

City Of Culver City

PRELIMINARY YEAR-END REPORT

FOR

FISCAL YEAR 2008-09

CITY OF CULVER CITY
PRELIMINARY 2008-09 YEAR-END REPORT
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CITY OF CULVER CITY
2008-09 Budget Monitoring Report
Preliminary Year-End Report (As of 8/31/09)
General Fund and Other City Funds

INTRODUCTION

Preliminary year-end results for the City are not encouraging. For the first time in several years the City's General Fund will end the year with an operating deficit. Further adjustments will be made in preparation of the closing of the books, but these adjustments will not fully close the gap currently showing between revenues and expenditures.

General Fund preliminary year-end revenues are **\$83.188 million**, or **97.5%** of adjusted budgeted projections. General Fund preliminary year-end expenditures are **\$83.529 million**. The current gap between revenues and expenditures is approximately \$341,000 (deficit). However, this amount takes into account the receipt of \$2.9 million for the final payment for sale of the Warner Parking Lot. If this amount was not received, the deficit would have totaled approximately \$3.2 million. General Fund preliminary expenditures did come in under the target of 96.5%, in part due to the pull-back measures initiated in October 2008.

The **Refuse Fund** ended the year with an operating surplus, the first in many years. Preliminary year-end Refuse Fund revenues are \$10.96 million, and preliminary year-end expenditures are \$10.13 million (not including depreciation expense).

Other Funds performed close to expectations, and will be discussed further in the report.

Fiscal 2008-09 saw some of the worst economic crises in decades, and as mentioned in several other reports, it is not expected to get better during fiscal 2009-10. It will most likely be many years before the economy performs at the levels seen over the last couple of years, if ever.

REVENUES SUMMARY

General Fund Revenue Overview (as of 8/31/2009)

- Preliminary year-end General Fund revenues are \$83,188,000, or 97.5% of adjusted budget projections. Sales Tax came in well below the mid-year adjusted projection, and other categories also missed the mark. A few of the categories that did hit or exceed their projections, such as Transient Occupancy Tax and Telecommunications UUT, were not enough to make up for the losses of other revenue categories. This amount also includes the one-time payment of \$2.9 million for the Warner Parking Lot.
- Sales Tax receipts came in \$750,000 or 4.3% less than mid-year adjusted figures. The economy took a steeper dive during the spring than predicted. Nationwide, retail sales continued to fall, and consumer spending habits dramatically changed.

Revenue Detail

- **Property Tax** - The adopted budget for Property Tax for fiscal 2008-09 was \$4.12 million. This amount was based on original projections received from our consultant, which were subsequently decreased after budget adoption. During the mid-year budget process, the projected Property Tax receipts were adjusted to \$3.34 million. Preliminary year-end results show this revenue coming in at \$3.35 million. It is anticipated that this revenue category will stay relatively flat for the next couple of years.

The fiscal 2009-10 interim projection for Property Tax was \$3.4 million, and is approximately 2% higher than the fiscal 2008-09 adjusted budget. After reviewing current trends and economic activity, it was determined that this projection should stand.

- **Sales Tax** - The fiscal 2008-09 adopted budget projection for Sales Tax was \$17.8 million. Even with 2007-08 actual receipts coming in at \$17.92 million, the City kept projections lower due to the renovation of Westfield Shopping Mall during the fiscal year and the recognized beginning of the downturn in the economy. By mid-year it was clear that a further reduction in the Sales Tax projections was necessary since the downturn in the economy turned out to be significantly steeper than anyone had envisioned. The mid-year adjustment reduced the projection to \$16.7 million. Preliminary year-end receipts came in well below the adjusted amount, and are anticipated to only be \$16.0 million for fiscal 2008-09, which represents almost a 13% decrease from last year's Sales Tax receipts. The mid-year adjustment included reductions due to the known closure of Circuit City and Hooman Automotive. Holiday sales were also lower nationwide than economists predicted, and spring retail sales were dismal. The automotive dealers saw record low sales, with still no recovery in sight.

Sales Tax projections for fiscal 2009-10 show little increase, and most of the increase is due to the renovation of the Westfield Shopping Mall. A Target and Best Buy, among other new stores, are scheduled to open in the fall. Retail sales are expected to stay low through the year, with a slight recovery towards the end of the fiscal year and into 2010-11. The interim sales tax projections were \$16.2 million, but further analysis by staff and the City's sales tax consultants, as well as new information from the California Department of Finance, recommend reducing this amount. The revised amount for fiscal 2009-10 is \$14.615 million, which represents another 8.7% decrease from fiscal 2008-09 receipts and an 18.4% decrease from receipts in fiscal 2007-08. **This places sales tax back at fiscal 2001-02 levels.**

The additional factor in revising the Sales Tax projection for fiscal 2009-10 is the City recently received information pertaining to the Sales Tax In-Lieu amount that is received in January and May of each year. These two payments are part of the "Triple-flip" payments from the State which began in fiscal 2004-05. The City initially had projected the Sales Tax In-Lieu amount to be \$4.165 million for fiscal 2009-10 based on recent information and also discussion with our sales tax auditors. New calculations performed by the California Department of Finance has reduced this amount based on statewide declines in sales tax receipts over the last year. All agencies who receive these funds are seeing reductions. Culver City's revised projection amount will be \$750,000 less than the original projection for a new amount of \$3.415 million for Sales Tax In-Lieu receipts.

- **Public Safety Augmentation Fund (PSAF)** - This funding source was implemented by Prop 172 in 1993, and is to be used to fund public safety services. It is an allocation of 0.5% of the sales tax rate, and is allocated by the State – same as sales tax – to counties and cities. Since it is based on taxable sales, it mimics sales tax receipts. Fiscal 2008-09 budgeted projections for PSAF were \$360,000, which was approximately equal to fiscal 2007-08 receipts. Due to the severe economic decline over this past year, preliminary year-end receipts show this category at only \$325,500.

Fiscal 2009-10 interim projections for this category were kept at the same amount as the budget projections for 2008-09, but further analysis indicates this category will not hit this mark. It is recommended to reduce this projection to \$325,000 to better reflect the current economic conditions.

- **Utility Users Tax** - Utility Users Tax (UUT) is a tax placed on electricity, natural gas, water, telecommunications (land-line and wireless), and cable television. Culver City's current rate is 11%. Total fiscal 2008-09 budget projections for UUT were \$14.47 million. Preliminary year-end receipts were \$14.34 million, or approximately 99.1% of projections. Discussion of the fiscal 2008-09 performance of each UUT category is provided below.

- Electricity – Adopted budget projection for Electricity UUT was \$6.3 million. This amount was reached primarily due to reported rate increases that were to occur during the fiscal year, but did not materialize to the levels originally reported. Ending preliminary receipts for this category are \$5.92 million, which is approximately 94% of budgeted projections. The preliminary year-end amount is also less than fiscal 2007-08 actual receipts.

The fiscal 2009-10 interim projection for Electricity UUT is \$6.4 million. It is being recommending to decrease this projection to \$6.15 million, which is also in line with our UUT consultant's projection.

- Natural Gas – The fiscal 2008-09 projection for Natural Gas UUT was \$1.38 million. This was primarily based on a slight increase from fiscal 2007-08 actual receipts. The milder winter kept receipts relatively lower than anticipated, and preliminary year-end receipts for the natural gas UUT category are \$1.12 million, or approximately 80.8% of budgeted projections.

Fiscal 2009-10 interim projections for this category are \$1.39 million. Based on reports that natural gas prices are going to continue to fall as decreased energy usage has caused a surplus in natural gas supply, this amount is being reduced to \$1.24 million, as the interim projection is felt to be too optimistic.

- Water – The fiscal 2008-09 budget projection for water UUT was \$960,000. This is slightly less than the actual receipts from fiscal 2007-08, and took into account potential water conservation due to the drier than normal conditions experienced the last couple of years. Although reports do show a water shortage, usage remains rather steady, and preliminary year-end receipts show water UUT ending the year at roughly \$1.04 million. This is approximately 8.7% higher than projections.

Fiscal 2009-10 interim projections for water UUT are \$990,000, and take into account again a reduction on water usage due to conservation efforts. There is no recommendation to adjust this amount.

- Telecommunications – The fiscal 2008-09 budget projection for telecommunications UUT was \$5.15 million. This was approximately the same amount of fiscal 2007-08 actual receipts, and was kept at a “no growth” level for fiscal 2008-09 because of increasing usage of internet and other phone services that do not have UUT applied to them, and increasing numbers of “bundled” services that reduce costs. This projection was clearly a bit pessimistic, and preliminary year-end results show this category at approximately \$5.55 million. It is thought, though, that this amount is not sustainable at this level as calling plans become more inexpensive and more users start migrating to VOIP and bundled services; fiscal 2009-10 interim projections reflected this expectation.

Interim projections for fiscal 2009-10 for Telecommunications UUT are \$5.15 million. It is recommended to adjust this projection to \$5.3 for fiscal 2009-10. The adjustment is also in-line with our UUT consultant’s projections.

- Cable Television – The budget projection for fiscal 2008-09 was \$675,000 for Cable TV UUT. This category has remained relatively steady, and preliminary year-end receipts are \$714,000.

Fiscal 2009-10 interim projections are \$700,000. There is no recommendation to adjust this projection.

- **Business License** - Business License is a tax placed on “for profit” businesses conducting business within Culver City. Most services are taxed at \$1 per \$1,000 of gross receipts. Consulting and most professional services are taxed at a rate of \$3 per \$1,000 of gross receipts. The fiscal 2008-09 budget projection for Business License was \$10.15 million. This amount also includes the Business License Certificate. Preliminary year-end receipts indicate this category will surpass budget projections, and are currently shown at \$10.5 million. Although this amount is strong, a major reason it is at this level is due to historically high penalty receipts. Penalty receipts are approximately 100% higher than any of the last ten fiscal years receipts. Staff believes this is attributable to cash-flow issues created by the economic conditions businesses are facing.

Funding was approved in fiscal 2008-09 for a Business License Tax audit. Work was initiated on this project and it is expected to be finalized during fiscal 2009-10. Fiscal 2009-10 interim projections are \$9.541 million. It is recommended to slightly increase this projection to \$9.6 million for fiscal 2009-10.

- **Franchise Tax** - Franchise Tax receipts have remained relatively steady with slight growth over the years. The fiscal 2008-09 budget projection for this category was \$1.3 million. Preliminary year-end receipts show the category at \$1.368 million.

Interim fiscal 2009-10 projections for Franchise Tax are \$1.33 million. This amount is recommended to be adjusted to \$1.4 million for fiscal 2009-10.

- **Transient Occupancy Tax** - Transient Occupancy Tax (TOT) receipts got off to a slow start at the beginning of the fiscal year, but are ending the year strong. The fiscal 2008-09 budget projections are \$2.85 million. During the fall and winter months, TOT was lagging behind projections. Even with high vacancy rates and low room rates, spring saw a bit of a pick-up and preliminary year end receipts for TOT are \$2.94 million. This is also due to all of the larger hotels in the City being open with no construction, as had been the case in the prior fiscal year.

Fiscal 2009-10 interim projections had this revenue lowered to \$2.75 million. Because of the strong finish for fiscal 2008-09, even in light of the poor economic conditions, it is recommended to adjust this revenue source to \$2.9 million for fiscal 2009-10.

- **Real Property Transfer Tax** - This category is dependent on property sales – both residential and commercial. Commercial property sales brings in the higher receipts, but the number of property sales in fiscal 2008-09 were lower than in the prior few years. Adopted projections for this category were \$1.5 million. It was clear at mid-year that this projection was too high and was adjusted to \$1.3 million. Although there was a strong push towards the end, preliminary year-end receipts for Real Property Transfer Tax are \$939,000, which is almost 30% less than the adjusted projection.

Fiscal 2009-10 interim projections reported this revenue at \$1.5 million. It is being recommended to adjust this revenue to \$1 million for fiscal 2009-10.

- **Commercial Industrial Development Tax** - This is a revenue category that fluctuates greatly from year to year. The last few fiscal years have seen high receipts, mostly due to major development occurring in the city. With the collapse of the financial markets, development activity basically came to a halt in fiscal 2008-09. The adopted budget projection for fiscal 2008-09 was \$1.18 million, and was based on anticipated new development that was to begin this fiscal year. It was clear at mid-year that most of the developments were not going to occur and would be pushed out a year or two. Mid-year adjustments to this category brought the budget projection to \$880,000. This was clearly still too optimistic, and preliminary year-end results are \$591,000, approximately 67% of adjusted budget projections.

The interim budget projection for fiscal 2009-10 is \$985,000. At the time this projection was developed, there was strong expectation of a major development that was expected to begin construction in fiscal 2009-10. However, it is now likely that this will not occur, and revised projections for Commercial Industrial Development Tax are now recommended to be \$500,000 for fiscal 2009-10.

- **Intergovernmental Revenue** - State Motor Vehicle License Fee (VLF) In-Lieu is the primary revenue in this category. VLF In-Lieu is paid to municipalities to make up for lost local revenue when the VLF rates were reduced from 2% to 0.65% in 2004. The budgeted amount for 2008-09 was \$3,050,000 and the preliminary total receipts were \$3,149,189. This revenue is expected to increase slightly in fiscal year 2009-10.

A smaller portion of the Intergovernmental revenue is the VLF administrative revenue. Unfortunately, rising DMV administrative costs have eaten into this revenue source. Due to these rising administrative costs, the budget projection was reduced from \$195,000 to

\$95,000 during the mid-year budget review. However, larger than expected payments in the last months of the fiscal year will enable this revenue to end the year at approximately \$124,307.

➤ **Charges for Services** - Charges for Services preliminary year-end revenue is 94.8% of the budgeted projections. Charges for Services is comprised of many revenue categories that range from building related permits and plan checks to recreation fees and ambulance fees. The largest revenue sources are ambulance fees, and plans check fees for Engineering, Building Safety, and Fire Prevention.

- Ambulance Fees - Revenue was higher than anticipated primarily due to increases to the billing rates. Rates, which are set by Los Angeles County, were recently increased 6%. Fiscal year 2008-09 preliminary year-end revenue totaled \$1.1 million, which is approximately 29.5% higher than budget projections. Compared to the previous fiscal year, preliminary revenues are 8.0% higher.

Fiscal 2009-10 interim projections for this category are \$925,000, and this projection will stand.

- Strike Team Reimbursement – During fiscal year 2008-09, Culver City Firefighters responded to a record number of fires outside of Culver City. The State of California Office of Emergency Services (OES) and the Department of Forestry were two of the larger agencies that contributed to the \$554,378 reimbursed to the City for costs associated with sending the strike teams. Primarily the reimbursements are for personnel related costs. This revenue is dependent on the number of strike team calls and varies greatly from year to year.

As mentioned above, this category fluctuates significantly and is difficult to project on an annual basis. Current 2009-10 interim projections are \$100,000, and as additional strike team reimbursements are received they are partially appropriated per direction of the Budget Resolution. A portion of the administrative surcharge, which is above the direct reimbursement, is allowed to be appropriated within the Fire Department's budget to offset expenses for departmental special supplies related directly to strike team callouts. There is no recommendation to change this projection.

- Auditorium & Room Rentals – The four areas of the Parks, Recreation, & Community Services complex that are rented out are the Veteran's Memorial Auditorium, Veteran's Memorial meeting rooms, the Teen Center, and the Senior Center. For fiscal year 2008-09, the total budgeted revenue was \$720,000 and the preliminary revenue received was \$548,481. Compared to fiscal year 2007-08, revenue declined \$175,432. This decline is directly attributable to the economy, which lead to a dramatic decline in the demand for rentals. The fee structure for rentals is currently being revised in an effort to simplify the fee structure and make it more equitable.

The 2009-10 interim projections for the Veterans Complex is \$660,000. There is no recommendation to adjust this projection.

- Plan Check Fees - The fiscal 2008-09 adjusted budget totaled \$1,339,600, and preliminary revenue is \$1,146,911. Plan Check Fees were affected by the economic downturn, but the revenue was bolstered by the Westfield Mall remodel and the construction at Sony. The construction at Sony is finished and the Westfield remodel is nearing completion, so Plan Check revenue is expected to decline until the economy recovers.

Interim fiscal 2009-10 projections are \$918,000. This lower amount from fiscal 2008-09 takes into account the reduced development activity. There is no recommendation to change this amount.

- Public Safety Related Fees - These revenues are made up of records requests, live scan fingerprints, vehicle impounds, and other miscellaneous fees. These revenues ended the fiscal year at 116% of the budget. The revenues exceeded the budget due to conservative budgeting. These fees are expected to remain relatively steady in fiscal year 2009-10.
- Recreation Fees - Recreation fees are charged for various services which range from adult sports leagues to day camps for children. The total budget for recreation fees was \$1,540,846 and the total preliminary revenue receipts for fiscal year 2008-09 were \$1,600,173. Pool admissions, day camp fees, and park & picnic permits were among the areas that exceeded budget projections for fiscal 2008-09.

- **Fines & Forfeitures** - Fines & Forfeitures is made up of moving violations, which includes red-light camera violations and parking violations. Through June, Fines & Forfeitures revenue was much lower than anticipated. The preliminary year-end revenues look to end the year at 87.7% of budgeted projections. One reason for the low revenue is the removal of red-light cameras from two intersections due to the Expo light-rail construction. However, this loss of revenue is offset somewhat by lower expenditures for the red-light contractor. Also, the County of Los Angeles increased their administrative charges, which they charge before remitting payment to Culver City. Additionally, due to the economic conditions, there is evidence of an increasing rate of delinquency in payment of citations.

Interim budget projections for fiscal 2009-10 were forecast at \$4.057 million. This amount is recommended to be increased slightly to \$4.175 million.

- **Use of Money & Property** - The primary revenue in Use of Money & Property is the interest earned on investments. As of August 31, 2009, preliminary receipts in this category are \$1.8 million. Final amounts will be reported once the books close, and auditors have reviewed the financial reports.
- **Licenses & Permits** - The majority of the revenue in Licenses & Permits category is derived from construction activity, so these revenues have been drastically affected by the economic recession. Budgeted projections for this category for fiscal 2008-09 are \$2.582 million. Preliminary year-end revenues for Licenses & Permits are at 78.8% of the adjusted budget, or \$2.034 million. Building Permits, Electric Permits, Plumbing & Heating Permits, and Residential Building Records all fell short of the budgeted projections.

Notably, Engineering Street Permits, ended the year at 173% of the adjusted budget, with preliminary year-end revenue of \$259,551. This was due in part to large payments from the Westfield Mall renovation.

Expectations are that construction activity will remain anemic for the next year, so most of these revenues will remain depressed until an economic recovery begins. For fiscal year 2009-10, the total Licenses & Permits budget was decreased to \$1,816,790. This is a drop of \$756,510 from the fiscal year 2008-09 budget.

- **Interfund/Departmental** - Interfund/Departmental revenues, also known as Administrative Cost Allocation, are reimbursed costs which are incurred by the General Fund for other funds. The Refuse Fund, Sewer Fund, Transportation Fund, and Redevelopment Agency are among the funds that are charged administrative costs. The total adjusted budget for Interfund/Department was \$4,679,682 and this revenue was fully collected in fiscal year 2008-09. For fiscal year 2009-10 the budget is \$4,994,105.
- **Other Revenues** - The adjusted budget for Other Revenues was \$3,197,054 and the preliminary year-end revenue for this category is \$3,107,418. The majority of this revenue was received from Land Sale Proceeds, which was the second and final payment for the sale of the Warner Parking Lot. For fiscal year 2009-10, the budget is \$474,169, which includes a \$395,000 one-time payment from the Redevelopment Agency to purchase the Metro Spur (Wesley property) from the City.
- **Other (Interfund Transfers)** - Revenue for Other (Interfund Transfers) is expected to end the fiscal year at 99.9% of the adjusted budget. The preliminary year-end revenue is \$1,655,876. The largest transfer is in the amount of \$780,000 from the Parking Improvement Fund. Other transfers are from funds including the Refuse Fund, Sewer Fund, Transportation Fund, and Gas Tax Fund.

The interim budget projection for fiscal year 2009-10 is \$3,995,300. This includes the one-time transfers from the Innovation Fund (\$550,000) and the Equipment Replacement Fund (\$1.25 million). This projection also includes an increased transfer from the Parking Improvement Fund due to an assumption of increasing parking rates. This increase has not yet occurred, but is expected to be implemented during fiscal 2009-10.

The table below shows the adopted budget, mid-year adjusted budget, preliminary year-end receipts and percentage of receipts for General Fund revenues for fiscal 2008-09.

FISCAL YEAR 2008-09				
PRELIMINARY YEAR-END GENERAL FUND REVENUES				
	ADOPTED BUDGET 2008-09	ADJUSTED BUDGET 2008-09	PRELIMINARY RECEIPTS AS OF 6/30/09	% RECEIVED AS OF 6/30/09
Property Tax (Includes Pass-through Payments)	\$4,113,000	\$3,625,000	\$3,650,484	100.7%
Sales Tax	\$17,793,000	\$16,718,000	\$16,004,312	95.7%
Public Safety Augmentation Fund (PSAF)	\$360,000	\$360,000	\$325,583	90.4%
Business Tax	\$10,150,000	\$10,150,000	\$10,534,685	103.8%
Franchise Tax	\$1,300,000	\$1,300,000	\$1,457,293	112.1%
Real Property Transfer Tax	\$1,500,000	\$1,337,444	\$938,940	70.2%
Utility Taxes	\$14,468,600	\$14,468,600	\$14,337,232	99.1%
Transient Occupancy Tax	\$2,850,000	\$2,850,000	\$2,944,183	103.3%
Commercial/Industrial Development Tax	\$1,180,000	\$880,000	\$491,161	55.8%
Licenses and Permits	\$2,573,300	\$2,582,088	\$2,033,470	78.8%
Intergovernmental	\$3,262,656	\$3,162,656	\$3,328,694	105.2%
Charges or Services (Includes RDA Billing)	\$10,825,640	\$12,528,605	\$11,953,056	95.4%
Fines and Forfeitures	\$4,493,500	\$4,571,420	\$4,009,153	87.7%
Use of Money & Property	\$1,279,000	\$1,279,000	\$1,738,326	135.9%
Interfund/Departmental (Admin. Cost Allocation)	\$6,029,299	\$4,679,682	\$4,679,681	100.0%
Other Revenues	\$3,186,238	\$3,197,054	\$3,107,418	97.2%
Other (Interfund Transfers)	\$1,654,800	\$1,655,876	\$1,654,800	99.9%
TOTAL GENERAL FUND	\$87,019,033	\$85,345,425	\$83,188,470	97.5%

ENTERPRISE REVENUES

Refuse Fund

- Preliminary year-end revenue for the Refuse Fund is \$10,960,355 or 95.0% of the Adjusted Budget. Total revenue is 1.4 % higher than fiscal year 2007-08. Residential refuse disposal fees and Commercial and Apartment Bin Service both exceeded the budget. Preliminary results show that Sales of Recycle Items were at \$218,067 or 62.1% of the budget. Another revenue category which didn't meet the budget projection was Trash Tonnage Charges, which was 16.0% lower than last year and only 68.0% of the budgeted projections.

Transit Fund

- The Transportation Fund revenues experienced many different levels of change during fiscal 2008-09. The state diverted, and then eliminated, State Transportation Assistance (STA) funds. (Metro reportedly will be making LA County transit agencies whole in light of the eliminated STA funds for fiscal 2008-09.) Preliminary year-end 2008-09 revenues for the Transportation Fund are \$12.147 million. Budget projections for fiscal 2008-09 are \$15.46 million. Of this amount, \$2 million was Federal Transportation Assistance (FTA) funds, which were received but posted to the 2007-08 fiscal year per instructions from our auditors.

The funds from Metro have not been recorded, and should increase final year-end receipts. Preliminary farebox receipts came in slightly under the budget target of \$2.65 million, and are showing as \$2.5 million, or 94.3% of projections. Preliminary results for Prop A

Discretionary funding missed the target by less than 2%, and upon further adjustments that could occur before the close of the year, may fully be received. Preliminary Prop C year-end receipts exceeded budget projections by over 20%, mainly due to increased interest earnings for this revenue source.

Sewer Fund

- Preliminary results show sewer operating revenues at \$9,527,559 or 96.3% of budgeted projections. Sewer Operating Fees, which are billed on property taxes, comprise 88% of the fund's operating revenues. Compared to fiscal 2007-08, revenues were 9% lower. This can be primarily attributed to lower interest income this fiscal year resulting from declining interest rates. Also, compared to last year, Sewer Facility Charges declined \$449,869. This drop can be attributed to the slowdown of construction activity since the recession began.

EXPENDITURES SUMMARY

General Fund Expenditure Overview (as of 8/31/2009)

- Overall, preliminary General Fund expenditures are \$83,529,000, or **95.2%** of appropriations, which is well under the 96.5% spending target. This is primarily due to salary savings from vacant positions and, to a lesser extent, departments tightening up spending somewhat in O&M. There was also one-time funding approved, such as funding for the General Plan update, that was not utilized during the year.
- For the most part, departments successfully adhered to the 96.5% spending assumption. The **City Attorney's Office** (98.8%), **Human Resources** (97.4%), and **Fire Department** (96.8%) exceeded 96.5% assumption.
- The **Finance Department** (87.1%), **Information Technology** (88.2%), and **Community Development** (81.5%) were all significantly *below the 96.5% spending assumption* (i.e. more than 8% below the target).
- *All other General Fund Departments were within a normal expenditure range, i.e. less than 96.5% but more than 88.5% of its adjusted budget expended.*

Expenditure Detail

Departments/Divisions Exceeding the Spending Assumption:

- The **City Attorney's Office** (98.8%), **Human Resources** (97.4%), and **Fire Department** (96.8%) *exceeded the 96.5% spending assumption.*
 - The overage in the **City Attorney's Office** is primarily due to higher than budgeted bi-weekly payoffs for accrued vacation and sick leave. Additionally, due to litigation expenses, including the litigation related to the County's certification of the EIR allowing expanded drilling in the Inglewood Oil Field, the City Attorney's Office expended their entire legal services budget. Consequently, there was not enough savings in the Department's O&M budget to offset the accrual payoffs.

- The overage in **Human Resources** is primarily due to higher than budgeted bi-weekly payoffs for accrued vacation and sick leave. There was not enough savings in the Department's O&M budget to offset the accrual payoffs.
 - The **slight** overage in the **Fire Department** is due primarily to personnel costs (constant staffing) that were expended during the extraordinarily busy wildfire season in 2008. However, the City has received Strike Team reimbursement funds to offset the increased expenditures. After adjusting for the increased strike team reimbursements, the Fire Department was below the 96.5% expenditure assumption.
- Additionally, **eight (8)** General Fund divisions exceeded the 96.5% target (excluding recreation programs that primarily consist of part-time salaries for seasonal programs). Although these divisions exceed their expenditure targets, **each respective department**, except for the three departments described above, is **below the 96.5% budget target**.
- **Office of the Police Chief** expended 106.3% of its adjusted budget. This is due primarily to full staffing (i.e. there were no vacancies throughout the year) and higher than budgeted bi-weekly payoffs for accrued vacation and sick leave. Since the Office of the Police Chief budgets only for personnel costs in the Chief's Office, there is no O&M budget to offset the lack of vacancies and accrual payoffs.
 - **Police Communications** expended 106.6% of its adjusted budget. The major factor is expending of overtime in excess of vacancy savings (\$100,000 over budget), as well as higher than budgeted bi-weekly payoffs for accrued vacation and sick leave.
- NOTE: Overall, the Police Department expended 95.4%, or 1.1% below the 96.5% spending assumption.*
- **Fire Suppression** expended 112.7% of its adjusted budget. The major factor was the increase in constant staffing during the extraordinarily busy wildfire season in 2008. As previously noted, the City has received Strike Team reimbursements to offset this increased cost. There is also some crossover in personnel expenses between the Fire Suppression division and the EMS division. The EMS division is well under the target (75.6%), which offsets some of the increased costs in Fire Suppression.
- NOTE: Overall, the Fire Department expended 96.8%, or 0.3% above the 96.5% spending assumption. After adjusting for the increased Strike Team reimbursement, the Department as a whole was below the 96.5% assumption.*
- **Community Development Administration** expended 97.5% of its adjusted budget. This is due primarily to full staffing (i.e. there were no vacancies throughout the year) and virtually no O&M budget in the Division to offset the lack of vacancies.

NOTE: Overall, the Community Development Department expended 81.5%, or 15% below the 96.5% spending assumption (due to the delay of the General Plan update, which was budgeted but not pursued).

- **Maintenance Operations** expended 107% of its adjusted budget. This is due primarily to full staffing (i.e. there were no vacancies throughout the year), higher than budgeted bi-weekly payoffs for accrued vacation and sick leave, and overtime, which exceeded the budget by about \$3,000.
- **Tree Maintenance** expended 99.8% of its adjusted budget. This is due primarily to full staffing (i.e. there were very few vacancies throughout the year) and overtime, which exceeded the budget by about \$9,600.
- **Graffiti Abatement** expended 110.6% of its adjusted budget. This is due primarily to full staffing (i.e. there were no vacancies throughout the year), higher than budgeted bi-weekly payoffs for accrued vacation and sick leave, and overtime, which exceeded the budget by about \$3,400. Additionally, garage charges and graffiti removal supplies exceeded budgeted amounts, causing the Division to exceed its O&M budget by almost \$23,000. Fiscal 2008-09 was the first full year of operations for this Division with full staffing. Now that there is information to forecast on, fiscal 2009-10 projections better reflect the appropriation need of the Division.
- **Environmental Programs and Operations** expended 113.4% of its adjusted budget. This is due primarily to the mis-allocation of payroll charges for employees whose positions are budgeted in multiple divisions, but actual payroll charges were not being entered consistent with the budget. This will be rectified prior to final year-end closing.

NOTE: Overall, the Public Works Department expended 93.2%, or 3.3% below the 96.5% spending assumption.

Departments Significantly Below the Spending Assumption:

- The **Finance Department** (87.1%), **Information Technology** (88.2%), and **Community Development** (81.5%) were all significantly *below the 96.5% spending assumption* (i.e. more than 8% below the target).
 - **Finance Department** savings were due primarily to vacancies and lower than anticipated audit costs.
 - **Information Technology** savings were due primarily to vacancies and lower than anticipated maintenance costs.
 - **Community Development** savings were due in part to vacancies, but are primarily the result of the decision to delay the General Plan update. Funds in the amount of \$620,000 had been budgeted to begin the update in fiscal year 2008-09; however, due to the significant expense of completing the update (more than \$1 million) and the City's financial condition, it was decided to delay implementation of the General Plan update. Therefore, none of the funds that had been budgeted for that project were expended.

All other General Fund Departments were within a normal expenditure range, i.e. less than 96.5% but more than 88.5% of its adjusted budget.

**FISCAL YEAR 2008-09
PRELIMINARY YEAR-END GENERAL FUND EXPENDITURES**

	ADOPTED BUDGET 2008-09	ADJUSTED BUDGET 2008-09	PRELIMINARY EXPENDITURES AS OF 6/30/09	% EXPENDED AS OF 6/30/09
GENERAL GOVERNMENT				
CITY COUNCIL/CITY MANAGER	\$1,522,289	\$1,822,555	\$1,678,284	92.1%
CITY CLERK	\$439,207	\$456,063	\$412,018	90.3%
CITY ATTORNEY	\$1,863,834	\$2,367,821	\$2,340,399	98.8%
FINANCE	\$4,565,821	\$4,851,628	\$4,225,949	87.1%
<i>Finance Admin & Budget</i>	\$1,259,504	\$1,366,843	\$1,269,793	92.9%
<i>General Accounting</i>	\$522,259	\$576,812	\$491,970	85.3%
<i>Accounting Operations</i>	\$750,970	\$776,261	\$660,334	85.1%
<i>Treasury</i>	\$1,532,753	\$1,631,219	\$1,323,621	81.1%
<i>Purchasing</i>	\$500,335	\$500,493	\$480,231	96.0%
HUMAN RESOURCES	\$1,144,481	\$1,227,600	\$1,196,276	97.4%
INFORMATION TECH.	\$3,118,663	\$3,337,061	\$2,943,989	88.2%
Total General Government	\$12,654,295	\$14,062,728	\$12,796,915	91.0%
PARKS, REC. & COMMUNITY SVCS				
PRCS Admin	\$735,432	\$773,616	\$627,469	81.1%
Cultural Affairs	\$527,615	\$554,501	\$559,954	101.0%
Recreation	\$596,373	\$620,145	\$541,994	87.4%
Parks and Playgrounds	\$289,016	\$290,012	\$287,598	99.2%
Camp Programs	\$214,158	\$214,681	\$190,871	88.9%
Pool and Aquatics	\$372,401	\$372,401	\$349,724	93.9%
Culver City Afterschool Progs	\$283,604	\$287,164	\$261,759	91.2%
Sports Programs	\$197,946	\$212,295	\$190,345	89.7%
Rec and Enrichment Programs	\$474,594	\$600,961	\$525,340	87.4%
Youth Center	\$166,655	\$166,655	\$162,197	97.3%
Youth Mentoring	\$11,961	\$11,961	\$11,914	99.6%
Community Events & Excursions	\$32,556	\$35,503	\$32,874	92.6%
Fiesta La Ballona	\$115,000	\$122,000	\$117,190	96.1%
Parks Division	\$2,321,155	\$2,500,963	\$2,134,907	85.4%
Senior and Social Svcs	\$579,316	\$734,050	\$678,399	92.4%
Total PR&CS	\$6,917,782	\$7,496,908	\$6,672,535	89.0%
POLICE DEPARTMENT				
Office of the Chief	\$647,637.0	\$679,470.0	\$721,953.0	106.3%
Operating Bureaus	\$25,996,719.0	\$27,589,663.0	\$26,144,608.0	94.8%
Communications	\$1,398,674.0	\$1,422,682.0	\$1,517,287.0	106.6%
Animal Control	\$129,190.0	\$129,190.0	\$75,846.0	58.7%
Total Police Department	\$28,172,220.0	\$29,821,005.0	\$28,459,694.0	95.4%
FIRE DEPARTMENT				
Office of the Chief	\$837,854	\$923,139	\$848,424	91.9%
Fire Suppression	\$7,388,297	\$8,078,264	\$9,103,151	112.7%
Emergency Medical Svcs	\$4,776,891	\$4,829,069	\$3,648,978	75.6%
Emergency Preparedness	\$165,432	\$165,432	\$77,691	47.0%
Fire Prevention	\$1,093,410	\$1,155,213	\$1,109,960	96.1%
Communications	\$658,059	\$707,885	\$556,734	78.6%
Total Fire Department	\$14,919,943	\$15,859,002	\$15,344,938	96.8%

FISCAL YEAR 2008-09				
PRELIMINARY YEAR-END GENERAL FUND EXPENDITURES (cont'd)				
	ADOPTED BUDGET 2008-09	ADJUSTED BUDGET 2008-09	PRELIMINARY EXPENDITURES AS OF 6/30/09	% EXPENDED AS OF 6/30/09
COMMUNITY DEVELOPMENT				
Comm Dev Admin	\$678,200	\$697,348	\$679,786	97.5%
Building Safety	\$1,295,932	\$1,506,587	\$1,379,628	91.6%
Planning	\$1,871,469	\$2,298,074	\$1,290,927	56.2%
Enforcement Services	\$697,825	\$718,696	\$633,133	88.1%
Redevelopment	\$1,868,969	\$1,965,644	\$1,776,345	90.4%
Neighborhood Preservation	\$1,331,366	\$1,356,669	\$1,199,159	88.4%
Total Community Development	\$7,743,761	\$8,543,018	\$6,958,978	81.5%
PUBLIC WORKS				
Public Works Admin	\$555,084	\$597,174	\$497,955	83.4%
Engineering	\$1,619,414	\$1,788,018	\$1,695,323	94.8%
Maintenance Ops	\$320,020	\$320,519	\$342,993	107.0%
Streets	\$2,246,076	\$2,418,329	\$2,292,963	94.8%
Tree Maintenance	\$1,082,267	\$1,100,944	\$1,098,665	99.8%
Building Maintenance	\$2,138,643	\$2,274,566	\$1,940,998	85.3%
Electrical Maintenance	\$1,184,073	\$1,250,079	\$1,121,806	89.7%
Graffiti Abatement	\$301,808	\$310,359	\$343,128	110.6%
Parking Meters	\$109,772	\$109,772	\$106,183	96.7%
Environmental Programs/Ops	\$162,202	\$169,022	\$191,644	113.4%
Total Public Works	\$9,719,359	\$10,338,782	\$9,631,658	93.2%
NON-DEPARTMENTAL**				
Transfers	\$7,276,023	\$3,251,288	\$2,270,541	69.8%
Projected excess appropriations	(\$3,050,000)	(\$3,050,000)	\$0	0.0%
TOTAL GENERAL FUND	\$85,577,084	\$87,743,488	\$83,528,914	95.2%
* Percent expended represents the percent of the adjusted budget expended as of the end of the period covered in this report.				
** Large decrease from adopted budget attributed to budgeted retiree medical being allocated back to individual Divisions.				

Internal Service Funds Summary

- **Equipment Maintenance & Fleet Services, Equipment Replacement Fund, and Central Stores** both ended the year within a **normal expenditure range**.
- The **Self Insurance Fund** has taken a number of hits over the past few years, including more than \$4 million in legal, settlement and repair costs related to the Culver Crest hillside litigation. Consequently, the Self Insurance Fund had a beginning cash balance for 2008-09 of only **\$1.8 million**. During fiscal 2008-09, the SIF's financial stability increased dramatically for the following reasons:
 - The SIF received a FEMA recovery check of almost \$900,000 to assist with emergency response costs related to the Culver Crest hillside;
 - Internal Service charges of approximately \$7.5 million were fully collected from user departments;
 - Workers' compensation claims, General Liability claims, and insurance costs were almost \$1.4 million less than projected;
 - IOD costs were approximately \$400,000 less than projected.

As a result, the SIF will **end 2008-09 with a cash balance of approximately \$5 million**. Although this is a much healthier balance than the beginning of the year, as the City

experienced with the Culver Crest hillside litigation, it only takes one claim to eradicate that entire balance. Additionally, insurance costs are expected to increase over the next few years as insurers attempt to recover some of their financial losses from the last few years through increased premiums. It is fiscally prudent to have a cash balance on hand to reduce the negative impact of increased insurance premiums and volatile swings in claims costs from year to year.

Enterprise Funds Summary

- **Transportation and Refuse Enterprise Funds** finished the fiscal year expending 82.7% and 85.2% of their adjusted budgets, respectively. These are normal expenditure levels for both of these funds as they typically expend between 80-90% of their adjusted budget due to a variety of reasons, including vacancies from staff turnover, capital purchases that were not completed during the year, or changes in operations that were planned but not entirely implemented.

NOTE: The outstanding Refuse Fund Loan amount will be approximately \$1.07 million at the end of fiscal 2008-09. Of this amount, \$636,800 is owed the General Fund, \$372,335 to the Equipment Replacement Fund, and \$56,950 to the Innovation Fund. With the close-out of the Innovation Fund, the remaining amount will be added to the General Fund outstanding balance.

- The **Sewer Fund** expended only 60% of its operating budget in fiscal 2008-09. This is due primarily to the significant difference between what was budgeted for payments to the Hyperion Treatment plant and what was actually billed. Almost \$3.7 million was budgeted, per estimates given to staff by Hyperion, but only \$250,000 was billed. The large discrepancy is a result of an audit that was performed on the City's prior payments to Hyperion. The audit found that the City had over-paid in previous years; therefore, Hyperion gave the City a credit toward the fiscal 2008-09 payments, which caused the large discrepancy.

NOTE: In July, the Sewer Fund re-financed their existing bond debt, which resulted in approximately \$100,000 a year in savings on debt service payments. That savings will be reflected in fiscal 2009-10.

FY 2008-09 AND 2009-10 GENERAL FUND SUMMARY

GENERAL FUND ANALYSIS			
	FY 2008-09	FY 2009-10	
	Preliminary Unaudited	Interim Budget	Current Projections
Beg. Fund Balance	33,864,185	33,523,741	33,523,741
Taxes	50,683,872	50,949,590	48,448,000
Licenses and Permits	2,033,470	1,816,790	1,800,290
Fines and Forfeits	4,009,153	4,057,000	4,175,000
Intergovernmental	3,328,694	3,453,380	3,453,380
Charges for Services	11,953,056	10,212,115	10,293,790
Charges to Departments	4,679,681	6,689,009	6,689,009
Use of Money & Property	1,738,326	644,000	644,000
Other Revenue	207,418	474,169	694,169
Interfund Transfers	1,654,800	2,195,300	2,195,300
Normal Revenues	80,288,470	80,491,353	78,392,938
Available Resources	114,152,655	114,015,094	111,916,679
City Manager/Council	1,678,284	1,556,692	1,543,912
City Clerk	412,018	562,079	560,299
City Attorney	2,340,399	1,912,650	1,907,045
Finance	4,225,949	4,653,955	4,636,735
HR	1,196,276	1,167,961	1,162,516
IT	2,943,989	3,364,099	3,357,329
PRCS	6,672,535	7,239,432	7,212,957
Police	28,459,694	29,632,782	29,513,387
Fire	15,344,938	15,471,159	15,402,409
Comm Dev	6,958,978	7,551,441	7,520,816
Public Works	9,631,658	10,293,015	10,251,210
Non-Departmental	3,664,196	4,021,710	3,771,710
Total Exp. Budget	83,528,914	87,426,975	86,840,325
Surplus/(Deficit)	(3,240,444)	(6,935,622)	(8,447,387)
Excess Approp. Budgeted		(3,629,000)	(2,511,449)
TBD Personnel Reductions		(1,000,000)	
Net Exp. Budget	83,537,036	82,797,975	84,328,876
Net Surplus/(Deficit)	(3,240,444)	(2,306,622)	(5,935,938)
Warner Lot Final Payment	2,900,000		
Metro Spur Sale		395,000	395,000
Transfer From ERF		1,250,000	1,250,000
Transfer From Innovation		550,000	550,000
Total One-Time	2,900,000	2,195,000	2,195,000
Total Surplus/(Deficit)	(340,444)	(111,622)	(3,740,938)
Ending Fund Balance	33,523,741	33,412,119	29,782,803

The table above summarizes the detailed results discussed in this report. The first column contains the preliminary unaudited results for FY 2008-09. As indicated, there was a deficit of over \$3.2 million between revenues and expenditures when not considering the one-time revenue associated with the Warner Parking Lot sale. It is only with this \$2.9 million in one-time revenue that the total deficit for 2008-09 is approximately \$340,000.

For fiscal 2009-10, the Interim Adopted Budget includes a gap of \$6.9 million between normal revenues (revenue sources expected on an annual basis) and total departmental expenditures. This means that if all positions were filled and all departments spent their total budget allocation, \$6.9 million of reserves would be required in addition to normal revenues. However, due to normal employee turnover there is some level of position vacancies in any given year, and because of procurement cycles and other timing related matters there is some level of savings in Operations and Maintenance accounts. The City has a practice of 'assuming' this savings in an Excess Appropriations account. This account is reflected as a negative expenditure line item in a non-departmental account. For fiscal 2009-10, this assumption was increased from 3.5% to 4%, or an assumed savings of over \$3.6 million. Additionally, another \$1 million in savings was assumed in 'to be determined' labor savings. When factoring these items in, the deficit for the 2009-10 Interim Adopted Budget was \$2.3 million. Finally, the 2009-10 Interim Adopted Budget included several one-time revenue sources, such as the sale of land (Metro Spur) for \$395,000, a transfer of fund balance from the Equipment Replacement Fund of \$1.25 million and a transfer and close-out of the Innovation Fund of \$550,000. Thus, by including the assumed savings figures and one-time revenues, the total deficit for the Interim Adopted Budget was only \$111,000.

As already discussed in this report, staff has revised a number of the revenue estimates included in the 2009-10 Interim Adopted Budget. The net result of these revisions was to reduce estimated 'normal revenues' by \$2.1 million. On the expenditure side, health insurance renewal rates came in slightly under projections with an estimated \$500,000 reduction in General Fund costs. Staff also analyzed the current vacancy list provided by Human Resources and costed out the vacancies, then added back the cost of any part-time or temporary staff underfilling those vacancies. The net estimate for vacancy savings is approximately \$2 million. Staff also assumed a 5% savings within O&M accounts for an additional \$500,000 in savings. Thus, the total estimated savings for 2009-10 are \$2.5 million, as opposed to the \$4.6 million included in the budget (i.e. \$3.6 million in excess appropriations and \$1 million in labor savings). This puts the true operating deficit at approximately \$5.9 million before including one-time revenues. By adding the one-time revenues, the estimate is that \$3.74 million in reserves would be required to balance the 2009-10 budget, barring further action.

ADDITIONAL COST PRESSURE FOR THE CITY

Along with poor performing revenues, the City will be facing another economic challenge with the significant increase in CalPERS rates anticipated to begin in fiscal 2011-12. The decline in the financial markets took a heavy toll on investors during fiscal 2008-09. CalPERS, even with its size, was not immune to the decline and experienced an almost 25% loss of its assets during the year. Unfortunately, the large loss could not be entirely attributed to poor market conditions. A few very poor and risky financial decisions made by the board also contributed to the losses.

As a direct result of the substantial losses experienced during the dot.com financial crisis, which shot PERS rates up tremendously for many agencies (Culver City saw a \$4 - \$5 million jump in just

one year), CalPERS implemented a “smoothing” approach to guard against such large annual increases (or decreases). The smoothing went into effect a few years ago and since then rates have been hovering around 11% of salary for miscellaneous employees and 24% - 25% of salary for public safety employees.

Beginning in fiscal 2011-12 rates will once again start climbing and, per reports from CalPERS, Culver City’s rates will be in the neighborhood of 18% of salary for miscellaneous employees and 39% of salary for public safety employees by fiscal 2014-15. Based on Culver City’s Volatility Index (VI) (i.e. how susceptible a retirement plan is to losses or gains), our rates will increase somewhat faster and higher than most. This is based both on the level of benefit (the higher the benefit plan the higher the volatility) as well as specific plan demographics. For Culver City, our Miscellaneous Plan (2.5%@55 benefit formula) has a VI of 5.6 and Safety (3%@50 benefit formula) has a VI of 12.9 (both of which are higher than the average for our benefit level). The table below illustrates a rough extrapolation of what our rate increases for 2011-12 through 2014-15 will look like based on our Volatility Indexes. These are the percentages of payroll we would add to our projected 2010-11 Employer Rates.

Fiscal Year	VI of 4	Est VI for 5.6	VI of 6	VI of 8	VI of 10	Est VI for 12.9	VI of 15
2011-12	1.00%	1.38%	1.50%	1.90%	2.40%	3.15%	3.70%
2012-13	1.60%	2.28%	2.50%	3.30%	4.10%	5.26%	6.10%
2013-14	1.70%	2.38%	2.60%	3.40%	4.30%	5.52%	6.40%
2014-15	0.20%	0.28%	0.30%	0.40%	0.60%	0.72%	0.80%

Including these percentage increases into our projected employer paid retirement costs yields the following results for miscellaneous and public safety employees:

Miscellaneous - VI = 5.6	Projected Employer Rate	Estimated Payroll	Amount	Increase from 10-11	General Fund Share
2010-11	11.40%	\$ 29,442,297	\$ 3,356,422		
2011-12	12.78%	\$ 29,442,297	\$ 3,761,253	\$ 404,832	\$ 283,382
2012-13	15.05%	\$ 29,442,297	\$ 4,431,066	\$ 1,074,644	\$ 752,251
2013-14	17.43%	\$ 30,031,143	\$ 5,232,927	\$ 1,876,505	\$ 1,313,553
2014-15	17.70%	\$ 30,631,766	\$ 5,421,823	\$ 2,065,401	\$ 1,445,780

Safety - VI = 12.9	Projected Employer Rate	Estimated Payroll	Amount	Increase from 10-11	General Fund Share
2010-11	24.40%	\$ 17,568,019	\$ 4,286,597		
2011-12	27.55%	\$ 17,568,019	\$ 4,840,692	\$ 1,484,270	\$ 1,484,270
2012-13	32.81%	\$ 17,568,019	\$ 5,764,770	\$ 2,408,348	\$ 2,408,348
2013-14	38.33%	\$ 17,919,379	\$ 6,868,857	\$ 3,512,435	\$ 3,512,435
2014-15	39.05%	\$ 18,277,767	\$ 7,137,102	\$ 3,780,681	\$ 3,780,681

The aggregate annual amounts of the increases are:

Fiscal Year	Amount	Increase from 10-11	General Fund Share
2010-11	\$ 7,643,018		
2011-12	\$ 8,601,945	\$ 1,889,102	\$ 1,767,652
2012-13	\$ 10,195,835	\$ 3,482,992	\$ 3,160,599
2013-14	\$ 12,101,783	\$ 5,388,939	\$ 4,825,988
2014-15	\$ 12,558,925	\$ 5,846,081	\$ 5,226,461

It should be noted that the estimated CalPERS costs identified in the above tables assume no change in employee salaries through fiscal 2012-13. To the extent that employee salaries increase (or decrease), the corresponding total PERS estimate will increase (or decrease) accordingly. As the tables above clearly illustrate, not only will the City be facing continuing issues with closing the existing gap between revenues and expenditures over the next several years, but the additional pressure of the increasing CalPERS rates makes the endeavor even more difficult.

Another factor for consideration is the likelihood that both Social Security and Medicare will need to increase employee and employer contributions in the future. As more and more 'baby boomers' enter retirement, the pressure on these systems will require either increased contributions or lower benefits. The ultimate effect of the national healthcare effort and how it will affect these systems, or our own retiree medical system, is completely unknown at this time.

FIVE YEAR PROJECTION

As mentioned previously, fiscal 2009-10 interim projections for both revenues and expenditures have been reviewed and revised in certain categories. Projections for future years in the five year forecast have also been revised. The table below summarizes the current 'baseline' five year projection for the General Fund. The percentage growth rate assumptions are also included in separate tables to clearly show the assumptions made.

Current Year and Five-Year Forecast						
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Beginning Appropriable Fund Balance	33,523,741	29,782,803	24,641,703	18,455,497	12,645,197	6,157,897
Total GF Revenues	78,392,938	81,275,000	83,900,000	86,883,000	90,224,000	93,757,000
Total GF Expenditures Before Adjustments	86,840,325	88,945,000	90,157,048	91,424,401	93,859,012	96,376,539
Add'l PERS Increase Projection	-	-	1,767,652	3,160,599	4,825,988	5,226,461
Total Projected Savings*	(2,511,449)	(1,778,900)	(1,838,494)	(1,891,700)	(1,973,700)	(2,032,060)
Net GF Expenditures	84,328,876	87,166,100	90,086,206	92,693,300	96,711,300	99,570,940
Operating Surplus/Deficit	(5,935,938)	(5,891,100)	(6,186,206)	(5,810,300)	(6,487,300)	(5,813,940)
One-time - ERF	1,250,000	750,000				
One-time - Innovation Fund	550,000					
One-time - Metro Spur Sale	395,000					
Total One-time	2,195,000	750,000	-	-	-	-
Gross Surplus/Deficit	(3,740,938)	(5,141,100)	(6,186,206)	(5,810,300)	(6,487,300)	(5,813,940)
Ending Appropriable Fund Balance	29,782,803	24,641,703	18,455,497	12,645,197	6,157,897	343,957
	35.32%	28.27%	20.49%	13.64%	6.37%	0.35%
ARC for OPEB	6,137,000	6,137,000	6,137,000	6,137,000	6,137,000	6,137,000
Gross Surplus/Deficit with OPEB	(9,877,938)	(11,278,100)	(12,323,206)	(11,947,300)	(12,624,300)	(11,950,940)

* For fiscal 2009-10, includes \$3.05 million in salary savings, \$1.095 million in back-fill of vacant positions, and 5% O & M savings.
Fiscal 2010-11 and subsequent years include a 2% Excess Appropriation amount.

Included at the bottom of the chart above is the approximate additional Annual Required Contribution the City should be making on an annual basis to fund the cost of retiree medical for current employees and retirees. Legally, the City can continue on a 'pay-as-you-go' funding basis for this benefit and record the difference as a liability on its financial statements. However, the pay-as-you-go costs will increase dramatically and become a larger and larger percentage of the annual operating budget.

The following tables illustrate the current growth assumptions made for future year projections. These rates are reviewed on an annual basis and take into account criteria such as average historical revenue trends, current economic trends, and known revenue or expenditure increases that will occur given a corresponding event or action.

GROWTH RATE ASSUMPTIONS

REVENUES	2010-11	2011-12	2012-13	2013-14	2014-15
Property Tax ⁽¹⁾	6.6%	2.0%	3.0%	4.0%	5.0%
Sales Tax ⁽²⁾	4.1%	3.5%	3.8%	4.0%	4.0%
PSAF TAX	4.5%	3.5%	3.8%	4.0%	4.0%
Business License Tax ⁽³⁾	3.0%	5.0%	5.0%	6.0%	6.0%
Franchise Tax	2.3%	4.0%	4.0%	5.0%	5.0%
Utility Users Tax - Electricity	4.1%	2.5%	2.5%	2.5%	2.5%
Utility Users Tax - Gas	7.3%	3.5%	3.5%	3.5%	3.5%
Utility Users Tax - Water	3.5%	3.0%	4.0%	4.0%	4.0%
Utility Users Tax - Telecomm	1.9%	1.5%	1.5%	1.5%	1.5%
Utility Users Tax - Cable TV	2.6%	3.5%	3.5%	4.0%	4.0%
Transient Occupancy Tax	0.0%	3.5%	3.5%	4.5%	4.5%
Licenses and Permits	8.2%	5.0%	5.0%	6.0%	6.0%
Intergovernmental	5.6%	3.5%	3.5%	3.5%	3.5%
Charges for Services	2.0%	3.5%	4.0%	4.5%	4.5%
Fines and Forfeitures	2.0%	5.0%	5.0%	5.0%	5.0%
Use of Money and Property ⁽⁴⁾	6.8%	2.0%	2.0%	2.0%	2.0%
Interfund Revenues	3.6%	4.0%	4.0%	3.0%	3.0%
Real Property Transfer Tax ⁽⁵⁾	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial/Industrial Dev Tax ⁽⁶⁾	50.0%	0.0%	0.0%	0.0%	0.0%
Other Revenues ⁽⁷⁾	0.0%	0.0%	0.0%	0.0%	0.0%
Transfers-In ⁽⁸⁾	-26.0%	0.0%	0.0%	0.0%	0.0%

(1) Includes Pass-through Payments. Base property Tax growth only 2%

(2) Sales Tax estimate higher in 2010-11 to reflect full year of Westfield being open.

(3) Includes Business Tax Certificate

(4) Use of Money and Property is primarily interest earned on fund balance cash reserves. If the reserve balance drops, the growth rate will also decline.

(5) Difficult revenue to predict. Base kept at \$1 million each year for projections. Commercial retail property sales are biggest contributor of this revenue source.

(6) New Development Activity expected to boost receipts in fiscal 2010-11. Base kept at \$750,000 for remaining years. This revenue does not grow incrementally and is dependent on new building activity.

(7) Fiscal 2009-10 includes one-time payment from RDA for Land Sale. No growth projected for this category consisting mainly of miscellaneous revenue and Parks related donations.

(8) Fiscal 2009-10 includes transfer from the Innovation Fund (\$550,000) and ERF (\$1.25 million). Fiscal 2010-11 includes transfer from ERF (\$750,000).

GROWTH RATE ASSUMPTIONS (continued)					
EXPENDITURES	2010-11	2011-12	2012-13	2013-14	2014-15
Salary & Related Benefits ⁽⁹⁾	1.5%	0.0%	0.0%	2.0%	2.0%
Overtime & Fire Constant Staffing	0.0%	0.0%	0.0%	2.0%	2.0%
Contract Labor ⁽¹⁰⁾	-98.0%	0.0%	0.0%	0.0%	0.0%
CalPERS Retirement (Employer)	1.5%	24.1%	15.3%	17.3%	4.5%
CalPERS Retirement (Employee)	1.5%	0.0%	0.0%	2.0%	2.0%
Workers Compensation	0.0%	5.0%	5.0%	5.0%	5.0%
Group Insurance ⁽¹¹⁾	5.0%	5.0%	5.0%	5.0%	5.0%
Retiree Medical	6.0%	6.0%	6.0%	6.0%	6.0%
State Disability Insurance (SDI) ⁽¹²⁾	5.0%	2.0%	3.0%	3.0%	3.0%
O & M	3.0%	3.0%	3.0%	3.0%	3.0%
Liability Reserve Charge	0.0%	5.0%	5.0%	5.0%	5.0%
Garage Charges	3.0%	5.0%	5.0%	5.0%	5.0%
Other/Transfers ⁽¹³⁾	152.0%	0.0%	0.0%	0.0%	0.0%
(9) Fiscal 2010-11 includes full year of Miscellaneous employees COLA. Subsequent fiscal years use conservative increases.					
(10) Contract Labor in Building Safety approved on an annual basis due to development activity.					
(11) Group Insurance includes: Medical, Dental, Vision, and Life Insurance.					
(12) Annual increases not based on personnel costs. State controlled.					
(13) Includes reserve funds transferred to capital projects. Reallocation of funds in fiscal 2009-10 contributed to the low amount.					

Staff reviews and adjusts these percentages on an annual basis as needed. Some items of note: Sales Tax will most likely take until fiscal 2013-14 or 2014-15 to recover to the level of receipts experienced in fiscal 2007-08; Retiree medical premiums are expected to increase slightly faster than active employees due to an increasing number of retirees relative to active employees (actuarial estimates show that by approximately fiscal 2014-15, the number of retirees will reach or surpass the number of active employees); Lastly, the projections above include an assumption of no additional salary increases until 2013-14, and even then only a 2% increase for 2013-14 and 2014-15. Salary increases prior to this, or greater than this, will result in a corresponding increase to the expenditure numbers.

As an exercise to determine what kind of revenue growth would be required to have a balanced budget by the end of the five year projection (FY 2014-15), staff looked at the revenues most affected by economic expansion (and contraction). For the revenue categories of Property Tax, Sales Tax, Business License Tax, Transient Occupancy Tax and Licenses and Permits (includes building permits), the table below illustrates the current projected growth rates as compared to the growth rates that would be required to balance revenues and expenditures (including the required OPEB obligation) by FY 2014-15:

GROWTH RATE REQUIREMENTS FOR BALANCE IN 2014-15

REVENUES	2010-11	2011-12	2012-13	2013-14	2014-15
Property Tax - Projected Growth	6.6%	2.0%	3.0%	4.0%	5.0%
Property Tax - Required Growth	6.6%	7.5%	10.0%	10.0%	10.0%
Sales Tax - Projected Growth	4.1%	3.5%	3.8%	4.0%	4.0%
Sales Tax - Required Growth	6.3%	9.0%	14.5%	16.0%	16.0%
Business License - Projected Growth	3.0%	5.0%	5.0%	6.0%	6.0%
Business License - Required Growth	3.0%	9.1%	10.0%	10.5%	10.5%
TOT - Projected Growth	0.0%	3.5%	3.5%	4.5%	4.5%
TOT - Required Growth	0.0%	8.5%	9.6%	10.5%	11.0%
Licenses and Permits - Projected Growth	8.2%	5.0%	5.0%	6.0%	6.0%
Licenses and Permits - Required Growth	8.2%	8.0%	9.2%	11.0%	11.0%

As illustrated in the highlighted rows, growth rates in these revenue categories would need to experience consistent, year-over-year growth of 10% to 16%. Staff does not see this as a likely scenario.

CONCLUSION

Culver City is not unlike many other agencies facing the same types of fiscal issues. Certainly there are other cities facing much more dire circumstances. There is no argument, however, that the next few years are going to be extremely difficult – not only with decreasing or flat revenues, but additional expenditure increases the City has little control over without dramatic changes in pensions and retiree health benefits.