

CITY OF CARSON FISCAL YEAR 2017-18 (FY17-18) BUDGET NARRATIVE

The reader of this narrative will have a good understanding of the City's budget structure, current budget challenges, and the future budget outlook. The narrative includes a snapshot of the entire City budget, General Fund highlights, employee retirement obligations, the structural budget deficit, significant sources of restricted revenues, the Capital Improvement Program, the five-year outlook, staffing trends, and information about the budget process.

Overview of the City of Carson

The City of Carson is located in the South Bay area of Los Angeles County, California. Carson's proximity to the Port of Los Angeles and several major freeways makes the City an ideal location for residents, business and industry. The City provides public safety, land use management, parks & recreation, public transit, right-of-way infrastructure maintenance, and human services to its culturally diverse population of approximately 94,000. Residents are also served by the Los Angeles County Fire Department, Los Angeles County Public Library, and the Los Angeles Unified School District. Utility services are provided by public utility companies with franchise agreements granted by the City.



Carson's footprint is 19.2 square miles, and includes 123 acres of City parks with robust recreation and human services programs. The City's Community Center is located 10 minutes from Los Angeles World Airports, and provides 40,000 square feet of flexible meeting space for local and regional groups. Significant landmarks include California State University Dominguez Hills and the Stub Hub Center, a 27,000-seat soccer stadium that is the permanent home of the Los Angeles Galaxy soccer team and the temporary home of the Los Angeles Chargers football team until a permanent stadium is constructed in Inglewood.

Carson was incorporated as a General Law City in February 1968, and operates under the Council-Manager form of government. The City Council is the legislative and policy making body, with the Mayor and four Council Members elected on a non-partisan basis. The City Clerk and City Treasurer are also elected by the City’s voters. The City Council appoints the City Attorney and the City Manager. The City Manager is responsible for carrying out City Council policy, overseeing the day-to-day operations of the City, and appointing the Department Directors.

The City’s Budget

The City’s budget is adopted by the City Council at the recommendation of staff in order to execute the City Council’s plan to provide services to the Carson community. Staff prepares the estimates for all revenues and expenditures, and presents findings and recommendations to the City Council and the public at budget workshops. The City Council conducted budget workshops on March 21st, April 18th, May 16th and June 6th. The final 2017-18 budget was adopted by the City Council after a public budget hearing on June 20, 2017. Due to shared administration, this document includes the adopted budgets for the City, the Carson Housing Authority, Carson Successor Agency to the dissolved redevelopment agency, and Carson Joint Powers Reclamation Authority; even though these are all separate legal entities.

	General Fund	Restricted Funds	Total City Budget	Housing Authority	Successor Agency	Reclamation Authority
Beginning Balances, July 1, 2016	\$ 12,783,162	\$ 12,089,642	\$ 24,872,804	\$ 15,016,739	\$ (170,483,886)	\$ 91,877,906
Revenue	76,167,709	13,409,346	89,577,055	178,255	26,895,580	33,477,692
Expenditures	(79,163,237)	(19,948,116)	(99,111,353)	(860,659)	(20,603,921)	(57,060,156)
Net Transfers Between Funds	(456,699)	456,699	-	233,844	(233,844)	
Ending Balances, June 30, 2017	\$ 9,330,935	\$ 6,007,571	\$ 15,338,506	\$ 14,568,179	\$ (164,426,071)	\$ 68,295,442

General Fund Highlights

The General Fund is the primary operating fund of the City and accounts for 85% of estimated City-wide FY17-18 revenue. Any revenues that are unrestricted and available to spend on any City expenditure are deposited into the General Fund. Restricted Revenues are deposited into Special Revenue funds, and are used for projects and other expenditures in accordance with specific guidelines. The adopted FY17-18 General Fund budget maintains the current level of services to the Carson community; however, revenue losses and increased expenditures have led to a net annual deficit.

Revenue	\$ 76,167,709
Expenditures	(79,163,237)
Transfers from other funds	20,301
Transfers to other funds	(477,000)
Net Activity	\$ (3,452,227)

The deficit of the FY 17-18 budget is equivalent to 4.5% of the General Fund revenue. Due to the deficit budget structure, the estimated General Fund Reserve balance is expected to be less than the City Council’s policy Reserve for Economic Uncertainties; which is set at 20% of General Fund Expenditures or \$15.8 million.

Estimated General Fund Reserve, beginning	\$ 12,783,162
Net FY17-18 Activity	(3,452,227)
Estimated General Fund Reserve, ending	\$ 9,330,935

The beginning General Fund Reserve estimated for July 1, 2017 was \$12,783,162 at the time the budget was adopted. Immediately after budget adoption, the City received a \$2 million payment from Macerich, the developer that is planning to build a fashion outlet mall on land owned by the Carson Reclamation Authority. The \$2 million payment to the City's General Fund is non-refundable unless the City defaults on the agreement with Macerich. In July 2017, also after the budget was adopted, the City executed a Community Benefits Agreement with the Tesoro refinery. The agreement requires Tesoro to make payments of at least \$5 million to the City's General Fund during FY17-18 (including \$1.5 million set aside for specific projects). Further discussion of the Macerich and Tesoro payments is included later in this document, within the section that addresses the 2017 Five-Year Model. The estimated General Fund Reserve has been updated to reflect these payments.

Estimated General Fund Reserve, beginning	\$ 14,728,735
Net FY17-18 Activity	45,093
Estimated General Fund Reserve, ending	\$ 14,773,828

The FY17-18 budget process began with a draft General Fund deficit of \$7 million. The City Council Budget Subcommittee (Mayor Pro-Tem Davis-Holmes and Councilmember Hicks) met 10 times to study the draft budget, vet staff proposals, and make recommendations to the City Council. During the FY17-18 budget process, the City Council extended the full-time employee hiring freeze estimated to save an additional \$1.4 million; increased Recreation and Human Services fees to raise \$0.5 million of estimated annual revenue; declared a fiscal crisis to increase estimated revenue by \$0.4 million; approved a staff reorganization to save \$0.7 million; and authorized a non-recurring \$1 million use of the Section 115 Trust for retiree health insurance to pay FY17-18 premiums.

Some of these actions are temporary in nature, such as the hiring freeze and the use of the Trust account set-aside for retiree health insurance. Deducting the temporary actions indicates the General Fund structural deficit is closer to \$8 million or 10.5% of annual General Fund revenue.

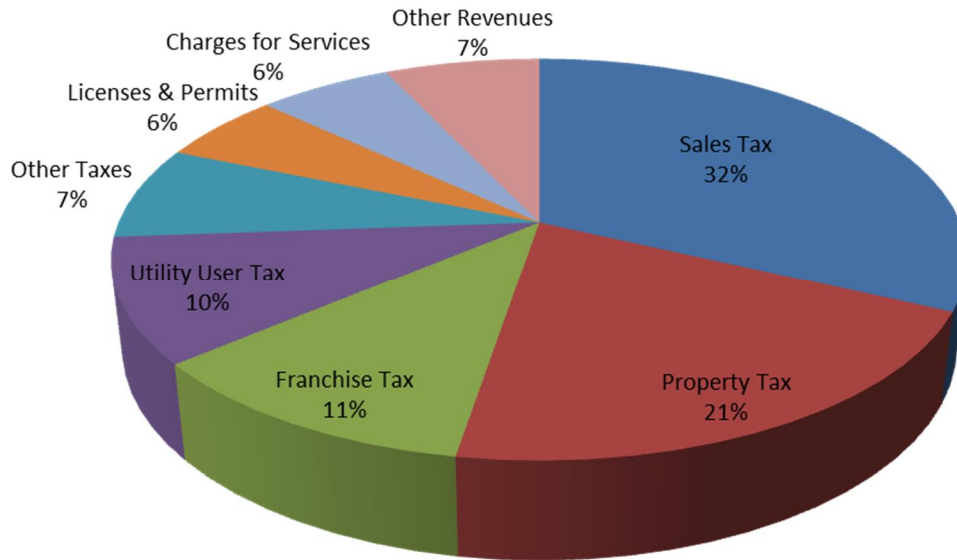
Net FY17-18 General Fund Activity	\$ (3,452,227)
Temporary Hiring Freeze	(3,197,372)
Temporary Additional UUT Revenue	(350,000)
One-Time Use of Trust Investment Earnings	(1,000,000)
Structural Deficit	\$ (7,999,599)

On June 20, 2017, the City Council declared a fiscal crisis for 12 months (July 2017 through June 2018). The action gave the City two advantages: improved flexibility for placing a tax measure

on the ballot; and lifting the \$1 million cap on utility user tax paid by any one entity, thereby generating an additional estimated \$350,000 of revenue for FY17-18.

General Fund Revenue

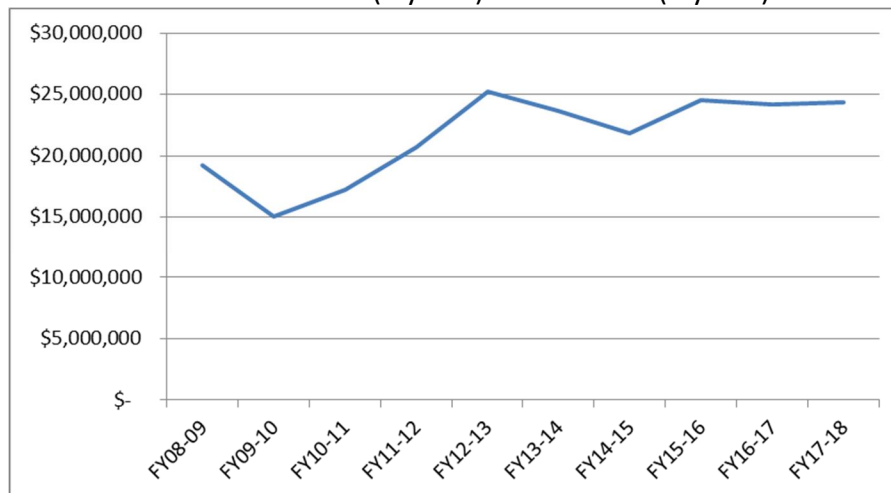
Estimate of \$76,167,709 for FY17-18



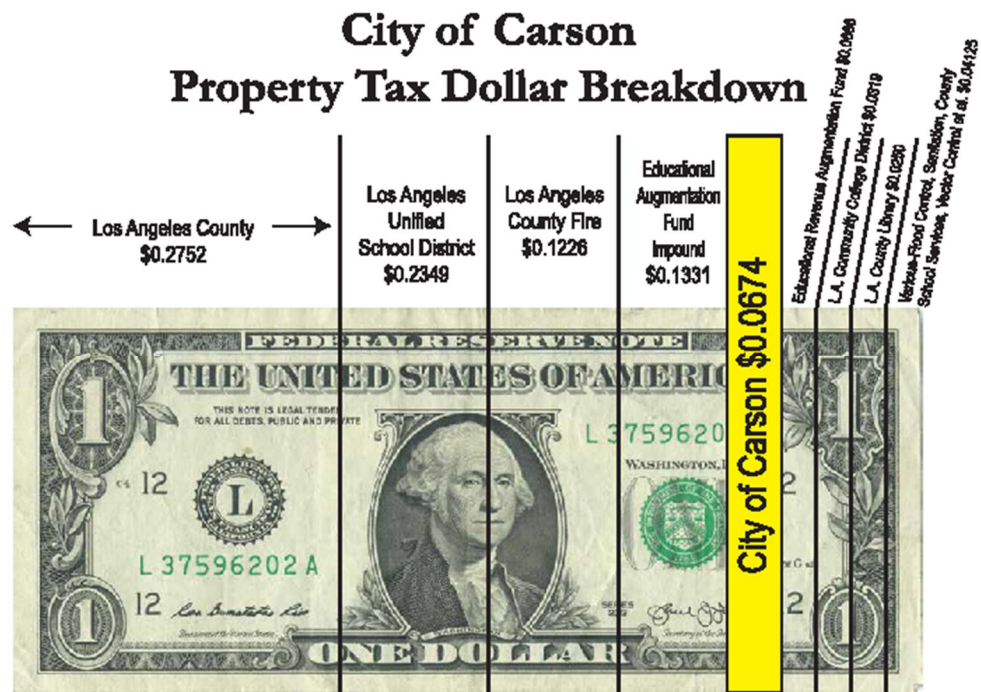
The City’s primary revenue sources of Sales Tax, Property Tax, Franchise Fees, and Utility User Tax account for a combined 74% of total General Fund revenue.

Sales tax revenue is not expected to increase or decrease significantly from the prior year. This is primarily due to statewide economic expectations, including the expected cooling of auto sales. The City derives approximately 30% of its sales tax revenue from auto sales. Sales tax is collected by the state and distributed to the City. The sales tax rate in the City of Carson is 9.25%, and the City receives 1%. Estimated FY17-18 sales tax revenue is \$24.4 million.

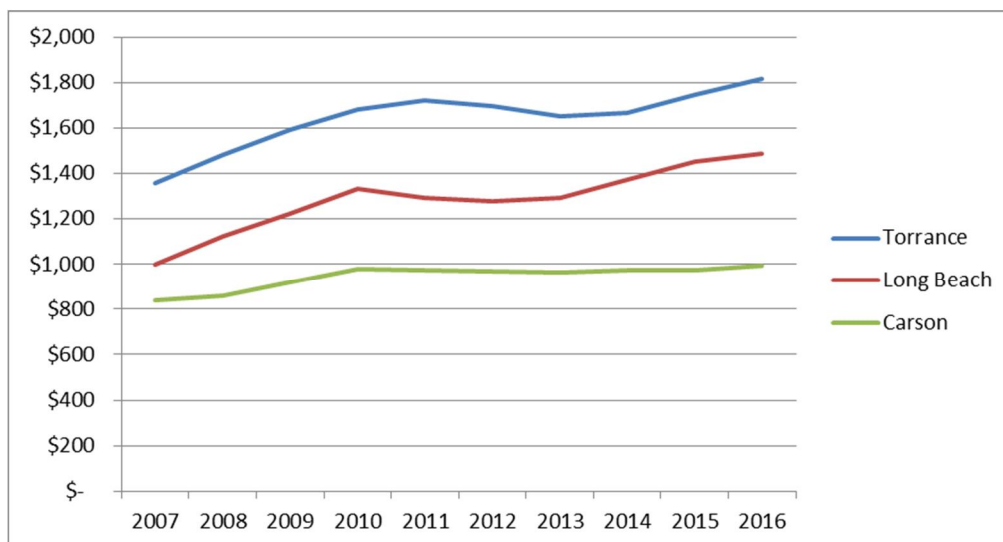
Sales Tax: Actual (8 years) & Estimated (2 years)



Although property tax is a significant source of revenue to the City, the property tax paid by the City's property owners is distributed to many taxing entities. The City only receives approximately 6.7% of the base 1% property tax. For example, if your home has an assessed value of \$400,000, your base property tax is \$4,000 per year. Of that \$4,000, the City only receives \$270.

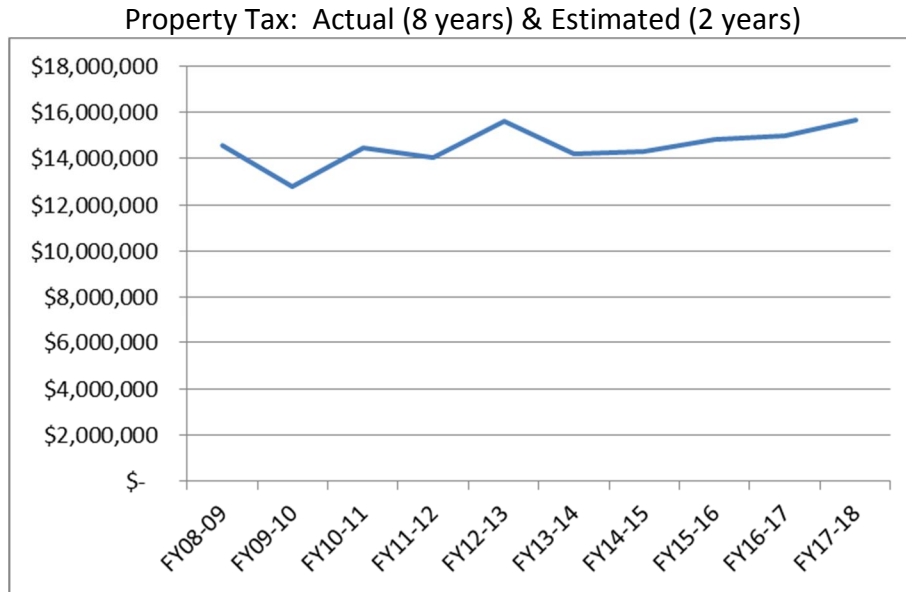


Over the last 10 years, property assessments in the City of Carson have not grown at the same rate as neighboring cities. The chart below illustrates assessed value per acre (in thousands).

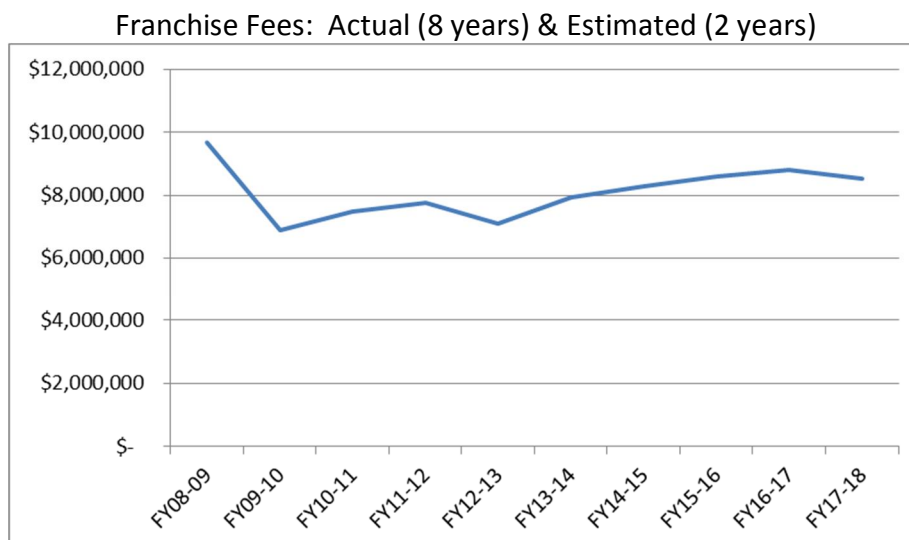


Each time a property is sold and reassessed at a higher value, the City's property tax revenue increases. Based upon an analysis of the property sales from July 2016 through February 2017, the City's property tax revenue is expected to increase by 1.16%. For the remaining parcels that were not sold and reassessed, the assessed value is expected to increase by 1.02%. Some

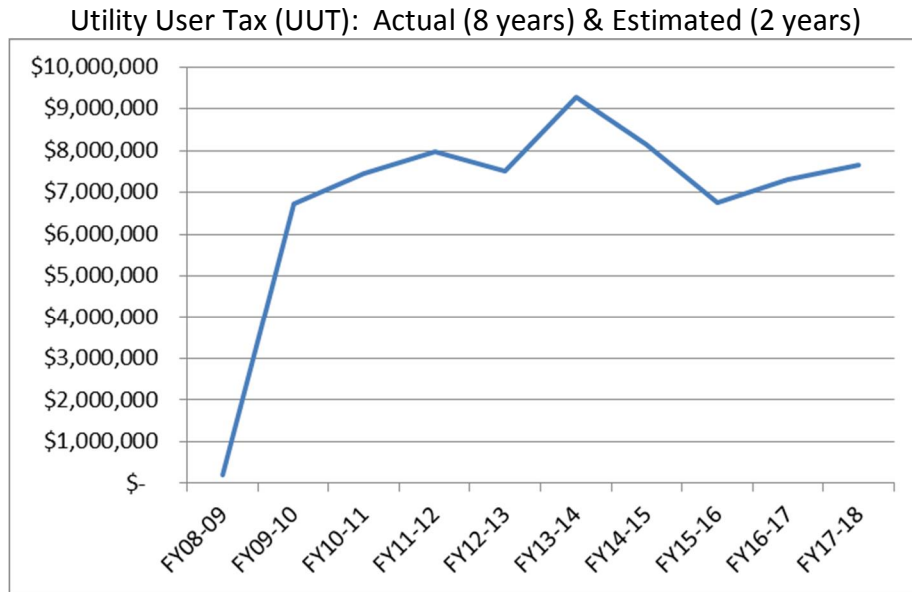
industries in the City (e.g. refineries) must pay property tax on oil stored at the facility. That property tax is based upon the market value of oil each January. The City's property tax revenue is expected to increase by 2.18%, due to the market price increase of oil from January 2016 to January 2017. When adding these 3 factors, staff expects an overall increase of 4.7% for property tax revenue. Estimated FY17-18 property tax revenue is \$15.7 million.



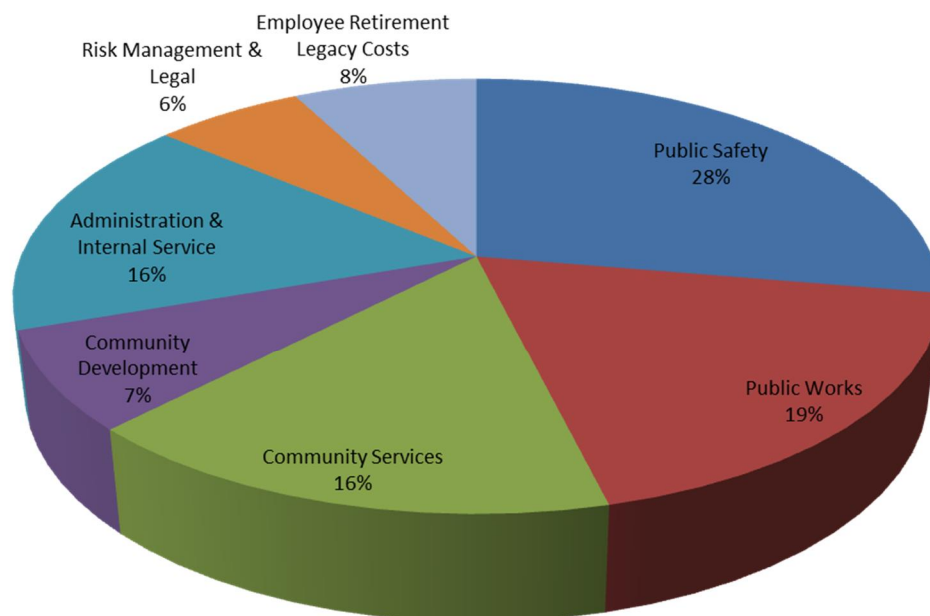
Overall, total estimated franchise fee revenue is not expected to increase or decrease significantly from the prior year estimate of approximately \$8.8 million. The City receives franchise fees from utility companies (e.g. electricity and water), pipelines that run under the City's streets, and other companies that operate in the City's right-of-way to provide services to the residents (e.g. tow trucks and solid waste haulers). Some franchise fees are set dollar amounts that increase each year with the Consumer Price Index and other franchise fees are based upon a percentage of utility revenues. For example, as the price of natural gas fluctuates, so does the City's franchise fee.



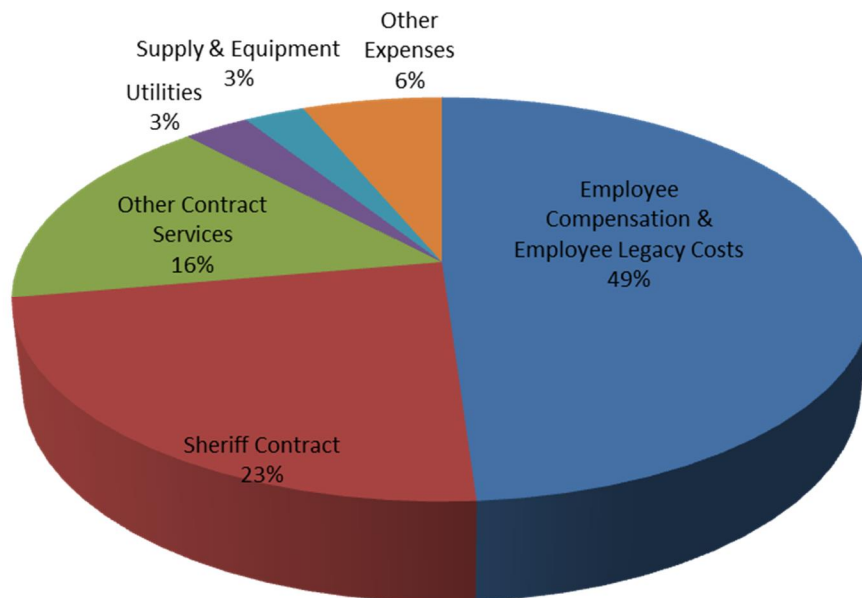
Utility user tax (UUT) was originally approved by the City’s voters in 2009, and renewed in 2016 for 7 years. The tax is currently scheduled to sunset in 2023. For FY17-18, the revenue is expected to increase by \$350,000 related to declaring the fiscal crisis, as noted above. Total FY17-18 UUT revenue is expected to reach \$7.7 million. The UUT is imposed on electricity and natural gas only. Natural gas usage generates approximately 60% of the City’s UUT revenue. Therefore, the fluctuating market price of natural gas has a significant impact on the City’s revenue. The price of natural gas is expected to remain stable for FY17-18.



General Fund Expenditures
By Service Area \$79,163,237



By Expenditure Type \$79,163,237



Employee compensation is the single largest expenditure of the City, accounting for close to half of the General Fund expenditure budget. Due to the budget deficit, there is no cost-of-living increase included in the FY17-18 budget for employee wages; and as discussed above, the hiring freeze has been extended. However, the cost of employee benefits continues to increase; specifically, the City’s payment of the unfunded pension liability and retiree health insurance.

The City’s “normal cost” of the employee pension plan, which is the cost of current benefit accruals, has remained steady at 10.6% of pensionable wages. The City has an \$81.3 million unfunded liability for the employee pension plan, calculated as the difference between the accrued liability and the market value of plan assets. The plan has a 67.6% funded ratio, calculated as the market value of plan assets divided by the accrued liability. The required contribution to the unfunded liability for FY17-18 is \$5,048,701. If the City pays the entire annual contribution by July 31, 2017, a discount will be applied and only \$4,869,400 will be due.

The California Public Employees Retirement System (CalPERS) manages the employee pension plan. Due to changes in methods and assumptions to strengthen the longevity of the system, the City’s contribution to the unfunded liability will increase over the next five years, until it reaches an estimated \$9.8 million in FY21-22 (a 96% increase over 5 years). When combined with the estimated normal cost contribution, the City’s total contribution to the employee pension plan is expected to be \$12.6 million in FY21-22, or 16.5% of General Fund revenue.

The number of retirees on the City’s health insurance plan continues to grow, and the City’s cost of coverage is expected to be \$2.2 million in FY17-18. The City’s unfunded liability for the retiree health plan is \$55.2 million; which is partially offset by a Section 115 Trust account established to set aside money for future retiree health insurance. The City Council Budget

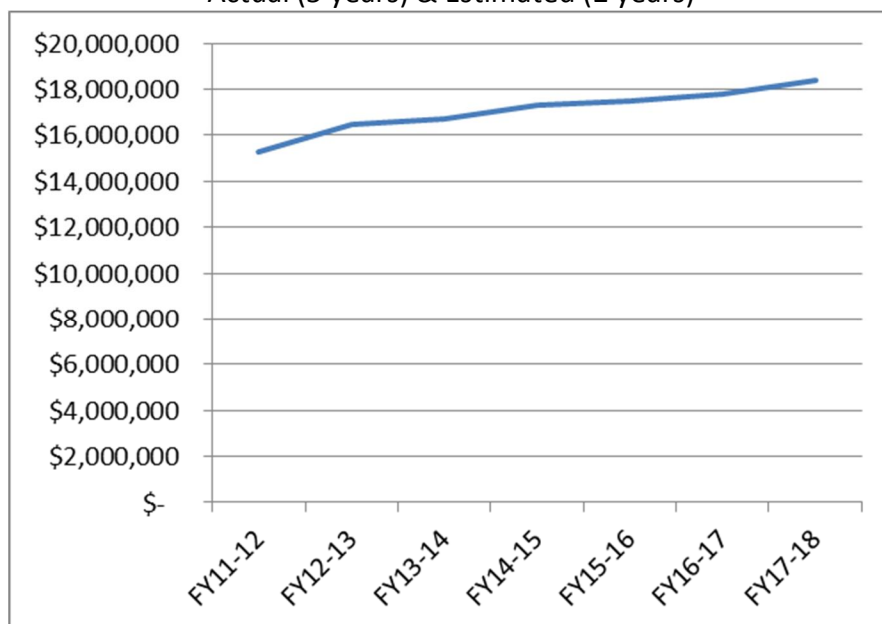
Subcommittee recommended the City use \$1 million of accumulated interest earnings from the Trust to help offset FY17-18 costs, for a net City expenditure of \$1.2 million. Approximately \$1 million was used from the Trust in FY16-17 as well. A summary of the Section 115 Trust account since it was established in 2012 follows.

	Activity	Actual Use of Trust FY16-17	Proposed Use of Trust FY17-18	Remaining
Contributions since inception in 2012	\$ 14,213,246			\$ 14,213,246
Investment earnings thru March 31, 2017	\$ 3,625,687	\$ (983,796)	\$ (1,000,000)	\$ 1,641,891
Administrative fees	\$ (59,382)			\$ (59,382)
Totals	\$ 17,779,552	\$ (983,796)	\$ (1,000,000)	\$ 15,795,755

The contribution to the unfunded pension liability and the City’s cost of retiree health insurance are considered legacy costs. In other words, if the City were to significantly reduce services and City staff, these legacy costs would not decrease. Employee legacy costs for FY17-18 total \$6,069,400 or 8% of General Fund revenue, net of the early payment discount and use of the Section 115 Trust. The gross expenditure (\$5,048,701 + \$2,200,000) is equivalent to 9.5% of General Fund revenue.

The City’s single largest contract expenditure is for police services provided by the Los Angeles County Sheriff. Unit rates increased by 3.8% for FY17-18, and the surcharge for the liability trust fund contribution increased from 9.5% to 10% of billings for patrol units. The City Council Budget Subcommittee recommended a reorganization of supervision for the Park Enforcement team, which led to a \$223,792 savings. Including the savings, the overall increase for the contract is expected to be 3.5% for FY17-18; with an expected total contract expenditure of \$18.4 million.

Sheriff Contract Expenditures
Actual (5 years) & Estimated (2 years)

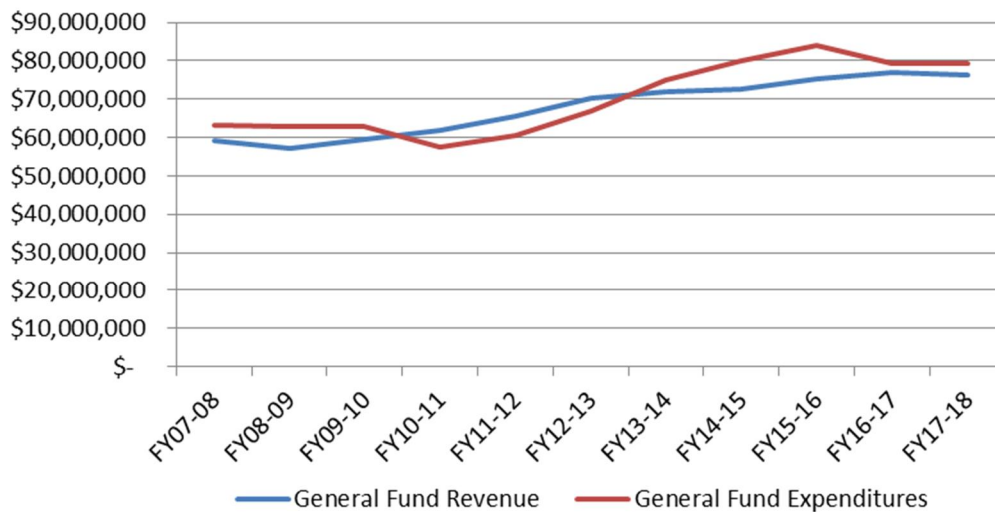


Examples of other contract services include building & safety services provided by Los Angeles County, legal services, animal control services also provided by the County, building security, software support, transit services, and independent audit services.

Examples of other expenses include insurance, membership fees and dues, recruiting and advertising, City-wide education, disposal costs, employee uniforms and bank fees.

Ongoing General Fund Deficit

In 8 out of the last 11 years, the General Fund has operated with a deficit. The chart below includes 9 years of actual data, and 2 years of budget data.

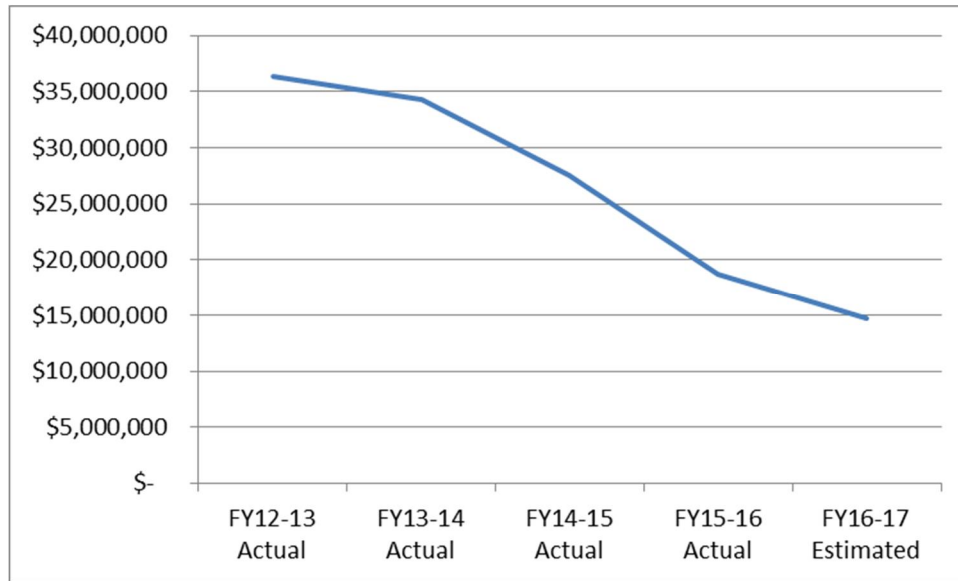


One of the major reasons for the ongoing budget deficit is that expenditures are increasing faster than revenue. The charts below illustrate the increases and decreases in revenue and expenditures over the last 5 years.

	General Fund Revenue	Increase
FY13-14	\$ 71,975,708	2.2%
FY14-15	\$ 72,470,288	0.7%
FY15-16	\$ 75,295,883	3.9%
FY16-17 est.	\$ 76,906,298	2.1%
FY17-18 est.	\$ 76,167,709	-1.0%
	Average	1.6%

	General Fund Expenditures	Increase
FY13-14	\$ 74,905,905	12.0%
FY14-15	\$ 80,098,802	6.9%
FY15-16	\$ 83,971,737	4.8%
FY16-17 est.	\$ 79,303,099	-5.6%
FY17-18 est.	\$ 79,163,237	-0.2%
	Average	3.6%

As a result, the General Fund balance has decreased significantly over the last 5 years.



Special Revenue Funds

Revenues that are restricted by law, other government agencies, or by agreement are deposited into Special Revenue funds. The City has 37 Special Revenue funds. Only 27 of those funds have a FY17-18 adopted budget and only 11 of those funds receive significant annual revenue. Discussion of significant restricted revenues follows below.

Transportation Revenues

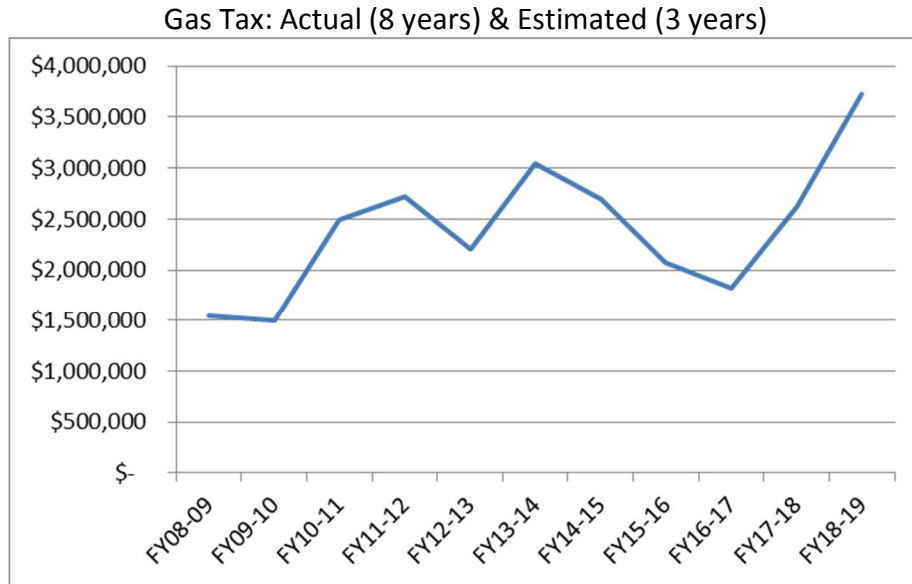
The City receives restricted transportation revenues allocated annually from the county and state.

Summary of Transportation Revenues

Source	Annual Revenue	Use of Funds
Gas Tax (Highway Users Tax)	\$2,620,226	Tree trimming, street sweeping, traffic signal maintenance. \$500,000 available for pavement slurry seal and overlay.
Proposition A	\$1,743,783	Public transit system.
Proposition C	\$1,446,422	Public transit system. \$500,000 available for pavement slurry seal and overlay.
Measure M	\$1,107,504	Tree planting grant match, other green streets projects. \$740,000 available for pavement slurry seal and overlay.
Measure R	\$1,084,839	Sepulveda Boulevard widening project.

In FY17-18, the City expects to receive \$542,032, a partial year of funding from the California Road Repair and Accountability Act of 2017 (SB 1). This new revenue has been included with the estimated Gas Tax revenue. In FY18-19, the City expects to receive a full year of the new revenue, estimated to be \$1,614,624. The FY17-18 Gas Tax revenue estimate also includes the first of three installments of \$107,546 that repay state loans from the Highway Users Tax

account. Due to the state’s method of allocating Gas Tax, the City’s revenue has fluctuated widely over the last 10 years.



Proposition A, Proposition C, Measure M, and Measure R are local allocations of special transportation sales taxes approved by Los Angeles County voters. These revenue sources are fairly stable, and do not fluctuate much each year.

The City’s Proposition A and Proposition C allocations from the County are primarily used for the City’s public transit system. A route study is planned for FY17-18, which may impact the City’s costs in the future.

Measure M was approved by Los Angeles County voters in 2016. The City intends to use this new source of revenue for pavement rehabilitation and green streets projects to help satisfy a portion of the City’s storm water permit requirements for clean water drainage to the ocean.

The City’s Measure R allocation is primarily used for specific road rehabilitation projects each year. The FY17-18 project to widen a bridge section of Sepulveda Boulevard will be funded from a variety sources; including Measure R and the federal Highways & Bridges program.

Other Recurring Restricted Revenues

Each year, the City receives annual allocations from the following sources.

- State Citizens' Option for Public Safety (COPS) money (\$145,000) to fund the Sheriff’s Community Oriented Policing Services (COPS) program.
- Federal Workforce Investment Act (WIA) money (\$627,000) to fund a career center operated by the City.
- Federal Community Development Block Grant (CDBG) money (\$781,656) to fund the Neighborhood Pride Program, commercial loans and grants, improvements for Americans with Disabilities Act (ADA) compliance, and sub-grants to local non-profit organizations providing services to the City’s residents.

- An allocation from the South Coast Air Quality Management District (\$116,000) to pay for clean air programs, including qualifying vehicles.
- Measure A money (\$430,000) from the Los Angeles County Parks District to fund park improvements and maintenance of those improvements.
- Public Education/Government (PEG) fees (\$122,123) to fund local broadcasting equipment.

Based on President Trump’s proposals, the City’s federal allocations (WIA and CDBG) are at risk for FY18-19. The funding for FY17-18 has not been impacted. If federal funding were to be reduced or eliminated in the future, the City would need to restructure or eliminate the programs funded by those monies.

Capital Assets

The City owns approximately \$438 million of depreciable infrastructure assets; including roadways, public buildings, sewers, and storm drains. These assets are depreciable because they wear over time and need to be rehabilitated. The \$438 million figure is the historical cost; and it would therefore cost more to rehabilitate those assets in today’s dollars. If infrastructure lasts an average of 30 years, then the City should be rehabilitating at least \$15 million per year in historical dollars. This rough estimate does not include new infrastructure. There is a demand for new infrastructure such as roadway safety improvements, new traffic signals, and new storm water drainage facilities.

The FY17-18 budget includes \$11.9 million of funding for capital improvement projects. All funding is from restricted sources, and no General Fund money is included.

Fund	Fund Name	Proj. No.	Project Name	Estimate
46	Load Shed Program	1523	Parking Lot Lighting	\$ 85,000
83	Successor Agency Bond Proceeds	1521	Facility Condition Assessment	\$ 100,000
12/19/81	Gas Tax, Prop C, Measure M	1393-1	Pavement Overlay	\$ 750,000
15	CDBG, TDA Article 3	1411	Concrete Replacement Program	\$ 260,000
12/19/81	Gas Tax, Prop C, Measure M	1413-2	Pavement Slurry Seal	\$ 990,000
15	CDBG	1520-1	City Facility ADA Compliance Upgrades	\$ 150,000
18	Grant, Contribution, Prop A	1536	Rapid Bus Priority System	\$ 636,350
20/54	Federal Hwy Bridge Prgm, Measure R	675	Sepulveda Blvd Widening	\$ 2,592,000
81	Measure M	----	Green Streets & Sustainability Program	\$ 275,695
81/86	CalFire Grant, Measure M	----	Tree Planting	\$ 357,220
16/22	Quimby Fees & Measure A	1525	Pool Upgrade	\$ 500,000
2	Donation	----	Accessible Playground	\$ 250,000
46	Load Shed Program	----	CCA Feasibility Study	\$ 65,000
83	Successor Agency Bond Proceeds	1043	Carson Street Master Plan improvements	\$ 4,722,259
28	Rubberized Asphalt Grant	4570	Wilmington/I-405 Interchange	\$ 150,000
Total				\$ 11,883,524

The City recently updated its Pavement Management System (PMS). The City has an overall Pavement Condition Index (PCI) rating of 67, which is “fair” on a scale of 0-100. Some streets have lower ratings, and some streets have higher ratings. In general, the City’s residential streets are in better condition. The City’s main arterial streets, particularly those that are truck

routes, are in the worst condition. Wear on City streets from each truck trip is equivalent to 1,526 car trips. The PMS indicated the City would need to spend \$8 million per year to maintain the overall PCI rating of 67; or \$9 million per year to improve the overall PCI rating to 70, which is the bottom of the “good” range. Only \$1.7 million was included in the FY17-18 budget, from the transportation funding sources noted above.

The City also recently updated its Sidewalk Assessment. The results indicated the City would need to spend \$11.5 million to address trip hazards and ADA compliance. Only \$260,000 has been included in the budget for the concrete replacement program. In addition, the City has identified \$9.4 million of costs to bring all the City’s curb ramps into ADA compliance.

To comply with a Los Angeles County storm water permit, the City must improve the City’s storm drain system to reduce pollution that drains to the ocean. Compliance with this permit is estimated to cost approximately \$8 million per year. The City budgeted approximately \$170,000 from its new Measure M revenue for green streets & sustainability projects to help comply with the permit requirements.

The City has aging park buildings and other facilities with very limited funding available. Only 2 significant projects have been included in the FY17-18 budget.

- \$500,000 to begin rehabilitation of the Scott Park Pool. Another \$500,000 will need to be budgeted in FY18-19 to complete the project.
- \$250,000 for an accessible playground at Dolphin Park, funded by the Tesoro refinery.

The Capital Improvement Plan (CIP) identified high-priority projects that were not funded in the FY17-18 budget; including \$900,000 of various public building and park facility rehabilitation projects, \$600,000 for ADA compliance projects, \$200,000 for traffic signal battery backup, and an additional \$3.5 million needed for the Sepulveda Boulevard widening project. Although not a high priority in terms of addressing public safety, the City has identified a need of \$5 million to upgrade the lighting at all City parking facilities with low-energy LED lights.

In addition to infrastructure assets, the City owns \$14 million of depreciable equipment and vehicles. If this equipment has an average useful life of 7 years, then the City should be replacing approximately \$2 million of equipment per year. The FY17-18 budget includes 5 vehicle replacements for \$295,000; network switches for \$66,000; and a \$517,000 portion of implementation costs for a new Enterprise Resource Planning (ERP) system to replace the City’s antiquated accounting system and manual business processes used throughout the City.

The following is a summary of unfunded Capital Asset needs for the fiscal year (quantified need, less the FY17-18 budgeted amount).

Capital Asset Category	Unfunded Amount
Street Pavement	\$6.3 million
Sidewalks	\$11.2 million
Storm Water Drainage System	\$7.8 million
Scott Park Pool	\$0.5 million

Public Buildings & Park Facilities	\$0.9 million
ADA Compliance	\$0.6 million
Traffic Signal Battery Backup	\$0.2 million
Sepulveda Blvd Widening	\$3.5 million
Equipment & Vehicles	\$1.1 million
Total Unfunded	\$32.1 million

Five-Year Model

Finance staff prepares a Five-Year Model each year. The Model includes the current budget structure and various assumptions for the future. The results of the Model provide a mid-term outlook and indicators of where structural budget adjustments may be needed.

Initial Results of the 2017 Five-Year Model for the General Fund

Estimated	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Beginning Balance	\$ 18,710,435	\$ 12,783,162	\$ 9,330,935	\$ 2,633,181	\$ (5,495,342)	\$ (14,533,938)
Revenue	76,906,298	76,167,709	77,390,589	79,081,335	82,054,848	83,466,924
Expenditures	79,303,099	79,163,237	83,581,644	86,653,159	90,486,745	93,638,752
Net Transfers	(3,530,472)	(456,699)	(506,699)	(556,699)	(606,699)	(656,699)
Ending Balance	\$ 12,783,162	\$ 9,330,935	\$ 2,633,181	\$ (5,495,342)	\$ (14,533,938)	\$ (25,362,465)
Reserve Policy	15,860,620	15,832,647	16,716,329	17,330,632	18,097,349	18,727,750

The initial results of the Model indicated the General Fund balance would be depleted by the end of 2019. As noted earlier in this narrative, the City received \$2 million of non-recurring revenue from Macerich, the fashion outlet mall developer, immediately after the budget was adopted. The outlet mall is currently scheduled to open in September 2020, and anticipated sales tax had already been added to the Model.

In July 2017, after the budget was adopted, the City executed a Community Benefits Agreement with Tesoro Refining & Marketing Company LLC. The agreement requires Tesoro to make at least \$29 million of payments to the City over 15 years. The City expects to receive at least \$3.8 million during FY17-18, to be deposited to the General Fund; including \$1.5 million for specific community benefit projects, such as roadway improvements. As of July 24, 2017, \$900,000 had already been received for a truck yard development impact fee. Additional payments will be due each year for the duration of the agreement. The City expects to receive at least \$1.4 million each year. The Five-Year Model for the General Fund has been updated with the \$2 million received from Macerich and expected payments from Tesoro.

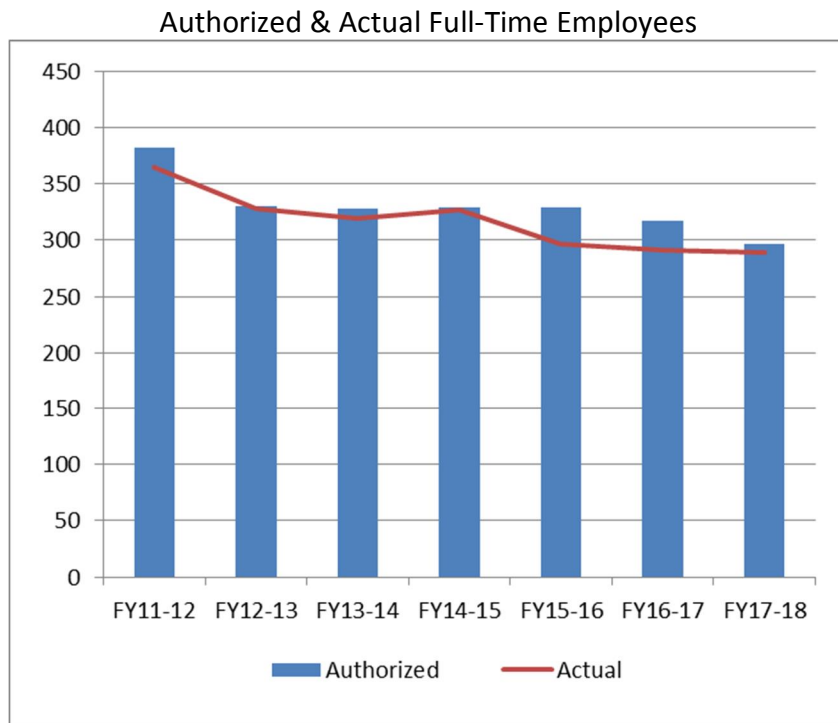
Updated Results of the 2017 Five-Year Model for the General Fund

Estimated	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Beginning Balance	\$ 18,710,435	\$ 14,728,735	\$ 13,334,478	\$ 7,731,045	\$ 709,963	\$ (7,209,874)
Revenue	78,906,298	78,532,529	78,799,738	80,511,474	83,504,374	84,931,818
Expenditures	79,357,525	79,470,087	83,896,472	86,975,858	90,817,511	93,977,787
Net Transfers	(3,530,472)	(456,699)	(506,699)	(556,699)	(606,699)	(656,699)
Ending Balance	\$ 14,728,735	\$ 13,334,478	\$ 7,731,045	\$ 709,963	\$ (7,209,874)	\$ (16,912,542)

The updated Model indicates the General Fund balance would be depleted towards the end of 2020. The City Council will need to take additional steps to cure the structural deficit. Options include decreasing service levels and/or increasing revenue. The City recently conducted a community survey to discover resident opinions on service levels and new tax measures. The City Council will study the results of the survey and various budget proposals to determine a course of action. Solutions to the City’s budget problems may develop over the course of several years.

City Employees

The City’s employees provide many of the services to the community including code enforcement, park and street maintenance, recreation, transit and human services. There are 297 full-time employee positions authorized for FY17-18; which is a 22% decrease from FY11-12. This is primarily due to the hiring freeze. A total of 18 full-time positions were frozen in FY16-17 and another 20 were added for FY17-18, bringing the total to 38 frozen positions with a total estimated cost of \$3.3 million (\$3.2 million would be charged to the General Fund).



Full-Time Positions by Department Subject to the Hiring Freeze

Administration	5
Public Safety	4
Information Technology	1
Finance	1
Community Development	3
Public Works	23
Community Services	1
Total Frozen	38

Even though staffing levels have decreased substantially, the City has strived to maintain service levels to the public. The result is that long-term projects have been deferred and exempt employees work long hours. Implementation of the ERP system noted above is expected to improve work process efficiencies, which may reduce some of the stress on administrative staff. However, 21 of the 23 frozen positions in Public Works are those that provide direct service to the community; including maintenance workers and custodians.

City Council	5	City Council's Office	5
City Clerk & City Treasurer	2	City Clerk's Office	4
Total Elected Officials	7	City Treasurer's Office	4
		City Manager's Office	5
Filled	289	Public Information Office	4
Vacant	8	Information Technology	8
Funded Full-Time Positions	297	Public Safety	21
		Human Resources	11
General Fund	274	Finance	31
Other Funds	23	Community Development	27
Subtotal Funded FT Positions	297	Public Works	114
		Community Services	63
		Funded Full-Time Positions	297

	Salary	Overtime	Benefits	Total Comp
City Council	\$ 105,409	\$ -	\$ 75,953	\$ 181,362
City Clerk & City Treasurer	245,827	-	66,587	312,414
Full-Time	21,956,603	244,602	7,331,637	29,532,842
Part-Time	5,021,864	-	488,694	5,510,558
Subtotal General Fund	\$ 27,329,703	\$ 244,602	\$ 7,962,871	\$ 35,537,176
Full-Time	\$ 2,202,645	\$ 5,065	\$ 654,759	\$ 2,862,469
Part-Time	156,402		27,606	184,008
Subtotal Other Funds	\$ 2,359,047	\$ 5,065	\$ 682,365	\$ 3,046,477
Grand Totals	\$ 29,688,750	\$ 249,667	\$ 8,645,236	\$ 38,583,653

The General Fund pays 92% of the City's employee compensation, and 8% is allocated to restricted funds. Overtime compensation budgeted for non-exempt employees is 1% of full-time wages. The budget includes an assumed increase in the cost of health insurance and employee advancement; however there is no cost of living increase included in the budget.

Full-time employee benefits include pension, health insurance and Medicare tax. The City's employees do not participate in the Social Security system. The average full-time employee ratio of benefits to wages is approximately 33%. This ratio does not include the unfunded pension liability payment of \$5 million noted above.

The City employs approximately 607 part-time staff, of which 109 are enrolled in the employee pension plan. Approximately 27 receive some portion of health insurance benefits. The average part-time employee benefit to wage ratio is approximately 10%.

Budget Cycle & Control

The City's fiscal year runs from July 1st to June 30th. The budget process typically begins in January, with the goal of the City Council adopting the upcoming fiscal year budget by June.



In June 2016, the City Council adopted a Budgetary Control Ordinance (Ordinance No. 16-1591). The Ordinance set the level of budgetary control at department and fund; and required City Council resolutions for all budget amendments. Budget transfers within a department and fund can be approved by the City Manager up to \$25,000. Any budget transfers in excess of \$25,000 or any budget transfers between departments or funds must be approved by the City Council.

Additional Information

Additional information about the City's finances and budget may be found on the City's website.

- City Council agendas for the 2017 budget process: March 21, 2017, April 18, 2017, May 16, 2017, June 6, 2017 and June 20, 2017
- Comprehensive Annual Financial Reports, which include the audited financial statements, can be found on the Finance Department webpage.
- This budget document, a budget-in-brief document, and previous budget documents can be found on the Finance Department webpage.
- Monthly General Fund expenditure reports can be found with the Utility Users' Tax Citizen Oversight Committee agendas.
- Monthly Treasurer's reports can be found on the City Treasurer's webpage.
- Cash disbursement ledgers are on most every City Council agenda.

Residents and interested parties may also contact the Finance Director by email at kdowns@carson.ca.us with questions or a request for an appointment.

The public is welcome to make budget suggestions on the City's website. The budget suggestion form can be found under Quick Links/Online Forms on the City's website.

Capital Improvement Program

The purpose of the Capital Improvement Program (CIP) is to provide for orderly and systematic financing and implementation of public improvements. The importance of the CIP lies in its ability to clearly identify, prioritize, fund and pace major projects. CIP projects require substantial lead-time for activities that precede actual construction including facility assessments, community input, securing funding, planning and design. The CIP is a five-year plan, but a budget is adopted one year at a time based upon available funding. The FY17-18 CIP budget is summarized below.

Fund	Fund Name	Proj. No.	Project Name	Estimate
46	Load Shed Program	1523	Parking Lot Lighting	\$ 85,000
83	Successor Agency Bond Proceeds	1521	Facility Condition Assessment	\$ 100,000
12/19/81	Gas Tax, Prop C, Measure M	1393-1	Pavement Overlay	\$ 750,000
15	CDBG, TDA Article 3	1411	Concrete Replacement Program	\$ 260,000
12/19/81	Gas Tax, Prop C, Measure M	1413-2	Pavement Slurry Seal	\$ 990,000
15	CDBG	1520-1	City Facility ADA Compliance Upgrades	\$ 150,000
18	Grant, Contribution, Prop A	1536	Rapid Bus Priority System	\$ 636,350
20/54	Federal Hwy Bridge Prgm, Measure R	675	Sepulveda Blvd Widening	\$ 2,592,000
81	Measure M	----	Green Streets & Sustainability Program	\$ 275,695
81/86	CalFire Grant, Measure M	----	Tree Planting	\$ 357,220
16/22	Quimby Fees & Measure A	1525	Pool Upgrade	\$ 500,000
2	Donation	----	Accessible Playground	\$ 250,000
46	Load Shed Program	----	CCA Feasibility Study	\$ 65,000
83	Successor Agency Bond Proceeds	1043	Carson Street Master Plan improvements	\$ 4,722,259
28	Rubberized Asphalt Grant	4570	Wilmington/I-405 Interchange	\$ 150,000
Total				\$ 11,883,524

Concrete replacement is another item that helps to improve the roads, curbs gutters and sidewalks of the City is need of constant maintenance, and in some cases, complete replacement. Using funds identified from the Community Development Block Grant (CDBG), the City will be rehabilitating certain areas in order to make them compliant with ADA regulations.

Pavement slurry seal is another infrastructure project that must be kept up on an annual basis in order to maintain the City's roadways. Slurry seal is a rubberized sealant that applied to the road in order to extend the life and keep the roads in good operable shape in order to avoid major construction that would be needed otherwise. The amount allocated to this project is budgeted for \$990,000 whose sources are the Gas Tax, Proposition C and Measure M.

The Federal Highway Bridge Program and Measure R are being used to widen Sepulveda Boulevard and reduce congestion on certain areas of this roadway. This is a multi-year project and funding of \$2.592 million has been included in the FY17-18.

CalFire has awarded the City a grant and along with funds from Measure M, the City will undertake a tree planting and beautification project in the 2017-18 fiscal year. This will include trees planted along the City's roads and medians and will amount to \$357,220.

Construction of improvement in accordance with the Carson Street Master Plan will be completed in fiscal 2017-18 with \$4.722 million budget. Final project elements include traffic safety measures, public monuments and pedestrian accessibilities.

A restricted donation of \$250,000 was made by the Tesoro Corporation to the City of Carson. These funds will be used in FY17-18 to build a new children's playground in Dolphin Park.

Funding was also appropriated in FY17-18 for the Rapid Bus Priority System. The funds will be utilized to upgrade bus shelters, bike racks and improved lighting. Project will also improve transit service on game days for both MLS and NFL. The funding source is from a grant and Proposition A funds.

Along the Wilmington/I-405 Interchange a grant was awarded to the City in order to procure and install recycled rubberized asphalt along the shoulders of the interchange. This is an environmentally friendly way of improving the interchange and utilizing a recycled resource (used tires) that will help maintain the safety of the shoulders near the interchange.

Approximately \$500,000 has been budgeted from Quimby Fees and Measure A that will be used to rehabilitate the pool at Scott Park. The project is expected to begin in FY17-18 and continue into FY18-19. Additional funding of \$500,000 will need to be appropriated for FY18-19.

As more fully described in the budget narrative at the front of this document, the City's infrastructure needs exceed funding budgeted for FY17-18. Projects were prioritized by public safety and restricted funds availability.