

Honorable Mayor and Members of the City Council:

It is with great pleasure that I present to you the adopted general fund budget of \$55,825,133 for the FY 2004/05 approved by the City Council on October 11, 2004. It is a fiscal plan that attempts to protect essential programs and more importantly, to protect City services from significant reductions. A plan that reaffirms Council's priorities which include enhanced public safety and code enforcement, youth and senior citizen welfare, continued economic development and quality parks and recreation services.

This year has been particularly challenging as far as balancing the budget is concerned due to the following:

- (1)The implementation of the 3% at 60 employee retirement plan;
- (2)The adoption of a citywide classification and compensation study;
- (3)The increase in other employee-related costs; and
- (4)The Governor's May revisions to the State Budget.

All these caused delays in the budget process. However, the workgroups involved in the process put in hard work, made tough decisions, and finally came up with a total budget cut of \$6.2M leaving a surplus of only \$0.1M.

The general fund budget for FY 2004/05 projects revenues and transfers to reach a total of \$55,922,609. This represents a 4.6% increase from the \$53,456,474 budget adopted for FY 2003/04. The projection anticipates some growth in property taxes, a slight increase in sales tax due to the opening of Superior Nissan and Honda auto dealerships, a boost in building construction permits and an increase in recreation program fees due to opening of the Stevenson Gym, the Dominguez Pool and Veterans Park.

On the other hand, Council adopted a general fund expenditure budget of \$55,825,133, a 4.4% increase from the \$53,456,474 budget adopted in FY 2003/04. Among the big item cuts are: a) 6 vacant full-time positions eliminated (\$.9M); b) 27 vacant full-time positions unfunded (\$1.7M); c) 7 full-time vacant positions downgraded (\$.3M); d) 42 vacant full-time positions partially funded (\$.8M); e) special materials and supplies cut back (\$.4M); and f) the annual transfer to the equipment replacement fund suspended (\$.3M). These cuts, although substantial in total, were deemed necessary and inevitable to keep the City financially viable without sacrificing public services.

For comparison purposes, provided below are the FY 2003/04 thru FY 2005/06 general fund revenue and expenditure data:

GENERAL FUND	FY 2003/04 ADOPTED	FY 2003/04 ESTIMATED	FY 2004/05 ADOPTED	FY 2005/06 PROPOSED
Revenues/Transfers	\$53,456,474	\$54,154,144	\$55,922,609	\$57,478,704
Expenditures/Transfers	53,456,474	60,822,402	55,825,133	57,330,000
FUND BALANCE INC/(DEC)	\$ 0	(\$6,668,258)	\$ 97,476	\$ 148,704

ECONOMIC GROWTH

The national and California economies have shown signs of strengthening in the second half of 2003. An improved labor market is even stronger for both economies in 2004. California's unemployment rate of 6.1% for 2004 is 9% lower than 6.7% in 2003. California's personal income, a key determinant of state revenues, is projected to grow by just 5.6% in 2004 before accelerating to 5.8% in 2005. While it is good to remain optimistic about the state economy, it is a fact that local economies will remain affected, at least for the next two years by the State Governor's local reforms.

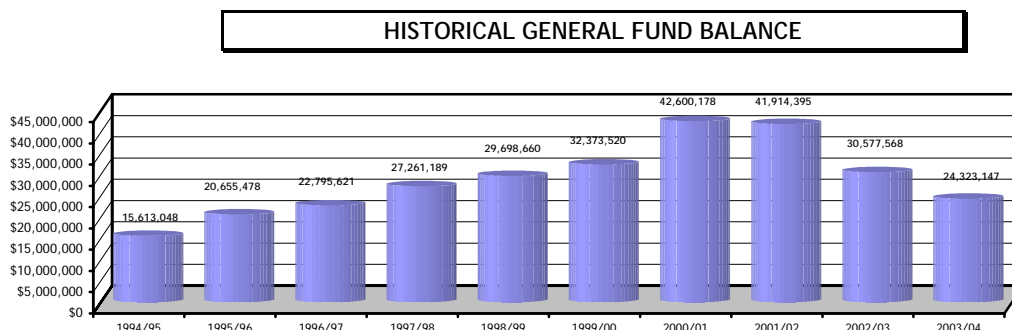
After years of state raids on local funds and years of effort on the part of local officials to qualify an initiative for statewide ballot to protect local revenues, a historic agreement was reached between the local government coalition and Governor Arnold Schwarzenegger and legislative leaders. The measure called Proposition 1A will significantly strengthen constitutional protections for local revenues. The measure calls for the following which were considered in this budget:

1. A \$1.3 billion "contribution" for each of the next two years by cities, counties, special districts and redevelopment agencies in order for the State to balance its budget. The contribution required from the City of Carson is \$1,144,629. In addition, the Redevelopment Agency will be required to contribute \$2,108,923.
2. The Vehicle License Fee (VLF) rate will be reduced from 2% to .65%. However, the State will guarantee a permanent "backfill" of those VLF funds by increasing the amount of property taxes allocated to cities and counties. Also, the State will be required to pay back the "VLF loan" which was borrowed from cities and counties in FY 2003/04. For the City of Carson that amount is \$1,770,218.
3. The local government portion of the statewide sales and use tax will decrease by .25%. This means that while all retail purchases in the City are assessed an 8.25% sales tax, only .75% of that comes back to Carson in revenues, whereas in all previous years, 1% of the sales tax was returned to the City of Carson. That equates to a loss of \$5M in sales tax revenues. However, the state has agreed to provide an equivalent amount of money to the City by way of increasing the amount of property tax revenue the City receives.

The bottom line is that cities, counties, special districts and redevelopment agencies will suffer in the next two years but will reap benefits in the future with the passing of Proposition 1A.

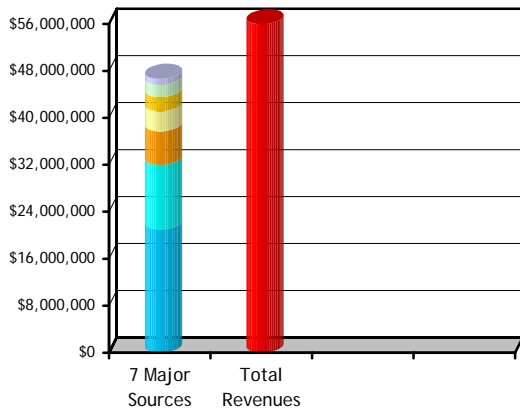
It has been a long sought goal to achieve greater stability and predictability in local government financing. This development has made it possible for cities, counties, special districts and redevelopment agencies to finally see that local revenues will be protected from state whims. Until Prop 1A becomes effective, Carson will do its best to monitor & accurately budget our state subventions.

The historical ten-year data for the General Fund is shown on the following chart.



FINANCIAL OUTLOOK

The financial condition of the City of Carson is well set to face the current economic challenges. However, the City anticipates these challenges to last a couple more years, therefore, a continuance of lean budgets. Unless significant new revenue sources are developed, very tight controls will have to be maintained. Below is a brief discussion of the seven major revenue sources of the City.



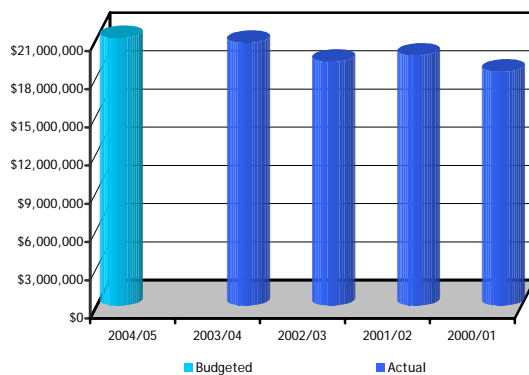
Sales and Use Tax	\$	20,988,800	37.5%
No/Low Property Tax	\$	10,960,386	19.6%
Franchise Tax	\$	5,770,450	10.3%
Building Construction Permits	\$	3,425,000	6.1%
Recreation Fees	\$	2,414,890	4.3%
Business License	\$	2,100,000	3.8%
Transient Occupancy Tax	\$	965,000	1.7%
Total Revenues	\$	55,922,609	100.0%

MAJOR REVENUE SOURCES

Carson's revenue projections for the budget year took into consideration the State budget passed by Governor Arnold Schwarzenegger. For this year a change in the eight major revenue sources has occurred. The Vehicle License Fee revenue and Interest Income revenue sources dropped off the list and transient occupancy tax (TOT) was added. A chart that shows the seven revenue sources in comparison to the total general fund revenue estimated for FY 2004/05. Last year, the top eight sources represented 81% or \$43.2 million of the \$53.4 million actual total general fund revenues of the City. For FY 2004/05, the seven major revenue sources make up 83.4% or \$46.6 million of the \$55.9 million adopted total general fund revenues.

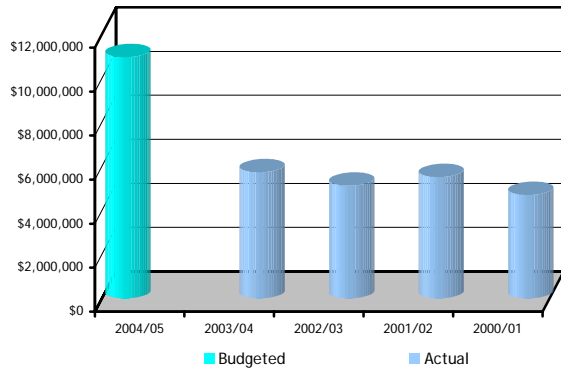
In the paragraphs that follow, information will be provided for each of these seven major revenue sources, including charts showing actual performance for the past four years and the adopted budget for the FY 2004/05.

SALES AND USE TAX



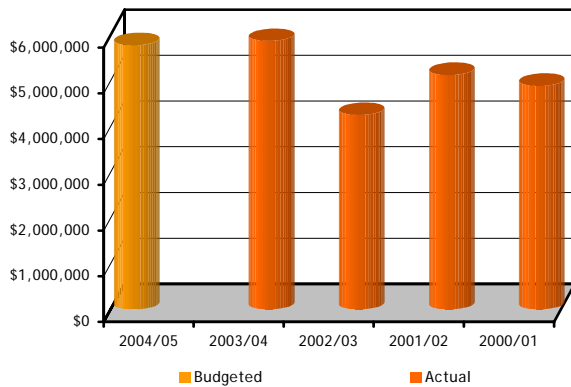
Carson's sales taxes have been a consistent top performer as a revenue source for the past several years until now. For FY 2004/05, Carson will receive only 3/4% of the 8.25% sales tax. In the previous years, the City received 1%. This is a result of the triple flip. The City stands to lose about \$5M from sales tax which will be replaced dollar for dollar by property taxes. The top 10 sales tax producers include Carson Toyota, Don Kott Ford, Rhodia, Arco Material Supply, Cormier Chevrolet, Super K-Mart, Target Corporation, Ikea, Lakeshore Learning Materials, and Home Depot. For FY 2004/05, sales and use tax revenue is projected to reach \$20.99M.

NO/LOW PROPERTY TAX



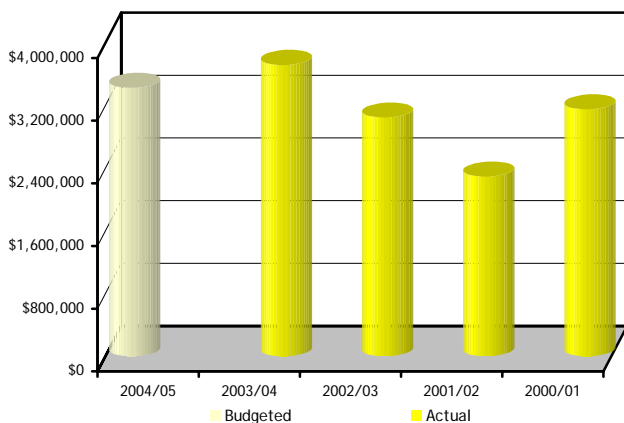
The property tax revenues this year will reflect a much higher adopted budget than the previous years due to the effect of the triple flip. The state agreed to provide an equivalent amount of property tax in place of the .25% loss in sales tax revenues. In addition, the state will pay the VLF "backfill" to cities in the form of property taxes (ERAF). Therefore, the property tax revenues for FY 2004/05 are projected to reach \$11M from \$5.7M actual in FY 2003/04.

FRANCHISE TAX



Franchise taxes are paid for the privilege of using City property or to operate a franchise within the city limits. In 2003/04, the largest franchise taxes were paid to the City by the electric and gas utility companies, providing revenues of about \$1.5M and \$2.7M, respectively. No major changes are expected for franchise taxes for FY 2004/05, therefore, the City conservatively projects franchise tax revenues to be \$5.7M.

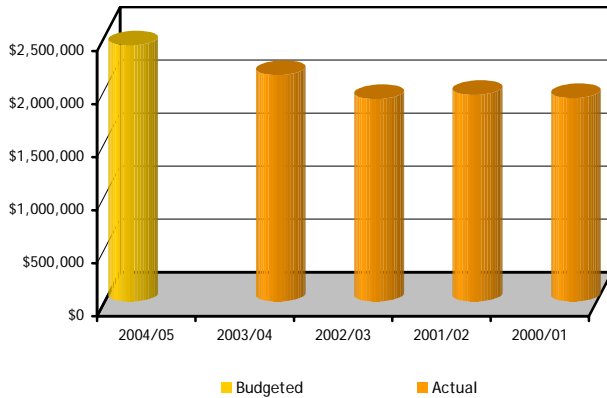
BUILDING CONSTRUCTION PERMITS



Building construction permit revenues remained strong for FY 2003/04. The City of Carson expects this revenue source to level off for fiscal year 2004/05. The City forecasts that residential construction will remain relatively slower than the past year and non-residential construction will continue to lag reflecting soft business conditions. Therefore, the City projects building permit revenues to ease to \$3.4M from the \$3.7M estimated actual revenues in FY 2003/04.

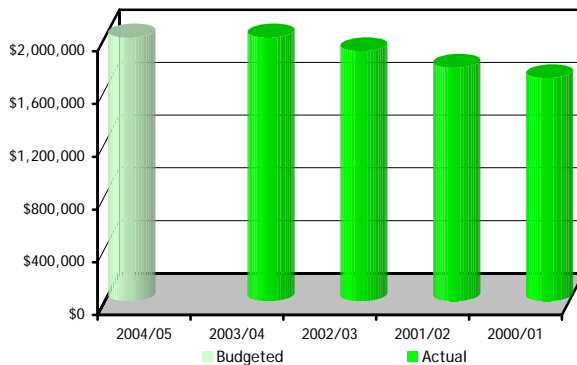
RECREATION PROGRAMS

Recreation programs, administered by the City, generate revenues through the collection of fees. These revenues have been consistently stable for the past four years. The opening of the new Stevenson Gym, the Dominguez Pool and the newly renovated Veterans Park is projected to increase recreation program revenues from \$2.1 million in FY 2003/04 to \$2.4 million in FY 2004/05.



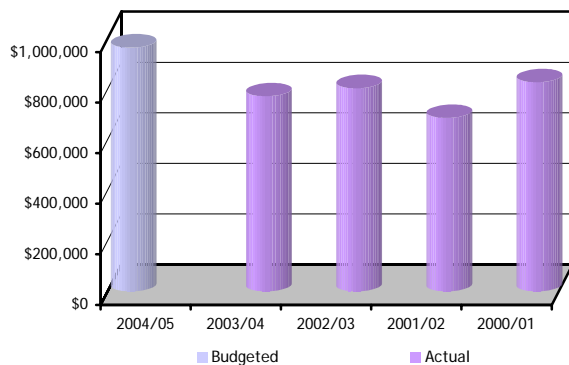
BUSINESS LICENSE

As shown on the opposite chart, business license fees remain to be a fairly stable resource for the City. This revenue source is based on the number of employees of each business entity. With the implementation of the \$100 one-time application fee to out-of-city new businesses and the \$15 annual renewal processing fee approved by Council in August 2003, the City forecasts business license revenues to increase by 4.5% from \$2M in FY 2003/04 to \$2.1M in FY 2004/05.



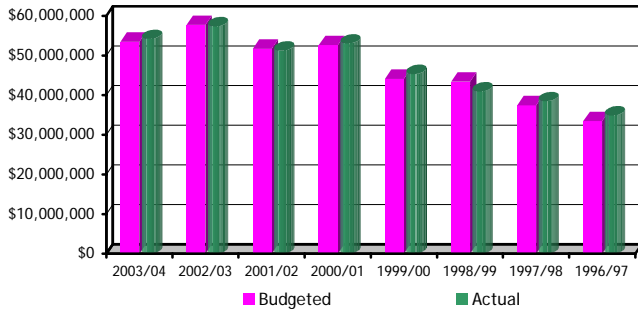
TRANSIENT OCCUPANCY TAX

The Carson Municipal Code authorizes the City to levy a tax for the privilege of occupying lodgings on a transient basis. This tax is charged to the lodger but is collected by the lodging operator and is transmitted to the City on a monthly basis. Currently the transient occupancy tax (TOT) rate is 9%. The City hopes to resubmit the TOT proposition to increase the rate to 12% for the March 8, 2005 General Municipal Election. For FY 2004/05 the City expects revenues from the TOT to increase to \$.965M from the adopted revenues of \$.850M in FY 2003/04.

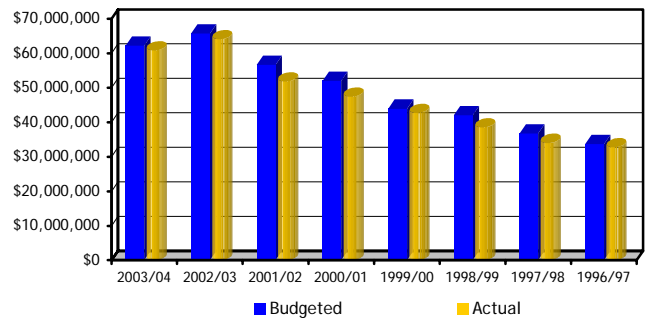


When California's governor signed the FY 2004/05 State budget on July 30, 2004, an agreement between cities, counties, special districts and redevelopment agencies was also made with the governor. This agreement will affect the City's financial position for the next couple of years. However, with the strong fiscal management that has emerged over the last several years, Carson should be able to weather the storm. The graph on the lower left shows the relationship of the actual general fund revenues and transfers to the amended budget. On the other hand, the graph on the lower right shows actual expenditures as compared to the amended budget.

REVENUES
BUDGETED VS. ACTUAL



EXPENDITURES
BUDGETED VS. ACTUAL



For this fiscal year, in order to offset the effects of State budget on local government and the rising employee benefits costs, the City had to:

- Eliminate 6 vacant full-time positions
- Unfund 27 vacant full-time positions
- Downgrade 7 vacant full-time positions
- Partially fund 42 vacant full-time positions
- Reduce expenditures for legal services
- Suspend annual transfer to the equipment replacement
- Reduce the cost of special events
- Reduce supplies, capital equipment, travel and professional services expenditures

Underlying this budget, as the above highlights disclose, is the City's commitment to maintain the high level of service to our citizens.

CONCLUSION

In response to the current budget challenges, staff recognizes the need to involve citizens and businesses in the creation of a comprehensive fiscal plan. Accordingly, several budget workshops were held and attended by the public and businesses to give our community the chance to review, comment, and provide input on the budget.

As the City strives to maintain fiscal health, it is clear that the leadership of the City Council, combined with the City's dedicated staff, involved citizens and active businesses, will remain focused on the enrichment and growth of this culturally diverse community. This budget is intended as a tool that will sustain the community by funding the excellent public services and programs that provide the quality of life our residents have come to expect.

Respectfully submitted,

Jerome G. Groomes
City Manager