

City of Culver City

**YEAR-END REPORT
AND AUDIT SUMMARY**

FOR

FISCAL YEAR 2015-16

CITY OF CULVER CITY
Year-End Report and Audit Summary
FY 2015-16
General Fund and Other City Funds

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| INTRODUCTION |
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The purpose of this report is to summarize the results of the City's audited financial statements for the year ending June 30, 2016 (Fiscal Year 2015-16). The City Charter requires an independent, certified public accounting firm to audit the end-of-year financial statements. Preparation and responsibility for the financial statements rests with the City, and the independent auditor expresses an opinion about the statements based on their testing and review.

The firm of The Pun Group LLP performed the audit of the FY 2015-16 financial statements. This was the first year of their contract with the City. In the Independent Auditor's Report included in the City's Comprehensive Annual Financial Report (CAFR), The Pun Group LLP report that in their opinion the City's financial statements present fairly, in all material respects, the financial position of the City as of June 30, 2016. This report can be found on pages 1-3 of the CAFR.

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

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

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

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

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

This report will spend the most time discussing the General Fund, since this is the fund that faces the most financial pressure to provide desired services based on finite resources. The other fund types will be discussed first. The focus of this report is on the actual results for FY 2015-16, and it does not look forward to the current or future fiscal years. This will occur in the upcoming FY 2016-17 Mid-Year Budget Report.

ENTERPRISE FUND SUMMARY

The table below summarizes the financial results for the City's three enterprise funds for FY 2015-16:

| Funds | Beginning Net Assets | Revenues & Transfers in | Expenses & Transfers Out | Ending Net Assets | Unrestricted Net Assets |
|--------------------------------|---------------------------------|--|---|------------------------------|------------------------------------|
| Refuse Disposal | (6,709,770) | 12,626,543 | 12,142,703 | (6,225,930) | (7,862,049) |
| Municipal Bus Lines | 19,763,444 | 22,614,277 | 23,380,081 | 18,997,640 | (11,273,382) |
| Sewer Enterprise | 40,648,352 | 10,094,676 | 9,875,998 | 40,867,030 | 15,454,326 |
| Municipal Fiber Network | - | 71,600 | 1,963 | 69,637 | (1,314,619) |

The overall position of the Refuse Disposal Fund continues to be affected by the implementation of GASBs 68 and 75, where net pension and OPEB liabilities totaling \$10.1 million were recorded, causing the net assets of the fund to be negative. On an operational basis, revenues exceeded expenses by \$0.5 million for the year. Unrestricted net position of the fund (assets not restricted by outside sources or invested in capital) is also negative, and will likely remain that way until the long-term amortization of the net pension and OPEB liabilities is substantially complete.

The Municipal Bus Lines Fund had expenses in excess of revenues and transfers by \$0.7 million, primarily due to project expenses for funds received in the prior year. This fund also continues to be significantly affected by GASBs 68 and 75, with net pension and OPEB liabilities totaling \$22.1 million recorded. Based on the somewhat unpredictable nature of certain funding sources, it is important to keep careful watch on this fund to ensure expenses are aligned with incoming resources. Unrestricted net position of the fund is negative as a result of GASBs 68 and 75, and will likely remain that way until the long-term amortization of the net pension and OPEB liabilities is substantially complete.

The Sewer Enterprise Fund revenues exceeded expenses by \$0.2 million for the year. The fund was less impacted by GASBs 68 and 75 due to the low number of staff members in this fund. The \$15.0 million in unrestricted net position appears high, however the significant projects to improve or replace components of the Sewer system are underway.

The Municipal Fiber Network Fund was approved during the year. The funding for this project was appropriated through a loan from General Fund to design and construct open access network where Internet Service Providers (ISPs) will utilize City's fiber infrastructure to service the business community. At the end of the current fiscal year, the net position increased by \$70 thousand as a result of investment earnings.

INTERNAL SERVICE FUND SUMMARY

The table below represents the financial results for the City's four internal service funds for FY 2015-16:

| Funds | Beginning Net Assets | Revenues & Transfers in | Expenses & Transfers Out | Ending Net Assets | Unrestricted Net Assets |
|------------------------------|---------------------------------|--|---|------------------------------|------------------------------------|
| Equipment Replacement | 15,726,191 | 2,149,167 | 1,798,922 | 16,076,436 | 9,916,921 |
| Equipment Maintenance | (9,000,885) | 7,533,961 | 7,126,157 | (8,593,081) | (8,659,608) |
| Risk Management | (9,632,276) | 6,309,644 | 7,797,726 | (11,120,358) | (11,122,086) |
| Central Stores | (30,384) | 1,379,155 | 1,483,198 | (134,427) | (134,427) |

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

The overall position of the Equipment Maintenance Fund continues to be affected by the implementation of GASBs 68 and 75, where net pension and OPEB liabilities totaling \$8.5 million were recorded, exacerbating a negative position that has existed for several years. The purpose of this fund is to allocate the repair and maintenance charges of the City's fleet out to the departments where the vehicles are in service. Staff analysis determined several items charged to the fund were not allocated out to departments historically, leading to the negative position of the fund. On an operational basis, for FY 2015-16 revenues and transfers exceeded expenses by \$0.4 million. However, unrestricted net position of the fund will remain negative as a result of GASBs 68 and 75 until the long-term amortization of the net pension and OPEB liabilities is substantially complete.

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

The Central Stores Fund accounts for the inventory of certain items that are used by departments frequently, and where it is more economical to purchase in bulk and then distribute the items as needed. Items are purchased and then 'sold' to the department that uses them. Much of the

inventory carried supports the equipment maintenance function. The fund ended the year in a slightly negative position, but should recover to a positive position during the current fiscal year.

SPECIAL REVENUE FUND SUMMARY

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

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

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

| Funds | Beginning Fund Balance | Revenues & Transfers in | Expenditures & Transfers Out | Ending Fund Balance |
|--------------------------------|-----------------------------------|--|---|--------------------------------|
| Gas Tax | 2,119,916 | 878,824 | 1,242,994 | 1,755,746 |
| Prop A Local Return | 937,565 | 723,011 | 714,704 | 945,872 |
| Prop C Local Return | 1,071,357 | 604,050 | 555,627 | 1,119,780 |
| Measure R | 120,342 | 447,112 | 172,313 | 395,141 |
| Operating Grants | (4,691) | 1,572,042 | 1,943,682 | (376,331) |
| Section 8 Housing | 1,218,199 | 1,586,395 | 1,562,881 | 1,241,713 |
| Art in Public Places | 1,479,151 | 337,766 | 136,292 | 1,680,625 |
| Community Development | 319,776 | 2,488 | 126,151 | 196,113 |
| CDBG | - | 28,633 | 28,633 | - |
| Landscape Maintenance | 289,448 | 115,613 | 108,792 | 296,269 |
| Park Facilities | 431,050 | 983,631 | 58,656 | 1,356,025 |
| Asset Seizure | 1,173,366 | 177,623 | 113,533 | 1,237,456 |
| Parking Authority | 379,733 | 6,426,465 | 3,263,296 | 3,542,902 |
| Urban Runoff Mitigation | - | 6,057,237 | 75,527 | 5,981,710 |
| Capital Grant | 26,309 | 228 | - | 26,537 |
| Building Surcharge | 607,964 | 258,843 | 148,393 | 718,414 |
| Economic Development | 3,410,504 | 32,035 | - | 3,442,539 |
| CC Housing Authority | 30,271,351 | 466,439 | 3,137,948 | 27,599,842 |

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

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

discretionary portion is used to fund bus service provided by Metro and 16 other municipal bus operators within the County, including Culver City Municipal Bus Lines.

Proposition C Local Return Fund is used to account for Proposition C funds received from the state. Proposition C, approved by voters in 1990, is an additional one and one-half percent (1.5%) tax on retail sales in Los Angeles County. Proposition C funds are allocated to the construction and operation of the bus transit and rail system (40%), expansion of rail and bus security (5%), construction of commuter rail transit centers, park and ride lots, and freeway bus stops (10%), and other transit related improvements to freeways and state highways (25%). Each year, more than \$1 billion dollars is generated in local transportation revenue.

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

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

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

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

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

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

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

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

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

Parking Authority Fund is used to account for the operations of the Culver City Parking Authority,

which currently includes the Cardiff Parking Structure. These funds may be used for parking related operations and infrastructure improvements.

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

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

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

Economic Development Fund is used to account for revenue and resources provided for economic development related programs and activities.

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

CAPITAL PROJECTS FUND SUMMARY

The table below represents the summary financial activity for the City's capital projects funds for FY 2015-16. Descriptions of each fund are included below the table.

| Funds | Beginning Fund Balance | Revenues & Transfers in | Expenditures & Transfers Out | Ending Fund Balance |
|--|-------------------------------|------------------------------------|---|----------------------------|
| Parking Improvement | 2,462,541 | 17,507 | 2,480,048 | - |
| 2002 Cooperative | 13,970,220 | 120,919 | 14,115 | 14,077,024 |
| 2004 Cooperative | 2,773,049 | 24,002 | - | 2,797,051 |
| 2011 Cooperative | (803,702) | - | - | (803,702) |
| 2011 Bond | 13,969,531 | 6,915 | - | 13,976,446 |
| Cooperative Projects | 6,095,017 | 247,190 | 28,857 | 6,313,350 |
| 1993 Tax Exempt Bond | (3,486) | 3,159,006 | 459,243 | 2,696,277 |
| Capital Improvement Grants | (1,827,403) | 1,441,776 | 551,188 | (936,815) |
| Capital Improvement & Acquisition | 2,738,666 | 6,022,311 | 4,171,277 | 4,589,700 |

Parking Improvement Fund is used to account for revenues from parking meter collections and other parking lots owned and operated by the City. These funds are used for parking related operations and major parking improvements by action of the City Council.

2002 Cooperative Fund is used to account for former Redevelopment Agency tax exempt bond proceeds received from the 2002 Tax Allocation Bond Issue.

2004 Cooperative Fund is used to account for former Redevelopment Agency tax exempt bond

proceeds received from the 2004 Tax Allocation Bond Issue.

2011 Cooperative Fund is used to account for former Redevelopment Agency tax exempt bond proceeds received from the 2011 Series A Tax Allocation Capital Appreciation Bond Issue. Remaining proceeds were transferred to the Successor Agency to the Culver City Redevelopment Agency (Successor Agency). The negative fund balance will be zeroed out in the current fiscal year.

2011 Bond Fund is used to account for former Redevelopment Agency taxable bond proceeds received from the 2011 Series B Taxable Tax Allocation Bond Issue. Remaining proceeds were transferred to the Successor Agency to the Culver City Redevelopment Agency (Successor Agency).

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

1993 Tax Exempt Bonds Fund is used to account for former Redevelopment tax exempt bond proceeds received from the 1993 Tax Allocation Bond issued. These funds were transferred to the City under a Master Agreement with the Successor Agency and may only be used for qualified capital projects.

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

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

GENERAL FUND

General Fund Overview

Fiscal Year 2015-16 continued to experience a noticeable recovery in the overall economy, as well as the local economy. Total revenues for the year were \$105.5 million, which was \$9.1 million, or 8.0%, lower than prior year. Decreases of a one-time revenue in the amount of \$14.2 from the sale of two properties were offset by \$5.1 increase in operational revenues performing better than expected in categories such as Sales Tax, Measure Y, Business Tax, Transient Occupancy Tax, and Real Property Transfer Tax. Fiscal Year 2015-16 expenditures totaled \$104.1 million, and ended the year higher than the prior year by \$13.1 million, or 14.4%. Of the \$13.1 million increase over the prior year, \$5.4 million is attributable to one-time transfers out for capital investments. After deducting this amount and other transfers, the operational increase in expenditures was \$5.8 million over the prior year, due to increased pension funding and increased costs for salaries and benefits. The use of the surplus generated during Fiscal Year 2015-16 will be discussed further in this report.

Revenue Detail

| GENERAL FUND REVENUES | | | | | |
|--------------------------------|----------------------------|------------------------------------|----------------------------|-------------------|----------------------------|
| | 2014-15 ACTUALS | ADJUSTED BUDGET 2015-16 | 2015-16 ACTUALS | % RECEIVED | BUDGET VARIANCE |
| Property Tax | 5,714,273 | 4,895,000 | 6,825,467 | 139.4% | 1,930,467 |
| Sales Tax | 19,698,255 | 21,665,000 | 21,127,063 | 97.5% | (537,937) |
| Measure Y | 9,319,093 | 9,000,000 | 9,117,121 | 101.3% | 117,121 |
| Public Safety Sales Tax (PSAF) | 408,035 | 394,000 | 413,255 | 104.9% | 19,255 |
| Business Tax | 11,808,710 | 11,915,000 | 12,299,395 | 103.2% | 384,395 |
| Franchise Tax | 1,516,279 | 1,502,000 | 1,408,672 | 93.8% | (93,328) |
| Real Prop Trans Tax | 4,294,892 | 2,500,000 | 3,802,089 | 152.1% | 1,302,089 |
| UUT - Electricity | 6,797,406 | 6,720,000 | 6,613,137 | 98.4% | (106,863) |
| UUT - Gas | 942,031 | 840,000 | 954,796 | 113.7% | 114,796 |
| UUT - Water | 1,447,254 | 1,200,000 | 1,321,314 | 110.1% | 121,314 |
| UUT - Telecommunications | 4,687,780 | 4,685,000 | 4,697,432 | 100.3% | 12,432 |
| UUT - Cable TV | 899,860 | 950,000 | 957,390 | 100.8% | 7,390 |
| TOT | 6,699,816 | 7,000,000 | 7,572,077 | 108.2% | 572,077 |
| Comm/Ind Dev Tax | 966,903 | 750,000 | 1,228,747 | 163.8% | 478,747 |
| Licenses & Permits | 3,422,336 | 3,341,275 | 4,225,483 | 126.5% | 884,208 |
| Intergovernmental | 4,306,470 | 4,209,765 | 4,309,822 | 102.4% | 100,057 |
| Charges for Services | 9,467,870 | 9,275,933 | 11,255,442 | 121.3% | 1,979,509 |
| Fines and Forfeitures | 4,104,462 | 4,186,000 | 4,323,432 | 103.3% | 137,432 |
| Investment Earnings | 1,505,144 | 713,000 | 849,088 | 119.1% | 136,088 |
| Miscellaneous | 14,693,326 | 1,255,031 | 530,133 | 42.2% | (724,898) |
| Transfers in | 2,006,632 | 1,700,000 | 1,700,000 | 100.0% | - |
| TOTAL GENERAL FUND | \$114,706,827 | \$98,697,004 | \$105,531,355 | 106.9% | \$6,834,351 |

- Property Tax receipts came in higher than the prior year by 19.5% or \$1.1 million. One-time pass-through payments of incremental property taxes generated by the former redevelopment agency were attributable to overall Property Tax revenues coming in 39.4% higher than budgeted.
- Sales Tax, Measure Y and Public Safety Sales Tax (PSAF) combined are the General Fund's largest revenue source. FY 2015-16 receipts increased by \$1.2 million over the prior year or 4.2%. Strong auto sales along with increases in business and retail contributed to the City's continued receipts growth over the past year.
- Real Property Transfer Tax came in lower than the prior year by 11.5% or \$0.5 million. This revenue source is dependent on real estate sales transactions occurring, and can vary wildly from year to year. The sale of a significant commercial property can greatly inflate the amount received in a particular year. Most of this revenue is considered 'one-time' for forecasting purposes.
- Historic levels in Transient Occupancy Tax receipts continued into FY 2015-16. TOT revenues exceeded the prior year by 13.0%. Increases in hotel occupancy, coupled with room rate increases have continued to create tax base growth.

- Commercial/Industrial Development Tax is another revenue that is very hard to predict, and varies significantly from year to year. It is completely dependent upon new commercial development activity. The amount realized in FY 2015-16 was 27.1% higher than the prior year amount.
- Charges for Services were significantly higher than prior year, increasing by 18.9% or \$1.8 million. This category consists of a variety of charges administered by virtually all City departments, with the most significant increases in PRCS and development/building related charges.
- Fines and Forfeitures is primarily comprised of red light camera violations, moving violations written by Culver City traffic enforcement in the Police Department, and parking violations. These sources were slightly higher than the prior year by 5.3% or \$0.2 million.
- Investment Earnings includes interest income and income from the rental of city property. Receipts were less than the prior year by 43.6% mainly due to loss of rent from Pacific Theater.
- Miscellaneous revenues consists primarily of unscheduled or unanticipated revenues outside of the other categories. These are normally one-time items, with the exception of the annual sign revenue from Westfield. For FY 2014-15, the City realized \$14.2 million in land sale proceeds from the sale of the downtown theater and the Cranks Road property.
- Transfers in is comprised of interfund transfers and cost allocation transfers from other funds. Revenue was 15.3% lower than last year.

Expenditure Detail

Overall, General Fund expenditures were \$104.1 million, or 96.3% of revised appropriations.

Total General Fund expenditures for FY 2015-16 were 14.4% (approximately \$13.1 million) more than FY 2014-15. Of the \$13.1 million increase over the prior year, \$5.4 million is attributable to one-time transfers out for capital investments. After deducting this amount and other transfers, the operational increase in expenditures was \$5.8 million over the prior year, due to increased pension funding and increased costs for salaries and benefits.

| GENERAL FUND EXPENDITURES | | | | | |
|-------------------------------------|----------------------------|------------------------------------|----------------------------|-----------------------|----------------------------|
| | 2014-15 ACTUALS | ADJUSTED BUDGET 2015-16 | 2015-16 ACTUALS | % EXPENDED | BUDGET VARIANCE |
| General Government | 13,081,178 | 13,194,859 | 13,210,888 | 100.1% | (16,029) |
| Parks, Recreation & Community Svcs. | 7,414,638 | 8,047,538 | 7,443,175 | 92.5% | 604,363 |
| Police | 32,011,889 | 35,409,255 | 33,806,609 | 95.5% | 1,602,646 |
| Fire | 19,015,671 | 21,229,887 | 21,490,702 | 101.2% | (260,815) |
| Community Development | 6,222,661 | 8,154,661 | 7,113,386 | 87.2% | 1,041,275 |
| Public Works | 9,895,993 | 11,354,440 | 10,343,397 | 91.1% | 1,011,043 |
| Transfers out | 3,390,984 | 10,738,524 | 10,738,524 | 100.0% | - |
| TOTAL GENERAL FUND | \$91,033,014 | \$108,129,164 | \$104,146,681 | 96.3% | \$3,982,483 |

* *General Government* includes the following Departments: Administration, City Clerk, City Attorney, Finance, Human Resources and Information Technology.

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

Year to year comparisons of actual expenditures within a department can be difficult if there are vacancies that exist in one year that did not in a prior year, or vice versa. This can make it appear that departmental expenditures increased or decreased more than they would all other things being equal. Beyond such year to year variations, there were several items that worked to increase or decrease expenditures over the prior year:

- Increased costs for salaries and overtime, primarily due to negotiated cost-of-living or salary initiative ordinance increases of \$3.3 million.
- Increased retirement contribution rates to CalPERS attributed to an overall increase of \$1.8 million.
- Increase of \$5.08 million as a loan to Urban Runoff Mitigation Fund 434 to fund the initial projects related to storm water.

CONCLUSION

Culver City finished FY 2015-16 with positive financial results. In the General Fund, total revenues exceeded expenditures by \$1.4 million. Pursuant to the updated financial policies adopted by the City Council in FY 2013-14, thirty percent (30%) of the adopted operating budget for the General Fund is to be reserved for future contingencies/emergencies. Accordingly, \$29.7 million has been committed to this purpose. The financial policies also call for forty percent (40%) of any surplus between revenues and expenditures after meeting the future contingencies requirement to be set aside in a Facilities Planning Reserve, for the future replacement or improvements of City facilities. Lastly, the updated financial policies call for ten percent (10%) of specific parks and recreation revenues to be set aside for the improvement of recreational facilities, and \$0.3 million has been set aside for this purpose. Use of any of these reserves requires specific City Council action. Beyond these required reserves, there were \$25.4 million in remaining unassigned General Fund reserves as of June 30, 2016. Ultimate use of these funds remains uncertain due to pending litigation with the State's Department of Finance, related to the dissolution of the Redevelopment Agency. However, the City Manager will be presenting some options to the City Council as budget discussions for FY 2017-18 commence.

Even with the improving financial condition of the City, the General Fund Financial Forecast shows we must continue to remain vigilant about controlling costs due to the known significant increases in pension costs that are phasing in over the next five years. The current forecast shows us able to absorb these costs without further reductions in expenditures. But this will only remain the case if we live within the general assumption of status quo for General Fund programs. Looking beyond the forecast, Measure Y is set to sunset in 2023 unless extended by the voters. Barring dramatic changes to current revenue projections, loss of Measure Y would result in the General Fund being in a deficit situation again. Additionally, CalPERS adopted reductions to the assumed investment returns rate, which will increase employer contribution rates further. The City has engaged an actuary to estimate the effects of this for future years. The General Fund Financial Forecast will be

updated and discussed in much more detail during the FY 2016-17 Mid-Year Budget Report, as well as during the development of the FY 2017-18 budget.