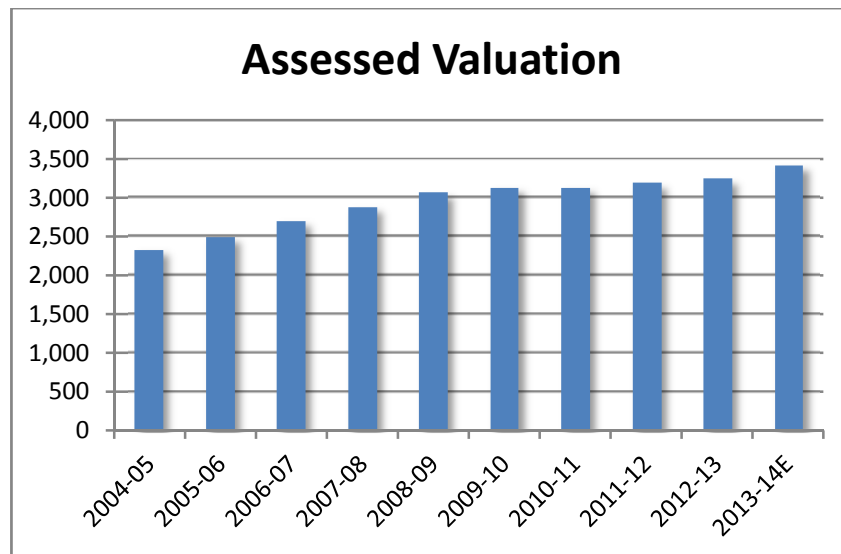
PROPERTY TAX

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.

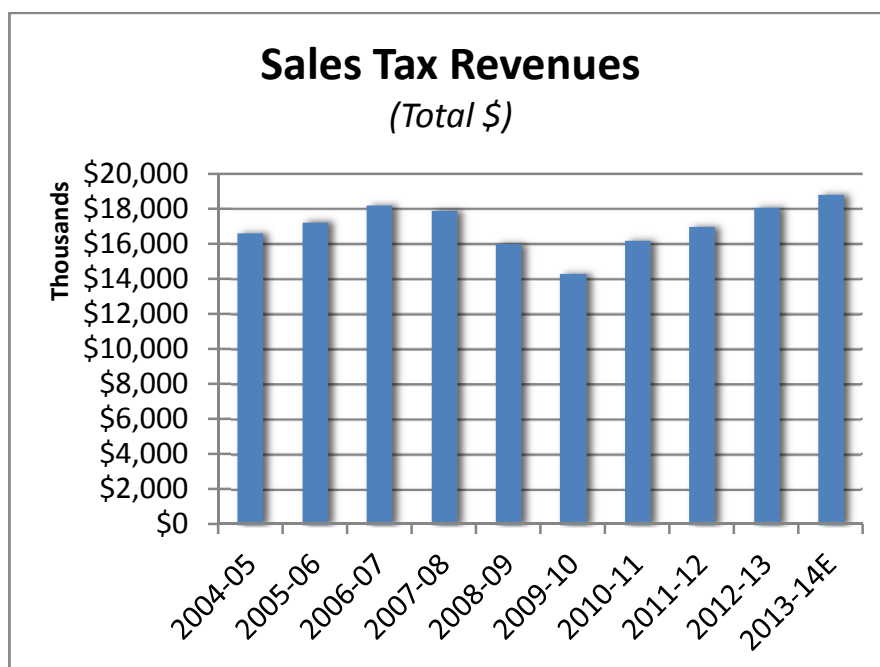
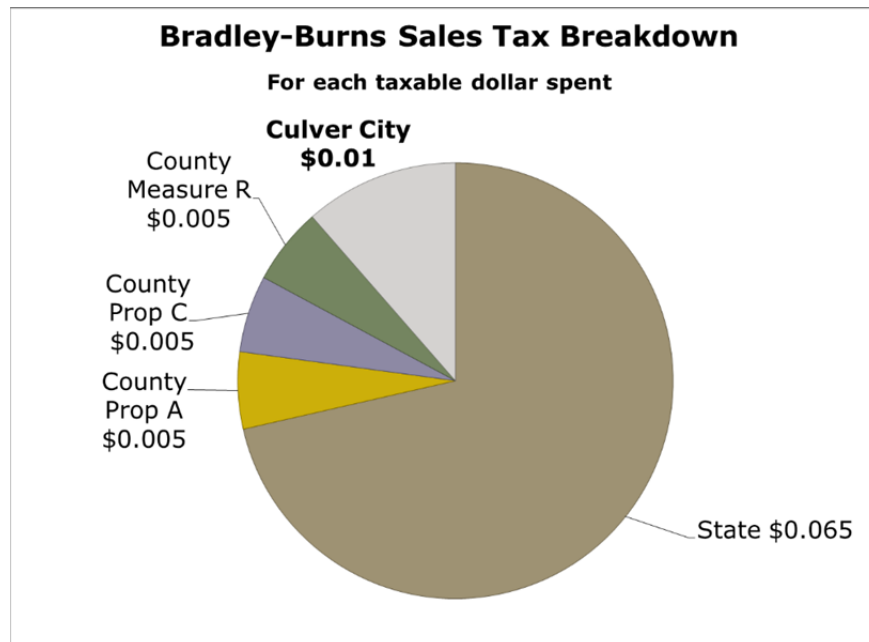
Projected Annual Rates of Change

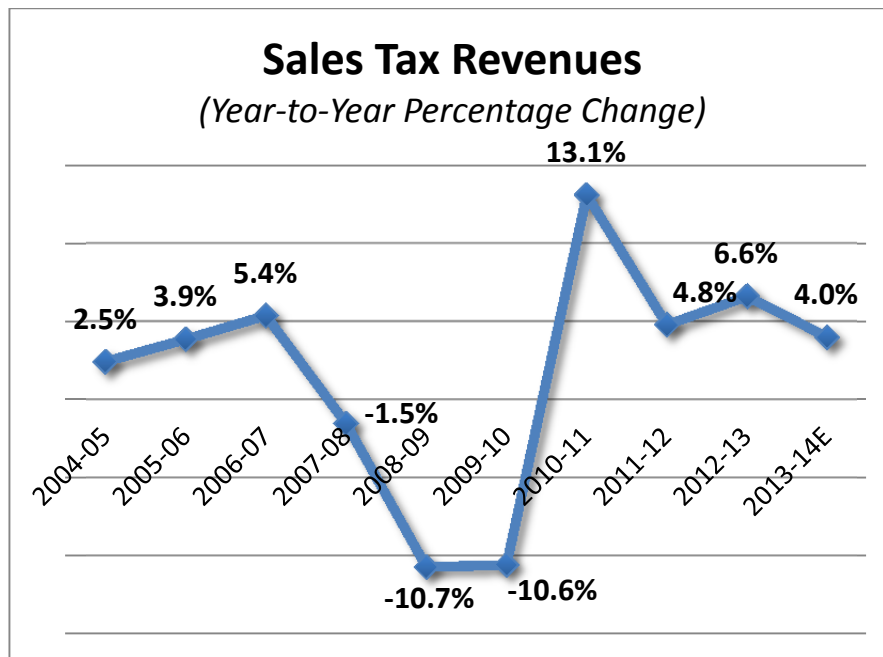
FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
3.5%	3.5%	3%	3%	2.5%	2%	2%

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)

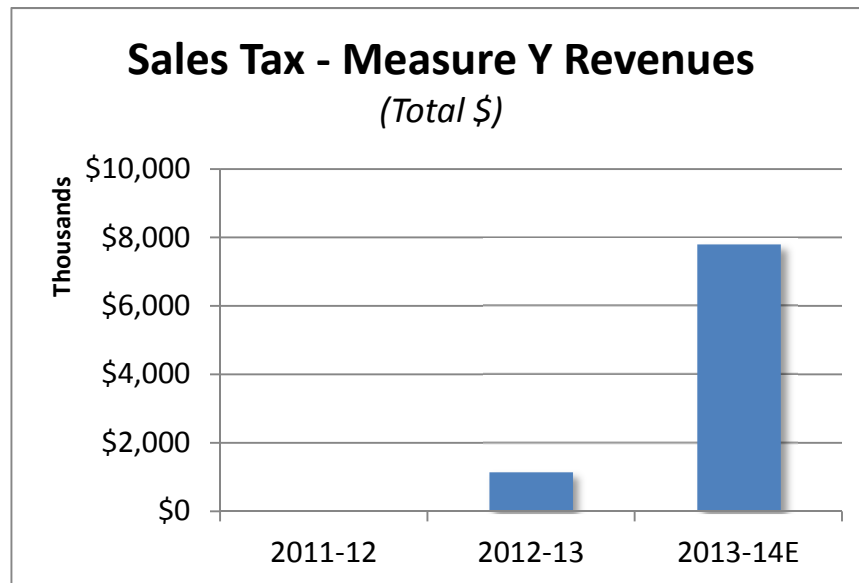
The City also receives one-half percent levy of the Public Safety Sales Tax, approved by the voters in November 1993. For FY 2013-14, revenues are estimated to be \$350,000. Changes in this revenue source are forecasted at the same level as sales tax.

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

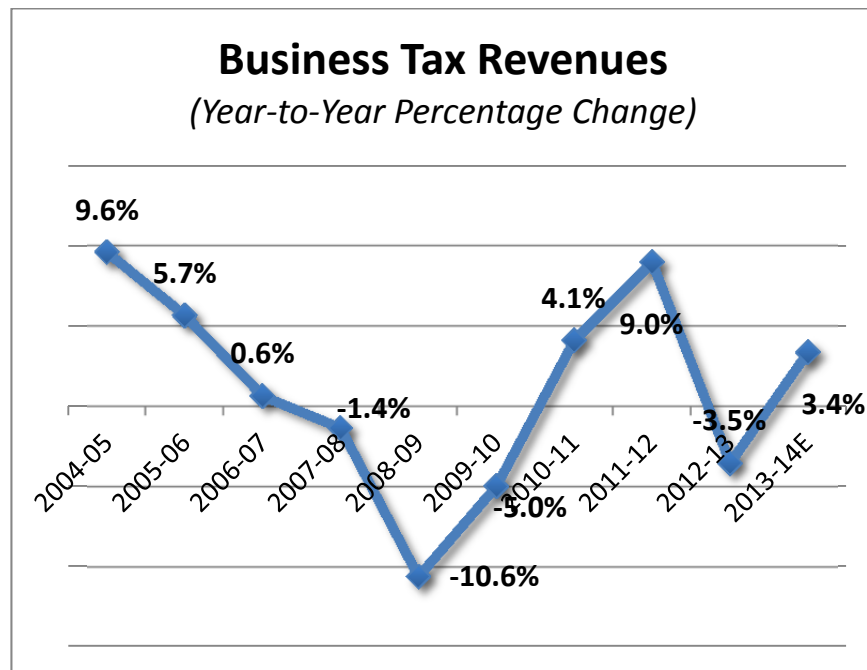
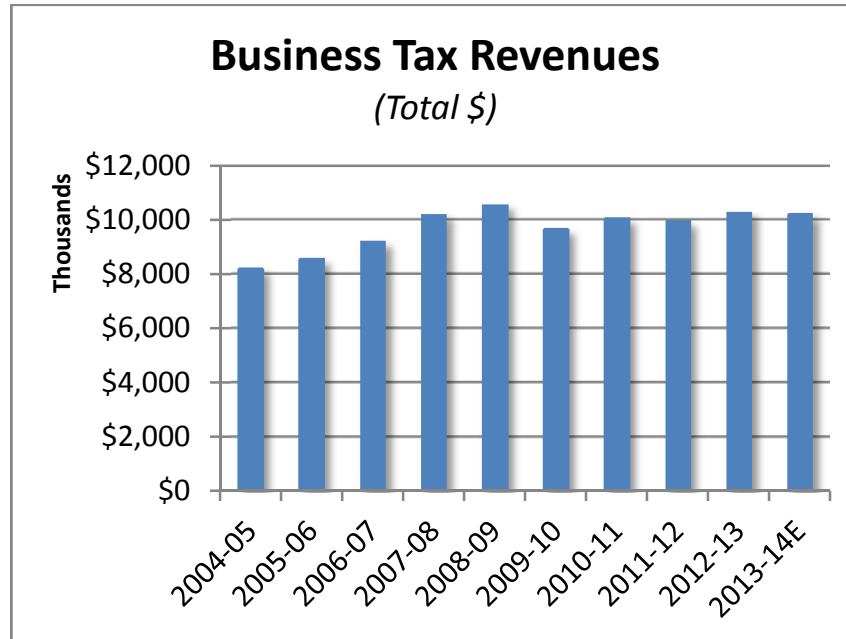


Projected Percentage of Bradley-Burns

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.

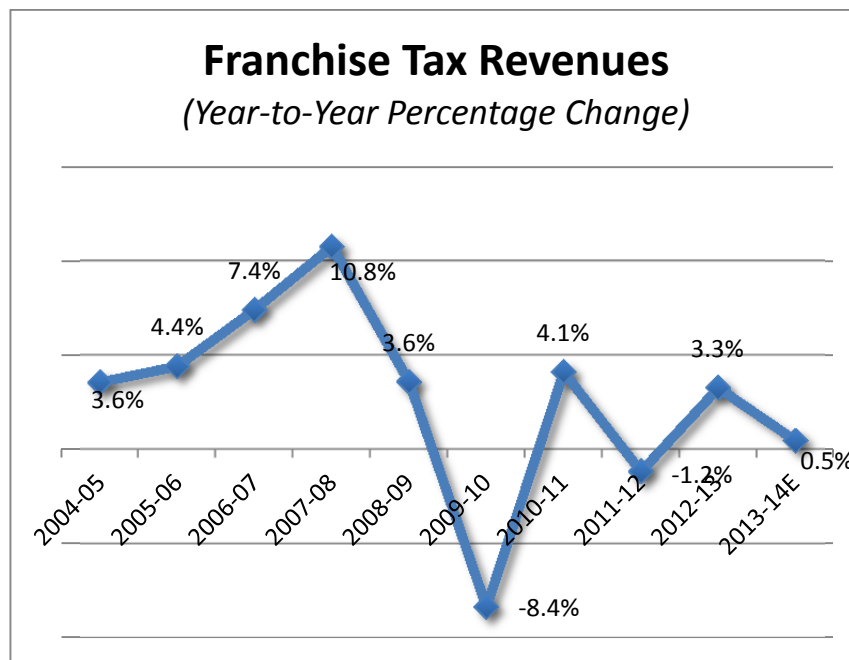
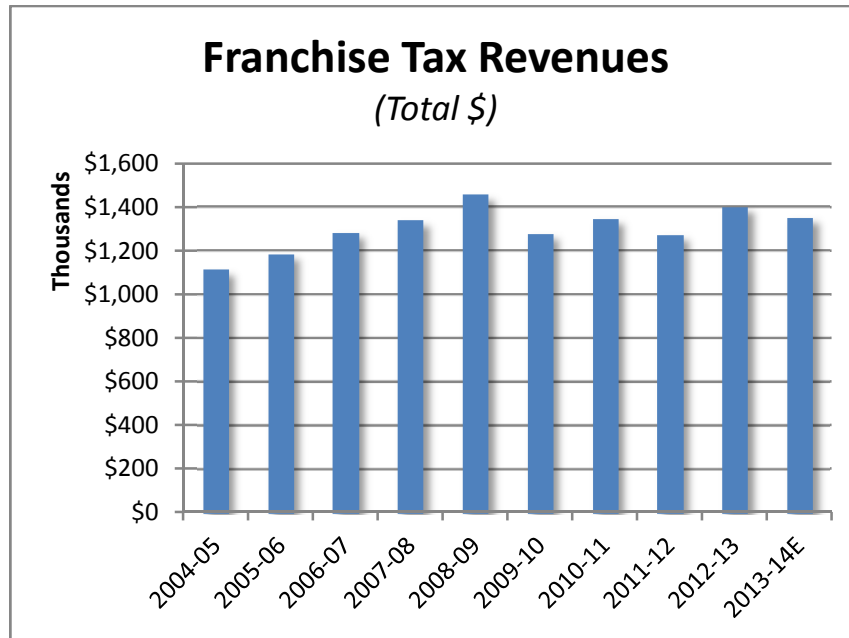


Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

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.

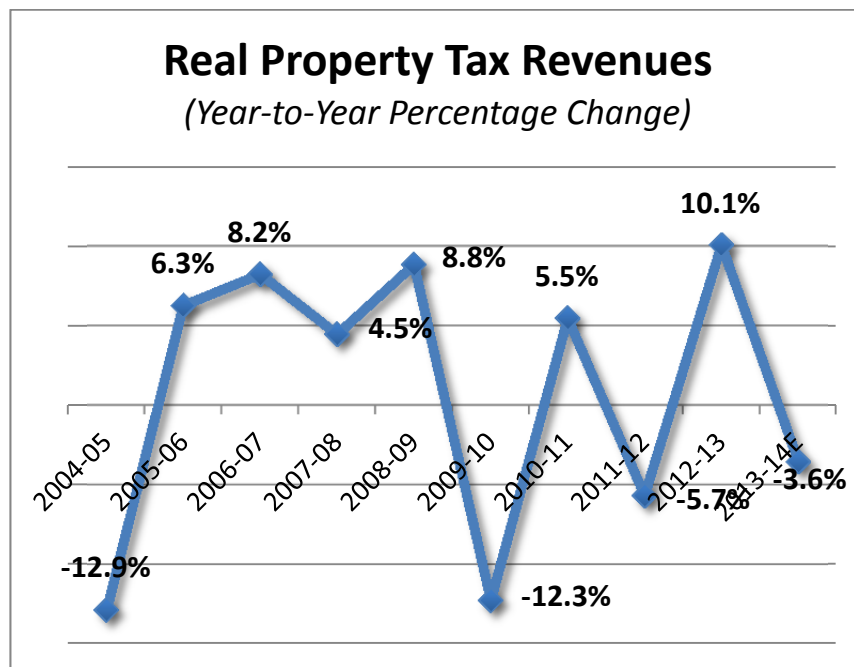
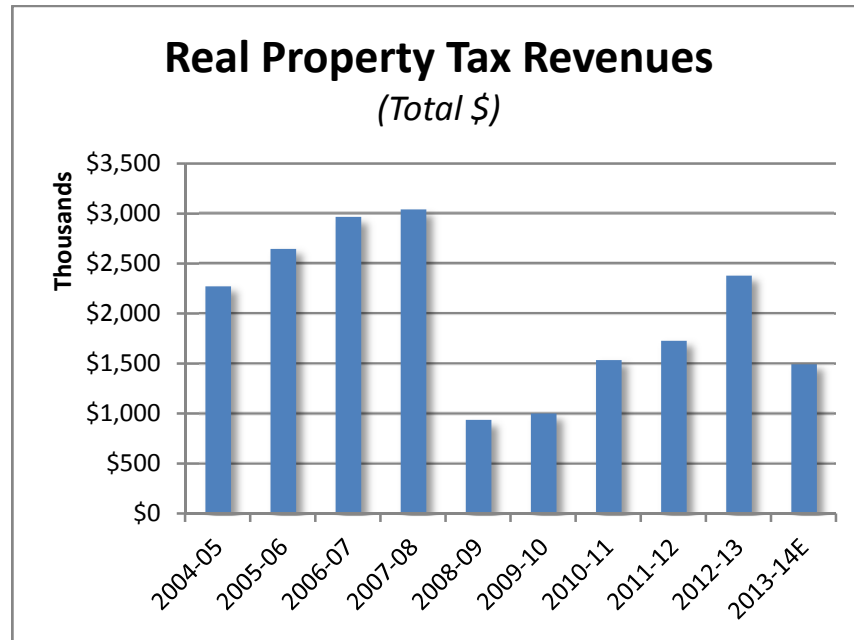


Projected Annual Rates of Change

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.

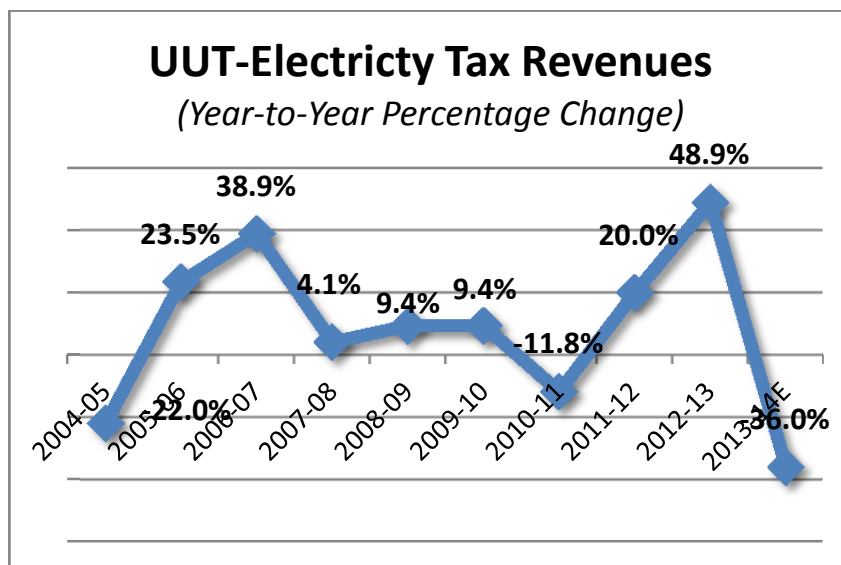
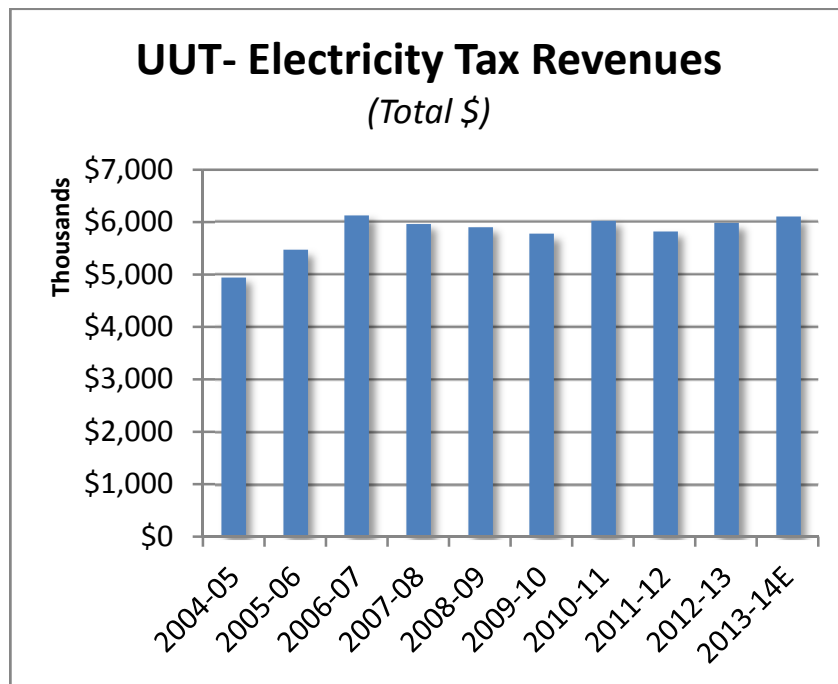


Projected Annual Rates of Change

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

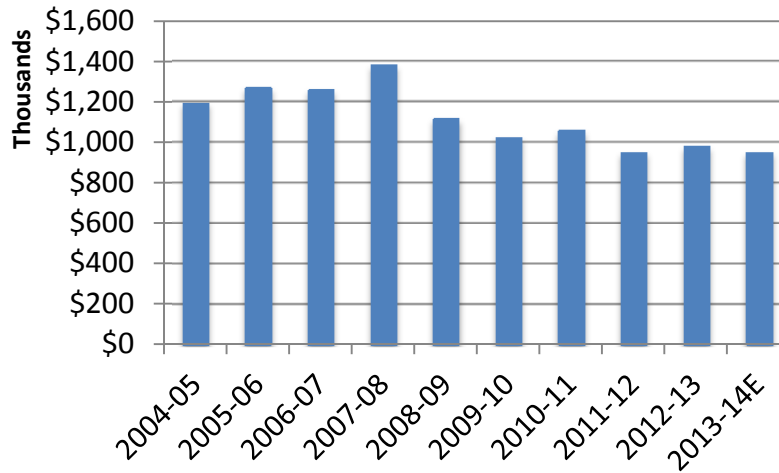
UTILITY USERS TAX (UUT)

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.



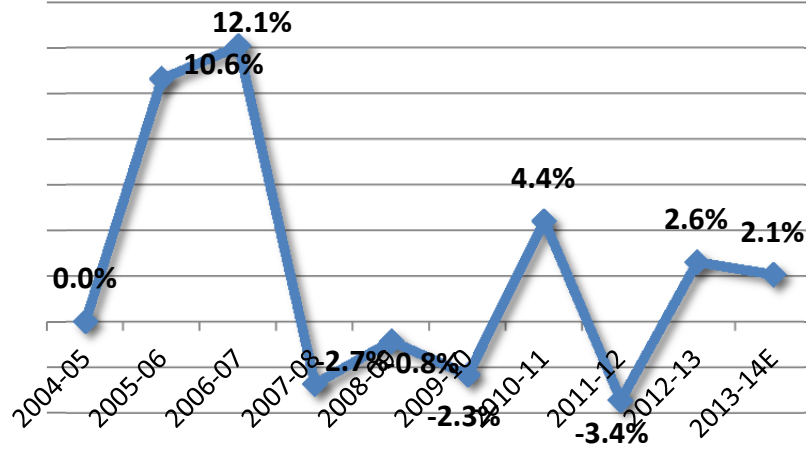
UUT- Gas Tax Revenues

(Total \$)



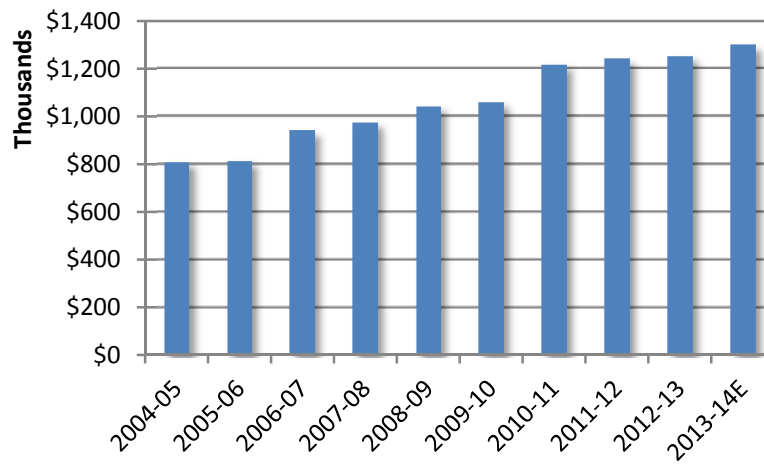
UUT - Gas Tax Revenues

(Year-to-Year Percentage Change)



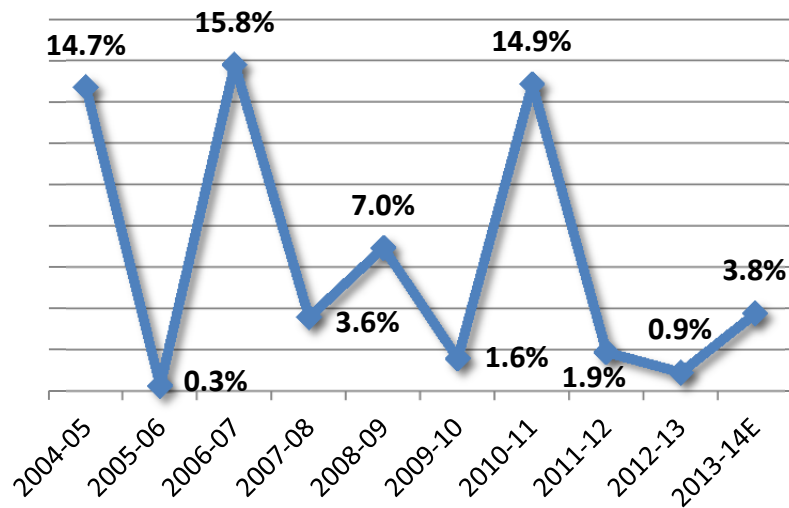
UUT- Water Tax Revenues

(Total \$)



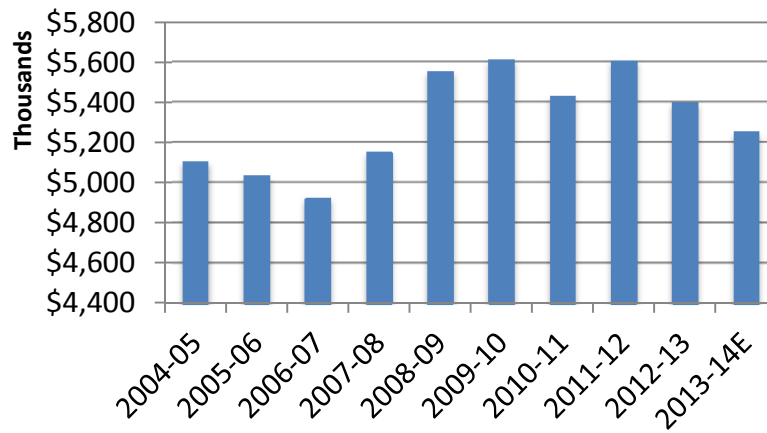
UUT - Water Tax Revenues

(Year-to-Year Percentage Change)



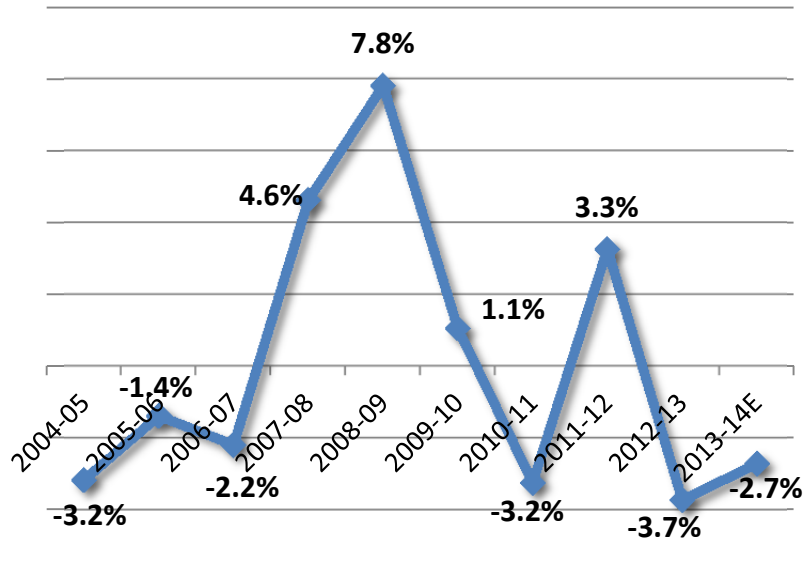
UUT- Telecom Tax Revenues

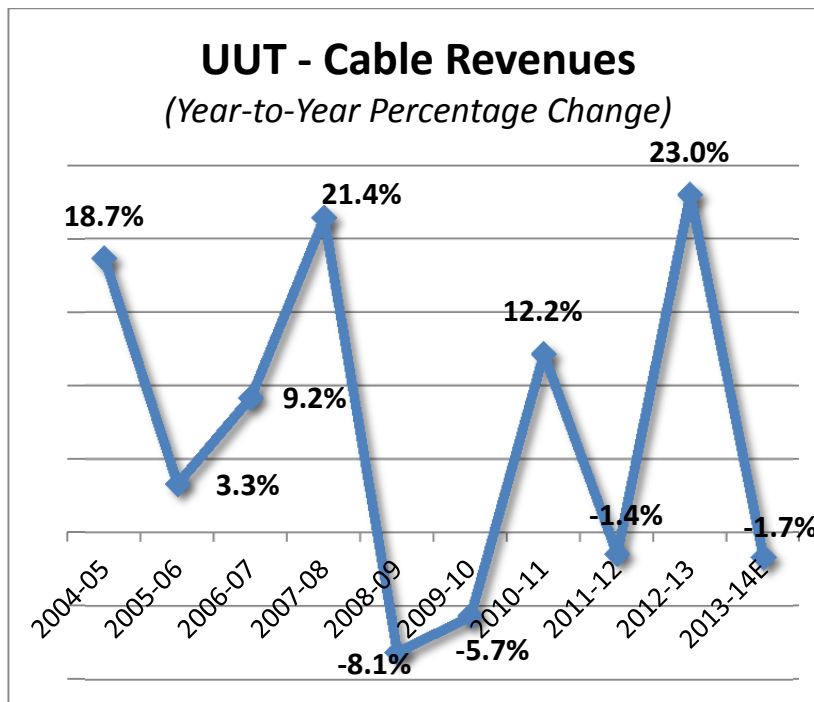
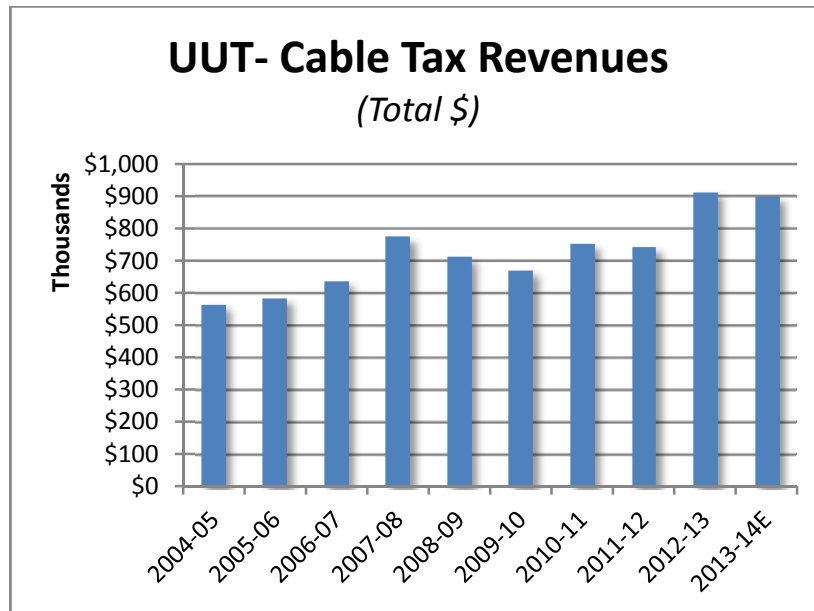
(Total \$)



UUT - Telecom Revenues

(Year-to-Year Percentage Change)



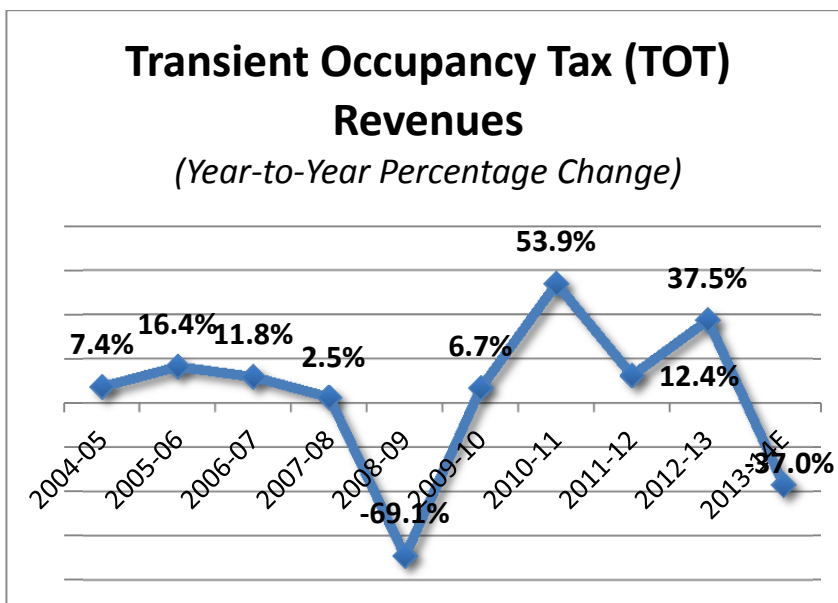
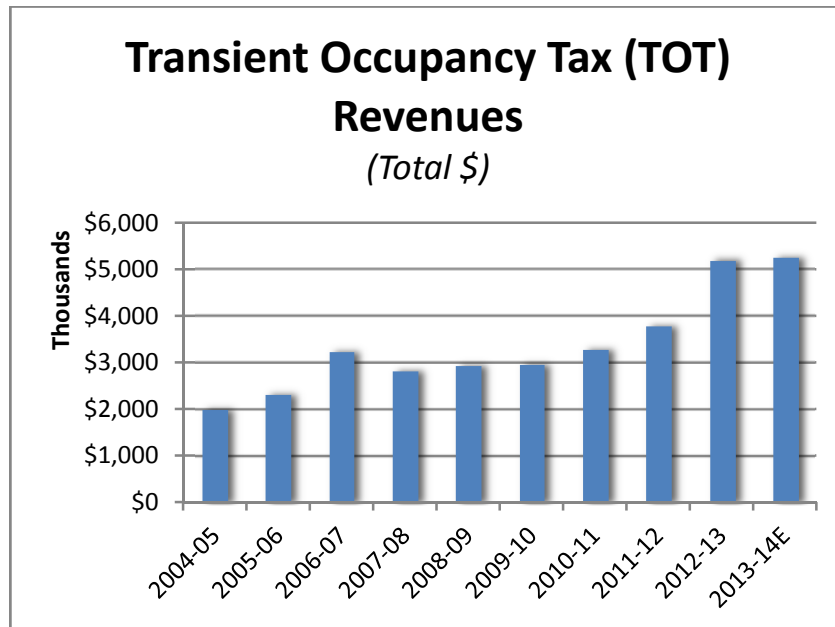


Projected Annual Rates of Change

	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%	-4.5%	-4.5%	-4%	-3%	-3%
Cable	-3%	-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.

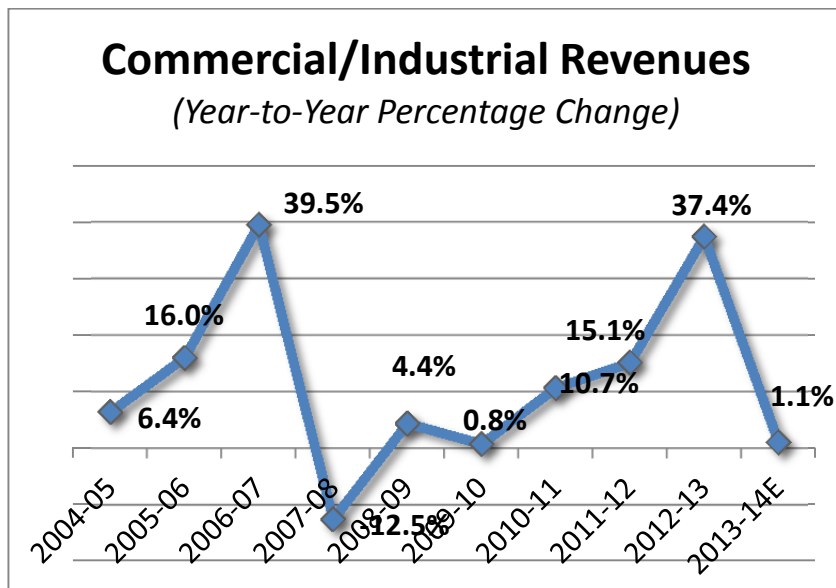
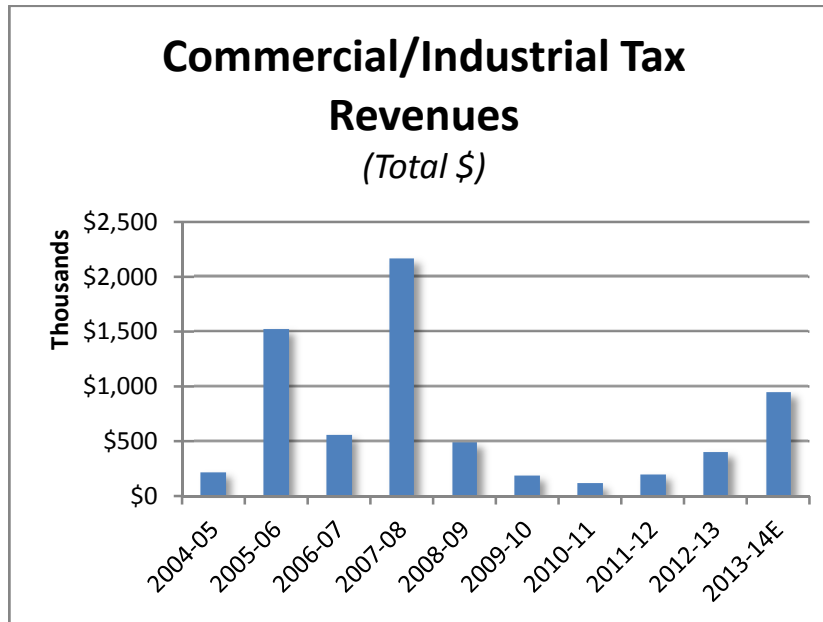


Projected Annual Rates of Change

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.

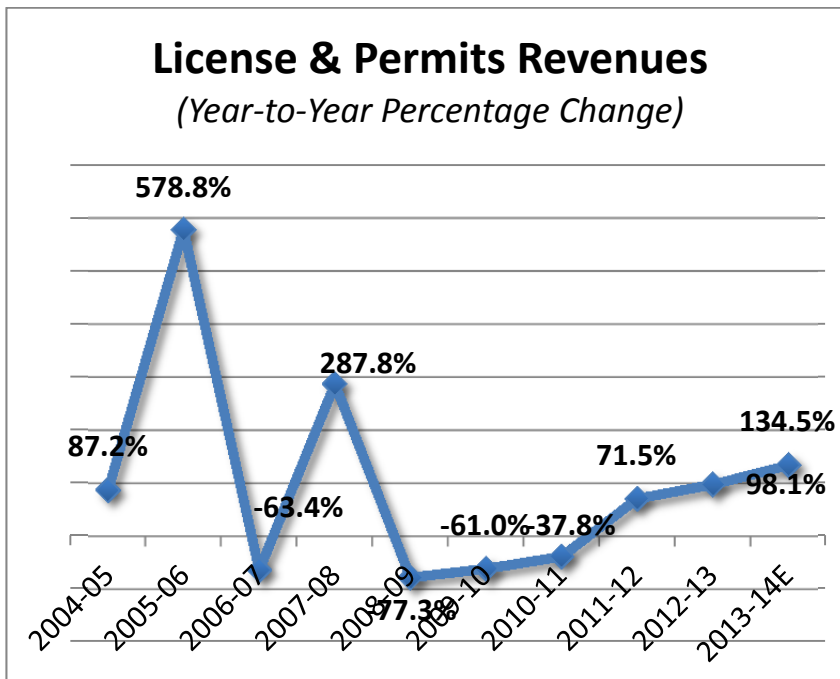
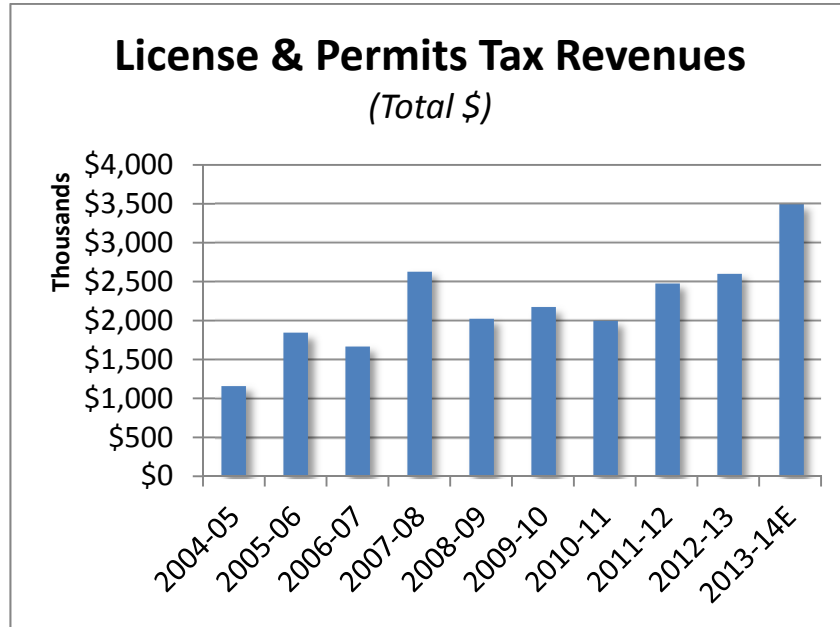


Projected Annual Rates of Change

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.

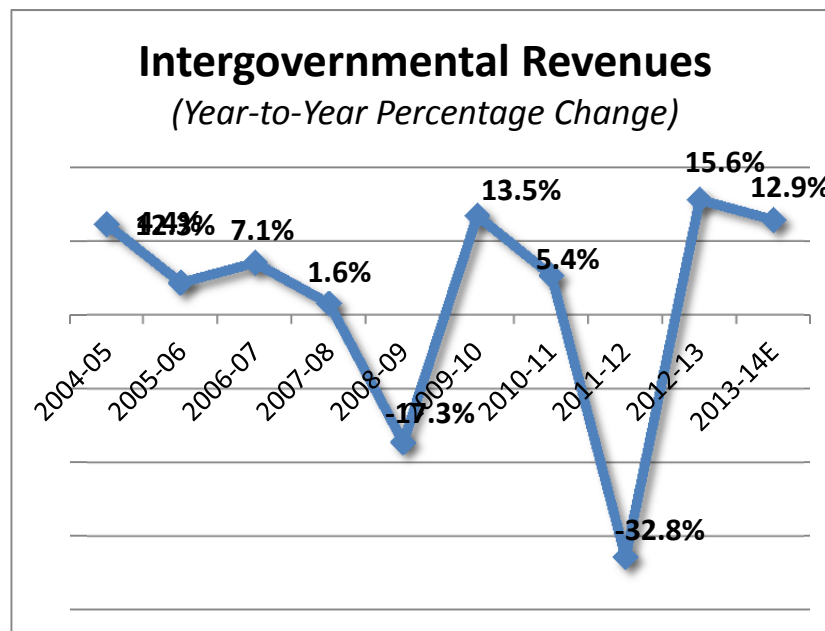
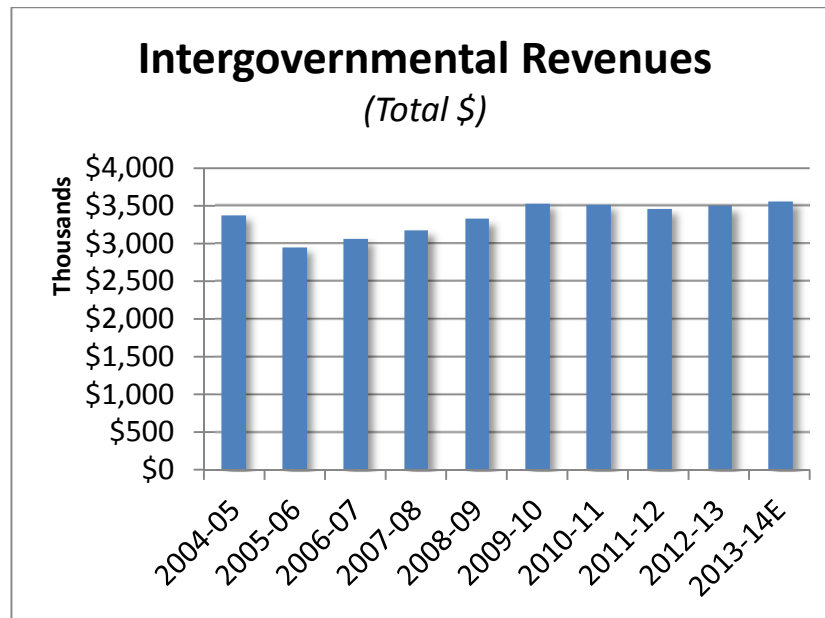


Projected Annual Rates of Change

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.

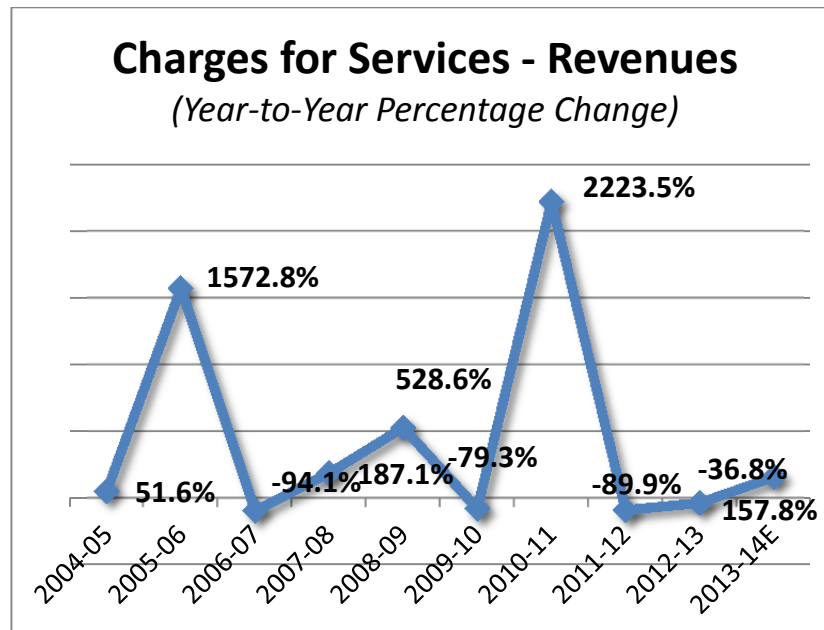
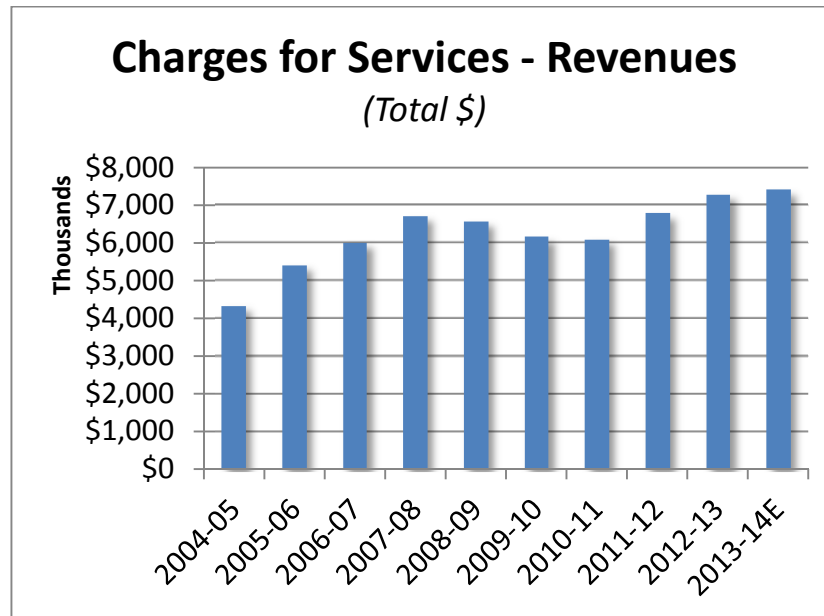


Projected Annual Rates of Change

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.

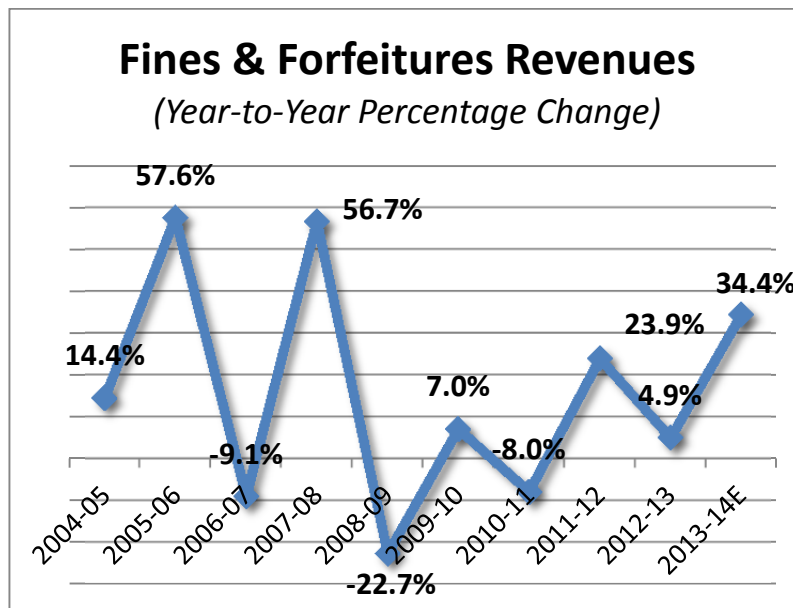
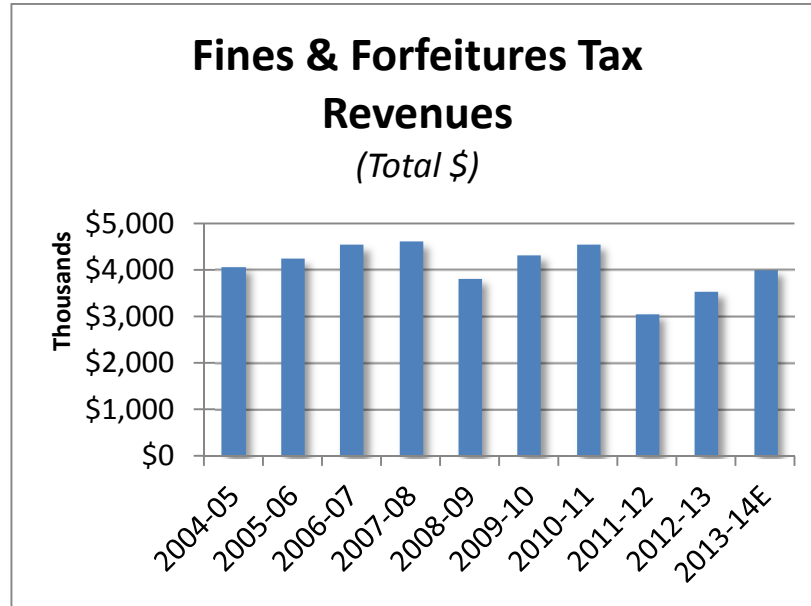


Projected Annual Rates of Change

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.

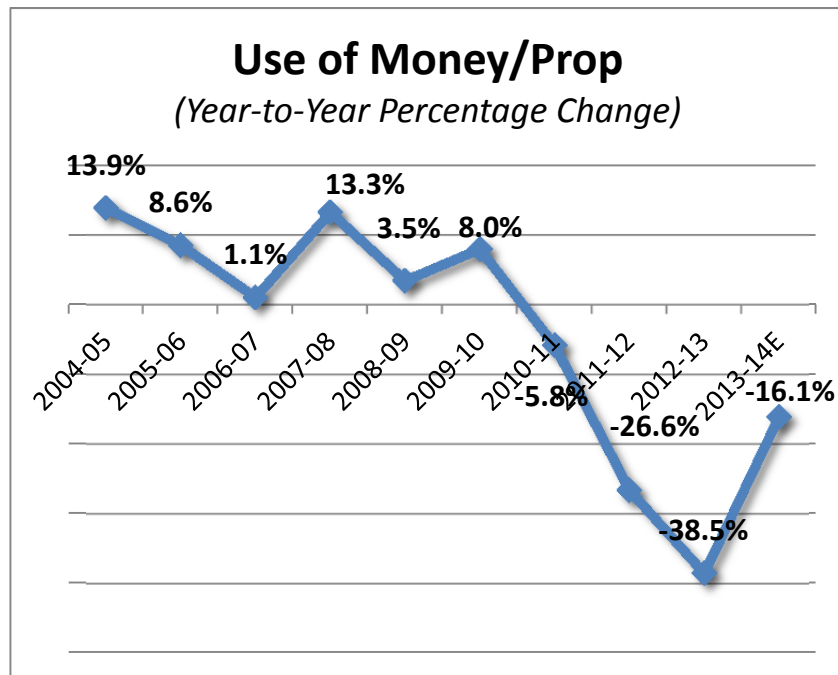
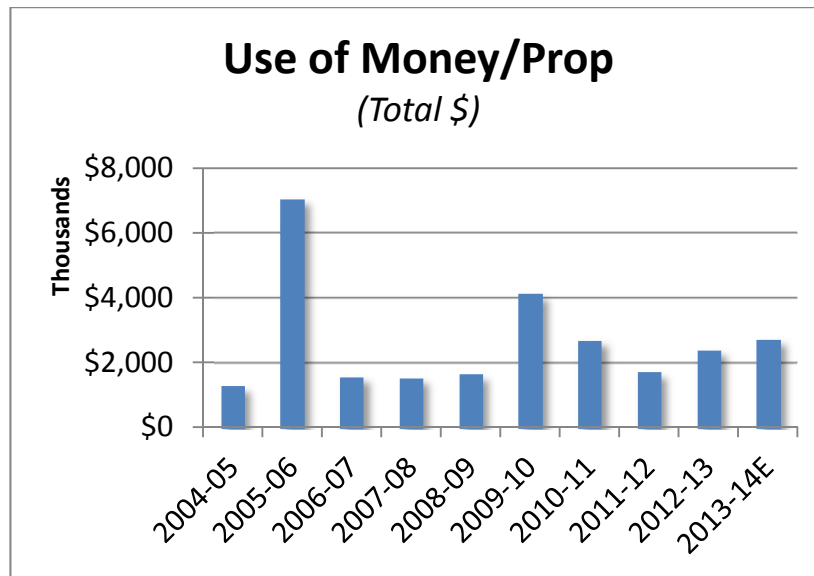


Projected Annual Rates of Change

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.

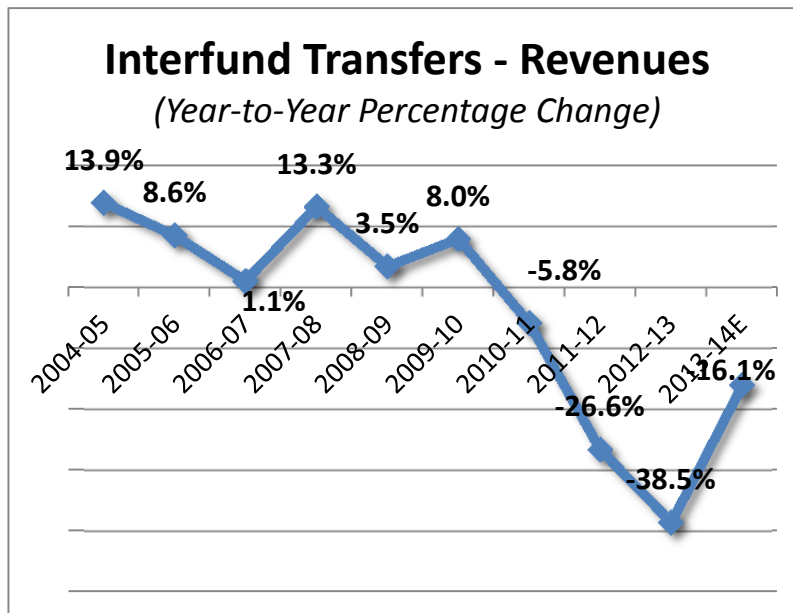
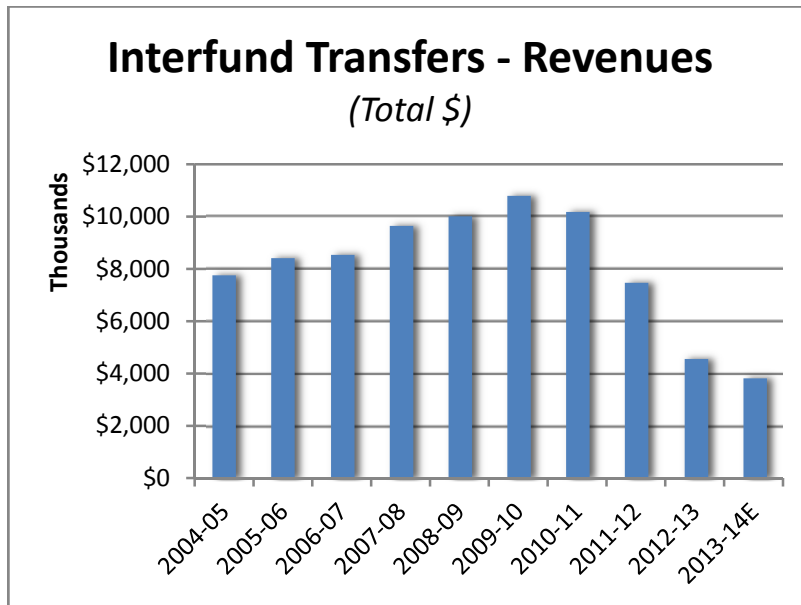


Projected Annual Rates of Change

FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21
1%	1%	1%	1%	1%	1%	1%

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.

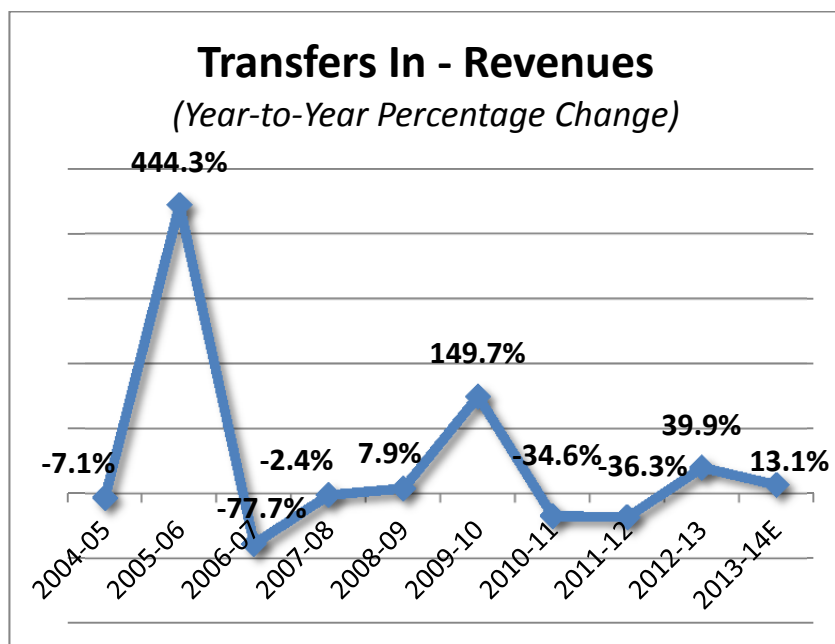
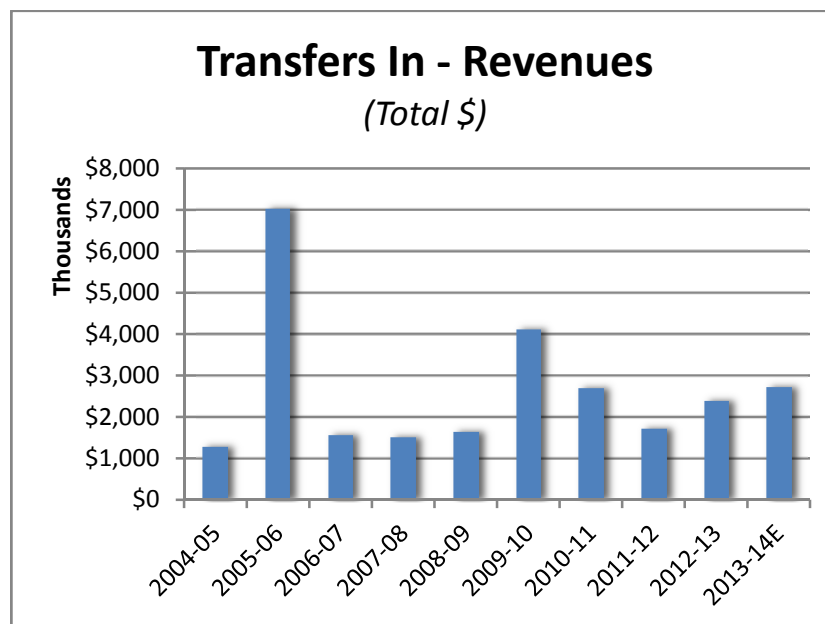


Projected Annual Rates of Change

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.

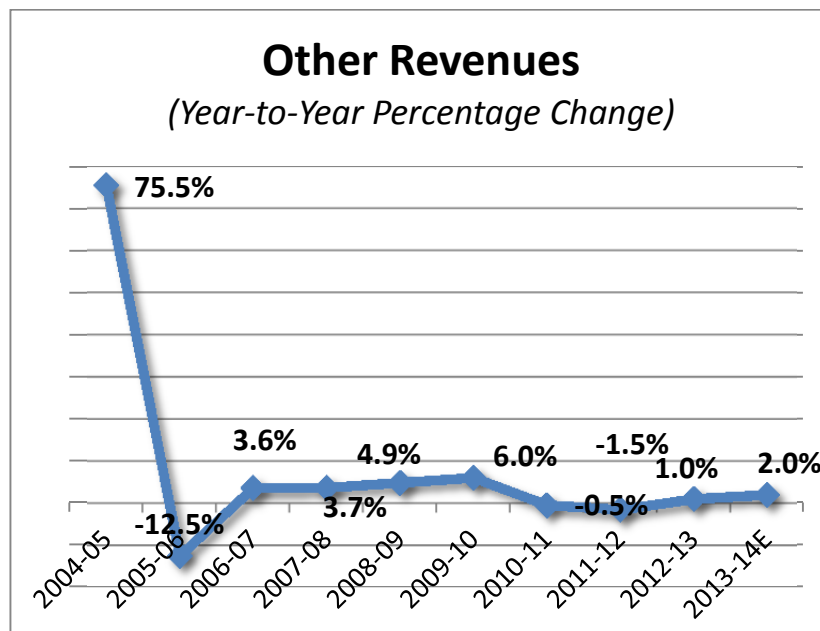
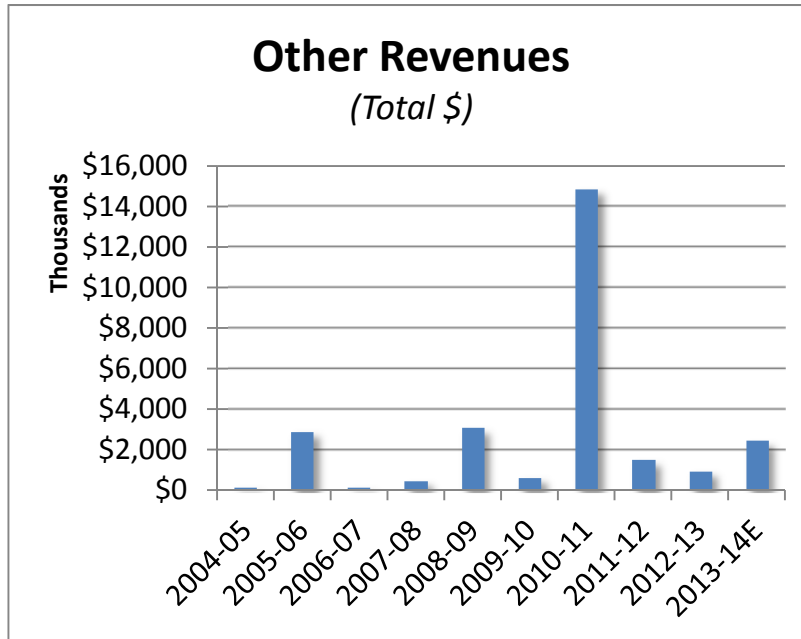


Projected Annual Rates of Change

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%

ADDITIONAL EXPENDITURES / POLICY ISSUES

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

Storm Water Discharge Requirements

Culver City, along with other public agencies, is subject to meeting requirements under the National Pollutant Discharge Elimination System (NPDES) permit program. The new Municipally Separate Storm Sewer (MS4) Permit imposes severe restrictions on Total Maximum Daily Loads (TMDLs) for certain pollutants, eight of which affect Culver City. Compliance with these TMDLs will be very difficult to meet, and extremely costly. It is currently estimated that the City may be responsible for as much 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. 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.

Additional Pre-funding of Long-Term Liabilities

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

FINANCIAL RESERVES

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

As indicated on the main forecast page, total financial reserve levels are currently 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

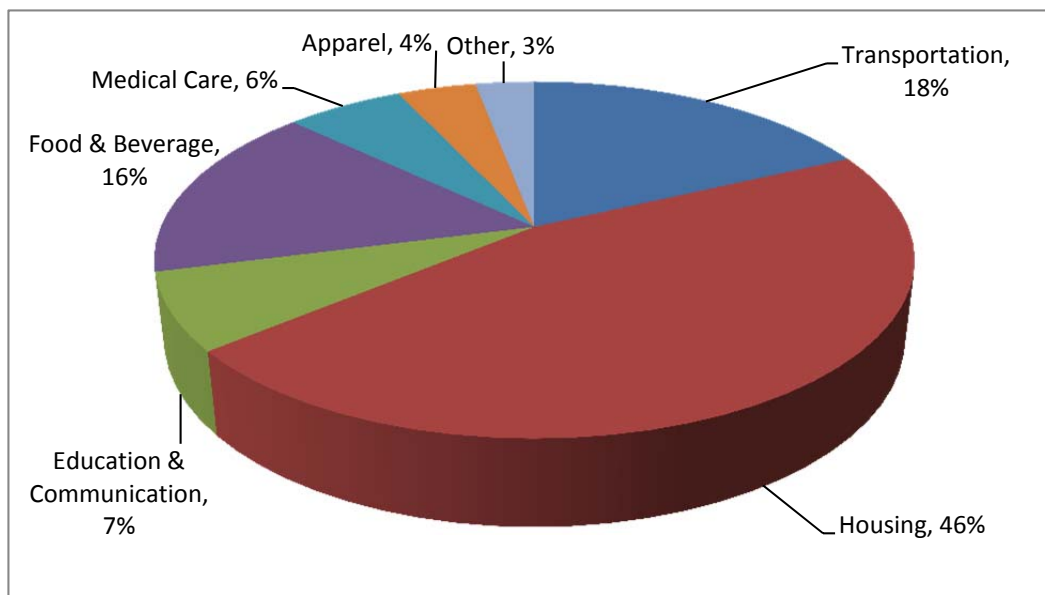
ECONOMIC OUTLOOK

OVERVIEW

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

INFLATION

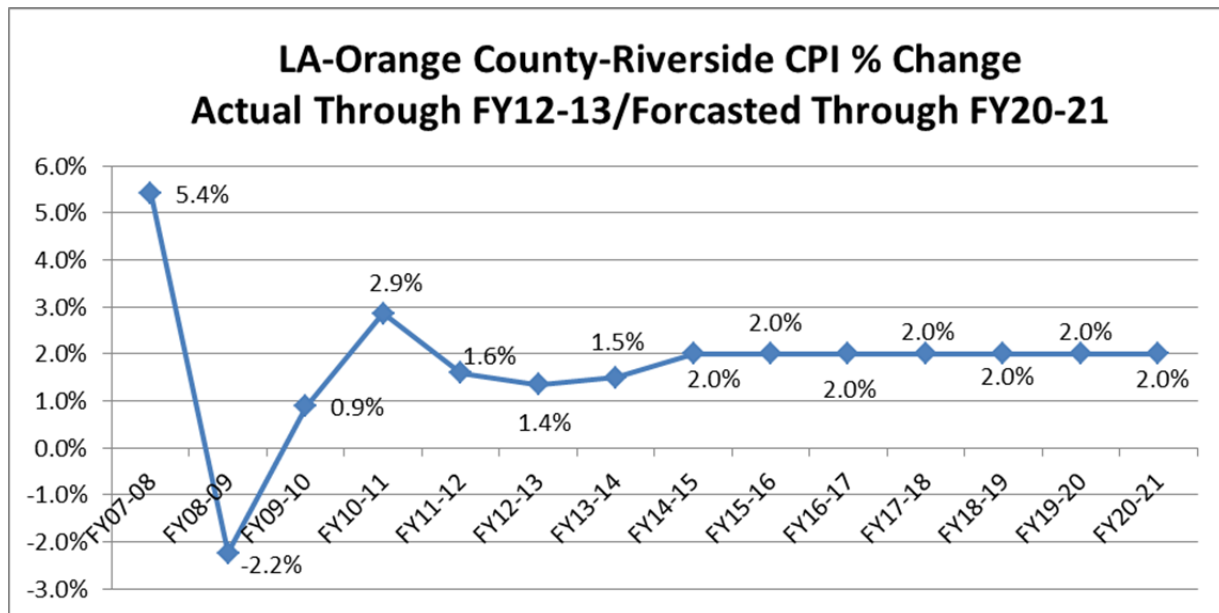
The Consumer Price Index (CPI), commonly referred to as the inflation rate, measures the average price change for a market basket of consumer goods and services. This basket of goods contains a wide array of items, ranging from food and gasoline to college tuition and medical supplies. The CPI does not,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



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

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

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



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.

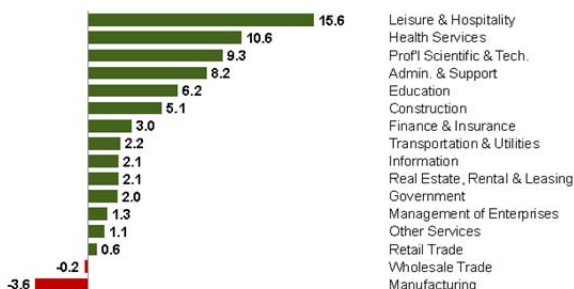
With these employment gains, total personal income will also grow. A 2.1% gain is expected this year and a 4.9% increase is projected for 2014. Similarly, taxable retail sales will increase by 3.1% this year and by 3.8% next year, following a 10.3% surge in 2012.

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

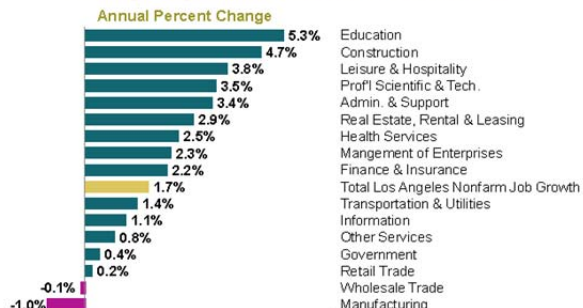
Los Angeles County Employment Growth, 2013

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

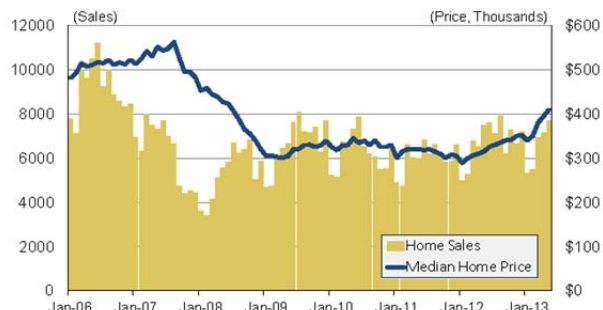
Los Angeles County Personal Income & Retail Sales



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

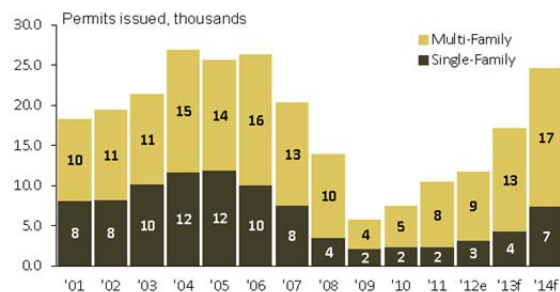
Home Sales & Median Prices Los Angeles County

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

City of Culver City, California
Finance Advisory Committee Agenda Item Report

Meeting Date: 02/12/2014		Item Number: <u>A-3</u>
AGENDA ITEM: (1) Discussion of Approved Work Plan; (2) Discussion of the Creation of Subcommittees; (3) (If Desired) Creation of Subcommittees; and (4) (If Desired) Appointment of Members to Such Subcommittees.		
Contact Person/Dept.: Jeff S. Muir/Finance	Phone Number: 310/253-5865	
Public Notification: (E-Mail) Meetings and Agendas – Finance Advisory Committee (01/03/14)		
Department Approval: Jeff Muir (02/06/14)		

RECOMMENDATION:

Staff recommends that the Finance Advisory Committee (FAC) (1) discuss the approved Work Plan; (2) discuss the creation of Subcommittees, (3) (if desired) create subcommittees, and (4) (if desired) appoint members to such subcommittees.

DISCUSSION:

The City Council approved the Work Plan document as recommended by the FAC with one added item at their September 26, 2013 meeting, as follows:

1. Develop a communications strategy for financial information on the City's website.
2. Develop a methodology to analyze Measure Y proceeds and report the results to the public.
3. Undertake a Budget Benchmarking Project to compare where and how Culver City spends and receives money to selected similar communities. Analyze possibilities for alternative service delivery methods.
4. Review and comment on suggested modifications to budget process.
5. Review and make recommendations for the City's current financial policies.
6. Review and make recommendations for the long-term financial forecast.
7. Review and make recommendations for addressing storm water requirement compliance.
8. Review current and potential utilization of assessment districts.
9. Review and make recommendations on the City's existing Business Tax ordinance.
10. Review the current Rental Assistance Program that was formerly funded by the Redevelopment Agency, possible funding options to continue the program, and at what cost to other programs or functions continuing the program might come.

In October, the FAC created the following subcommittees to begin dealing with work plan items:

City of Culver City, California
Finance Advisory Committee Agenda Item Report

1. Communications Strategy and Measure Y Reporting Methodology

Azran, Eriksson and Trovato

2. Rental Assistance Program

Burns, Lara and Reitzfeld

3. Budget Process and Financial Policies

Alexander, Hibbs and Kearney

To date, the FAC has made a recommendation on the Rental Assistance Plan (Item 10), commented on and approved the recommended modifications to the budget process (Item 4), and made a series of recommendations regarding the City's current financial policies (Item 5). Staff continues to work with the subcommittee established to deal with the communication of financial information on the website (Item 1) and reporting on Measure Y proceeds (Item 2).

The purpose of this item is for the FAC to discuss remaining work plan items and their priority, whether subcommittees are appropriate, and if so to establish and make appointments to them.

ATTACHMENTS:

None.

MOTION:

That the FAC

- (1) Discuss the approved Work Plan and provide feedback to staff on prioritization; and
- (2) Discuss the potential creation of subcommittees; and,
- (3) (if desired) Create such subcommittees; and,
- (4) (if desired) Appointment members to such subcommittees.

City of Culver City, California
Finance Advisory Committee Agenda Item Report

Meeting Date: 02/12/2014		Item Number: <u>A-4</u>
AGENDA ITEM: Presentation and Discussion of Draft Financial Policies.		
Contact Person/Dept.: Jeff S. Muir/Finance	Phone Number: 310/253-5865	
Public Notification: (E-Mail) Meetings and Agendas – Finance Advisory Committee (01/03/14)		
Department Approval: Jeff Muir (02/06/14)		

RECOMMENDATION:

Staff recommends that the Finance Advisory Committee (FAC) receive a presentation on three draft financial policies, hold discussion, and provide feedback to staff.

DISCUSSION:

Item 5 of the FAC Work Plan is to review and make recommendations on the City's current financial policies. The Budget Process and Financial Policies Subcommittee (Alexander, Hibbs, Kearney) presented recommendations regarding financial policies that were approved by the FAC in December. Staff has revised two existing policies, and created a third, in line with the recommendations provided.

City Council Policy 5001 – Budget Development and Administration

This policy was formerly titled Mission Driven Budgeting. This policy has been completely rewritten, and therefore retitled to better reflect the contents. The policy outlines the process for budget development, budget organization, certain assumptions, the general process, and administration of the budget once adopted. This policy also includes policy on authority for budget transfers or amendments that was previously included in the annual budget resolution. Staff feels this information is better contained in a policy document.

City Council Policy 5002 – Financial Policies

This is a lengthy document that combines various financial policies into one central document. The sections include:

- Long-Term Financial Planning
- Auditing, Financial Reporting and Disclosure
- Revenue Collection
- Cash Management
- Capital Improvement Projects

City of Culver City, California
Finance Advisory Committee Agenda Item Report

Financial Reserves
Grant Administration
Debt Management

While the recommendations from the Budget Process and Financial Policies Subcommittee dealt specifically with the Reserves portion of the existing City policy, staff also significantly modified other areas of this document. Staff feels these modifications and enhancements greatly improve this document.

City Council Policy 5003 – Recreation Facilities Reserve (Proposed)

This is a newly proposed policy, based on prior City Council discussions and a model policy from Newport Beach. For several years, when the discussion of the Master Fee Schedule comes before City Council, the topic of a portion of Parks, Recreation and Community Services (PRCS) fees being set aside towards facility and equipment improvement funding comes up. Staff is proposing a policy where 10% of defined fee revenues would be set aside into a reserve fund to cover the cost of certain recreation facility and equipment improvements. While this will certainly never cover the full cost of such repairs, it ensures some reinvestment of these revenues into the facilities that make them possible.

ATTACHMENTS:

Policy 5001 – Budget Development and Administration
Policy 5002 – Financial Policies
Policy 5003 – Recreation Facilities Reserve

MOTION:

That the FAC:

- (1) Receive a presentation on the draft financial policies; and
- (2) Hold discussion; and,
- (3) Provide feedback to staff and/or City Council.

**CITY OF CULVER CITY
COUNCIL POLICY STATEMENT**

Policy Number **5001**

General Subject: Budget

Date Issued 1/23/95

Specific Subject: Budget Adoption and
Administration

Dates Revised 07/16/07
02/xx/14

Effective Date

Resolution No. 2014-Rxxx

PURPOSE:

To establish the policy for the preparation, adoption, and administration of the City's Annual Budget.

STATEMENT OF POLICY:

A. Budget Development.

General

The City Manager shall prepare and submit a proposed budget to the City Council at least 45 days prior to the beginning of the upcoming fiscal year, as required by Section 801 of the City Charter. The budget shall be adopted by July 1, of each year, as required by Section 803 of the City Charter. The budget shall incorporate a results-based budgeting approach that allows the public and the City Council to prioritize City expenditures strategically aligned with core community values. The operating budget shall serve as the annual financial plan of the City for implementing the goals and objectives of the City Council, City Manager and departments. The budget shall provide the necessary resources to accomplish City Council determined service levels.

City Council directs and controls the planned use of reserves through budget appropriation process. Appropriations for operating expenditures shall be balanced in relation to current revenue sources and will not over-rely on one- time revenue sources or reserves. This is not intended to limit the periodic use of financial resources that were accumulated over time for a specific project or purpose.

The budget may be developed with one or more contingency plans to protect against volatile or unexpected events. When significant uncertainty exists concerning revenue volatility or threatening/pending obligations, the City Council and City Manager reserve the right to impose any special fiscal

control measures, including a personnel hiring freeze, and other spending controls, whenever circumstances warrant. The City Council may authorize the use of Contingency Reserves only during emergency situations as set forth by Council Policy 5002.

Revenues

1. The City will estimate annual General Fund revenues using an objective, analytical process; specific assumptions will be documented and maintained. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies, and/or reliable economic forecasters when available.
2. Specific revenue sources will not be dedicated for specific purposes, unless required by law or Generally Accepted Accounting Principles (GAAP). All non-restricted revenues will be deposited in the General Fund and appropriated through the budget process.
3. The City shall prepare a comprehensive report at mid-year which discusses revenue projections in light of actual receipts, and shall provide new projections, as appropriate.

Appropriations

1. The City will estimate annual General Fund expenditures using current position control and payroll data, actual pay and benefit factors for the upcoming year when available, estimated pay and benefit factors when actuals are not available, and estimated inflation rates. Estimates will be based on data provided by the state, other governmental agencies, and/or reliable economic forecasters when available.

B. Organization of the Annual Budget.

The Annual Budget is published in one volume, generally organized into the following sections:

- An introductory section which includes the City Manager's Budget Message and a list of reductions and enhancements.
- A Budget Summary section that includes various charts and summary tables of revenue, expenditure and authorized position information.
- A Revenue Detail section which includes line-item level revenue information for each fund.

- A Departmental section with information including mission descriptions, work plans, position detail and line-item level expenditure data by division.
- A Capital Improvements section with a summary of current and future planned projects, basic descriptions of each project, the funding source and the scope of work to be performed. CIPs are generally major facility or infrastructure improvement projects managed by the Public Works Department, although other departments do manage certain projects.

C. Budget Assumptions.

1. If not otherwise communicated to the City Manager during the course of the current fiscal year, it is assumed the City Council has determined that the current array and level of City services is reasonable and desirable.
2. Each department's existing on-going funding level provides the starting point for implementation for the following budget cycle. The existing base budget should be thoroughly examined to assure alignment with City Council and community priorities.
3. Residential/commercial and outside regional growth impact may not affect all City departments equally.
4. Generally inflation impacts all departments equally.
5. As a results-based system, performance expectations and service objectives of all departments need to be clearly established and understood.
6. The City shall ensure adequate funding is available for operation and maintenance of any proposed capital facilities or other public improvements, or new project construction will be delayed.
7. Elected officials provide policy direction. The City Manager and Executive Management then have the flexibility to administer operations within that overall policy framework.
8. Council will approve and maintain a balanced budget during the fiscal year.

D. Budget Process.

During January of each year, the Finance Department shall prepare updated revenue estimates and fund balance projections for the current year (Mid-Year Review) and prepare a forecast of preliminary revenue projections for at least

the next five fiscal years (Financial Forecast). These reports will be presented to City Council by the end of February. At the same City Council meeting, there will be a public comment period to solicit any public input on the budget for the upcoming year. A second public comment period may be held in March. Also in March of each year, the Finance Department shall issue budget instructions and packets to each department for use in preparation of the next year's City budget. Included in these instructions will be budget guidelines and appropriation targets for each department. These guidelines will be developed by the Chief Financial Officer and approved by the City Manager.

During this period, City Commissions, Boards and Committees may submit budget recommendations to their appropriate Department Director liaisons and the City Manager for consideration.

After further refinements of revenue estimates and the completion of Department proposed expenditure appropriation requests, the Finance Department will summarize department requests for review by the City Manager. After the City Manager has reviewed and amended the Department Head requests, the Finance Department shall prepare the City Manager's proposed budget for the next fiscal year and shall submit it to the City Council. The City Council shall hold as many budget study sessions as it deems necessary. All proposed Council changes to the City Manager's proposed budget shall be itemized on a budget checklist of revisions. The City Council shall hold a public hearing and adopt the proposed budget with any checklist revisions on or before July 1 by formal budget resolution. When adopted, the proposed budget along with the finalized checklist, become the final budget.

E. Administration of the Annual Budget.

During the budget year, Department Heads and their designated representatives may authorize only those expenditures that are based on appropriations previously approved by City Council action, and only from accounts under their organizational responsibility. Any unexpended appropriations, except valid encumbrances, expire at fiscal year end unless specifically re-appropriated by the City Manager for expenditure during the new fiscal year. Department Heads are responsible for not authorizing expenditures above budget appropriations in any given expenditure classification within their purview, without additional appropriation or transfer as specified further below. Appropriation control shall be maintained within each division or project level unit, aggregating individual line-item accounts into Classifications of: Salaries and Benefits, Operations and Maintenance, Capital Outlay and Other Financing Uses.

The following broad parameters shall govern the transfer of appropriations during the year:

1. Overall appropriation control is established at the fund level. Appropriation

authority may not be transferred from one fund to another.

2. Position control is established by the adopted budget. City Manager and City Council approval is required for any new, substitute or reclassified positions.
3. The purchase of capital equipment shall require specific budget appropriation. Any changes or additions to capital accounts after the budget is adopted shall require City Manager approval and identification of the source of funds for transfer.
4. Significant changes in department or division operations affecting service or service levels different from that approved in the adopted budget shall have the prior approval of the City Manager and, as appropriate, the City Council.

Appropriations may be transferred, amended or reduced subject to the following limitations:.

Departmental Authority

1. Transfers within Divisions or Projects. Appropriation transfers between line items of the same Classification within a division or project budget may be requested by the Department Director and approved by the Chief Financial Officer.
2. Transfers between Departmental Divisions or Projects. If a total departmental budget, within a specific Classification, is not exceeded, upon a request by the Department Director the Chief Financial Officer has the authority to transfer funds within that Classification and Department, to make the most efficient use of funds appropriated by the City Council.

City Manager Authority

1. Transfers between Departments. Funds may be realigned between one Department and another, within the same Classification, with City Manager approval. For example, if a Fire Department function and the employee who accomplishes it are replaced by a slightly different function assigned to the Police Department, the City Manager may authorize the transfer of appropriate funds to support this function.
2. New Appropriations. During the Budget Year, the City Council may appropriate additional funds for special purposes by a City Council Budget Amendment, which requires a 4/5 vote approval. The City Manager has authority to approve requests for budget increases not to exceed \$30,000 per adjustment. Additionally, under the following circumstances the City Manager may approved budget increases in

excess of \$30,000:

- a. To cover contract costs incurred for tax audits that are performed on a contingency fee basis.
 - b. To cover contract costs based on the volume of transactions incurred in connection with red-light enforcement activities, with a corresponding revenue budget increase.
 - c. To cover reimbursable contract costs such as plan review services, building inspection services, recreation enrichment classes and youth sport programs, or other services to be reimbursed by an applicant.
 - d. To appropriate asset seizure revenues already received by the City.
3. Appropriated Reserves. No direct expenditures shall be charged to the Appropriated Reserves account. Transfer requests from the Appropriated Reserves account to a departmental operating account shall be approved by the City Manager.
 4. Equipment Replacement Fund. The City Manager may approve appropriation adjustments of up to 5% of the cost of an individual vehicle when the actual cost exceeds the budget estimate.
 5. Strike Team Reimbursements. The City Manager may increase the budgeted revenues and appropriations of the Fire Department for the Administrative Surcharge and Apparatus Reimbursement portion of Strike Team Reimbursements to purchase items directly related to strike team deployments.
 6. Central Stores. The City Manager is authorized to increase revenues and appropriations in the Central Stores fund as necessary.
 7. Grants & Donations. The City Manager may accept grants or donations of up to \$30,000 on behalf of the City. The City Council will be formally notified of such actions on a quarterly basis by way of the City Manager newsletter to the City Council.

Additionally, grant appropriations approved by City Council may be carried forward to the following fiscal year(s) as long as the grant terms remain valid, the expenditures are consistent with the previous Council authorization, and the funds would otherwise need to be returned to the granting or donor agency. Also, see Council Policy 5002 for specific grant acceptance and administration procedures.

Grant agreements and restricted donations in excess of \$30,000 must be specifically approved by the City Council. Occasionally, the terms and conditions of a grant are approved by City Council in a year

prior to when the program activity will take place and therefore, the funds are not appropriated to carry out the grant at that time. In such cases, the City Manager may appropriate the funds when they are received, provided the expenditures clearly meet the amount, terms, nature and intent of the grant or donation previously approved by City Council.

8. Transfers between Expenditure Categories. Any reprogramming of funds among the three Classifications (Salaries and Benefits, Operations and Maintenance , Capital Outlay and Other Financing Sources) within a given fund requires the City Manager's approval.
9. Capital Improvement Projects (CIP). Appropriation for capital improvement projects may be transferred from one funding source to another with the approval of the City Manager. Additionally, the following transfers may occur:
 - a. Excess Project Appropriations or savings may be transferred to a "Project Savings Account," within the same fund. Such savings may be re-appropriated to a new or existing project with the approval of City Council. Any appropriation balance remaining in the Project Savings account will lapse at Fiscal Year End.
 - b. Excess Project Appropriations may also be transferred from one CIP project to another, provided that the projects utilize the same funding source and are for substantially the same project purpose. Project appropriation transfers of this nature require the approval of the City Manager.

All proposed budget amendments and transfers will be submitted to the Chief Financial Officer for review and processing prior to City Manager or Council authorization.

In annual budget funds (General Fund and most Special Revenue Funds), all unexpended and unencumbered appropriations will be canceled on June 30 of each fiscal year, unless a re-appropriation is specifically approved by the City Manager. Multi-year funds will carry unexpended appropriations forward, adding any additional appropriations approved by the City Council for the new budget year.

- F. Management Authorization & Responsibilities. . Once the final Budget has been approved by the City Council, specific City Council approval to make expenditures consistent with the Budget will not be required except as provided by other Council Policies and Administrative Procedures. It is the

responsibility of the City Manager and management to administer the City's budget within the framework of policy and appropriation as approved by the City Council.

1. The Chief Financial Officer is responsible for checking purchase requests against availability of funds and authorization as per the approved Budget.
2. Unless otherwise directed, routine filling of vacancies in staff positions authorized within the Budget, will not require further City Council approval. However, new positions, not addressed by the adopted budget, do require City Council approval.
3. At fiscal year end, the Chief Financial Officer is authorized to record accruals and transfers between funds and accounts in order to close projects or the books of accounts of the City of Culver City in accordance with generally accepted governmental accounting principles as established by the Government Accounting Standards Board, Government Finance Officers Association, and other appropriate accounting pronouncements. Any net shortage within a Fund will be recorded as a decrease in Fund Balance. Any net excess will be recorded as an increase to one or more appropriate Reserve Accounts as recommended by the Chief Financial Officer and approved by the City Manager or as is otherwise dictated by Council Financial Policies (5002). The net change in fund balances will be reported to City Council through various documents including Year-End Financial Reports, the Comprehensive Annual Financial Report (CAFR), Budget Documents and other financial presentations. Funds that exceeded appropriations during the year or ended the year with a deficit fund balance are reported annually in the CAFR notes to the financial statements. (Information regarding the policy parameters and administration of City Reserves is contained in City Council Policy 5002.)

**CITY OF CULVER CITY
COUNCIL POLICY STATEMENT**

Policy Number **5002**

General Subject: Finance

Date Issued 1/23/1995

Specific Subject: Financial Policies

Dates Revised 7/16/2007
6/22/2009

Effective Date

Resolution No. 2014-Rxxx

PURPOSE:

To establish a comprehensive set of financial policies for the City that will serve as a guideline for operational and strategic decision making related to financial matters.

STATEMENT OF POLICY:

The following financial policies are intended to establish a comprehensive set of guidelines for use by the City Council and City staff on decision-making that has a fiscal impact. The goal is to maintain the City's financial stability in order to be able to continually adapt to local and regional economic changes. Such policies will allow the City to maintain and enhance a sound fiscal condition. This policy should be implemented in conjunction with associated subsidiary policies, i.e. Budget Development and Administration (5001), Purchasing Policy, Investment Policy, etc.

These financial policies will be reviewed annually to ensure that they remain current. The policy will be included as part of the City's annual Adopted Budget. The City's comprehensive financial policies shall be in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

Financial policies included are:

Long-term Financial Planning
Auditing, Financial Reporting and Disclosure
Revenue Collection
Cash Management
Capital Improvement Projects
Financial Reserves
Grant Administration
Debt Management

LONG-TERM FINANCIAL PLANNING

1. The City shall create a General Fund Financial Forecast that looks forward at least five fiscal years into the future. The City shall consider immediate proactive measures when deficits between anticipated revenues and expenditures exist, even in outer years. The Forecast shall be updated as part of the Mid-Year Budget Report and as part of the annual Proposed budget.
2. The City Council, City Manager and Executive Management will consider the effects of proposals for new or enhanced services, employee negotiations, tax/fee changes, or similar items, on the General Fund Financial Forecast. The City should be able to fund any such enhancements or changes in both the short-term and long-term.
3. The City shall develop and implement a financial plan to address its funding needs for issues like deferred maintenance and unfunded liabilities, which will be included in the General Fund Financial Forecast.
4. The City shall seek a balance in the overall revenue structure between more stable revenue sources (e.g. Property Tax and Utility Taxes) and economically sensitive revenue sources (e.g. Sales Tax and Transient Occupancy Tax). When new revenue sources are proposed, they should be designed to achieve a desirable balance.
5. The City will proactively seek to protect and expand its tax base by encouraging a healthy underlying economy.
6. The City will work to enhance and protect the property values of all Culver City residents and property owners.
7. The City shall encourage the economic development of the community as a whole in order to provide stable and increasing revenue streams. It should be the City's goal to not only attract new businesses but also to retain successful businesses in the City. Objectives of the revenue strategy should also include: avoiding an over reliance on revenue from any one particular industry; recruitment and retention efforts to ensure a balance of revenue sources; ensuring compatible uses; encouraging business synergies; and promoting the growth of amenities and ancillary services to support business districts and established industries.
8. The City shall develop and maintain methods for the evaluation of future development and related fiscal impacts on the City budget.
9. Every reasonable effort will be made to establish revenue measures which will cause the transients and recreation visitors to Culver City to carry a fair portion of the expenses incurred by the City as a result of their use of public facilities.

10. The City will establish appropriate cost-recovery targets for its fee structure and will annually adjust its Master Fee Schedule to ensure that the fees continue to meet cost recovery targets. The Finance Department may study, internally or using an outside consultant, the costs of providing such services and recommend fees to each department.
11. Special services, which can be identified with the recipients, will be self-supported from service fees to the maximum extent possible. Service fees shall be established in the Master Fee Schedule in compliance with applicable State law, and shall be periodically reviewed for compliance with applicable State law.
12. The City will oppose efforts of the State and County governments to divert revenues from the City or to increase unfunded service mandate of City taxpayers.
13. The City will seek additional intergovernmental funding and grants, with a priority on funding one-time capital projects. Grant-funded projects that require multi-year support will be reviewed by City Council.
14. The City will not rely on one-time revenue sources to fund operations. One-time revenues sources, whenever possible, will be used to fund one-time projects, augment reserve balances or fund unfunded liabilities.

AUDITING, FINANCIAL REPORTING AND DISCLOSURE POLICIES

Accounting standards boards and regulatory agencies set the minimum standards and disclosure requirements for annual financial reports and continuing disclosure requirements associated with municipal securities. The City places a high value on transparency and full disclosure in all matters concerning the City's financial position and results of operations. To this end, the City endeavors to make superior disclosure in the City's Comprehensive Annual Financial Report and Continuing Disclosure filings by going above and beyond the minimum reporting requirements including certificate of achievement programs and voluntary event disclosure filings.

The City prepares its financial statements in conformance with Generally Accepted Accounting Principles (GAAP). Responsibility for the accuracy and completeness of the financial statements rests with the City. However, the City retains the services of an external accounting firm to audit the financial statements on an annual basis. The primary point of contact for the auditor is the Chief Financial Officer, but the auditors will have direct access to the City Manager, City Attorney, Financial Planning and Budget Subcommittee or City Council on any matters they deem appropriate.

The financial statement audit and compliance audits will be conducted in accordance with the United States Generally Accepted Auditing Standards (GAAS), standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller of the United States, and standards set by regulatory agencies if applicable.

After soliciting and receiving written proposals from qualified independent accounting firms, the Chief Financial Officer shall submit a recommendation to the Financial Planning and Budget Subcommittee and City Council. Under the premise that multi-year audit agreements are more cost efficient, allow for greater continuity and reduce audit disruption, the City may engage auditors in multi-year contracts but the term of each contract shall not exceed five years. Generally, the City will request proposals for audit services every five years. However, the Financial Planning and Budget Subcommittee may make an exception to the competitive proposal requirement if extraordinary circumstances exist and a change in auditors may not be prudent. If the City Council is satisfied with the performance of the auditors, the independent accountants may submit additional proposals through a competitive selection process but it is the City's policy to require mandatory audit firm rotation after ten years of consecutive service.

After audit results have been communicated to the City, the Finance Department is then responsible for responding to all findings within six months to the City Manager and Financial Planning and Budget Subcommittee and appropriate regulatory agencies, if applicable.

REVENUE COLLECTION POLICY

1. The City will pursue revenue collection and auditing to ensure that monies due the City are accurately received in a timely manner.
2. The City will seek reimbursement from the appropriate agency for State and Federal mandated costs whenever possible and cost-effective.
3. The City should centralize accounts receivable/collection activities wherever possible so that all receivables are handled consistently.
4. Accounts receivable management and diligent oversight of collections from all revenue sources are imperative. Sound financial management principles include the establishment of an allowance for doubtful accounts. Efforts should be made to pursue the timely collection of delinquent accounts. When such accounts are deemed uncollectible, they should be written-off from the financial statements.

CASH MANAGEMENT POLICY

1. Cash and investment programs will be maintained in accordance with California Government Code Section 53600 et seq. and the City's adopted Investment Policy and will ensure that proper controls and safeguards are maintained. Pursuant to State law, the City, at least annually, revises, and the City Council affirms, a detailed Investment Policy.
2. Reports on the City's investment portfolio and cash position will be developed and presented to the City Council on a quarterly basis, in conformity with the California Government Code.
3. City funds will be managed in a prudent and diligent manner with emphasis on safety, liquidity, and yield, in that order.

CAPITAL IMPROVEMENT PROJECTS POLICY

1. A five-year Capital Improvement Plan must be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which result in a capitalized asset and have a useful (depreciable) life of two years or more.
2. The capital improvement plan will identify, where applicable, current operating maintenance costs and funding streams available to repair and/or replace deteriorating infrastructure and to avoid significant unfunded liabilities.
3. The City should develop and implement a post-implementation evaluation of its infrastructures condition on a specified periodic basis, estimating the remaining useful life, and projecting replacement costs.
4. The City shall actively pursue outside funding sources for all Capital Improvement Projects. Outside funding sources, such as grants, shall be used to finance only those Capital Improvement Projects that are consistent with the five-year Capital Improvement Project and local governmental priorities, and whose operating and maintenance costs have been included in future operating budget forecasts.
5. Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecasted, matched to available revenue sources, and included in the Operating Budget. Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.
6. Financing of capital improvement projects shall be considered pursuant to the Debt Management Policy section.

FINANCIAL RESERVES POLICY

Prudent financial management dictates that some portion of the funds available to the City be reserved for future use.

As a general budget principle concerning the use of reserves, the City Council decides whether to appropriate funds from Reserve accounts. Even though a project or other expenditure qualifies as a proper use of Reserves, the Council may decide that it is more beneficial to use current year operating revenues or bond proceeds instead, thereby retaining the Reserve funds for future use. Reserve funds will not be spent for any function other than the specific purpose of the Reserve account from which they are drawn without specific direction in the annual budget; or by a separate City Council action. Information regarding Annual Budget Adoption and Administration is contained in City Council Policy 5001.

GOVERNMENTAL FUNDS AND FUND BALANCE DEFINED

Governmental Funds including the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds and Permanent Funds have a short-term or current flow of financial resources, measurement focus and basis of accounting and therefore, exclude long-term assets and long-term liabilities. The term Fund Balance, used to describe the resources that accumulate in these funds, is the difference between the fund assets and fund liabilities of these funds. Fund Balance is similar to the measure of net working capital that is used in private sector accounting. By definition, both Fund Balance and Net Working Capital exclude long-term assets and long-term liabilities.

PROPRIETARY FUNDS AND NET WORKING CAPITAL DEFINED

Proprietary Funds including Enterprise Funds and Internal Service Funds have a long-term or economic resources measurement focus and basis of accounting and therefore, include long-term assets and liabilities. This basis of accounting is very similar to that used in private sector. However, instead of Retained Earnings, the term Net Position is used to describe the difference between fund assets and fund liabilities. Since Net Position includes both long-term assets and liabilities, the most comparable measure of proprietary fund financial resources to governmental Fund Balance is Net Working Capital, which is the difference between current assets and current liabilities. Net Working Capital, like Fund Balance, excludes long-term assets and long-term liabilities.

GOVERNMENTAL FUND RESERVES (FUND BALANCE)

For Governmental Funds, the Governmental Accounting Standards Board ("GASB") Statement No. 54 defines five specific classifications of fund balance. The five classifications are intended to identify whether the specific components of fund balance are available for appropriation and are therefore "Spendable." The classifications also are intended to identify the extent to which fund balance is

constrained by special restrictions, if any. Applicable only to governmental funds, the five classifications of fund balance are as follows:

<u>CLASSIFICATIONS</u>	<u>NATURE OF RESTRICTION</u>
Non-spendable	Cannot be readily converted to cash
Restricted	Externally imposed restrictions
Committed	City Council imposed commitment
Assigned	City Manager/CFO assigned purpose/intent
Unassigned	Residual balance not otherwise restricted

A. Non-spendable fund balance: That portion of fund balance that includes amounts that are either (a) not in a spendable form, or (b) legally or contractually required to be maintained intact. Examples of Non-spendable fund balance include:

1. Reserve for Inventories: The value of inventories purchased by the City but not yet issued to the operating Departments is reflected in this account.
2. Reserve for Long Term Receivables and Advances: This Reserve is used to identify and segregate that portion of the City's financial assets which are not due to be received for an extended period, so are not available for appropriation during the budget year.
3. Reserve for Prepaid Assets: This reserve represents resources that have been paid to another entity in advance of the accounting period in which the resource is deducted from fund balance. A common example is an insurance premium, which is typically payable in advance of the coverage period. Although prepaid assets have yet to be deducted from fund balance, they are no longer available for appropriation.

B. Restricted fund balance: The portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The City operates approximately twenty special revenue funds that account for items such as gas tax revenues distributed by the State, local return portions of County-wide sales tax overrides dedicated to transportation, grants from federal or State agencies with specific spending restrictions, Section 8 and CDBG funds from

the federal government with very specific spending limitations, and a number of others. Because these funds are established because of the specific spending limitations on these funds, any year-end balances are still restricted for these purposes. Some specific examples of restricted fund balance are:

1. Reserve for Debt Service: Funds are placed in this Reserve at the time debt is issued. The provisions governing the Reserve, if established, are in the Bond Indenture and the Reserve itself is typically controlled by the Trustee.
 2. Park In Lieu: Per CCMC 15.06.305 and California Government Code Section 664777 (The 1975 “Quimby Act”), a dedication of land or payment of fees for park or recreational purposes in conjunction with residential development is required. The fees collected can only be used for specific park or recreation purposes as outlined in CCMC 15.06.305 through 15.06.330.
- C. Committed fund balance: That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the government’s highest level of decision making authority, and remain binding unless removed in the same manner. The City considers a resolution to constitute a formal action for the purposes of establishing committed fund balance. The action to constrain resources must occur within the fiscal reporting period; however the amount can be determined subsequently. City Council imposed Commitments are as follows:
1. Contingency Reserve: The Contingency Reserve shall have a target balance of thirty percent (30%) of General Fund “Operating Budget” as originally adopted. Operating Budget for this purpose shall include current expenditure appropriations and shall exclude Capital Improvement Projects and Transfers Out. Appropriation and/or access to these funds are reserved for emergency situations only. The parameters by which the Contingency Reserve could be accessed would include the following circumstances:
 - a. 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.
 - b. 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.
 - c. 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.

- d. 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.
- e. 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.
- f. Inability of the City to meet its debt service obligations in any given year.
- g. 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.

- 2. Facilities Planning Reserve: The Facilities Planning Reserve has been established to offset the cost of replacement or major refurbishment to critical City facilities such as, but not limited to, the City Hall building and Police Department buildings, Fire Stations, and other Facility Improvement Projects. Use of this Reserve must be approved by City Council. This Reserve shall be funded by allocations of General Fund surplus revenues, as defined later in this policy, or by specific City Council allocations. The eligible uses of this reserve include the cash funding of public facility improvements or the servicing of related debt.
 - 3. Recreational Facilities: City Council Policy 5003 requires ten percent (10%) of gross annual revenues derived from specified recreational classes and rentals to be set aside for the refurbishment of certain recreational facilities, fee-based activity programs and equipment used in connection with fee-based recreation classes.
- D. Assigned fund balance: That portion of a fund balance that includes amounts that are constrained by the City's intent to be used for specific purposes but that are not restricted or committed. This policy hereby delegates the authority to the City Manager or Chief Financial Officer to modify or create new assignments of fund balance. Constraints imposed on

the use of assigned amounts may be changed by the City Manager or Chief Financial Officer. Appropriations of balances are subject to Council Policy 5001 concerning budget adoption and administration. Examples of assigned fund balance may include but are not limited to:

1. Reserves for Encumbrances: Purchase Orders and contracts executed by the City express an intent to purchase goods or services. Generally such documents include a cancellation clause, where the City would then only be responsible to pay for goods received or services provided. The City recognizes the obligation to pay for these goods and services as a reservation of fund balance, but because the City can ultimately free itself of this obligation if necessary, it does not meet the requirements of the more restrictive fund balance categorizations.
2. Change in Fair Market Value of Investments: As dictated by GASB 31, the City is required to record investments at their fair value (market value). This accounting practice is necessary to insure that the City's investment assets are shown at their true value as of the balance sheet. However, in a fluctuating interest rate environment, this practice records market value gains or losses which may never be actually realized. The City Manager or Chief Financial Officer may elect to reserve a portion of fund balance associated with an unrealized market value gain. However, it is impractical to assign a portion of fund balance associated with an unrealized market value loss.
3. PERS/OPEB Rate Reserve: This Reserve may be established for the specific purpose of helping to smooth out the year-to-year fluctuations in PERS rates or changes in the Annual Required Contribution for the retiree medical liability. The City Council may also approve direct pre-funding payments to CalPERS or the OPEB Trust fund. Such pre-funding payments are expected to substantially relieve interest payments in future year, resulting in taxpayer savings.

When the City Manager or Chief Financial Officer authorizes a change in General Fund, Assigned Fund Balance, City Council shall be notified quarterly.

- E. Unassigned fund balance: The residual portion of available fund balance that is not otherwise restricted, committed or assigned.

GENERAL FUND SURPLUS

At the end of each fiscal year, the difference between General Fund revenues and expenditures results in either a surplus (adding to fund balance) or deficit (subtracting from fund balance). In the case of a surplus, the policy for allocation shall follow these

priorities:

1. Full funding of the Contingency Reserve.
2. If the Contingency Reserve is fully funded, 35% of the remaining surplus amount shall be placed in the Facilities Planning Reserve, 35% in the PERS/OPEB Reserve, and the remainder shall revert to Unassigned fund balance.

City Council may approve a different allocation if recommended by the City Manager.

PROPRIETARY FUND RESERVES (NET WORKING CAPITAL)

In the case of Proprietary Funds (Enterprise and Internal Service Funds), Generally Accepted Accounting Principles ("GAAP") does not permit the reporting of reserves on the face of City financial statements. However, this does not preclude the City from setting policies to accumulate financial resources for prudent financial management of its proprietary fund operations. Since proprietary funds may include both long-term capital assets and long-term liabilities, the most comparable measure of liquid financial resources that is similar to fund balance in proprietary funds is net working capital which is the difference between current assets and current liabilities. For all further references to reserves in Proprietary Funds, Net Working Capital is the intended meaning.

A. Refuse Disposal Fund

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a rate increase to offset sustained cost increases. The intent of the Reserve is to provide funds to offset cost increases that are projected to be short-lived, thereby partially eliminating the volatility in annual rate adjustments. It is not intended to offset ongoing, long-term pricing structure changes. The target level of this reserve is twenty-five percent (25%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 3 months with zero income or 12 months at a twenty-five percent (25%) loss rate. The City Council must approve the use of these funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the fleet or transfer station occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to refuse disposal.

B. Municipal Bus Lines Fund

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a fare increase to offset sustained cost increases. The intent of the Reserve is to provide funds to offset cost increases that are projected to be short-lived, thereby partially eliminating the volatility in fare adjustments. It is not intended to offset ongoing, long-term cost of operations changes. The target level of this reserve is twenty-five percent (25%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 3 months with zero income or 12 months at a twenty-five percent (25%) loss rate. The City Council must approve the use of these funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future fare adjustments, while extended reserve shortfalls would be recovered from future fare increases. Should catastrophic losses to the fleet or transportation building occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to public transportation.

C. Sewer Enterprise Fund

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a rate increase to offset sustained cost increases. The intent of the Reserve is to provide funds to offset cost increases that are projected to be short-lived, thereby partially eliminating the volatility in annual rate adjustments. It is not intended to offset ongoing, long-term pricing structure changes. The target level of this reserve is fifty percent (50%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 6 months with zero income or 24 months at a twenty-five percent (25%) loss rate. The City Council must approve use of these funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the infrastructure system occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to sewer service.
2. Infrastructure Replacement Funding Policy: This funding policy is intended to be a temporary repository for cash flows associated with the funding of infrastructure replacement projects provided by the Sewer Master Plan. The contribution rate is intended to level-amortize the cost of infrastructure replacement projects over a long period of time. The annual funding rate of the Sewer Master Plan is targeted at an amount that, when combined with prior or future year contributions, is sufficient to

provide for the eventual replacement of assets as scheduled in the plan. This contribution policy should be updated periodically based on the most current Wastewater Master Plan. There are no minimum or maximum balances contemplated by this funding policy. However, the contributions level should be reviewed periodically or as major updates to the Wastewater Master Plan occur. Annual funding is contingent on many factors and may ultimately involve a combined strategy of cash funding and debt issuance with the intent to normalize the burden on Sewer customer rates.

D. Internal Service Funds

Background.

Internal Service Funds are used to centrally manage and account for specific program activity in a centralized cost center. Their revenue generally comes from internal charges to departmental operating budgets rather than direct appropriations. They have several functions.

- They work well in normalizing departmental budgeting for programs that have life-cycles greater than one year; thereby facilitating level budgeting for expenditures that will, by their nature, be erratic from year to year. This also facilitates easier identification of long term trends.
- They act as a strategic savings plan for long-term assets and liabilities.
- From an analytical standpoint, they enable appropriate distribution of city-wide costs to individual departments, thereby more readily establishing true costs of various operations.

Since departmental charges to the internal service fund duplicate the ultimate expenditure from the internal service fund, they are eliminated when consolidating entity-wide totals.

The measurement criteria, cash flow patterns, funding horizon and acceptable funding levels are unique to each program being funded. Policy regarding target balance and/or contribution policy, gain/loss amortization assumption, source data, and governance for each of the City's Internal Service Funds is set forth as follows:

1. For all Internal Service Funds: The Chief Financial Officer may transfer part or all of any unencumbered fund balance between the Internal Service Funds provided that the withdrawal of funds from the transferred fund would not cause insufficient reserve levels or insufficient resources to carry out its intended purpose. This action is appropriate when the decline in cash balance in any fund

is precipitated by an off-trend non-recurring event. The Chief Financial Officer will make such recommendations as part of the annual budget adoption or through separate Council action.

2. Equipment Maintenance Fund and Equipment Replacement Fund:

Th
e Equipment Maintenance and Replacement Funds receive operating money from the Departments to provide equipment maintenance and to fund the regular replacement of major pieces of equipment (mostly vehicles) at their economic obsolescence.

- a. Equipment Maintenance Fund: The Equipment Maintenance Fund acts solely as a cost allocation center (vs. a pre-funding center) and is funded on a pay- as-you-go basis by departmental maintenance charges by vehicle type and usage requirement. Because of this limited function, the target year-end balance is zero.

Contribution rates (departmental charges) are set to include the direct costs associated with maintaining the City vehicle fleet, including fleet maintenance employee salary and benefits, operating expenses, administrative overhead and maintenance related capital outlay. Maintenance facility improvements and replacement costs are to be provided outside of this cost unit.

Because of the limited purpose of this fund, a gain/loss assumption is not needed.

Source data is ongoing city fleet inventory and maintenance cost information. Governance is achieved through annual management adjustment of contribution rates on the basis of maintenance cost by vehicle and distribution of costs based on fleet use by department/division.

- b. Equipment Replacement Fund: Operating Departments are charged annual amounts sufficient to accumulate funds for the replacement of vehicles, communications equipment, technology equipment and other equipment replacement determined appropriate by the Chief Financial Officer. The City Manager recommends annual rate adjustments as part of the budget preparation process. These adjustments are based on pricing, future replacement schedules and other variables.

The age and needs of the equipment inventory vary from year to year. Therefore the year-end fund balance will fluctuate in direct correlation to accumulated depreciation. In general, it will increase in the years preceding the scheduled replacement of relatively large percentage of the equipment, on a dollar value basis. However, rising equipment costs, dissimilar future needs, replacing equipment faster than their expected life or maintaining equipment longer than their expected life all contribute to variation from the projected

schedule.

In light of the above, the target funding level is not established in terms of a flat dollar figure or even a percentage of the overall value of the equipment inventory. It is established at fifty percent (50%) of the current accumulated depreciation value of the equipment inventory, calculated on a replacement value basis. This will be reconciled annually as part of the year-end close out process by the Finance Department. If departmental replacement charges for equipment prove to be excessive or insufficient with regard to this target funding level, new rates established during the next budget cycle will be adjusted with a view toward bringing the balance back to the target level over a three-year period.

3. Self-Insurance Fund

Background

The Self-insurance fund pays for insurance premiums, benefit and settlement payments, and administrative and operating expenses. It is supported by charges to other City funds for the services it provides. These annual charges for service shall reflect the five-year historical experience and shall be set to equal the annual expenses of the fund.

Policy & Practice.

Self-insurance reserves (Liability and Workers' compensation) will be maintained at a level which, together with purchased insurance policies, adequately indemnify the City's property, liability, and health benefit risk from one-time fluctuations. A qualified actuarial firm shall be retained on an annual basis in order to recommend appropriate funding levels, which will be approved by Council. The City shall maintain minimum reserves equal to 60% of the five-year average of total Self-Insurance Fund costs, with a maximum of 100%.

To lessen the impact of short-term annual rate change fluctuation, City management may implement one-time fund transfers (rather than department rate increases) when funding shortfalls appear to be due to unusually sharp and non-recurring factors. Excess reserves in other areas may be transferred to the internal service fund in these instances but such transfers should not exceed the funding necessary to reach the one hundred percent (100%) reserve level defined above.

4. Compensated Absences

Fund Background.

The primary purpose of flex leave, vacation leave and sick leave is to provide compensated time off as appropriate and approved. However, under

certain circumstances, typically at separation from service, some employees have the option of receiving cash-out payments for some accumulated leave balances. The Compensated Absences Fund is utilized primarily as a budget smoothing technique for any such leave bank liquidations. The primary purpose of the Compensated Absences Fund is to maintain a balance sufficient to facilitate this smoothing.

Policy and Practice.

The contribution rate will be set to cover estimated annual cash flows based on a three-year trailing average.

The minimum cash reserve should not fall below that three-year average. The maximum cash reserve should not exceed fifty percent (50%) of the long term liability. The target cash reserve shall be the median difference between the minimum and maximum figures.

Each department will make contributions to the Compensated Absences Fund through its operating budget as a specified percentage of salary. The Chief Financial Officer will review and recommend adjustments to the percentage of salary required during the annual budget development process. This percentage will be set so as to maintain the reserve within the parameters established above.

5. Post Retirement Funding Policies:

a. Pension Funding:

- (i) California Public Employees Retirement System (CalPERS): The City's principal Defined Benefit Pension program is provided through contract with CalPERS. The City's contributions to the plan include a fixed employer paid member contribution and an actuarially determined employer contribution that fluctuates each year based on an annual actuarial plan valuation. This variable rate employer contribution includes the normal cost of providing the contracted benefits plus or minus an amortization of plan changes and net actuarial gains and losses since the last valuation period.

It is the City's policy to make contributions to the plan equaling at least one hundred percent (100%) of the actuarially required contribution (annual pension cost). Because the City pays the entire actuarially required contribution each year, by definition, its net pension obligation at the end of each year is \$0. Any unfunded actuarial liability (UAL) is amortized and paid in accordance with the actuary's funding recommendations. The City will strive to maintain its UAL within a range that is considered acceptable to actuarial standards. The City Council

shall consider increasing the annual CalPERS contribution should the UAL status fall below acceptable actuarial standards.

b. Other Post Employment Benefits (OPEB Funding):

Background.

The City's OPEB funding obligations consists of two retiree medical plans.

New Plan. Effective July 1, 2011, the City and its employee associations agreed to major changes to the Post Employment Healthcare Plan. New employees participate in a program that requires certain defined employee and employer contributions while the employee is in active service. However, once the contributions have been made to the employee's account, the City has transferred a substantial portion of the funding risk to the employee.

Old Plan. Eligible employees who retired prior to the "New Plan" and active employees were eligible to continue to receive post-retirement medical benefits (a defined benefit plan). The cost was divided among the City, current employees and certain retirees. In the past, this program was largely funded on a pay-as-you-go basis, so there was a significant unfunded liability. Recognizing this problem, the City began contributing to this obligation in 2010. In 2012, these assets were placed in a pre-funding trust. The City's intention is to amortize the remaining unfunded liability within 25 years.

Policy & Practice.

New Plan. Consistent with agreements between the City and employee associations, the new defined contribution plan will be one hundred percent (100%) funded, on an ongoing basis, as part of the annual budget process. Funds to cover this expenditure will be contained within the salary section of each department's annual operating budget.

Old Plan. The City's policy is to pre fund the explicit (cash subsidy) portion of the Actuarial Accrued Liability (AAL) of the remnants of the old plan over a 25-year amortization period, or less. This amount will be based on the Annual Required Contribution (ARC) determined by a biennial actuarial review; subject to review and analysis by the City. The City will strive to maintain a funded status that will be within a range that is considered acceptable to actuarial standards. The City Council shall consider increasing the annual OPEB contribution should the funded status fall below acceptable actuarial standards. The City Council shall also consider increasing the annual OPEB contribution when possible to reduce the amortization period.

GRANT ADMINISTRATION POLICY

A. Grant Application and Responsibility

Individual departments are encouraged to investigate sources of funding relevant to their respective departmental activities.

The individual department applying for a grant or receiving a restricted donation shall generally be considered the Program Administrator of the grant. The Budget and Accounting Divisions in the Finance Department may assist in the financial administration and reporting of the grant but the Program Administrator is ultimately responsible for meeting all terms and conditions of the grant, insuring that only allowable costs are charged to the grant program and is responsible for adhering to City budgeting and fiscal procedures. Individual Departments and Program Administrators are not authorized to execute grant contracts. Grant contracts should be reviewed by the City Attorney's office and executed by the City Manager and/or City Council.

B. Grant Acceptance & Appropriation by City Council

Even though the funding source for an activity may be provided by a grantor/donor, only City Council can appropriate funds for official City activities except as authorized by Council Policy 5001 (Budget Adoption and Administration). Therefore, prior to the acceptance of a grant, the City Manager and City Council shall:

1. Approve the terms and conditions of the proposed grant including the specific City obligations that may be created by the grant contract in terms of required City matching expenditures or staff activities, even if the expenditures were previously appropriated through the budget adoption process.
2. Approve budget appropriations for the grant expenditures and City matching expenditures unless previously appropriated through the budget adoption process.
3. Approve and execute the Grant Contract(s).

Note: The City Council review and approval of items 1 and 3 are not required if the grant is under \$30,000, pursuant to Council Policy 5001.

Any budget amendments requested by the Program Administrator or operating department shall be reviewed by the Budget Division of the Finance Department and submitted as a staff report to the Council for their review and approval. The Budget Division of the Finance Department along with the Program Administrator shall determine the proper amount of the appropriation request

during the current and future fiscal year(s).

C. Timely Reimbursement

The Program Administrator is responsible and should pursue and/or request grant reimbursements or draw-downs on a timely basis. If requested, the Accounting Division of the Finance Department will assist with grant reimbursements or draw-downs. All checks shall be made payable to the City of Culver City and remitted to the Program Administrator.

Grant checks should be deposited immediately with the Revenue Division of the Finance Department along with supporting documentation received by the Program Administrator. Copies should also be forwarded to the Accounting Division of the Finance Department.

The Program Administrator will keep the Budget and Accounting Divisions of the Finance Department apprised of the annual estimated grant revenues and expenditures and a tentative schedule of cash-flows for the grant program.

D. Financial and Grant Reporting

Grant reporting requirements vary widely by grant and sometimes include monthly, quarterly, and or annual reporting. Subsequent to the approval of a grant application, and during the project period, any required reports shall be the responsibility of the Program Administrator, or if requested by the Program Administrator, in conjunction with the Accounting Division of the Finance Department. Program Administrators submitting their own reports shall forward a copy of each report to the Accounting Division of the Finance Department.

E. Grants Containing Direct Federal Assistance of Federal "Pass-Through" Funds

Program Administrators acknowledge that Federal Funds or Federal Funds that "pass-through" state and local programs are required to be reported on the City's Schedule of Federal Financial Assistance and included in the City's annual Single Audit (compliance audit of all Federal Funds). Program Administrators will identify and keep the Accounting Division apprised of those grant programs that contain direct Federal Funding or Federal pass-through funds, identifying the Catalog of Federal Domestic Assistance (CFDA) number when at all possible.

F. Record Keeping & Retention Requirements

For the purpose of Grantor inquiries and grant specific compliance audits, Program Administrators are responsible for maintaining adequate records to evidence that program activities and expenditures met the terms and conditions

of the grant and that all grant reporting requirements were met timely. Record retention requirements vary by grant but it is recommended that grant records should be maintained for a minimum of the life-of-the-grant plus three years, unless otherwise specified by the grant contract.

G. Documents to be forwarded to Accounting:

Information received from a granting or donor agency that is pertinent to the terms, conditions, approval, extension, denial, revocation, and administration of a grant shall be forwarded to the OMB of the Finance Department including but not limited to:

Grant Award Notification

Expenditure Authorization Date (if applicable)

Grant Contracts

Grant Extension Letters

Grant Termination Letter

Program and or Financial Reports

Notices of Questioned Costs or instances of non-compliance

Any Document setting or modifying terms and conditions of the grant

DEBT MANAGEMENT POLICIES

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserves levels and employing prudent practices in governance, management, budget administration and financial reporting.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. A disciplined thoughtful approach to debt management includes policies that provide guidelines for the City to manage its debt program in-line with those resources. Therefore, the objective of this policy is to provide written guidelines and restrictions concerning the amount and type of debt issued by the City and the ongoing management of the debt portfolio.

This debt management policy is intended to improve the quality of decisions, provide justification for the structure of debt issuance, identify policy goals and demonstrate a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

A. CONDITIONS AND PURPOSES OF DEBT ISSUANCE

1. Acceptable Conditions for the Use of Debt

The City believes that prudent amounts of debt can be an equitable and cost-effective means of financing major infrastructure and capital project needs of the City. Debt will be considered to finance such projects if:

- a) It meets the City's goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents.
- b) It is the most cost-effective funding means available to the City, taking into account cash flow needs and other funding alternatives.
- c) It is fiscally prudent and meets the guidelines of this Policy. Any consideration of debt financing shall consider financial alternatives, including pay-as-you-go funding, proceeds derived from development or redevelopment of existing land and capital assets owned by the City, and use of existing or future cash reserves, or combinations thereof.

2. Acceptable Uses of Debt

The City will consider financing for the acquisition, substantial refurbishment, replacement or expansion of physical assets, including land improvements. The primary purpose of debt is to finance one of the following:

- a) Acquisition and or improvement of land, right-of-way or long-term

easements.

- b) Acquisition of a capital asset with a useful life of 3 or more years.
- c) Construction or reconstruction of a facility.
- d) Refunding, refinancing, or restructuring debt, subject to refunding objectives and parameters discussed in Section E.
- e) Although not the primary purpose of the financing effort, project reimbursables that include project planning design, engineering and other preconstruction efforts; project-associated furniture fixtures and equipment; capitalized interest, original issuer's discount, underwriter's discount and other costs of issuance.
- f) Interim or cash flow financing, such as anticipation notes.

3. Prohibited Uses of Debt

Prohibited uses of debt include the following:

- a) Financing of operating costs except for anticipation notes with a term of less than one year.
- b) Debt issuance used to address budgetary deficits.
- c) Debt issued for periods exceeding the useful life of the asset or projects to be financed.

B. USE OF ALTERNATIVE DEBT INSTRUMENTS

The City recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources are reviewed by management within the context of the Debt Policy and the overall portfolio to ensure that any financial product or structure is consistent with the City's objectives. Regardless of what financing structure(s) is utilized, due-diligence review must be performed for each transaction, including the quantification of potential risks and benefits, and analysis of the impact on City creditworthiness and debt affordability and capacity.

1. Variable Rate Debt

Variable rate debt affords the City the potential to achieve a lower cost debt depending on market conditions. However, the City will seek to limit the use of variable-rate debt due to the potential risks of such instruments.

a) Purpose

The City shall consider the use of variable rate debt for the purposes of:

- i. Reducing the costs of debt issues.
- ii. Increasing flexibility for accelerating principal repayment and amortization.
- iii. Enhancing the management of assets and liabilities (matching short-term "priced debt" with the City's short-term investments).
- iv. Diversifying interest rate exposure.

b) Considerations and Limitations on Variable-Rate Debt

The City may consider the use of all alternative structures and modes of variable rate debt to the extent permissible under State law and will make determinations among different types of modes of variable-rate debt based on cost, benefit, and risk factors. The Chief Financial Officer shall consider the following factors in considering whether to utilize variable rate debt:

- i. Any variable rate debt should not exceed 20% of total City General Fund supported debt.
- ii. Any variable rate debt should be fully hedged by expected future Facility Financing Plan reserves or unrestricted General Fund reserve levels.
- iii. Whether interest cost and market conditions (including the shape of the yield curves and relative value considerations) are unfavorable for issuing fixed rate debt.
- iv. The likelihood of projected debt service savings when comparing the cost of fixed rate bonds.
- v. Costs, implementation and administration are quantified and considered.
- vi. Cost and availability of liquidity facilities (lines of credit necessary for variable rate debt obligations and commercial paper in the event that the bonds are not successfully remarketed) are quantified and considered.
- vii. Ability to convert debt to another mode (daily, monthly, fixed) or redeem at par at any time is permitted.
- viii. The findings of a thorough risk management assessment.

c) Risk Management

Any issuance of variable rate debt shall require a rigorous risk assessment, including, but not limited to factors discussed in this section. Variable rate debt subjects the City to additional financial risks (relative to fixed rate bonds), including interest rate risk, tax risk, and certain risks related to providing liquidity for certain types of variable rate debt.

The City will properly manage the risks as follows:

- i. **Interest Rate Risk and Tax Risk** – The risk that market interest rates increase on variable-rate debt because of market conditions, changes in taxation of municipal bond interest, or reductions in tax rates. **Mitigation** – Limit total variable rate exposure per the defined limits and match the variable rate liabilities with short term assets.
- ii. **Liquidity/Remarketing Risk** – The risk that holders of variable rate bonds exercise their “put” option, tender their bonds, and the bonds cannot be remarketed requiring the bond liquidity facility

provider to repurchase the bonds. This will result in the City paying a higher rate of interest to the facility provider and the potential rapid amortization of the repurchased bonds. **Mitigation** - Limit total direct variable-rate exposure. Seek liquidity facilities which allow for longer (5-10 years) amortization of any draws on the facility. Secure credit support facilities that result in bond ratings of the highest short-term ratings and long-term ratings not less than AA. If the City's bonds are downgraded below these levels as a result of the facility provider's ratings, a replacement provider shall be sought.

- iii. **Liquidity/Rollover Risk** – The risk that arises due to the shorter term of most liquidity provider agreements (1-5 years) relative to the longer-term amortization schedule of the City's variable-rate bonds. In particular, (1) the City may incur higher renewal fees when renewal agreements are negotiated and (2) the liquidity bank market constricts such that it is difficult to secure third party liquidity at any interest rate. **Mitigation** – Negotiate longer terms on provider contracts to minimize the number of rollovers.

2. Derivatives

The use of certain derivative products to hedge variable rate debt, such as interest rate swaps, may be considered to the extent the City has such debt outstanding or under consideration. The City will exercise extreme caution in the use of derivative instruments for hedging purposes, and will consider their utilization only when sufficient understanding of the products and sufficient expertise for their appropriate use has been developed. A comprehensive derivative policy will be adopted by the City prior to any utilization of such instruments.

C. REFUNDING GUIDELINES

The Chief Financial Officer shall monitor at least annually all outstanding City debt obligations for potential refinancing opportunities. The City will consider refinancing of outstanding debt to achieve annual savings. Absent a compelling economic reason or financial benefit to the City, any refinancing should not result in any increase to the weighted average life of the refinanced debt.

The City will generally seek to achieve debt service savings which, on a net present value basis, are at least 3% of the debt being refinanced. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Any potential refinancing shall additionally consider whether an alternative refinancing opportunity with higher savings is reasonably expected in the future.

Any potential refinancing executed more than 90 days in advance of the outstanding debt optional call date shall require a higher savings threshold. Consideration of this method of refinancing shall place greater emphasis on determining whether an alternative refinancing opportunity with higher savings is reasonably expected in the future.

D. MARKET COMMUNICATION, ADMINISTRATION, AND REPORTING

- 1. Rating Agency Relations and Annual or Ongoing Surveillance** – The Chief Financial Officer shall be responsible for maintaining the City's relationships with Standard & Poor's Ratings Services, Fitch Ratings and Moody's Investor's Service. The City is committed to maintaining its existing rating levels. In addition to general communication, the Chief Financial Officer shall:
 - a) Ensure the rating agencies are provided updated financial information of the City as it becomes publically available.
 - b) Communicate with credit analysts at each agency at least once each year, or as may be requested by the agencies.
 - c) Prior to each proposed new debt issuance, schedule meetings or conference calls with agency analysts and provide a thorough update on the City's financial position, including the impacts of the proposed debt issuance.
- 2. Council and Financial Planning and Budget Subcommittee Communication** – The Chief Financial Officer should report feedback from rating agencies, when and if available, regarding the City's financial strengths and weaknesses and recommendations for addressing any weaknesses as they pertain to maintaining the City's existing credit ratings.
- 3. Continuing Disclosure Compliance** – The City shall remain in compliance with Security and Exchange Commission Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year, or as required in any such agreement for any debt issue. The City shall maintain a log or file evidencing that all continuing disclosure filings have been made promptly.
- 4. Debt Issue Record-Keeping** – A copy of all debt-related records shall be retained at the City's offices. At minimum, these records shall include all official statements, bond legal documents/transcripts, resolutions, trustee statements, leases, and title reports for each City financing (to the extent available).
- 5. Arbitrage Rebate** – The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The Chief Financial Officer shall ensure that all bond

proceeds and investments are tracked in a manner which facilitates accurate calculation; and, if a rebate payment is due, such payment is made in a timely manner.

E. CREDIT RATINGS

The City will consider published ratings agency guidelines regarding best financial practices and guidelines for structuring its capital funding and debt strategies to maintain the highest possible credit ratings consistent with its current operating and capital needs.

F. LEGAL DEBT LIMIT

Culver City Charter section 1603 indicates that the City shall not incur bonded indebtedness which shall in the aggregate exceed the sum of fifteen percent (15%) of the total assessed valuation, for purposes of City taxation, of all the real and personal property within the City. While this limit defines the absolute maximum legal debt limit for the City, it is not an effective indicator of the City's affordable debt capacity.

G. AFFORDABILITY

Prior to the issuance of debt to finance a project, the City will carefully consider the overall long-term affordability of the proposed debt issuance. The City shall not assume more debt without conducting an objective analysis of the City's ability to assume and support additional debt service payments. The City will consider its long-term revenue and expenditure trends, the impact on operational flexibility and the overall debt burden on the tax payers. The evaluation process shall include a review of generally accepted measures of affordability and will strive to achieve and or maintain debt levels consistent with its current operating and capital needs. The Chief Financial Officer shall review benchmarking results of other California cities of comparable size with the City's Financial Planning and Budget Subcommittee prior to any significant project financing.

- 1. General Fund-Supported Debt** – General Fund Supported Debt generally includes Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) which are lease obligations that are secured by an installment sale or by a lease- back arrangement between the City and another public entity. The general operating revenues of the City are pledged to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation.

These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.

Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease

payments may not be accelerated. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule. The lessee (City) is obligated to place in its Annual Budget the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

The City should strive to maintain its net General Fund-backed debt service at or less than 8% of available annually budgeted revenue. This ratio is defined as the City's annual debt service requirements on Certificates of Participation and Lease Revenue Bonds compared to total General Fund Revenues net of interfund transfers. This ratio, which pertains to only general fund backed debt, is often referred to as "lease burden."

2. **Revenue Bonds** – Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of such long-term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (Enterprise Revenues) and revenues generated from a project.

In determining the affordability of proposed revenue bonds, the City will perform an analysis comparing projected annual net revenues (exclusive of depreciation which is a non-cash related expense) to estimated annual debt service. The City should strive to maintain a coverage ratio of 125% using historical and/or projected net revenues to cover annual debt service for bonds. The City may require a rate increase to cover both operations and debt service costs, and create debt service reserve funds to maintain the required coverage ratios.

3. **Special Districts Financing** – The City's Special Districts primarily consist of 1913/1915 Act Assessment Districts (Assessment Districts). The City will consider requests for Special District formation and debt issuance when such requests address a public need or provide a public benefit. Each application will be considered on a case by case basis, and the Finance Department may not recommend a financing if it is determined that the financing could be detrimental to the debt position or the best interests of the City.
4. **Conduit Debt** – Conduit financing provides for the issuance of securities by a government agency to finance a project of a third party, such as a non-profit organization or other private entity. The City may sponsor conduit financings for those activities that have a general public purpose and are consistent with the City's overall service and policy objectives. Unless a compelling public policy rationale exists, such conduit financings will not in any way pledge the City's faith and credit.

H. STRUCTURE OF DEBT

1. **Term of Debt** – Debt will be structured with the goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents. Borrowings by the City should be of a duration that does not exceed the useful life of the improvement that it finances. The standard term of long-term borrowing is typically 15-30 years.
2. **Rapidity of Debt Payment** – Accelerated repayment schedules reduce debt burden faster and reduce total borrowing costs. The Finance Department will amortize debt through the most financially advantageous debt structure and to the extent possible, match the City's projected cash flow to the anticipated debt service payments. "Backloading" of debt service will be considered only when one or more of the following occur:
 - a) Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive.
 - b) The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present.
 - c) Such structuring is beneficial to the City's aggregate overall debt payment schedule or achieves measurable interest savings.
 - d) Such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.
3. **Level Payment** – To the extent practical, bonds will be amortized on a level repayment basis, and revenue bonds will be amortized on a level repayment basis considering the forecasted available pledged revenues to achieve the lowest rates possible. Bond repayments should not increase on an annual basis in excess of 2% without a dedicated and supporting revenue funding stream.
4. **Serial Bonds, Term Bonds, and Capital Appreciation Bonds** – For each issuance, the City will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, Capital Appreciation Bonds (CABs) may be used. The decision to use term, serial, or CAB bonds is driven based on market conditions.
5. **Reserve Funds** – The City shall strive to maintain fund balance in the Facilities Planning Reserve at a level equal to or greater than the maximum annual debt service of existing obligations.

**CITY OF CULVER CITY
COUNCIL POLICY STATEMENT**

Policy Number **5003**

General Subject: Finance

Date Issued

Specific Subject: Recreational Facilities
Reserve

Dates Revised

Effective Date

Resolution No. 2014-Rxxx

PURPOSE:

To set aside a portion of fees to mitigate additional facility or equipment wear and tear created by fee based programs that are not self-supporting.

STATEMENT OF POLICY:

The instructional recreational programs for children and adults provided by the Parks, Recreation & Community Services Department will be conducted for a fee to offset associated cost with managing such programs. Registration fees will be based on an amount sufficient to acquire independent contractors, class materials and the administrative overhead and a facility use fee. Occasionally, it may be necessary to conduct programs in which revenues are not sufficient to be self-supporting. The Parks, Recreation & Community Services Director or designee is authorized to enter into agreements for securing independent contractors for approved instructional recreation activities.

Certain fee based activities create additional wear and tear on equipment and facilities. In these cases, it is appropriate to set aside a portion of the annual fees to replace or mitigate the accelerated aging of the equipment or facility being used. A sum of money equivalent to 10% of the gross annual revenues derived from park and facility rental fees, program fees, class fees, etc. shall be set aside into a Recreational Facilities Reserve for equipment replacement or facility refurbishment. Following is a comprehensive list of revenue codes from the PRCS Department that will be the basis of this calculation:

<u>Object</u>	<u>Title</u>
365160	After School Program
365710	Senior Center Rental
365720	Teen Center Rental
365730	Meeting Room Rental
365740	Auditorium Rental
365210	Day Camp Fees

365220	Youth Camp Fees
365240	Recreation Park & Picnic Permits
365250	Park Programs Revenue
365310	Youth Sports Program Revenue
365350	Adult Sports Program Revenue
365410	Classes – Contracted Fees
365510	City Plunge (Pool) Admissions
365520	Pool Rentals & Passes
365530	Aquatics Programs
365540	Aquatics Contract Classes