

MEETING DATE: January 28, 2008

AGENDA ITEM : Presentation and Discussion of an Update of the Comprehensive Financial Master Plan.

ATTACHMENTS

	<u>Pages</u>
1. Comprehensive Financial Plan	1 – 108



Culver CITY

Comprehensive

Financial Plan

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE

INTRODUCTION

PURPOSE

The purpose of this Updated Comprehensive Financial Plan is to provide a continuing perspective on the financial condition of each of the City's major appropriated funds. It is intended to be a planning tool to aid on-going capital and operating budget decision-making by providing insight into the long-term implications of today's policy choices and budgetary decisions.

Information contained in this updated financial plan includes items that were added and approved during the fiscal 2007-08 and 2008-09 budget process, and also other City Council approved programs and projects outside of the budget process.

INTRODUCTION/ABOUT THE CITY

The City of Culver City was incorporated in 1917, operates under a charter modified by voters in 2006, and has a City Council/City Manager form of government. The five-member City Council is elected at-large. The City is located on the Westside of Los Angeles County, generally situated north of LAX, southeast of Santa Monica, south of Beverly Hills and southwest of West Hollywood. The City is five (5) square miles with a residential population slightly over 40,790, and a daytime population of approximately 60,000. Culver City is a full-service city with its own Police Department, Fire Department, Municipal Bus Line, and Public Works Department, which includes a Sanitation Division. The City has approximately 694 full-time employees.

The population of Culver City is broken down as follows: White (59%), African American (12%), Asian (12%), Other (11%), and persons reporting two or more races (6%); approximately 24% of the population reports being of Hispanic or Latino origin¹. The median age of a Culver City resident is 38 years old; with 43% of the population over age 45; 30% age 25-44; and 27% under the age of 24. The median household income is \$60,000, compared to a median household income of \$41,500 for Los Angeles County. Approximately 72% of Culver City residents have had at least some college education, with 17% holding a graduate degree.²

¹ Hispanics may be of any race, so they are also included in applicable race categories.

² All information contained in this, and the previous paragraph is from the U.S. Census Bureau: 2000 Census Data.

Culver City has a strong economic base, with approximately 25% of the City being zoned for commercial/industrial use. Culver City prides itself on being the “Heart of Screenland,” with the film industry being an important part of Culver City’s identity; however, there is also a strong presence in the department store, auto dealership, business/industrial, and restaurant industries. Some large commercial businesses located in the City include Sony Pictures Studios, Costco, Best Buy and Target.

The City’s total Adopted Budget for 2007-08 is approximately \$134 million (excluding internal service funds), with a General Fund budget of approximately \$81 million. Public Safety expenditures account for approximately 54% of the General Fund budget.

BACKGROUND

The financial environment that municipal governments operate in has changed drastically over the last several years. Federal and state funding has decreased while unfunded mandates have increased, forcing cities to become more financially independent. State legislation and voter-initiated propositions (e.g. Prop 13, Prop 218) have restricted the way cities raise revenues and levy taxes, forcing cities to become more financially responsible by increasing efficiency and cost effectiveness. Changes to financial reporting requirements by the Government Accounting Standards Board (GASB) have increased financial transparency³, forcing cities to be more financially accountable. As a result, cities have had to make the tough decision of reducing certain programs/services, contracting out their services, or finding other financing mechanisms to maintain their finances in order to continue to provide the same level of service to their residents.

In addition, a string of devastating natural disasters over the past few years (i.e. hurricanes and tsunamis), recent devastating wildfires in California caused both by nature and by human activity, and ever increasing threats to national security has taught cities they will need to be prepared to deal with emergencies without relying heavily on state and/or federal aid.

Double digit percentage increases in personnel costs, such as medical insurance premiums, pension costs, retiree medical benefits, and workers’ compensation costs, continue to severely limit the availability of financial resources for the City’s day-to-day operations, including maintenance, capital projects, and unfunded future liabilities.

This document discusses the current economic environment the City is operating in and identifies the revenue constraints and basic operational expenses that must be met. It discusses potential positive and negative impacts facing the City, and how the City might be affected should they be realized.

³ For example: GASB 34 required cities to track and report fixed assets and GASB 45 will require cities to report retiree medical benefits as a liability.

ECONOMIC OVERVIEW 2007

BACKGROUND OVER THE LAST YEAR

The United States economy had several ups and downs during 2007. We saw the Dow Jones Industrial Average break the 14,000 mark for the first time in history; then plunge into the high 12,000's just a short time later. The Federal Reserve cut rates by 0.25% in December 2007, in hopes it would boost consumer confidence. A rate cut is not expected to be enough to offset the ongoing housing slump, but it will hopefully ease the impact on consumer spending, which accounts for approximately 70% of economic activity. There is talk the Federal Reserve may again look at reducing the rate in the near future.

To compound the impact of a slumping housing market, the Federal Reserve has also been continually concerned with inflationary pressures. For the twelve months ended November 30, 2007, the Consumer Price Index for all urban consumers (CPI-U) increased 4.3%. As a point of reference, the last time CPI-U exceeded 4% on a year over year basis (i.e. December to December) was in 1990 when it was 4.2%. Please note that 1990 was the year prior to a recessionary business cycle⁴. The Los Angeles area (LA-Riverside-OC) CPI-U rose by 0.6% in November, following a 0.5% increase in October. The overall LA area index is 4.2% higher than a year ago.

December 2007 marked the 52nd consecutive month of job growth in the US, but the national unemployment rate rose from 4.7% in November to 5.0% in December. As of November 2007, the Los Angeles area rate was 5.2% and the California unemployment rate was 5.6%. These rates are slightly higher than a year ago, but employment numbers continue to hold steady in California and hopefully will do so through this next year. The national unemployment rate is causing greater concerns on the economic front, though, and some economists are starting to lean more towards signs of a recession than just a few months ago.

OUTLOOK

The consensus among most forecasters is that the national and state economies will experience very little growth during the next year, if any. A number of factors are placing significant pressure on the economy, most notably: 1) fluctuating oil prices, 2) a major slowing of sales in the housing market, 3) Writers' Guild strike, and 4) projected \$14+ billion shortfall in California state budget for fiscal 2008-09..

Oil prices have continued to fluctuate over the past few years consistently edging higher and higher, which drives up the cost of goods (most notably consumable goods) and services, to consumers by increasing the cost of production and delivery. Recently worldwide there have also been several oil-spill accidents that have contributed, though slightly, to the oil situation.

⁴ Source: U.S. Department of Labor, Bureau of Labor Statistics

The recent “mortgage crisis,” which prompted a sharp increase in property foreclosures, has further hurt an already slowing housing market. Many industry experts are unsure of the length or magnitude of the mortgage problem; however, it has significantly impacted the banking industry as many mortgage companies have filed for bankruptcy or have been involved in a number of large consolidations (e.g. Bank of America’s acquisition of Countrywide Home Loans). Additionally, most economists agree that the mortgage crisis has impacted economies and stock markets worldwide.

Just recently a deal was announced by the Bush Administration that would assist approximately 1.2 million homeowners nationwide whose rates are coming due for adjustment to freeze their mortgage rates, thus heading off potential foreclosure or bankruptcy. There is much controversy surrounding this deal, and it is unclear how much of an effect it would have on the economy and affected homeowners in the long-run.

The current Writers’ Guild strike, which began November 5, 2007, could potentially have a significant negative impact on Culver City and the surrounding Los Angeles area economy. Culver City has two major studios, Sony Studios and The Culver Studios, both of which are major economic entities within the city. The last Writers’ Guild strike in 1988, which lasted 22 weeks, was estimated to have cost the Los Angeles area economy approximately \$500 million in lost revenue. Presently, the entertainment industry contributes an estimated \$30 billion a year to the Los Angeles economy, or about \$80 million a day. Forecasters have estimated a strike today lasting as long as the one 20 years ago could cost approximately \$1 billion in lost revenues to the area.

A continued walkout does not affect only the writers. It also affects thousands of other workers, from crew members and actors to talent agents and studio office employees. Current reports suggest that most all scripted TV shows are expected to stop production in mid-December, causing the loss of approximately 15,000 jobs and costing the Los Angeles economy about \$21 million a day in direct production spending.

The most visible sign of the strike for Culver City has been the less crowded restaurants in downtown during the daytime hours. However, the most significant impact will be a slowdown of business-to-business sales activity as production of new movie and television episodes ceases. Business to business sales activity is a significant source of sales tax and business tax revenues. Since major production has only recently started to die down, it is unknown at this time to what degree the strike has had on the City’s revenues. Staff will continue to follow this issue closely as data becomes available.

In mid-December articles began to appear regarding the State facing a \$14 billion budget deficit and the Governor’s plans to declare a “fiscal emergency.” Some of the factors contributing to this shortfall include:

- A revised – and lower – current-year revenue forecast, driven in part by the continuing slump in the housing sector and the ongoing effects of the subprime mortgage collapse.
- Increased firefighting costs related to this fall’s wildfires in Southern California.
- Legal challenges that have delayed implementation of Indian gaming compacts.
- Lower estimated local property tax revenues, which affect the state’s share of K-14 school funding.
- An appellate court decision in a lawsuit over teachers’ retirement funding.

In the State of the State address by the Governor, the Governor revealed his plans to close the gap (the \$14 billion represents approximately 12% of the State’s General Fund) primarily through cuts to State programs in his proposed 2008-09 budget. There was immediate Democratic reaction against the proposed budget. Although the Governor’s proposed budget does not currently include diverting local government revenues or transportation monies, these items may be placed on the table as further budget discussions ensue between the parties. Proposition 1A, which was passed in 2004, does provide more protections to local governments than in the past, but the Governor has already declared a “fiscal emergency” and with a two-thirds vote of the State Legislature the State can divert funds from local governments twice in any ten year period with certain other conditions. Propositions 1A protections do not extend to Redevelopment Agencies, which means that the Redevelopment Agency may once again be looking at diversions of tax increment.

Depending on how these and other factors play out over the coming months, consumer confidence could be negatively affected. Rising energy and raw material costs and the increased cost to borrow money reduces a consumer’s disposable income. As consumers’ disposable income subsides and they begin to lose confidence in the economy, they tend to save their money rather than spend it. The City’s single largest source of revenue (i.e. sales tax) is highly dependent on consumer confidence and consumer spending.

In addition to the negative impact on the economy, consumer confidence and consumer’s overall wealth, the housing slowdown also impacts property values, which in turn impacts the property tax revenues of the City and, to a greater extent, the Redevelopment Agency. Declining housing property values also impacts residents’ overall wealth. A reduction in wealth may encourage consumers to save rather than spend and cause residents to become averse to paying additional taxes, which may be needed to maintain service levels.

To date, the West Los Angeles and Culver City areas have been relatively stable and have not seen the sharp decline in housing prices that other areas have experienced (e.g. Riverside and San Bernardino counties). However, a prolonged slowdown in the housing market may put significant downward pressure on Culver City property values in the future.

Community investment has been one of the main reasons that the City has been able to weather the storm. A number of high profile projects initiated by the Redevelopment Agency, including the downtown construction of Pacific Theatres and the Cardiff, Ince, and Watseka parking structures, as well as the renovation of Kirk Douglas Theatre have helped to attract people and businesses to Culver City.

The recent approval of the renovation and expansion of the Westfield Shopping Center located in the Fox Hills area is anticipated to assist Culver City in bringing in increased revenues in future years. There are plans to add an additional 167,000 sq. ft. to the existing mall, which includes additional retail and restaurant areas. Currently there are also plans for a Target store to move into the old Robinson's May location of the mall, and the anticipated opening of this store is for October 2009. Final renovations and expansion of the entire mall are projected to be complete in fiscal 2010-11.

Future projects, such as downtown Parcel B and development associated with the Washington/National specific plan area centered around the proposed METRO EXPO Light Rail Station, will ensure that Culver City remains a hot spot on the West side. The realignment of Washington Boulevard from Culver Boulevard at Main Street to Ince is expected to be completed in April 2008. This project will create an area for a plaza, and allow for further development of retail shops, which is expected to commence in the near future.

Another major project funded partially by the Redevelopment Agency is the new Fire Station #3 being constructed in the Fox Hills area. The current Fire Station #3 on Segrell Way is too small to maintain current and future needs. The new station will consist of two-stories and be 12,216 sq. ft. for Fire Department staff dormitories, offices, ancillary uses, and apparatus room. Construction began in September 2007, with completion scheduled to be in July 2008. An additional \$1,527,000 was approved by the City Council in June 2007 to fund increased construction costs for this project. Further discussion is included later in this report.

All of these investments in the community have paid off, and are expected to continue to pay off, by keeping Culver City's revenues strong, especially sales, property, and business license taxes.

REVIEW AND UPDATE OF THE CITY'S FINANCIAL POLICY

Culver City's current financial policy, Council Policy Statement Number 5002, was first adopted in 1995. The purpose, as stated in the policy, is to establish long- and short-range financial policies for the City. The guidelines contained in this policy had not been reviewed in a number of years, and staff recommended the policy be updated and expanded to cover a wider range of policies and procedures. The updated policy was subsequently adopted by City Council in July 2007. This will improve the City's fiscal stability by helping City officials make financial decisions and plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial

management, which can lead to improvement in bond ratings, a lower cost of capital, and a minimum of unexpected impacts upon taxpayers and users of public services.

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE for the GENERAL FUND

INTRODUCTION

The General Fund is the largest fund of the City. It is used to finance most of the basic municipal functions including general administration, police, fire, community development and parks, recreation and community services. The General Fund is used to account for resources traditionally associated with government, which are not required to be accounted for in another fund including property taxes, sales taxes, business taxes, utility taxes, transient occupancy taxes, licenses and permits, and fines and forfeits.

Departments within the General Fund are categorized as either General Administration Departments or Operating Departments. Departments within General Administration include: City Manager's Office, which includes Budget & Finance and Human Resources; City Clerk; City Attorney; City Treasurer; Information Technology; and Non-Departmental. Operating Departments are: Parks, Recreation, and Community Services; Police; Fire; Community Development; and Public Works.

Departments and Divisions within the General Fund rely on general taxes, such as sales tax and utility taxes, as well as recouping costs from fees for services, such as plan check fees and meeting room charges.

FISCAL YEAR 2007-08 HIGHLIGHTS

There were a number of enhancements approved during the fiscal 2007-08 budget process, some of which are related to the reorganization of several departments. There were also several on-going and one-time enhancements that were approved to enable departments and divisions to improve the effectiveness and efficiency of service delivery to residents and internal customers (other departments/divisions.) One-time enhancements were approved based on one-time monies from prior fiscal years or known receipts during fiscal 2007-08. Following are some of the major highlights of fiscal 2007-08:

- Citywide Reorganization Plans include:
 - Reducing three positions in the City Manager's Office and reassigning current staff to maximize resources. One Assistant City Manager will assume the duties of the City Clerk after April 2008 when the position will cease being an elected position. The other Assistant City Manager

will assume the duties of the Risk Manager. By consolidating these duties and departments, it will allow the sharing of resources and should realize cost savings for the City.

- Creation of a Finance Department. A newly created Chief Financial Officer position will oversee the functions of City Controller and City Treasurer. The City Treasurer's position will cease as an elected position after April 8, 2008. The consolidation of the Finance Department requires relocating and combining the Budget and Finance staff, and Purchasing administrative staff with the current City Treasurer Department. This will improve efficiency and enhance the financial operations.
- Creation of an Enforcement Services Division. An Enforcement Division was created and placed under the direction of the Community Development Director. This new division consolidates the functions of the existing Code Enforcement and Park Patrol Divisions.
- Creation of a new Division in Public Works Department entitled Environmental Programs and Operations. This division consists of Refuse, Environmental Management, and Sewer Operations. This division consolidates all of the environmental related functions and takes some of the burden from the Engineering Division.
- Reallocation of positions within the Parks, Recreation and Community Services Department so positions with similar functions are working together more closely.
- Miscellaneous general classification positions that were identified in the salary survey as being below market average were brought to within 5% of median, per agreement with the Culver City Employee Association and Culver City Management Group.
- Regular Part-time classifications in Parks, Recreation and Community Services were approved salary increases to bring them more in-line with neighboring cities. This was the first increase for these classifications in several years.
- The City Council approved an actuarial study to identify the OPEB amount associated with the City's future retiree medical benefits.
- Implemented an updated fees and charges schedule, which better reflects the City's true cost of doing business.
- Approved the purchase of several departmental equipment items for Fire and Police, such as:
 - Portable Laser to provide high development in latent fingerprint evidence.
 - Electronic Parking Citation Writers.
 - Digital Photographic Equipment for forensic lab
 - Ninety (90) tasers
 - Holmatro tool set and conversion kits for current inventory
 - Five (5) thermal imagers
 - Twenty (20) fire shelters
- Approved funding for a State Mandated Housing Element Update

PROJECTIONS AND ANALYSIS OF REVENUES AND EXPENDITURES

OVERVIEW

The worksheets for the five-year forecasts of revenues and expenditures are included as attachments to this report. The worksheets include the projected revenues from all of the City's revenue sources and appropriations for all City funds over the next five years. The 2007-08 and 2008-09 information contained in the worksheets includes appropriations adopted and approved by City Council during the last budget process in June 2007. It also includes appropriations approved by City Council outside of the budget process (i.e. capital improvement projects, etc.).

Using the methodology and assumptions described in the following section, staff developed a five-year base projection of revenues and expenditures. Staff has also prepared a number of alternate revenue and expenditure projections based on potential loss of UUT revenue, future economic development/land use policy decisions, and possible service level enhancements.

FORECASTING METHODOLOGY: REVENUES

In order to develop a reasonable five-year forecast of General Fund revenues, it is important to analyze past data to establish a trend over time. Therefore, ten years of actual data (1997-98 through 2006-07) and two years of budgeted data (2007-08 and 2008-09) were collected and analyzed. The average annual growth rate served as the basis for the forecast, with adjustments being made as appropriate to more closely reflect the current state of the economy. This was the same forecasting method used in the first comprehensive financial plan, and was found to be the most accurate and useful.

Using the average annual growth rate methodology produces a somewhat conservative growth rate by smoothing out extraordinary revenue gains and dips. A limitation of this methodology is it does not account for structural changes in revenue generation, such as a new tax being implemented during the time period or a significant change in the economic base. To capture some of the structural changes, staff has adjusted the appropriate revenues up or down accordingly.

Staff also worked with Keyser Marston Associates, a real estate firm, who provided the City with revenue projections based on development projects that were most likely to be developed within the City during the next five years, and also for those that had been completed during fiscal 2006-07. A major outcome of the projections showed that, in most cases, the methodology used by staff to project the revenue for the plan is fairly close to the results provided by the consultant, within a reasonable margin of variance.

The base revenue projection over the next five years is what staff considers to be "*most likely*" based on current economic conditions. The underlying assumption for the most likely scenario is that the overall economy will remain rather stale for the next couple of fiscal years with a slight downturn factored in for 2009-10. Despite looming economic

pressures (i.e. state budget problems, increasing oil prices, slowing housing market, increase foreclosure rate, and increasing interest rates), the most likely scenario assumes that an increase in some revenues (e.g. fees and charges, new development impact fees, etc.) will be sufficient to cover poorer performing revenues. Overall, the most likely scenario assumes General Fund revenues will grow at approximately 4% per year, which is consistent with the average annual growth rate over the last ten years, which has also included downturns in the economy.

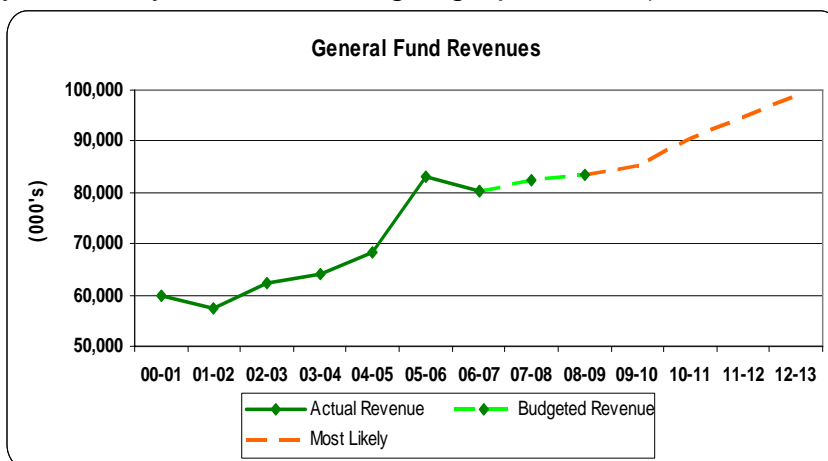
In addition to the most likely scenario, staff has included three additional scenarios. One scenario includes the potential loss of a portion of the UUT revenues if the voters do not approve modernizing the UUT ordinance at the April 2008 election. Another scenario includes additional revenues based on land use (i.e. height and density restrictions) policy decisions for different areas and projects in the City, which are the Washington/National site, the Fox Hills area, commercial mixed use corridors, the proposed Entrada development, and Jefferson Blvd development. The last scenario includes an estimated annual required contribution for OPEB related payments, which the City is required to begin reporting in fiscal 2007-08 per GASB Statement No. 45.

BACKGROUND OF FORECAST

Over the past five years, there have been a number of circumstances that have created a somewhat hostile revenue environment for cities. In 2000, the stock market bubble burst; then on September 11, 2001 the World Trade Center in New York was attacked. The sequential timing of these two events had severe economic implications. As was the case across the nation, the resulting economic downturn was a severe hit to the City’s General Fund; a hit which took almost two years from which to recover.

Then, just when the General Fund began to recover, the California Legislature decided to divert revenues that many cities rely on to fund on-going operations (i.e. sales tax, property tax, and vehicle license fees) into the State’s coffers in an effort to address the State’s financial woes. This put an additional strain on the City’s resources.

In exchange for the loss of revenue, cities were successful in negotiating a compromise with the California governor to support Proposition 1A, which made it much more difficult for the legislature to divert City revenues in the future. In 2006-07, the take-away of the “ERAF” revenue diversion that was initiated in 2004-05 was restored. For fiscal 2004-05 and 2005-06, the State took approximately \$971,000 each year from Culver City.



As a result of voter approval of Proposition 1A in 2004, the revenue forecasts for the next five years assume the state will not take away any more of the City’s revenues. However, given the current \$14+ billion state deficit projected by the Legislative Analyst’s Office for fiscal 2008-09, the threat of state take-aways has resurfaced.

In the State of the State address, the Governor revealed his plans to close the projected gap of \$14+ billion primarily through cuts to state programs. The Governor’s proposed 2008-09 budget does not currently include diverting local government revenues or transportation funds; however, these items may be placed on the table as further budget discussions with the legislature ensue. Proposition 1A does provide for more protections to local governments than in the past, but the Governor has already declared a “fiscal emergency” and with a two-thirds vote of the legislature, the State can divert local funds twice in any ten year period with certain other conditions.

If the State were to approve and exercise this provision and ultimately take away funds from the City, it is recommended to utilize one-time funds wherever possible in order to lessen the burden on the recurring revenues of the General Fund.

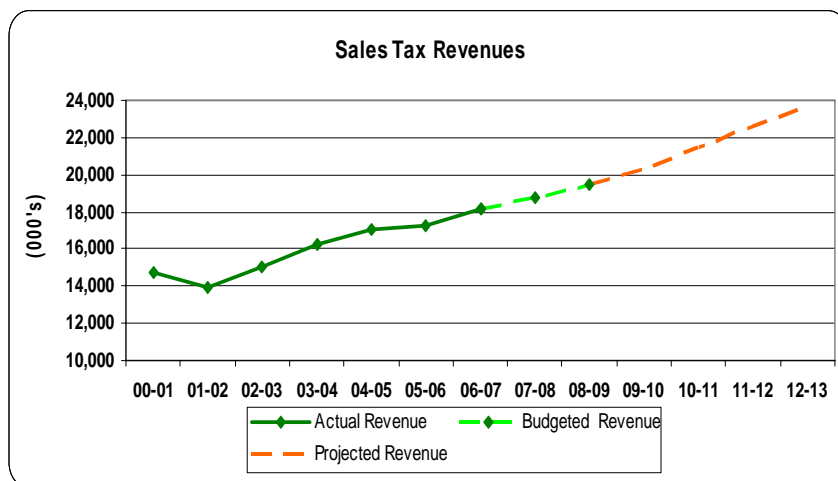
The following section discusses some of the City’s major revenues more in-depth and provides information on the assumptions that were made in forecasting those revenues.

DISCUSSION OF SPECIFIC REVENUE PROJECTIONS

Sales Tax

Sales tax is the City’s single largest source of revenue, and is approximately 23% of adopted revenues for fiscal 2007-08. Despite moderate economic growth over the last five years, sales tax revenues have remained relatively strong; growing at an average annual rate of approximately 5% since 2000-01. This is a result of the City’s investment in the community and the Redevelopment Agency’s success in reducing blighted areas within the City, which has helped to attract and retain business and expand the economic base.

Culver City is fortunate to have a diverse economic base, which includes retail sales outlets, automobile dealerships, restaurants, manufacturing, and the entertainment industry. A diverse economic base is beneficial as it helps to lessen the blow in poor economic conditions.

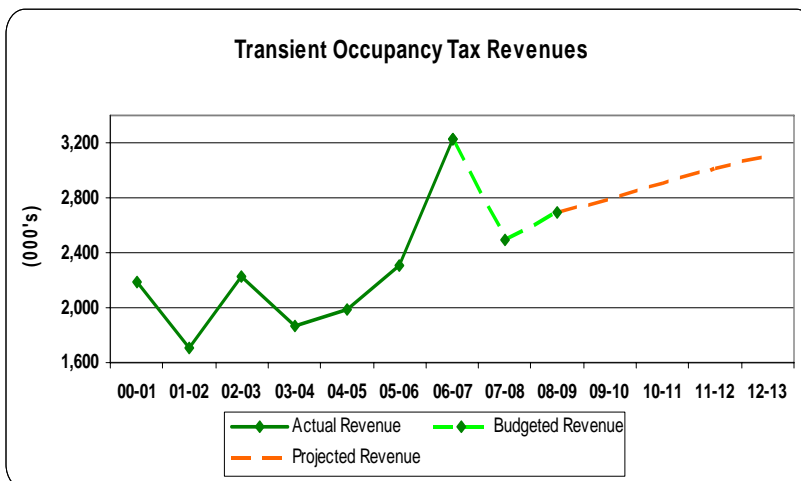


Based on the City’s continued commitment to community investment through redevelopment and economic development activities, sales tax revenues have remained relatively stable over the past few fiscal years. However, sales tax is volatile as it is highly dependent on the economy and consumer confidence. As previously discussed, current economic conditions may have an adverse impact on consumer confidence and disposable income. Consequently, sales tax projections shown in this chart over the next five years are relatively conservative and increase between 4% - 5% per year. During the mid-year review, it will be recommended to decrease the sales tax estimate by \$450,000 in fiscal 2007-08 and by \$400,000 in fiscal 2008-09. Due to the current Writer’s Guild strike and state of the economy, this has been deemed a prudent fiscal decision based on current sales tax revenue receipts to date. Higher than anticipated one-time new development revenues in 2007-08 will assist in filling the gap left by this adjustment.

Transient Occupancy Tax (TOT)

Transient Occupancy tax is levied on occupied hotel/motel rooms and is currently 12% of the room rate. TOT revenues are directly related to the health of the travel industry.

Over the last five years, TOT revenues have been highly volatile. There was a 22% drop in TOT revenue between 2000-01 and 2001-02, followed by a 30% increase in revenues the following year, followed by another decline of 16% between 2002-03 and 2003-04. Events such as September 11th or large hotel closures, which have an adverse impact on people’s travel habits, also have an adverse impact on TOT revenues.



Since 2002-03, TOT revenues have stabilized somewhat and current hotel renovation projects are expected to continue to generate stable revenues. The spike in revenues in 2006-07 was the result of a payment for back owed taxes due to a bankruptcy settlement. This forecast has assumed moderate TOT growth over the next five years.

An issue regarding Transient Occupancy Taxes that will be monitored closely by staff in future months deals with the collection of TOT from on-line booking services. A growing portion of hotel bookings are being conducted through on-line booking services¹. Guests who book such rooms online are charged the local TOT based on the marked-up rate they pay, but the on-line company only remits to the hotelier the discounted wholesale room rate and only the TOT collected on that lower rate. Hotels then pass on

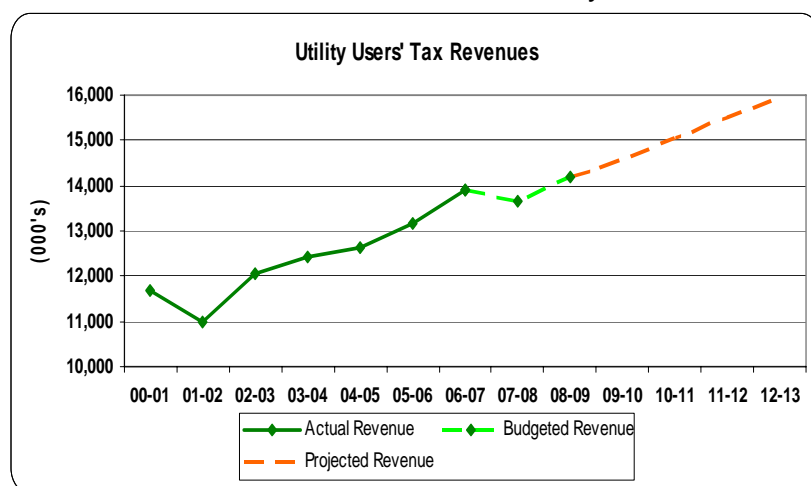
¹ A study done in 2005 estimated approximately 20% of hotel rooms were booked on-line. It is safe to assume this percentage has increased in the last two years.

to the city the TOT they receive from the online booking company, but these amounts are based on the wholesale rate charged to the booking company, not the full rate charged to the room occupant. To date it is unknown how much revenue Culver City may be getting “shortchanged,” and staff will closely monitor all activity associated with this issue and take appropriate action to ensure the City receives its fair share of TOT revenues.

It is important to note, though, that even with the above mentioned issue, TOT revenues are expected to continue to remain steady over the next five years.

Utility User’s Tax

Utility User’s Taxes (UUT) are levied on a number of utilities, including electric, gas, water, telephone, and cable. Currently, Culver City’s UUT rate is 11% of utility charges. UUT revenues have remained relatively consistent over the last ten years and are



dependent on utility rates and consumption. However, there is not necessarily a high positive correlation between utility rates and UUT revenues. Instead, there is a slight negative correlation as higher utility rates often encourage consumers to conserve use.

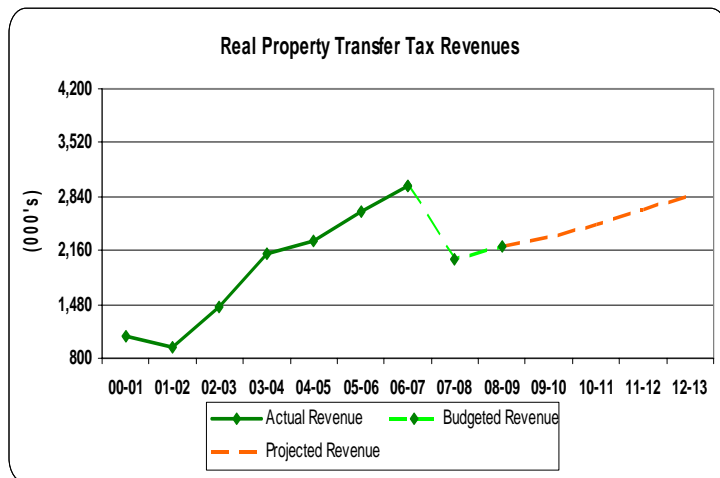
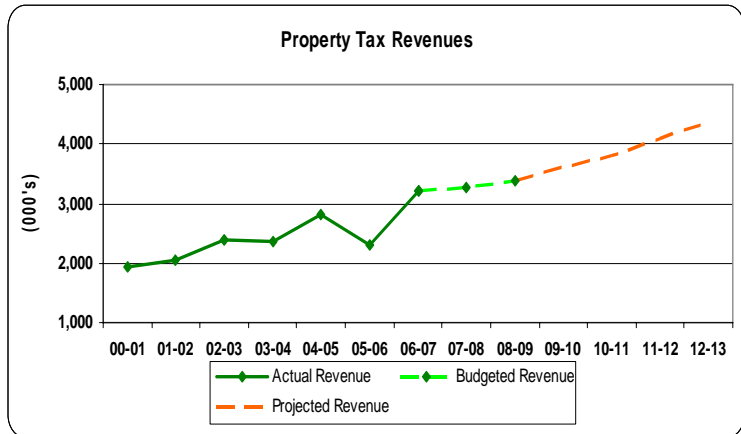
Despite recent increases in some utility rates, it is not expected that the City will realize a corresponding increase in UUT revenues. Further complicating projections of future UUT revenues is the status of the telephone UUT revenues. In May 2006, the IRS discontinued collecting certain telephone utility related taxes, mainly as they apply to cell phones. Since most cities in California with a UUT reference the IRS code to define the tax base, this action by the IRS has jeopardized the collection of certain utility taxes for many California cities, including Culver City. It may take a few years to sort out the legal issues, but there is a potential for loss of a significant portion of the City’s UUT revenues. In response, Culver City has placed a measure on the April 2008 ballot for voter consideration to modernize the ordinance pertaining to this item.

Since the outcome of the election cannot be known at this time, the potential loss of this revenue in future years has been factored into one of the scenarios under negative impacts facing the City. In addition, there has been recent increased popularity of solar energy, which also may impact the City’s UUT revenue; however, the degree of the impact is still unknown at this time and further research is needed to determine the true effect. The City budgeted funds in fiscal 2007-08 for a photovoltaic preliminary engineering study. This study is in process.

Property Tax and Real Property Transfer Tax

Over the last decade, and especially in the past five years, southern California experienced a population boom. The housing supply has not been able to keep up with the rapid increase in population. As a result, real estate has been at a premium. Prop 13, passed by the voters in 1978, capped the property tax rate at 1% of assessed values and permitted a maximum 2% increase in assessed value annually.

As a result, the assessed value of many properties is well below market value. Property values are re-assessed when there is a transfer of ownership.

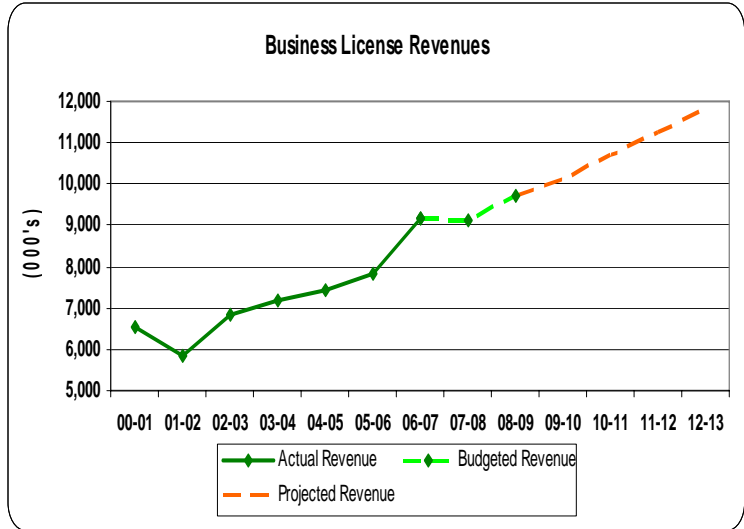


Culver City's property tax revenue has grown relatively consistently over the past five years, averaging an annual growth rate of approximately 8%. Recently, there has been a significant slowdown in the housing market. As a result, both Property Tax and Real Property Transfer Tax revenues are projected to slow somewhat over the next five years. A "Most-Likely" projection for Property Tax

is approximately a 4% growth for 2009-10, and a slight increase to 5% in 2010-11 and 6% in 2011-12. Real Property Transfer Tax revenues are projected to increase 5% in 2009-10, stay steady in 2010-11 and increase to 6% beginning in 2011-12. It is expected that despite the potential of a continued sluggish housing market, current development activities will help to sustain property values in Culver City and the Westside over the next five years, which should help in keeping Property Tax and Real Property Transfer Tax revenues relatively stable.

Business Tax

All entities conducting business in Culver City are required to pay a Business Tax annually. This tax has experienced relatively stable growth over the past five years, a testament to the growing economic base in the City. During the 2006-07 budget preparation process, Business Certificate application fees were reviewed. As a result, the City Council approved an increase to the Business Certificate application fees, which had not been increased since the early 1990's. This should generate some additional on-going revenue for the City.

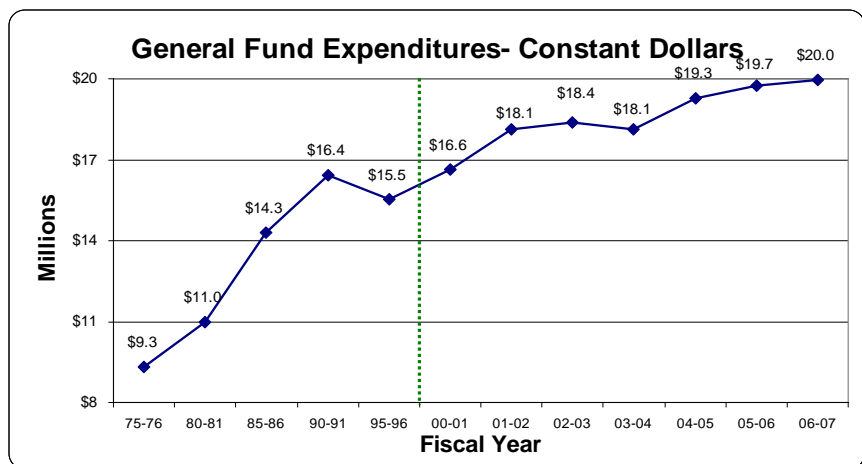


All Other Revenue

All other revenues make up approximately 36% of the General Fund. The most significant of which are Charges for Services. During 2006-07, a comprehensive user fees and charges rate study was performed by an outside consultant. This aided the City in establishing a baseline for all current fees and charges as well as recommended new fees the City considered in order to adequately recoup the cost of providing certain services. This study resulted in the increase of approximately \$715,000 in additional revenues to the City, mainly to recoup the cost of services performed.

EXPENDITURES

Culver City has been able to maintain a moderate- to high-level of service to its residents, even during the very difficult fiscal times mentioned previously in this report. Over the last 30+ years, the City has grown both economically and in



population, which constantly places pressure on the available resources the City is able to use in order to maintain services that positively contribute to the quality of life for its residents. Above is a chart showing the City's General Fund expenditures in constant dollars going back to 1975. The chart jumps in five-year intervals and then gives actual yearly data from 2000-01 until 2005-06, and preliminary actual data for 2006-07.

FORECASTING METHODOLOGY: EXPENDITURES

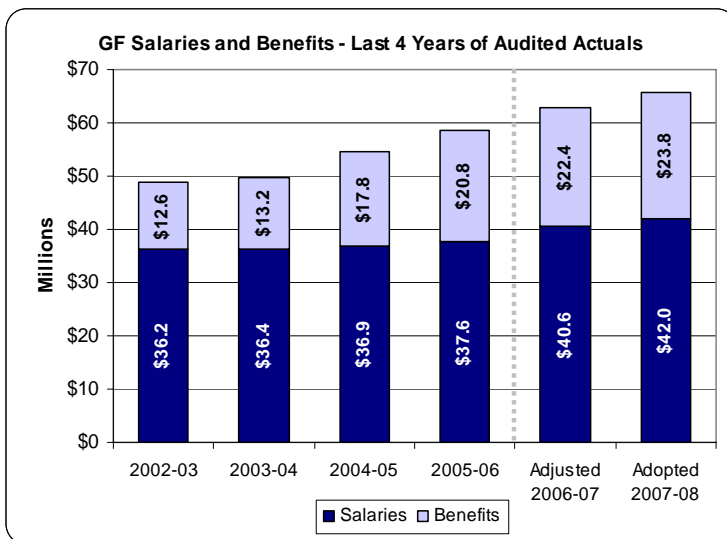
The expenditure forecasts were predicated on the goal of maintaining the present level of City services, along with addressing service level changes and other new projects. For this updated analysis a combination of historical trends, assumptions, and judgments were taken into consideration when forecasting the base-line for expenditure growth for the next five years. The conclusion was to use an average growth rate based on anticipated increases over the next five years. Since personnel costs are the major portion of the City’s General Fund expenditures, they were the driving force in calculating the average percentage increase applied to expenditures for this analysis.

There are a few drawbacks in using an average growth rate to calculate expenditures, especially on those tied to economic forces. While some expenses are driven by economic forces, many are based on set increases from year to year, such as cost-of-living adjustments which will be discussed further in the document.

While preparing and analyzing different scenarios and assumptions for the updated Comprehensive Financial Plan, the base expenditure information was kept the same for the different scenarios being discussed in order to have a “constant” for comparison purposes with revenues. This base enables staff to measure the gap between anticipated revenues and expenditures, and impacts, both positive and negative, which have the potential of affecting the City in the near future. The City currently does not have the resources necessary to maintain its existing 30% reserve policy starting in the next few years.

PERSONNEL COSTS

Approximately 80%, or \$65.8 million, of the City’s Adopted Fiscal 2007-08 General Fund operating budget is attributable to personnel costs. The City currently has Memorandums of Understanding (MOUs) with all six bargaining groups, and will begin negotiations again in 2008 with Fire Safety personnel. During prior negotiations, it was a challenge to forecast with certainty what the overall personnel costs growth would be over the next five years. With the adoption of the most current MOUs, the personnel costs and percentages were incorporated into the Plan through the adopted and approved budgets for 2007-08 and 2008-09 to give the most up-to-date forecast information. This information incorporates salary, retirement, medical, and other negotiated personnel cost increases.

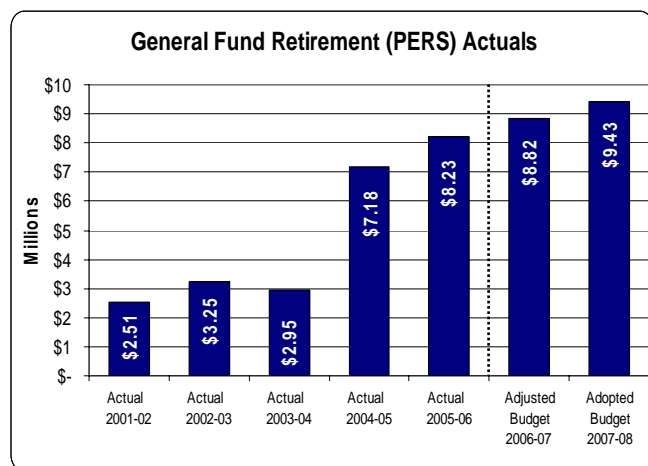


The City has a unique situation with its public safety salary increases based on an initiative that was approved by voters in the 1950's. The Safety Salary Initiative ties Culver City public safety employee salary increases to those of the LAPD and LA County Sheriff's salary increases. As mentioned previously, public safety makes up 54% of the General Fund budget. Cost-of-living adjustments for Public Safety personnel historically have grown at a much faster pace than Miscellaneous personnel. Pension costs are also significantly higher for public safety personnel than for miscellaneous employees.

As can be seen by the graph, benefits have grown at a much faster pace than salary over the last six years. This is mostly attributable to increasing medical costs and escalating pension costs.

PENSION COSTS AND BENEFITS

As was mentioned previously in this document, pension costs have skyrocketed, not only for public entities, but also for private entities. CalPERS had exceptionally good



years in the late 1990's, which enabled Culver City to become super-funded. At that time, the City did not contribute to CalPERS and also negotiated increased retirement benefits with all six of its bargaining groups, just like many other cities. When the economy went down, CalPERS costs shot up and left Culver City, and many other cities, scrambling to cover the increased costs. The above graph shows the increased retirement costs over the last six years. In 2006-07, CalPERS adopted a new formula to calculate member contributions using a

15 year smoothing methodology to avoid these huge fluctuations to members in the future.

Medical costs continue to grow at a faster pace than many personnel costs. The City received estimates from CalPERS for the 2008 medical insurance premiums which show them to be approximately 12% higher than 2007 premiums. Culver City also offers medical coverage for its retirees and their beneficiaries. It is evident the City needs to find options/solutions for healthcare cost containment. During the last round of labor negotiations, it was agreed upon by all bargaining groups that employees would begin paying 5% of their medical insurance premiums. Employees who retired after January 1, 2007 also will pay 5%. Retirees who retired prior to this date will still have their full medical insurance premiums paid by the City.

OPERATING AND MAINTENANCE

In order for the City to balance its General Fund operating budget, the City did not include any budgetary percentage increases to Department's operating and

maintenance budgets during fiscal 2004-05 through 2006-07. Historically, this increase had been approximately three percent per year, based on an average CPI rate. Not including this increase caused the City to lag in necessary funds to cover its operating and maintenance needs. A three percent increase for operating and maintenance was included in the 2007-08 and 2008-09 budgets. A three and one-half percent increase was incorporated into the projections for the remaining years.

MAJOR ISSUES

Culver City, like many cities in California, has been hit hard with increasing costs that it has little or no control over. These costs include medical insurance premiums, pension costs, and worker's compensation. In addition to these ever-increasing costs, the City is also facing major deferred maintenance and unfunded liability issues. In 2005, the City had a \$24 million unfunded pension liability. PERS has initiated "smoothing" techniques that will enable the City to stabilize the annual pension payment and avoid the peaks and valleys in pension rates experienced previously; however, our Safety pension plan shows a trend of increasing future unfunded liability due to this "smoothing" methodology. This issue needs to be addressed in the near future.

The City recently received the 2008-09 PERS percentage rates. Miscellaneous contribution rates decreased slightly, and Public Safety rates increased. Overall, though, the aggregate percentage amount is higher than 2007-08. The 2008-09 approved budget includes a slight overall increase in the PERS rate percentage, so this new information did not impact forecasted numbers.

The City needs to create replacement funds that will enable it to meet ongoing needs without sacrificing ongoing funding for current operating expenses. While the City has been very proactive in meeting its upfront needs, it has not set-up a steady revenue source for funding ongoing capital improvement projects, deferred maintenance and growing unfunded liability for items such as future pension and retiree medical costs. In order to start setting aside funds, the City needs to take decisive action. Consequently, sufficient set-aside funding would be available when the obligation payment is due.

In November, the City Council approved a professional services contract with Aon Consulting to conduct an actuarial study to determine the City's outstanding unfunded OPEB retiree liability with regards to GASB 45 reporting. This outstanding amount is estimated to be in the millions of dollars. As a start, the City Council approved setting aside \$100,000 in the fiscal 2007-08 budget towards this unfunded liability until a study could be formally conducted.

It should be noted that the approved \$100,000 is only a fraction of the amount to fully fund the expected actuary-recommended contribution. A little over one year ago an actuary performed a summary analysis of Culver City data and estimated an annual required contribution figure of \$9.8 million. This figure would be inclusive of the current costs paid by the City for retiree medical of approximately \$3.4 million, and would therefore result in an additional requirement of \$6+ million per year. While GASB 45 does not require funding the liability (it requires only reporting the liability on the City's

financial statements), the difference between the actuarially computed contribution and the actual contribution will be reflected on the City's audited financial statements as a liability, which could affect the City's future credit rating and cost of borrowing.

Once the final results of the actuarial study are received, staff will analyze the findings and work with the appropriate staff members and Council subcommittees to come up with recommendations for full City Council consideration. Staff members from Human Resources, City Manager's Office, Budget & Finance, and City Treasurer's Department have previously attended workshops on GASB 45 and OPEB related issues. Information obtained from these workshops will also be used in correlation with the consultant's findings to determine the most practical and fiscally sound recommendations to present for City Council consideration based on the City's current financial situation.

The City is also facing state mandates for Stormwater cleanup that are expected to cost tens of millions of dollars to implement. The City needs to start making plans now on what funding will be used so that the General Fund is not placed in the situation of paying these ongoing mandated costs.

ADDITIONAL NEEDED RESOURCES

During the preparation of the first Comprehensive Financial Plan, staff met with Departments to identify what resources were needed in order to continue to maintain the current level of service, and what resources would be needed in the near future due to anticipated service level increase or expected needs. During the budget process for fiscal 2007-08 and 2008-09, some of these resources were approved and included in the budget. Approximately \$925,000 in on-going (personnel costs) and one-time costs were included in fiscal 2007-08, and approximately \$942,000 in fiscal 2008-09.

To rebuild the Self-Insurance Fund fund balance, an additional \$500,000 is being allocated among four funds beginning in fiscal 2008-09. The General Fund's portion of this amount is \$445,000 (see Self Insurance Fund section of the Comprehensive Financial Plan for a more detailed discussion of the fund's balance). This amount drops to \$427,000 in 2009-10 and is anticipated to continue for another five years. This amount is spread among General Fund departments using the same formula currently used to calculate workers compensation and liability reserve charges, and is based on an experience rate. The other funds that are part of the allocation to the rebuilding the Self-Insurance Fund are the Refuse Fund, Sewer Fund, Redevelopment Agency, and City Garage Fund.

DEFERRED MAINTENANCE, UNFUNDED CAPITAL NEEDS

During fiscal 2006-07, two assessment studies were completed that identified the City's annual deferred maintenance needs for building infrastructure and parks. Public Works has a program that is updated on an as-needed basis for street infrastructure maintenance.

- **Deferred Maintenance – Building:** Per the assessment study on the City's building facilities, the annual amount recommended for deferred maintenance of

the City’s building infrastructure is \$480,000 beginning in fiscal 2007-08, with an annual inflationary increase of 4%. In fiscal 2007-08, approximately a little over \$400,000 was able to be budgeted for building maintenance capital improvement projects. The Unfunded Capital need is approximately \$4,015,000.

- Deferred Maintenance – Parks: Per the assessment study of the City’s parks, the annual amount recommended for deferred maintenance is \$98,000 beginning fiscal 2007-08, with an annual inflationary increase of 4%. The Unfunded Capital Need is \$868,000.
- Deferred Maintenance – Streets: Currently the backlog of street repair is approximately \$18 million. This is significantly less than it was a few years ago, and much of the success in reducing this backlog has been due to the fact the City has been able to fund street repair with the use of General Fund funds, Gas Tax funds, and Grant funds. The annual deferred maintenance need to maintain this backlog is approximately \$2.2 million.

Currently, the City does not have the resources necessary to fund the full amount of the unfunded capital needs or the necessary deferred maintenance needs each fiscal year. The preservation and growth of our revenue base needs to be a major focus in the coming fiscal years so that an appropriate level of funding will be available to address these needs.

	07-08	08-09	09-10	10-11	11-12	12-13
Deferred Maint.*	\$2.78	\$2.80	\$2.83	\$2.85	\$2.88	\$2.90
Unfunded Capital*	\$22.88	→	→	→	→	→
Total*	\$25.66	\$2.80	\$2.83	\$2.85	\$2.88	\$2.90

* Amounts shown in millions.

SCENARIOS

Following are three scenarios for discussion. The first (Scenario A) takes a business as usual approach, with conservative revenue and expenditure projections. This scenario includes information from the 2007-08 and 2008-09 budget process and other City Council approved items since July 1, 2007. The second (Scenario B) includes the potential loss of cellular and wireless UUT revenues. The third (Scenario C) includes future economic development and land use options. The fourth (Scenario D) includes an estimated contribution if the City were to decide to fully fund retirement benefits as a result of GASB 45.

GENERAL FUND SCENARIO A:

This scenario takes the base information for revenues and expenditures discussed above and calculates it out five years from fiscal 2007-08. Fiscal 2008-09 does include approved appropriations from the June 2007 budget process. Also included in this scenario are additional appropriations, specifically in the one-time expenditure category,

which were approved outside of the budget process. Two of the major appropriations in this category are:

- \$1,527,000 for additional construction costs for Fire Station #3 capital improvement project, approved by City Council on June 18, 2007; and
- \$1,622,098 for a Public Safety Record Management System, approved by City Council on November 14, 2007.

These items were funded by excess reserves in the General Fund, mainly due to surplus and one-time revenues received in prior years. Proceeds expected from the sale of the three lots currently housing the existing Station #3 is expected to help offset the additional funding that was needed for the additional construction costs. For purposes of forecasting, the proceeds from the sale are projected to be received in fiscal 2008-09.

Anticipated new economic development revenues for Sales Tax are incorporated in future fiscal years, beginning in fiscal 2009-10. These amounts include new revenues from the Westfield Mall renovation and expansion, for which construction is set to begin in early 2008. Projected completion of the mall renovation and expansion is marked for fiscal 2009-10. Approximately 167,000 sq.ft. of new retail space is being added. The additional Sales Tax revenue in fiscal 2009-10 is estimated to be \$300,000, and is counted for only six months of the fiscal year. Estimates grow to \$800,000 for the full year of fiscal 2010-11.

A large retailer scheduled to move into the Westfield Mall within the next 18 months is a Target store. Culver City currently has an existing Target store located in a prime location within the city, which has also historically maintained a healthy sales tax base. Provisions need to be researched and analyzed in the very near future, though, in the occurrence the current Target is closed or the location is sold and demolished for other use. The City needs to put a plan in place that would guarantee protection of the existing revenue base currently received from this location.

The fiscal 2007-08 and 2008-09 reserve percentage, including one-time revenues, is above 30%, but this is not sustainable under current financial constraints. Beginning in fiscal 2009-10 the projection shows this percentage falling to approximately 28.32%, and to 24.21% in 2010-11. One-time revenue, such as the sale of land, is keeping the percentage at a reasonable level. Recurring expenditures still outpace recurring revenues, and will continue to do so over the five-year time-frame shown.

One-Time (Non-recurring) Revenues

A category of revenues that has received greater attention the last few years are those categorized as one-time, or non-recurring, revenues. These are normally revenues that do not occur on a regular basis, such as the sale of land (i.e. Warner Lot) or additional revenue receipts from audit findings (i.e. Business License, TOT). The current General Fund Fund Balance includes one-time revenues received by the City in prior years,

which has assisted the City in funding many one-time purchases (non-personnel related costs), and also helped fund capital improvement projects, such as the Public Safety RMS system recently approved by the City Council. Several of the larger one-time revenues from the last few fiscal years are listed on the spreadsheet to show the extent of the total amount the City has received.

City staff has been extremely thorough over the years in ensuring that one-time revenues only cover one-time expenditures. Each budget year, one-time revenues are forecast and used as a base when reviewing and approving necessary one-time increases and/or enhancements to the City's budget. It has never been the practice of the City to have one-time revenues cover recurring expenditures

GENERAL FUND SCENARIO B:

This scenario includes all information from Scenario A, and adds one additional issue: the potential loss of a portion of the Utility User's Tax revenues if the voters do not approve modernizing the Utility User's Tax ordinance at the April 2008 election. Current legal challenges in other jurisdictions could threaten the City's revenue collected on cellular and wireless charges. If the ordinance is not updated and the City was to lose this revenue, the loss to the City would be approximately \$3+ million a year. On top of this, non-cellular (land-line) revenues from Telephone UUT have consistently been dropping as more and more people have been moving toward wireless phones and similar media for communications.

Since it is unknown if, or when, the City will lose this revenue, a decision was made to show the potential loss beginning in fiscal 2010-11. The calculation of the reserve percentage shows a drop of over 3.25% in this fiscal year from Scenario A. Regardless of the year this might be lost, the approximate reduction is more than 3% of revenues.

GENERAL FUND SCENARIO C:

This scenario includes all information from Scenario A and adds additional information based on potential land use policies (i.e. height and density requirements) and economic development. The areas and projects in which information has been analyzed are the Washington/National site, the Fox Hills area, commercial mixed use corridors, the proposed Entrada development, and Jefferson Blvd development. These areas/projects have been identified by the Community Development Department as underdeveloped areas that have significant land area with potential for development or large projects.

Consultants from Keyser Marston Associates estimated the financial impacts of proposed developments based on information provided to them by Community Development and Finance staff. The financial impact included in the Plan represents the net difference between estimated increased revenues generated from the project area and estimated increased service costs from the resulting development. Please note that the estimates provided in Scenario C are simply meant to demonstrate the

impact of development on the City's finances. These estimates are based on potential development as envisioned by staff based on current possibilities. The estimates do not necessarily represent actual proposed or planned projects.

Based on figures from the analysis, if the City and Redevelopment Agency aggressively pursued all of the potential developments identified, or substantially similar developments, the City could ultimately see a net increase in revenues of approximately \$2 million per year. While this does not fix the projected deficit problem, it does provide an avenue outside of reducing services or increasing taxes to improve on-going revenues. These projects would also likely generate fairly significant one-time revenues such as development and impact fees. For purposes of this analysis, it is assumed the additional revenues would be received incrementally over several years, with the first year being 2009-10.

GENERAL FUND SCENARIO D:

The fourth scenario includes all information from Scenario A and adds in annual costs to fund the OPEB contribution beginning in fiscal 2008-09. The actuarial analysis being conducted by Aon Consulting will not be completed until February, so this final calculation of the annual required contribution if the City were to fully fund the retirement obligation is not known at this time. However, a little over one year ago an actuary performed a summary analysis of Culver City data and estimated an annual required contribution figure of \$9.8 million. This figure would be inclusive of the current costs paid by the City for retiree medical of approximately \$3.4 million, and would therefore result in an additional \$6+ million per year. This is a very real scenario, in that there is no question the City will be required to address this matter. The only fact that remains to be seen is if the final actuarial analysis results in a dramatically different number than the estimate, which is probably not likely.

For purposes of this scenario, the assumption is that the City would decide to fully-fund the retirement obligation and elect to 'ease' into fully paying the additional \$6+ million over three years, with \$2 million showing in fiscal 2008-09, \$4 million showing in fiscal 2009-10 and \$6 million showing in fiscal 2010-11. It is important to understand, however, that any choice to pay less than the actuarially determined annual required contribution will result in a requirement to record the difference as a liability on the City's government-wide financial statements. In this case, there would be a \$6 million liability showing at the end of fiscal 2009-10.

There is currently no legal requirement to fully fund or fund any portion of the annual required contribution; however, this increasing liability on the City's financial statements will affect the City's credit rating and costs of borrowing. Future negotiations to reduce retiree medical contributions by the City could result in lowering this number, but it will be calculated based on the current agreements.

SCENARIO A

Includes implementation of Strategic Workforce Planning

Culver City						
January 16, 2008						
Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
GENERAL FUND (101) - Preliminary Beginning Balance						
	31,772,000	29,818,000	28,166,000	24,769,890	22,118,340	18,792,510
Fiscal Year Net Change						
Total Recurring Revenue	72,932,000	76,254,000	78,834,000	82,667,000	86,268,000	90,105,000
Total Interfund Transfers (Admin. Charges)	5,872,000	6,081,000	6,263,000	6,514,000	6,775,000	7,046,000
Projected New Westfield Revenue	0	0	300,000	800,000	840,000	882,000
Total One-Time Revenue	3,620,000	2,000,000	0	0	0	0
Total Revenue Projection	82,424,000	84,335,000	85,397,000	89,981,000	93,883,000	98,033,000
Total Recurring Expenditures	78,477,000	83,183,000	87,824,000	92,146,000	97,085,000	102,254,000
Reduce Personnel Costs 0.5%/year to 5% (Attrition/Best Mgmt Practice)	0	0	(364,890)	(767,450)	(1,210,170)	(1,695,440)
Total One-Time Expenditures	5,801,000	2,704,000	1,234,000	1,154,000	1,234,000	1,154,000
Total Expenditures Projection	84,278,000	85,887,000	88,693,110	92,532,550	97,108,830	101,712,560
Total FY Recurring Operating Surplus/Deficit	327,000	(848,000)	(2,062,110)	(1,397,550)	(1,991,830)	(2,525,560)
Current Set-aside for OPEB	100,000	100,000	100,000	100,000	100,000	100,000
General Fund - Preliminary Ending Balance (Operating)*	29,818,000	28,166,000	24,769,890	22,118,340	18,792,510	15,012,950
<i>General Fund Reserve Percentage (Recurring)</i>	38.00%	33.86%	28.32%	24.21%	19.60%	14.93%
General Fund Reserve Percentage (Not Including One-time Revenues)	33.38%	31.46%	28.32%	24.21%	19.60%	14.93%
General Fund - Balance (Carried Forward)	29,818,000	2,505,000	(3,692,110)	(9,168,660)	(15,344,490)	(22,000,050)
Total Deferred Maintenance**	2,778,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
Total Unfunded Capital	22,883,000	0	0	0	0	0
Total Deferred Maintenance & Unfunded Capital Projection	25,661,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
General Fund - Ending Balance (ALL)	4,157,000	(296,000)	(6,517,110)	(12,018,660)	(18,220,490)	(24,903,050)
<i>General Reserve Percentage (Recurring)</i>	5.30%	-0.36%	-7.42%	-13.04%	-18.77%	-24.35%

* Identified one-time revenues previously received and recorded include:

1st payment from Warner Lot (05-06)	2,620,000
Receipts from TOT audit/other (06-07)	650,000
Loan Receivable from RDA (06-07)	505,818
Int. Income from Refunding Bonds (06-07)	500,000
Documentary Tax Audit Receipts (05-06)	313,086
Documentary Tax Audit Receipts (06-07)	762,400
Sub-total	<u>5,351,304</u>

** Includes buildings, streets and parks.

SCENARIO B

Includes implementation of Strategic Workforce Planning

Culver City						
January 16, 2008						
Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
GENERAL FUND (101) - Preliminary Beginning Balance						
	31,772,000	29,818,000	28,166,000	24,769,890	19,118,340	12,747,510
<i>Fiscal Year Net Change</i>						
Total Recurring Revenue	72,932,000	76,254,000	78,834,000	82,667,000	86,268,000	90,105,000
Total Interfund Transfers (Admin. Charges)	5,872,000	6,081,000	6,263,000	6,514,000	6,775,000	7,046,000
Projected New Westfield Revenue	0	0	300,000	800,000	840,000	882,000
Total One-Time Revenue	3,620,000	2,000,000	0	0	0	0
Total Revenue Projection	82,424,000	84,335,000	85,397,000	89,981,000	93,883,000	98,033,000
Potential Loss of UUT	0	0	0	(3,000,000)	(3,045,000)	(3,090,675)
Revised Total Revenue Projection	82,424,000	84,335,000	85,397,000	86,981,000	90,838,000	94,942,325
Total Recurring Expenditures	78,477,000	83,183,000	87,824,000	92,146,000	97,085,000	102,254,000
Reduce Personnel Costs 0.5%/year to 5% (Attrition/Best Mgmt Practices)	0	0	(364,890)	(767,450)	(1,210,170)	(1,695,440)
Total One-Time Expenditures	5,801,000	2,704,000	1,234,000	1,154,000	1,234,000	1,154,000
Total Expenditures Projection	84,278,000	85,887,000	88,693,110	92,532,550	97,108,830	101,712,560
Total FY Recurring Operating Surplus/Deficit	327,000	(848,000)	(2,062,110)	(4,397,550)	(5,036,830)	(5,616,235)
Current Set-aside for OPEB	100,000	100,000	100,000	100,000	100,000	100,000
General Fund - Preliminary Ending Balance (Operating)	29,818,000	28,166,000	24,769,890	19,118,340	12,747,510	5,877,275
<i>General Reserve Percentage</i> (Recurring)	38.00%	33.86%	28.32%	20.92%	13.30%	5.84%
General Fund Reserve Percentage (Not Including One-time Revenues)	33.38%	31.46%	28.32%	20.92%	13.30%	5.84%
General Fund - Balance (Carried Forward)						
	29,818,000	2,505,000	(3,692,110)	(12,168,660)	(21,389,490)	(31,135,725)
Total Deferred Maintenance**	2,778,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
Total Unfunded Capital**	22,883,000	0	0	0	0	0
Total Deferred Maintenance & Unfunded Capital Projection	25,661,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
General Fund - Ending Balance (ALL)	4,157,000	(296,000)	(6,517,110)	(15,018,660)	(24,265,490)	(34,038,725)
<i>General Reserve Percentage</i> (Recurring)	5.30%	-0.36%	-7.42%	-16.30%	-24.99%	-33.29%
* Identified one-time revenues previously received and recorded include:						
1st payment from Warner Lot (05-06)	2,620,000					
Receipts from TOT audit/other (06-07)	650,000					
Loan Receivable from RDA (06-07)	505,818					
Int. Income from Refunding Bonds (06-07)	500,000					
Documentary Tax Audit Receipts (05-06)	313,086					
Documentary Tax Audit Receipts (06-07)	762,400					
Sub-total	<u>5,351,304</u>					
** Includes buildings, streets and parks.						

SCENARIO C

Includes implementation of Strategic Workforce Planning

Culver City						
January 16, 2008						
Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
GENERAL FUND (101) - Preliminary Beginning Balance						
	31,772,000	29,818,000	28,166,000	25,469,890	24,218,340	22,892,510
<i>Fiscal Year Net Change</i>						
Total Recurring Revenue	72,932,000	76,254,000	78,834,000	82,667,000	86,268,000	90,105,000
Total Interfund Transfers (Admin. Charges)	5,872,000	6,081,000	6,263,000	6,514,000	6,775,000	7,046,000
Projected New Westfield Revenue	0	0	300,000	800,000	840,000	882,000
Land-Use Planning and Density	0	0	700,000	1,400,000	2,000,000	2,080,000
Total One-Time Revenue	3,620,000	2,000,000	0	0	0	0
Total Revenue Projection	82,424,000	84,335,000	86,097,000	91,381,000	95,883,000	100,113,000
Total Recurring Expenditures	78,477,000	83,183,000	87,824,000	92,146,000	97,085,000	102,254,000
Reduce Personnel Costs 0.5%/year to 5% (Attrition/Best Mgmt Practices)	0	0	(364,890)	(767,450)	(1,210,170)	(1,695,440)
Total One-Time Expenditures	5,801,000	2,704,000	1,234,000	1,154,000	1,234,000	1,154,000
Total Expenditures Projection	84,278,000	85,887,000	88,693,110	92,532,550	97,108,830	101,712,560
Total FY Recurring Operating Surplus/Deficit	327,000	(848,000)	(1,362,110)	2,450	8,170	(445,560)
Current Set-aside for OPEB	100,000	100,000	100,000	100,000	100,000	100,000
General Fund - Preliminary Ending Balance (Operating)	29,818,000	28,166,000	25,469,890	24,218,340	22,892,510	21,192,950
<i>General Reserve Percentage</i> (Recurring)	38.00%	33.86%	29.12%	26.50%	23.88%	21.08%
<i>General Fund Reserve Percentage</i> (Not Including One-time Revenues)	33.38%	31.46%	29.12%	26.50%	23.88%	21.08%
General Fund - Balance (Carried Forward)	29,818,000	2,505,000	(2,992,110)	(7,068,660)	(11,244,490)	(15,820,050)
Total Deferred Maintenance**	2,778,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
Total Unfunded Capital**	22,883,000	0	0	0	0	0
Total Deferred Maintenance & Unfunded Capital Projection	25,661,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
General Fund - Ending Balance (ALL)	4,157,000	(296,000)	(5,817,110)	(9,918,660)	(14,120,490)	(18,723,050)
<i>General Reserve Percentage</i> (Recurring)	5.30%	-0.36%	-6.62%	-10.76%	-14.54%	-18.31%
* Identified one-time revenues previously received and recorded include:						
1st payment from Warner Lot (05-06)	2,620,000					
Receipts from TOT audit/other (06-07)	650,000					
Loan Receivable from RDA (06-07)	505,818					
Int. Income from Refunding Bonds (06-07)	500,000					
Documentary Tax Audit Receipts (05-06)	313,086					
Documentary Tax Audit Receipts (06-07)	762,400					
Sub-total	5,351,304					
** Includes buildings, streets and parks.						

SCENARIO D

Includes implementation of Strategic Workforce Planning

Culver City						
January 16, 2008						
Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
GENERAL FUND (101) - Preliminary Beginning Balance	31,772,000	29,818,000	26,266,000	18,969,890	10,418,340	1,192,510
<i>Fiscal Year Net Change</i>						
Total Recurring Revenue	72,932,000	76,254,000	78,834,000	82,667,000	86,268,000	90,105,000
Total Interfund Transfers (Admin. Charges)	5,872,000	6,081,000	6,263,000	6,514,000	6,775,000	7,046,000
Projected New Westfield Revenue	0	0	300,000	800,000	840,000	882,000
Total One-Time Revenue	3,620,000	2,000,000	0	0	0	0
Total Revenue Projection	82,424,000	84,335,000	85,397,000	89,981,000	93,883,000	98,033,000
Total Recurring Expenditures	78,477,000	83,183,000	87,824,000	92,146,000	97,085,000	102,254,000
Reduce Personnel Costs 0.5%/year to 5% (Attrition/Best Mgmt Practices)	0	0	(364,890)	(767,450)	(1,210,170)	(1,695,440)
Potential Annual Payments for OPEB Related Funding Needs	100,000	2,000,000	4,000,000	6,000,000	6,000,000	6,000,000
Total One-Time Expenditures	5,801,000	2,704,000	1,234,000	1,154,000	1,234,000	1,154,000
Total Expenditures Projection	84,378,000	87,887,000	92,693,110	98,532,550	103,108,830	107,712,560
Total FY Recurring Operating Surplus/Deficit	327,000	(2,848,000)	(6,062,110)	(7,397,550)	(7,991,830)	(8,525,560)
General Fund - Preliminary Ending Balance (Operating)	29,818,000	26,266,000	18,969,890	10,418,340	1,192,510	(8,487,050)
<i>General Reserve Percentage</i> (Recurring)	38.00%	31.58%	21.69%	11.40%	1.24%	-8.44%
<i>General Fund Reserve Percentage</i> (Not Including One-time Revenues)	33.38%	29.17%	21.69%	11.40%	1.24%	-8.44%
General Fund - Balance (Carried Forward)	29,818,000	605,000	(9,492,110)	(20,868,660)	(32,944,490)	(45,500,050)
Total Deferred Maintenance**	2,778,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
Total Unfunded Capital**	22,883,000	0	0	0	0	0
Total Deferred Maintenance & Unfunded Capital Projection	25,661,000	2,801,000	2,825,000	2,850,000	2,876,000	2,903,000
General Fund - Ending Balance (ALL)	4,157,000	(2,196,000)	(12,317,110)	(23,718,660)	(35,820,490)	(48,403,050)
<i>General Reserve Percentage</i> (Recurring)	5.30%	-2.64%	-14.02%	-25.74%	-36.90%	-47.34%
* Identified one-time revenues previously received and recorded include:						
1st payment from Warner Lot (05-06)	2,620,000					
Receipts from TOT audit/other (06-07)	650,000					
Loan Receivable from RDA (06-07)	505,818					
Int. Income from Refunding Bonds (06-07)	500,000					
Documentary Tax Audit Receipts (05-06)	313,086					
Documentary Tax Audit Receipts (06-07)	762,400					
Sub-total	5,351,304					
** Includes buildings, streets and parks.						

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE

for Refuse Fund

INTRODUCTION

The Refuse Fund is an Enterprise Fund that was established to provide for municipal waste removal and recycling services from the residential, commercial, and industrial areas of the City. The Refuse Fund also provides funds for a city-wide street sweeping contract and operation of a transfer station to transport non-hazardous solid wastes to material processors for reuse or recycling or to disposal sites as appropriate. The refuse operation strives to provide efficient and effective municipal waste removal services and recover the maximum volume of recyclable or reusable material from the waste stream.

Residential crews provide weekly trash and recycling removal service to family dwellings consisting of up to four units in size. Residents are billed annually for the trash services through the LA County tax collection system.

Commercial collection crews provide scheduled and non-scheduled trash removal to all businesses and multi-family residential units consisting of more than four units. The commercial collection crews also service pedestrian receptacles located throughout the City and remove large bulky items set out by residents and businesses. Businesses and property managers are billed monthly for the commercial service that occurs during the month.

The Transfer Station receives and processes non-hazardous municipal solid wastes and transfers it to large transfer vehicles to be hauled to sanitary landfills or salvage or recycling facilities. Personnel at the Transfer Station are also responsible for inspecting wastes to determine if hazardous or toxic materials are in the waste stream and to remove and store such materials for up to 90 days until disposal arrangements can be made in accordance with Federal and State Regulations.

As an enterprise fund, the Refuse Fund charges customers for the provision of services. Operating expenses include the cost of providing service, administrative expenses, street-sweeping, recycling outreach, and acquiring, replacing, and maintaining capital assets (e.g. maintenance of the Transfer Station and replacing old refuse vehicles). In order to ensure that revenues are sufficient to cover operating costs, refuse removal rates are reviewed annually and adjusted as necessary.

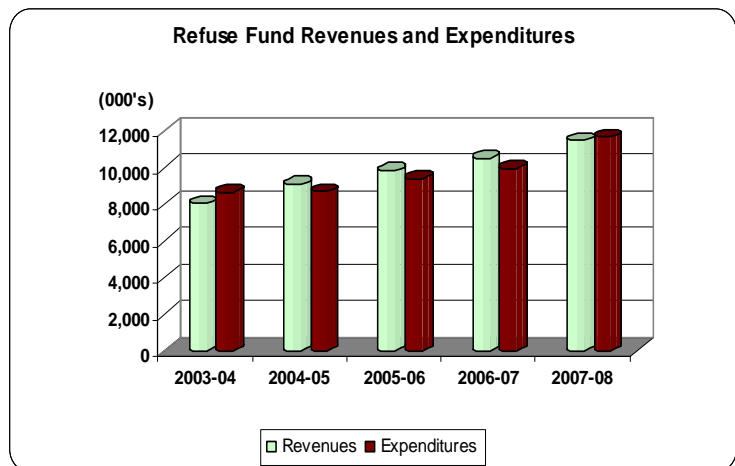
FISCAL YEAR 2007-08 HIGHLIGHTS

The Adopted 2007-08 Budget includes a number of staffing changes to increase the efficiency of the operations, including reclassifying a secretary position to an Associate Analyst. Additionally, the 2007-08 budget includes:

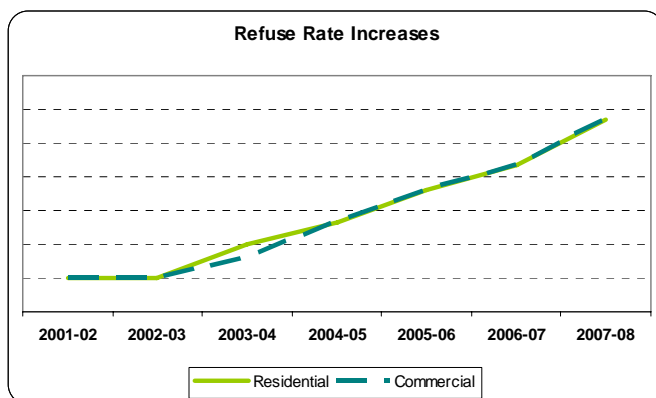
- 10% increase in commercial and residential refuse disposal rates
- Purchase of 6 new CNG Refuse Side Loader Trucks to replace older Trucks (funding from Equipment Replacement Fund)
- Funding to replace the in-ground scales for out-bound trucks
- Residential Recycling will be enhanced to once a week collection beginning in 2008
- Remodeling of the Transfer Station office and repair to the roof at the Transfer Station

BACKGROUND

Prior to 2003-04, there had been no increase in residential or commercial refuse collection fees for more than five years. However, personnel costs, landfill fees, fuel prices, and regulatory fees continued to increase. As a result, the Refuse fund was operating at a deficit during the early 2000's. To address this issue, a rate study was done prior to the adoption of the 2003-04 budget and rates were increased 10% for residential customers and 6% for commercial customers.



The following year, rates were increased again (6% residential, 10% commercial). To cover prior year deficits and restore the Fund's reserve, rates have been continually increased for all customers in 2005-06 (8%), 2006-07 (6%), and 2007-08 (10%). Although the gap is closing, the Fund is now faced with large, incremental increases in solid waste disposal costs.



The County Sanitation District is anticipating significant solid waste disposal cost increases as local landfill capacity is depleted over the next twenty years. In order to smooth this transition, the disposal charges for the City's refuse

that is taken to the Sanitation District landfills (which handles the majority of the City's refuse) will increase at a rate of approximately 10% to 12% per year over the next twenty years. Currently, disposal costs represent approximately 15% of the operating costs of the Public Works Department Sanitation Division.

In addition to increasing personnel costs and disposal costs discussed above, the other costs to provide municipal waste services continue to increase as well. The Refuse Fund maintains a fleet of large sanitation trucks and heavy equipment, which require a more rigorous maintenance and replacement schedule. A number of sanitation vehicles are scheduled for retirement in 2007-08. Per the City's policy, these trucks will be replaced with trucks fueled by Compressed Natural Gas (CNG), which are much cleaner and better for the environment than diesel. Culver City is proud to be a leader in purchasing environmentally responsible vehicles; however, the cost to purchase and maintain CNG powered vehicles is greater than traditional diesel powered vehicles. As more vehicles are manufactured due to mandate requirements, the cost is expected to decrease. This may not happen, though, for a few more years.

Currently, the additional cost for CNG vehicles runs about 25% more than traditional diesel-powered vehicles. Future rate increases will be necessary to ensure the financial stability of the refuse operation.

ECONOMIC OVERVIEW

Many of the same economic pressures constraining the General Fund are also impacting the Refuse Fund. Aside from escalating personnel costs and fuel prices, the limited availability of raw materials has greatly increased the price of steel. This has made new bins, replacement parts for older vehicles, and the purchase of new vehicles more expensive.

Additionally, as mentioned earlier, local landfill capacity will be depleted over the next twenty years. As a result, disposal costs will increase dramatically in the future as the transition from local landfills to rail haul disposal to more distant locations occurs. To account for and provide a smooth transition toward these dramatically increased waste disposal costs, the County Sanitation District is increasing the disposal costs it charges to its customers (such as Culver City) at an annual rate of approximately 11% over the next twenty years. The refuse fund expenditure projections take into account these projected disposal costs increases.

PROJECTIONS AND ANALYSIS OF EXPENDITURES

OVERVIEW

An important focus of the Refuse Fund over the next few years has to be improving its overall fiscal health to eliminate the fund's negative balance and develop a reserve. Additionally, the capital and operational needs of the Refuse fund that have been deferred over the last few years will have to be phased in on a priority basis as the revenue generated by fees for service allow. While increasing the fees is a necessity, we need to be cognizant of the effect it will have on Culver City residents and commercial businesses in the City.

DISCUSSION OF REVENUE PROJECTIONS

In order to restore and maintain the financial health of the Refuse Fund, commercial and residential waste removal fees will need to continue to be increased in the future. The revenue projections assume that there will be an increase of approximately 10% in FY 2008-09. With this increase and if current expenditures stay within the anticipated growth forecast, then the Refuse Fund should have a positive fund balance by the end of FY 2008-09.

After 2008-09 the rate increases are planned to be lowered to 5% per fiscal year. This will be reviewed in the future to ensure that these increases are sufficient to keep pace with operating costs. It is quite likely rates may need to be kept at a 10% increase per year for longer than projected in order to assist in generating revenue to cover proposed expanded operations and capital improvement needs for the Transfer Station to support on-going and expanded operations. This largely depends on the outcome of discussions currently underway with the City of Los Angeles or possible future agreements with other third parties for joint use of the Transfer Station facilities.

DISCUSSION OF EXPENDITURE PROJECTIONS

Personnel expenditures are forecasted to increase 4.0% across the board, with the exception of medical premiums. Medical premiums are forecasted to increase 12.5% in fiscal 2007-08, with small adjustments downward in subsequent years. Operating and maintenance expenses are forecasted to grow 3.5% per year. The exception to this could be garage expenses and amortization charges to the Equipment Replacement Fund. Fuel prices have become a large issue for all Funds that utilize vehicles in their operations. These expenses are difficult to forecast, and for the purpose of this analysis have had the same 3.5% growth rate associated with them.

A major challenge facing the Refuse Fund is identifying and receiving funding in order to cover needed upgrades and expansion of its operations. Anticipated upgrades and expanded services are discussed below:

- Transfer Station through-put tonnage increase from a maximum of 500 tpd to 750 tpd and is scheduled for implementation in 2008-09. This will allow increased revenue generation through the transfer station and will require additional long hauling which is currently projected to be handled through contract. Also, an additional Heavy Equipment Operator will be required for expanded hours of operation at the Transfer Station. In 2014-15 the Transfer Station through-put is anticipated to be further expanded from 750 tpd to 900 tpd. This will provide for further revenue generation through the Transfer Station and will require expanded contract operations, an additional loader, Heavy Equipment Operator, and Laborer.
- Capital Improvements needs over the next several years include repairs to the perimeter fencing, repairs to the Transfer Station fire sprinkler system, and implementation of storm water pollution prevention measures at the Transfer Station.
- Bulky Item/Illegal Dumps are an immediate need. To address the need for more responsive bulky item and illegal dumping pickup, a Driver and Collector will be proposed to be added in 2008-09. A Rear-Loader Truck was put into service in 2007-08.
- Field Supervisor Position is proposed to be added in 2008-09 to address code enforcement issues in the areas of scavenging, illegal dumping, unauthorized bins and refuse services and to provide increased safety monitoring.
- GPS Implementation is projected to be phased in over several years beginning with the Commercial Fleet and Roll-Off Trucks in 2007-08 and expanding to Long Haul Trucks in 2008-09 followed by remaining vehicles in 2009-10.
- Route Audits are proposed for 2008-09 after GPS system implementation which will allow for easier analysis of routes.
- Drive Cams will be installed in 2010-11 to provide valuable data for managers to help drivers develop safer driving habits.

Inclusion of these measures would increase the funds negative balance in the first two years with the fund balance becoming positive in fiscal 2012-13. Further analysis of these measures will be done in the coming year.

THIS PAGE INTENTIONALLY LEFT BLANK

Culver City

January 16, 2008

Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
REFUSE FUND (202) - Preliminary Beginning Balance	(198,000)	75,000	955,000	2,461,000	4,133,000	5,987,000
<i>Fiscal Year Net Change</i>						
Total Recurring Revenue	11,484,000	12,499,000	13,749,000	14,575,000	15,451,000	16,378,000
Total One-Time Revenue	0	0	0	0	0	0
Total Revenue Projection	11,484,000	12,499,000	13,749,000	14,575,000	15,451,000	16,378,000
Total Recurring Expenditures	11,211,000	11,619,000	12,243,000	12,903,000	13,597,000	14,323,000
Total One-Time Expenditures	0	0	0	0	0	0
Total Expenditures Projection	11,211,000	11,619,000	12,243,000	12,903,000	13,597,000	14,323,000
Total Refuse FY Operating Surplus/Deficit	273,000	880,000	1,506,000	1,672,000	1,854,000	2,055,000
Refuse Fund - Preliminary Ending Balance (Operating)	75,000	955,000	2,461,000	4,133,000	5,987,000	8,042,000
<i>Reserve Percentage</i> (Recurring)	<i>0.67%</i>	<i>8.22%</i>	<i>20.10%</i>	<i>32.03%</i>	<i>44.03%</i>	<i>56.15%</i>

THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE for the Transit Fund

INTRODUCTION

The Transit Fund is an Enterprise Fund that was established to provide efficient and effective public transportation services and high quality, low cost equipment maintenance services to the City of Culver City. The Culver City Municipal Bus Line, aka Culver CityBus, provides public transit services on seven regular routes throughout Culver City and the surrounding area and services a number of major employment, health, commercial, educational, and recreational centers in the area.

The Transportation Department is responsible for providing administration and oversight of Transit Fund operations. The Transportation Department also oversees the City's regional transportation planning activities and administers both the Equipment Replacement Fund and the activities of the Equipment Maintenance Division, which is responsible for equipment and vehicle maintenance. A more in-depth discussion of the Equipment Replacement Fund is included in the Equipment Replacement Fund section of this report.

As an Enterprise Fund, the Transit Fund charges customers for the provision of services via bus fares. However, the majority of the Fund's revenues are derived from other funding sources, including grants and appropriations from the state and federal governments.

Operating expenses include the cost of providing service, administrative expenses, and acquiring, replacing, and maintaining capital assets (e.g. maintaining and replacing the Bus Fleet). Since the Transit Fund is highly subsidized by other governmental agencies, their ability to increase or decrease bus fares to raise revenue has historically been highly restricted. This restriction was recently lifted, and Transportation may look to increase fares sometime in the future.

FISCAL YEAR 2007-08 HIGHLIGHTS

The Adopted 2007-08 Budget contains funding for a number of programs and studies to improve the efficiency and effectiveness of Culver CityBus, including:

- A Line-by-Line Analysis to analyze the efficiency, effectiveness, and services provided by the current transit system
- A Service Plan to implement new service lines to new developments in and around Culver City
- Implementation of the Universal Fare System fareboxes and a Customer Relations Management program

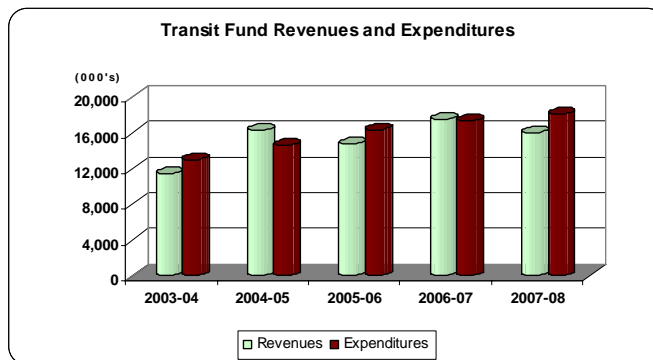
Additionally, the Transportation Department relies heavily on funding from county, state and federal agencies. The FY 2007-08 State Budget negatively impacted the Transportation Department by diverting most of the state’s gas tax “spillover” funds from mass transit funds to pay for General Fund expenses, such as school buses and past bond payments. By State law, the Transit Fund was set to receive more from the State Transportation Assistance account prior to the passage of the State’s Budget. Unfortunately, the State also diverted those funds in the future as well, so even if there is no gas tax “spillover,” those funds will continue to be diverted from the transit uses unless there is a permanent fix.

BACKGROUND

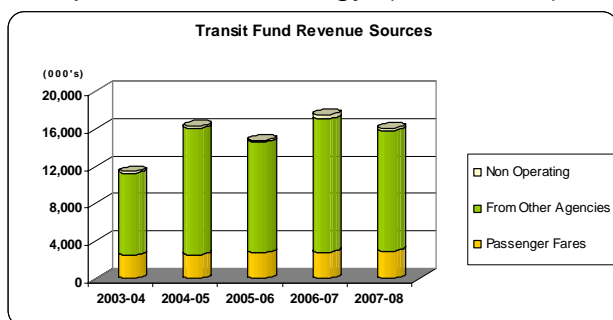
Culver CityBus is the second oldest municipally-owned bus line in the state of California, with over 75 years of tradition and experience behind our service. Culver CityBus was organized in 1928 by the late Mayor Reve E. Houck, with the aid of the City Council, after a dispute with the Pacific Electric Railway over rising fares. Service was initiated on March 4, 1928 when Mayor Houck drove a bus from Washington and Rimpau Boulevards to Venice to inaugurate municipal bus service.

Today, Culver CityBus proudly serves the Westside communities of Century City, Culver City, Mar Vista, Marina del Rey, Palms, Venice, Venice Beach, West Los Angeles, Westchester, and Westwood.

Culver CityBus is a nationally recognized operation whose fleet was recently ranked seventh of



approximately five hundred North American programs in the national trade magazine, *Fleet Equipment* magazine. Culver CityBus is also a nationally recognized leader in transportation technology (Smart Bus) and environmental friendliness with all of the current fleet being fueled by compressed natural gas (CNG).



approximately eighty percent (80%) of the Fund’s revenues are from outside agencies. The major sources of the Transit Fund are the Federal Transportation Administration (FTA), the Transit Development Act, and Proposition A & C money (see Prop A & C section of this report for more information).

Consequently, depending on those agency's priorities, funding may be highly variable from year to year. Until recently, the Transit Fund did not have the flexibility to increase fares to cover increased expenditures. This restriction to increase fares has recently been lifted and Transportation may consider an increase in fares in the future.

Nevertheless, public transportation and traffic and congestion relief have been one of California's top priorities over the last decade. The Transit Fund's current financial position should allow it to continue to provide a high level of service to the Westside communities for years to come.

ECONOMIC OVERVIEW

With the population explosion in California over the last 10 – 15 years, dealing with the related increase in traffic and congestion has become one of the biggest challenges faced by Californians. As such, voters have approved a few funding sources that are specifically dedicated to funding transportation projects and public transportation operations. Propositions A & C are both sales taxes that have been approved by Los Angeles County voters. Since these funding sources are sales taxes, they are economically sensitive (see the Prop A & C section of this report for more information); however, they are much more stable than the alternative of relying on an annual appropriation from the state legislature.

In addition to Prop A & C, there are a number of state and federal grants programs that are used for transit operations. These funds are allocated annually and are subject to the existing political and economic climate. With an increasing number of federal dollars being diverted towards homeland security and the war in Iraq, the amount of funds available for transportation related projects and programs may begin to shrink in the near future.

PROJECTIONS AND ANALYSIS OF REVENUES AND EXPENDITURES

OVERVIEW

The Transit Fund is facing similar fiscal issues as the General Fund. Due to the ever-changing variables associated with these issues, it is difficult to realistically foresee more than two or three years into the future for certain funding sources, and even less in some cases. As was mentioned previously, the Transit Fund currently has a healthy reserve and would be able to stave off any unforeseen expenses that may occur in the very near future. Since the Transit Fund is heavily dependant on outside funding sources, it is imperative that it maintains sound oversight of its spending.

DISCUSSION OF REVENUE PROJECTIONS

Assumptions that were made in this analysis after fiscal 2007 include a 3.8% to 4.0% growth in local revenues, and a modest 3.0% growth in fare box revenues.

The Transit Fund is anticipating a little over \$900,000 a year in funds relating to new bus services to Playa Vista from 2009-2011. These funds will assist in covering ongoing expenditures.

Infrastructure Bond 1B Funds for Public Transit were expected to be allocated during Fiscal 2008 through 2012 in the amount of \$8.4 Million for Culver City. These bond monies will primarily fund Culver City's Aerial station and can be used towards other transit capital expenses. However, FY 2008 Bond funds allocated to Culver City were only \$213,376. Since Metro received a disproportionately larger share of the funds, this year, they have agreed to backfill projects with Prop A and C funds as well as for future allocations.

With the estimated forecast of revenues over the next few fiscal years, it must also take into consideration the Formula Allocation Procedure employed by Metro to distribute local and state transit funding to all of the County's Municipal Bus Operators. With Metro's fare increases in July 2007, much of the region's funding will likely cause a shift towards Metro, to the detriment of all of the other Municipal Operators, including Culver City.

Most of the revenues received from other agencies are projected to remain growing at a fairly constant rate. However, it should be noted that some of those funds can be subject to change in the amount or eligibility at the will of those agencies.

DISCUSSION OF EXPENDITURE PROJECTIONS

To the extent possible, recurring operating expenditures are covered with recurring revenues. Personnel costs are estimated to grow 4.0% per current MOU negotiations, with medical premiums growing at 12.5% in fiscal 2007-08, and slightly less in subsequent years. Ongoing operating and maintenance costs are estimated to grow at approximately 3.5%. STA Funds can be used for operating expenses, and continued use of these funds for operating expenses is subject to an annual test based on expense growth versus the Consumer Price Index (CPI). Unfortunately, the Transit Fund did not pass the annual test, but has been able to continue to receive these funds for capital expenses.

The Transit Fund currently reimburses the General Fund for administrative charges, which increases between 3% - 4% per year primarily due to personnel cost increases. The administrative charges, or indirect costs, are determined through the Cost Allocation Plan prepared each year, which meets the compliance of Federal and State grants reimbursement guidelines. The Cost Allocation Plan allocates costs of services and programs to using Departments and Enterprise Funds based on the level of services received. Some of these services include payroll processing, information technology, financial, and communications services.

Culver City

January 16, 2008

Description	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
TRANSIT FUND (203) - Preliminary Beginning Balance	8,562,000	6,503,000	11,220,000	12,561,000	13,510,000	14,029,000
<u>Fiscal Year Net Change</u>						
Total Recurring Revenue	17,004,000	18,234,000	18,763,000	19,328,000	19,894,000	20,482,000
Total One-Time Revenue	3,539,000	5,289,000	2,300,000	2,300,000	2,300,000	1,400,000
Total Revenue Projection	20,543,000	23,523,000	21,063,000	21,628,000	22,194,000	21,882,000
Total Recurring Expenditures	16,174,000	18,806,000	19,722,000	20,679,000	21,675,000	22,709,000
Total One-Time Expenditures	6,428,000	0	0	0	0	0
Total Expenditures Projection	22,602,000	18,806,000	19,722,000	20,679,000	21,675,000	22,709,000
Total Transit FY Operating Surplus/Deficit	4,369,000	4,717,000	1,341,000	949,000	519,000	(827,000)
Transit Fund - Preliminary Ending Balance (Operating)	6,503,000	11,220,000	12,561,000	13,510,000	14,029,000	13,202,000
<i>Reserve Percentage</i> (Recurring)	40.21%	59.66%	63.69%	65.33%	64.72%	58.14%

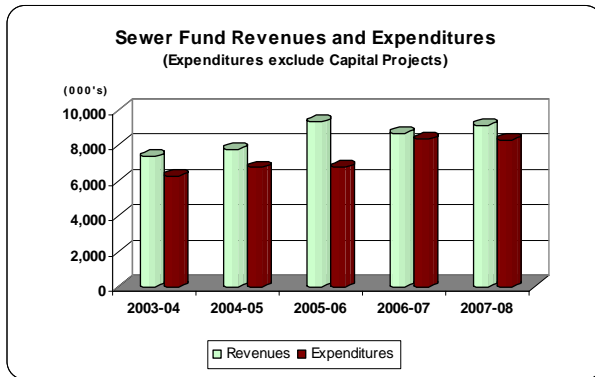
THIS PAGE INTENTIONALLY LEFT BLANK

CITY OF CULVER CITY

COMPREHENSIVE FINANCIAL STRATEGY UPDATE for the Sewer Fund

INTRODUCTION

The Sewer Fund is an Enterprise Fund that was established to provide for conveyance, treatment, maintenance and repair services for the City's sewer system. The sewer crew of the Public Works Department Operations and Maintenance Division is funded by the sewer fund and is responsible for maintaining the City's system of subsurface gravity and pressurized sewer lines, sewer gauging devices, and sewage lift stations, including the pumps and auxiliary equipment.



The City charges customers for the provision of services through wastewater fees which are collected by an annual property assessment and deposited in the sewer fund. In addition to the maintenance of the sewer system in Culver City, the wastewater fees are used to pay the debt service for the City's pro-rata share of a wastewater revenue bond that was used to upgrade the Los Angeles Hyperion Wastewater Treatment Plant to meet EPA requirements. The Sewer Fund

also pays for the City of Culver City's share of the Los Angeles Amalgamated Cities Capital Improvement Program for conveyance of Culver City sewage to that Treatment Plant.

FISCAL YEAR 2007-08 HIGHLIGHTS

The Adopted 2007-08 Budget includes a number of staffing changes to increase the efficiency of the operations, including reclassifying a number of positions, adding a Management Analyst (shared with the Refuse Fund), adding a Sr. Civil Engineer (shared with the General Fund), and an Associate Engineer. Additionally, the 2007-08 Budget includes:

- 10% increase in the Sewer Users' Charge
- \$1,650,000 for sewer repair and pump station improvement projects

BACKGROUND

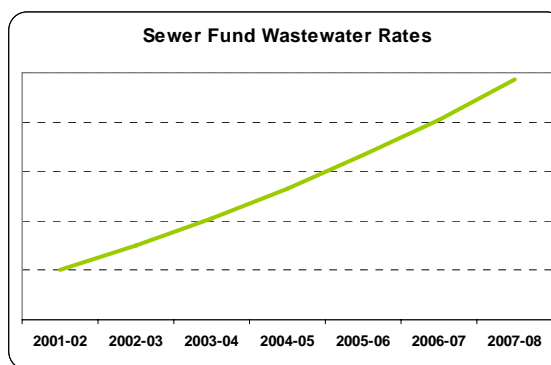
Prior to 2002-03, sewer wastewater fees had not been increased in more than ten years. However, personnel and operational costs, waste disposal fees, and costs to comply with state and federal mandates continued to increase. As a result, the Sewer Fund was

operating at a deficit in the early 2000's. To address this issue, a rate study was done prior to the 2002-03 budget and wastewater rates were increased 10%. There have been rate increases in each subsequent fiscal year, including 2007-08.

ECONOMIC OVERVIEW

Sewer charges from the City of Los Angeles for use of the Hyperion Treatment Plant decreased by approximately 20% in 2007-08 from the prior year. Previously the City has seen large increases, and these are expected to begin again in fiscal 2008-09 and continue for the next few fiscal years. Additionally, the City must comply with new Waste Discharge Requirements established by the State Water Resources Control Board.

Currently, the Sewer Fund has a healthy reserve balance. No rate increase is anticipated for the next two fiscal years (FY 08-09 and 09-10); however, in order to avoid depleting the Sewer Fund's reserve balance, additional fee increases of 4% per year will be necessary in future fiscal years.



PROJECTIONS AND ANALYSIS OF EXPENDITURES

OVERVIEW

The Sewer Fund maintains an extremely healthy fund balance due to Wastewater Facility Bonds that were issued in 1992. These funds were used to fund the City's share of improvements to the Hyperion Wastewater treatment plant and to fund a local sewer replacement program.

DISCUSSION OF REVENUE PROJECTIONS

Revenue projections for the Sewer Fund are held at a steady 4% rate of growth with the exception of the next two years wherein revenue growth will be flat. This places a steady increase in fees on users per year rather than hitting them with larger increases every few years. This increase is anticipated to be enough to cover ongoing operating and maintenance increases as well as ongoing sewer capital projects.

The current fund balance, of which the majority is from the Wastewater Facility Bonds, has been used to cover capital costs relating to sewer projects. If the anticipated projects are completed, this funding will be exhausted in 2013-14.. The main jump in cost indicated on the worksheet is the possible application cost (estimated at \$25 million and spread over several years) and other costs to join the LA County Sanitation District. In exploring this option, the City is looking at the possibility of future savings by removing itself from the Amalgamated Cities Agreement with Los Angeles. Membership in the LA County Sanitation District would also provide the City with representation that it currently

