

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

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CITY OF CARSON, CALIFORNIA



In accordance with Government Accounting Standards Board (GASB) Statement No. 34, the management of the City of Carson ("City"), offers readers of the City's financial statements this narrative overview and analysis of the financial activities and performance of the City for the fiscal year ended June 30, 2012. Please read it in conjunction with the accompanying transmittal letter at the front of this report, and the basic financial statements, which follow this section.

## **Financial Highlights**

### **Government-wide Financial Statements**

- The assets of the City exceeded its liabilities at June 30, 2012 by \$363.1 million. This amount is referred to as the net assets of the City. Of this amount, \$302.4 million is invested in capital assets net of accumulated depreciation, \$58.1 million is restricted, and \$2.6 million is unrestricted.
- The City's net assets decreased by \$16.5 million during the fiscal year as a result of total expenditures exceeding total revenues by \$16.5 million. For FY 2011/12, revenues decreased by \$10.3 million and expenditures decreased by \$51.3 million over the FY 2010/11 levels. The majority of the overall decreases in revenues and expenditures are related to the passing of AB 1X 26, which approved the dissolution of redevelopment agencies as of February 1, 2012. Assets of the former Carson Redevelopment Agency were transferred to the Successor Agency to the Dissolved Carson Redevelopment Agency (Successor Agency) on February 1, 2012. Financial information for the Successor Agency is presented as a Private-purpose Trust fund. Additional information can be found in notes 1 and 15 in the notes to the basic financial statements.

### **Fund Financial Statements**

- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$60.5 million, a decrease of \$171.6 million over the prior fiscal year due to the dissolution of redevelopment agency. Approximately \$14.9 million (24.6%) of the \$60.5 million balance is unassigned and is available for spending at the government's discretion.
- As of June 30, 2012, the total fund balance of the City's General Fund was \$29.6 million, a \$6.1 million (26.0%) increase from the prior year level of \$23.5 million.
- In the General Fund, revenues exceeded expenditures by \$4.9 million, before other financing sources/uses.
- The City's total long-term liabilities decreased by \$193.6 million for the fiscal year ended June 30, 2012, from \$216.5 million to \$25.7 million mainly due to the bonds payable of \$186.6 million, which is now reported in the Successor Agency's private trust fund as of June 30, 2012.

## **Overview of the Financial Statements**

This discussion and analysis are an introduction to the City's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also consists of supplementary information in addition to the basic financial statements.

## Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The Statement of Net Assets and the Statement of Activities make up the government-wide financial statements. The focus of these statements is the primary government and they exclude information about the fiduciary funds.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

All of the City's activities are considered to be governmental in nature and as a result, no business-type activities are reported in these statements. The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The *governmental activities* of the City include general government, public services, development services, economic development, capital maintenance programs, and interest and other charges.

The government-wide financial statements include the City itself (known as the primary government). The Successor Agency to the Dissolved Carson Redevelopment Agency is reported in the fiduciary fund financial statements.

The government-wide financial statements can be found beginning on page 15 of this report.

## Fund Financial Statements

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

*Governmental Funds.* Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of

revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Proposition C Local Return, and the Federal Highway Planning Grant Fund, each of which are considered to be major funds. Data from the other remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* in the *nonmajor governmental funds supplementary information* section of this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate its compliance with this budget.

The governmental fund financial statements can be found beginning on page 17 of this report.

Beginning with the fiscal year ended June 30, 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The Statement establishes new fund balance classifications that comprise a hierarchy based on the extent to which a government is bound by constraints imposed upon the use of the resources reported in the governmental fund.

More details on these fund balance classification can be found on Note No. 1 in the Notes to the Basic Financial Statements.

*Fiduciary Funds*. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. These funds are custodial in nature and the measurement of operations is not appropriate. Beginning with FY 2011/12, the fiduciary funds include the Successor Agency to the Dissolved Carson Redevelopment Agency.

The fiduciary fund financial statements can be found on page 21 of this report.

### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements follow the basic financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and a comparison of budgeted to actual results for the General Fund. *Required supplementary information* can be found beginning on page 58 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following *the required supplementary information*. Combining and individual fund statements and schedules can be found beginning on page 65 of this report.

**Government-wide Financial Statements Analysis**

**Net assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets were approximately \$363.1 million as of June 30, 2012. Net assets decreased by \$16.5 million, or 4.4%, for fiscal year 2011/12 as explained in the financial highlights at the beginning of the discussion. Assets decreased by \$209.4 million (34.4%) and liabilities decreased by \$192.8 million (83.9%) compared to June 30, 2011, mainly due to the dissolution of redevelopment agency.

By far, the largest portion of the City's net assets at June 30, 2012 (\$302.4 million, or 83.3% of total net assets) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table presents a comparison of the net assets as of June 30, 2012 and June 30, 2011.

**Summary of Net Assets  
June 30, 2012 and 2011**

	<b>Governmental Activities</b>		<b>Increase (Decrease)</b>
	<b>2012</b>	2011	
<b>ASSETS</b>			
Cash and other assets	\$ 97,663,023	\$ 270,249,685	\$ (172,586,662)
Capital assets net of accumulated depreciation	<b>302,392,752</b>	339,193,971	(36,801,219)
<b>Total assets</b>	<b>400,055,775</b>	609,443,656	(209,387,881)
<b>LIABILITIES</b>			
Current and other liabilities	<b>11,224,826</b>	13,289,462	(2,064,636)
Long-term liabilities	<b>25,720,201</b>	216,509,615	(190,789,414)
<b>Total liabilities</b>	<b>36,945,027</b>	229,799,077	(192,854,050)
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	<b>302,392,752</b>	339,193,971	(36,801,219)
Restricted	<b>58,146,655</b>	61,056,380	(2,909,725)
Unrestricted	<b>2,571,341</b>	(20,605,772)	23,177,113
<b>Total net assets \$</b>	<b>363,110,748</b>	\$ 379,644,579	\$ (16,533,831)

A portion of the City's net assets, \$58.1 million (16.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2.6 million is unrestricted net assets and is available for spending at the government's discretion.

**City of Carson  
Management's Discussion and Analysis  
Year ended June 30, 2012**

**Statement of Activities.** Governmental activities decreased the City's net assets by \$16.5 million for fiscal year 2011/12. The total revenue for the fiscal year is \$99.9 million, which is a decrease of \$10.3 million from the prior year. The total expenses decreased by \$51.3 million from \$149.8 million to \$98.5 million. The following table presents the comparative revenue and expenditure data for fiscal years ended June 30, 2012 and 2011.

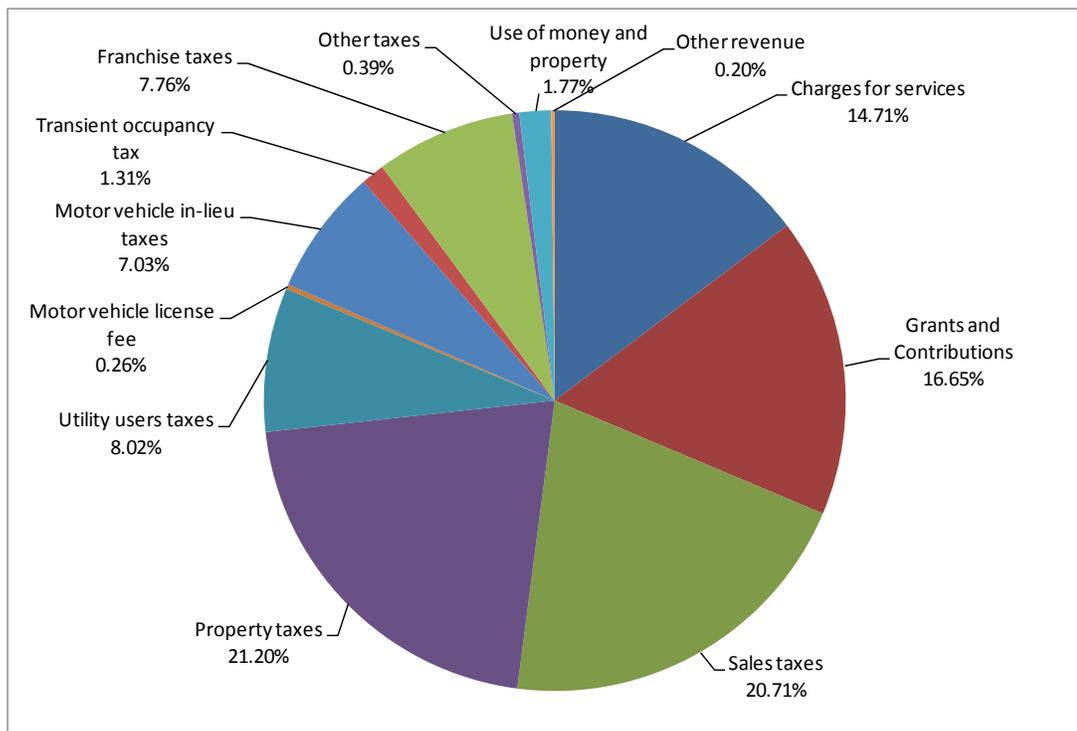
**Statement of Activities  
For the Year Ended June 30, 2012 and 2011**

	Governmental Activities		Increase/ (Decrease)
	2012	2011	
<b>Program revenues</b>			
Charges for services	\$ 14,690,950	\$ 15,100,971	\$ (410,021)
Grants and Contributions	16,632,683	16,285,997	346,686
<b>General revenues</b>			
Taxes			
Sales taxes	20,688,872	17,195,450	3,493,422
Property taxes	21,182,424	32,977,590	(11,795,166)
Utility users taxes	8,016,141	7,439,521	576,620
Motor vehicle license fee, unrestricted	256,016	242,811	13,205
Motor vehicle in-lieu taxes	7,023,678	7,104,861	(81,183)
Transient occupancy tax	1,307,732	1,197,800	109,932
Franchise taxes	7,746,907	7,483,227	263,680
Other taxes	390,600	266,446	124,154
Use of money and property	1,763,424	3,062,757	(1,299,333)
Other revenue	195,425	1,830,299	(1,634,874)
Total	99,894,852	110,187,730	(10,292,878)
<b>Expenditures</b>			
<b>Governmental activities</b>			
General government	22,940,199	20,578,498	2,361,701
Public services	41,684,670	36,479,106	5,205,564
Development services	14,060,876	11,742,451	2,318,425
Economic development	13,071,236	53,957,318	(40,886,082)
Capital maintenance programs	-	15,535,108	(15,535,108)
Interest and other charges	5,350,108	8,615,980	(3,265,872)
	98,504,968	149,829,511	(51,324,543)
Change in net assets before extraordinary items	1,389,884	(39,641,781)	41,031,665
Extraordinary items	(17,923,715)	-	(17,923,715)
Change in net assets	(16,533,831)	(39,641,781)	23,107,950
Net assets, beginning	379,644,579	419,286,360	(39,641,781)
Net assets, ending	\$ 363,110,748	\$ 379,644,579	\$ (16,533,831)

Key elements of the significant changes in fiscal year 2011/12 revenues are as follows:

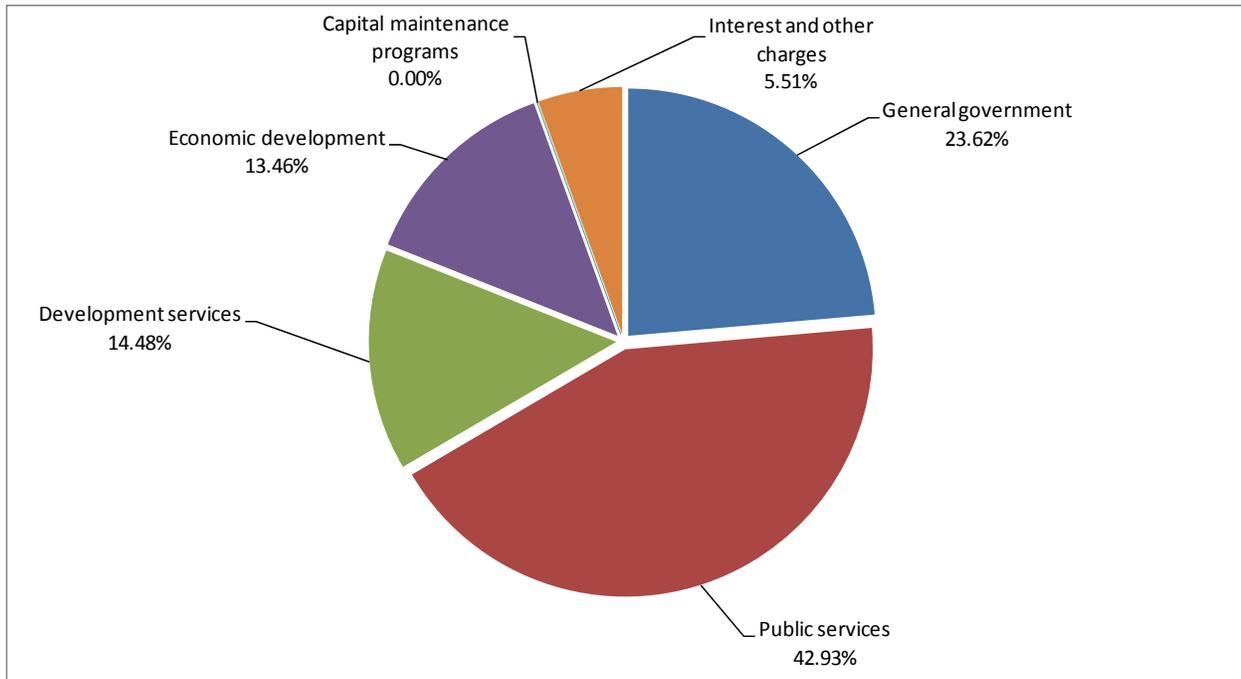
- Property taxes decreased by \$11.8 million due to the dissolution of redevelopment agency. The passage of AB 1X 26 dissolved the redevelopment agency as of February 1, 2012 and assets of the former agency were transferred to the Successor Agency of the Dissolved Carson Redevelopment Agency. Property tax information of the Successor Agency can be found in the fiduciary fund financial statement.
- Sales tax revenues had an increase of \$3.5 million, a 20% increase over FY2010/11. In FY2010/11, sales tax had an increase of 14%. This two-year consecutive increase is a sign that the economy is slowly recovering from prior years' economic condition which had reduced sales revenues throughout the region.
- Utility users' taxes, a new tax measure for the City beginning in FY 2009/10, increased the City's revenue source by \$576 thousand. The increase is due to the City lifting of the cap of the utility users' tax. The City projects that this 2% utility users tax will generate \$8.1 million in FY2012/13, a 1% increase over current year.
- Revenue in the use of money and property category decreased by \$1.3 million. The decrease resulted mainly from a decrease in investment income and mainly due to the reporting of income of the dissolved redevelopment agency in the fiduciary fund financial statement. Interest income on investments has not recovered from the lingering impact of the economic crisis.

**Revenues by Source- Governmental Activities**



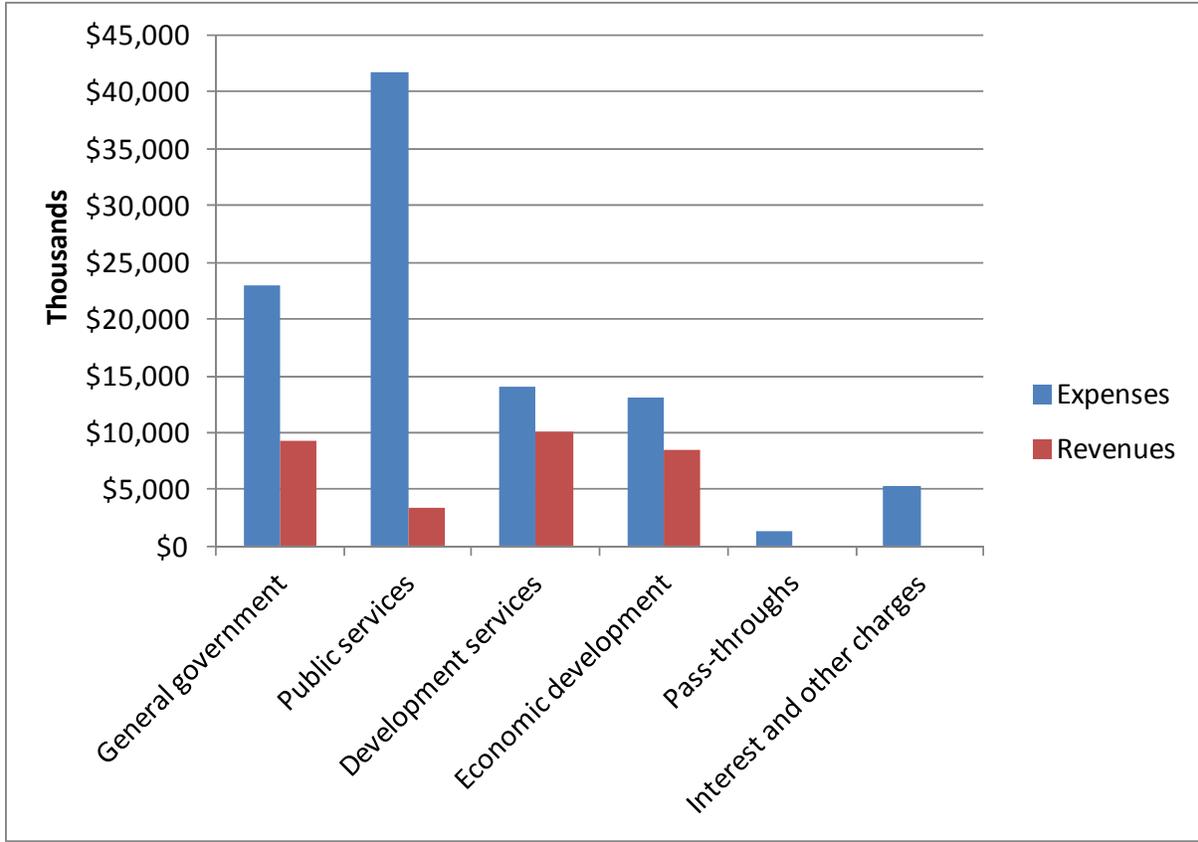
The top seven major revenue sources come from: 1) No/low property taxes - 21%, 2) sales and use taxes – 21%, 3) grants and contributions - 17%, 4) charges for services – 15%, 5) utility users taxes – 8%, 6) franchise taxes – 8%, and 7) motor vehicles in-lieu taxes – 7%. Charges for services, which decreased 3% over prior year, are fees imposed on the user for public safety, public works, youth and adult services provided by the City. Examples of these services include business license application, charges for planning and zoning checks, building code assessments, public works inspections, filing fees, and various parks and recreation program fees.

**Expenses by Function**



Expenses of the governmental activities totaled \$98.5 million, which is an decrease of \$51.3 million or 34.2% from the prior year. While most expenses of the various governmental activities increase, the overall net decrease of \$51.3 million was due mainly to the dissolution of the redevelopment agency. Public services, which account for 42.3% of total expenses, include the cost of public safety, parks and recreation and human services programs.

### Governmental Activities Expenses versus Program Revenues



Program expenses exceed program revenues in all categories resulting to a \$67.1 million deficit for FY 2011/12. The City depends on general tax revenues to fund the operations and program activities.

#### Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information may be useful in assessing the City's financing requirements. In particular, *restricted fund balance* may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$60.5 million. The City's governmental funds report a balance of \$14.9 million in its *unassigned fund balance* which can be spent at the City's discretion. Assigned fund balance reports a total of \$4.4 million which are set aside for specific purposes. Restricted fund balance of \$17.6 million is subject to externally enforceable legal obligations which mainly include (1) general fund - \$2.4 million, (2) Housing projects - \$8.8 million and (3) other governmental funds of \$6.2 million.

**City of Carson  
Management's Discussion and Analysis  
Year ended June 30, 2012**

Non-spendable fund balance of approximately \$16.9 million cannot be spent because they are not in spendable form. These include (1) inventory - \$458 thousand, (2) prepaid assets and loans receivable totaling \$281 thousand and (3) land held for resale of \$16.2 million. Committed fund balance of \$6.7 million represents amounts set aside for economic uncertainties.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance is \$29.6 million, \$16.0 million of which is unassigned. As a measure of General Fund liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. General Fund unassigned fund balance represents 27% of total general fund expenditures of \$60.5 million. The City's General Fund balance increased by \$6.1 million during the current fiscal year. Key factors of this increase were attributed to an increase in revenue as well as decrease in actual expenditures over budget during the year. The following table presents the comparative revenue and expenditure data of the general fund for the fiscal year ended June 30, 2011 and 2012:

**General Fund – Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2012 and 2011**

	General Fund		Increase (Decrease)
	2012	2011	
<b>Revenues</b>			
Taxes	\$ 52,413,906	\$ 48,278,867	\$ 4,135,039
Licenses and permits	6,127,567	6,472,150	(344,583)
Fines and forfeitures	1,972,907	2,049,229	(76,322)
Charges for services	2,504,288	2,408,497	95,791
Intergovernmental	416,903	599,808	(182,905)
Use of money and property	1,098,287	1,058,557	39,730
Miscellaneous	890,761	897,053	(6,292)
<b>Total revenues</b>	65,424,619	61,764,161	3,660,458
<b>Expenditures</b>			
Current:			
General government	20,690,955	18,136,954	2,554,001
Interfund reimbursement	(5,198,738)	(3,464,606)	(1,734,132)
Economic development	1,435,078	1,231,175	203,903
Development services	7,943,400	7,795,603	147,797
Public services	35,115,221	33,198,295	1,916,926
Capital improvement programs	495,902	509,979	(14,077)
<b>Total expenditures</b>	60,481,818	57,407,400	3,074,418
Excess (deficiency) of revenues over expenditures	4,942,801	4,356,761	586,040
<b>Other financing sources (uses)</b>			
Transfers in (Note 6)	1,177,316	962,406	214,910
Transfers out (Note 6)	(2,503)	-	(2,503)
<b>Net other financing sources (uses)</b>	1,174,813	962,406	212,407
Change in fund balance	6,117,614	5,319,167	798,447
<b>Fund balance, beginning of year</b>	23,501,291	18,182,124	5,319,167
<b>Fund balance, end of year</b>	\$ 29,618,905	\$ 23,501,291	\$ 6,117,614

**General Fund Budgetary Highlights**

In the General Fund, differences between the original budget and the final amended budget resulted in an increase in appropriation of \$3.9 million due to increases in public services, development services, capital improvement program, and in the general government categories.

**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental activities amounts to \$302.4 million (net of accumulated depreciation of \$179.7 million) as of June 30, 2012. This investment in capital assets includes land, buildings, improvements other than building, infrastructure (roads, sidewalks, streetlights, etc.), and machinery and equipment.

**(Net of Accumulated Depreciation)**  
**June 30, 2012 and 2011**

	2012	2011
Land, land right and improvements	\$ 92,936,028	\$ 92,936,028
Buildings and improvements	20,459,885	45,873,520
Machineries and equipment	2,890,631	3,609,800
Infrastructure	170,171,096	171,149,377
Construction in progress	15,941,125	25,625,245
Total	\$ 302,398,765	\$ 339,193,970

Additional information on the City's capital assets can be found in note 3 to the basic financial statements of this report.

**Debt Administration.** At the end of the current fiscal year, the City had no outstanding bonded debt outstanding as these are now part of the dissolved redevelopment agency reported in the fiduciary fund financial statement. The City has a net OPEB obligation of \$16.8 million as of June 30, 2012. During the year, the City established an Employer's Retiree Benefit Trust and contributed \$1.5 million to this irrevocable trust fund. A contribution of \$3.4 million was made for the benefit of the dissolved redevelopment agency employee. This amount is reported in the fiduciary fund financial statement of the Successor Agency.

**Outstanding Debt**  
**June 30, 2012 and 2011**

	2012	2011
Bonded Indebtedness:		
Tax allocation bonds	\$ -	\$ 192,340,863
Other long-term debt:		
Other post-employment benefits	16,803,490	14,400,682
Self-insurance claims payable	3,481,341	3,837,864
Compensated absences	5,435,370	5,930,206
Total	25,720,201	\$ 216,509,615

### **Economic Factors and Next Year's Budget**

The economic downturn which impacted the entire nation and California is expected to endure a long and slow recovery. Like many other cities, our City has experienced the impact through the declines in our revenue sources. We have been able to successfully strategize on ways to combat and lessen the impact of these negative trends while also improving organizational effectiveness and program efficiencies. Although, an increase in sales tax revenue during FY 2010/11 and FY 2011/12 may show signs that the economy is slowly recovering, the projected increase in sales tax for FY 2012/13 will be diluted by the reduction in other major revenues of the city such as property taxes. Therefore, the city anticipates the continuance of lean budgets with very tight controls on the expenditures.

FY 2012/13 General Fund revenues are projected to be \$67,926,017, a decrease of \$3.9 million thousand above the FY 2011/12 year-end actual revenues of \$71,800,673, which include, transfers in and interfund reimbursements.

FY 2012/13 General Fund expenditures are projected to be \$66,356,848, which is \$674 thousand more than the year-end actual expenditures for FY 2011/12 of \$65,683,059.

Since it is likely that revenues will be affected if both job losses and lower consumer spending continue, the City is aggressively monitoring revenue and expenditure trends in order to be prepared financially for any further downturns. While we are hopeful that the worst may be behind us and we may be moving towards stabilization leading to recovery, we were very conservative in revenue projections for the upcoming year in order to avoid any impacts should the economic recovery be delayed.

The following are issues that will impact the City in the near and long term future:

- The California Legislature approved and the Governor signed bill ABX1 26 (legislation) which dissolves California redevelopment agencies and establishes mechanisms for paying existing agency debts and liquidating agency assets. This bill was appealed to the State Supreme Court which ruled, on December 29, 2011, that ABX1 26 is constitutional and valid. The dissolutions of all redevelopment agencies took effect as of February 1, 2012. Additional information on the dissolution of the redevelopment agency can be found in note 13 to the basic financial statements.
- Prop 1A State Borrowing: Proposition 1A was passed in 2004 to safeguard tax revenues for local governments. With California's fiscal emergency, the State suspended Prop 1A with the passage of ABX4 14 and ABX4 15 as part of its 2009/10 budget package which allowed it to borrow 8% of the amount of property tax revenue, including those property tax revenues associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts, except for redevelopment agencies. With this passage, the State borrowed from the City approximately \$1.6 million. These funds are to be repaid to the City by June 30, 2013 with a 2% interest rate.

- **GASB 45 – OPEB:** With the implementation of the Governmental Accounting Standards Board Statement (GASB) No. 45, the City is now required to report its “other post employment benefits (OPEB) obligations for current and future retirees. The City has made it a priority to plan for this significant unfunded liability. During FY 2011/12, the City joined the California Employer’s Retiree Benefit Trust (CERBT) and made contributions to the fund. Information on the unfunded OPEB liability is found in note 8 to the basic financial statements of this report. In FY 2012/13, the City established a policy to fund CERBT annually.

Despite tough economic times, the City continues to be mindful of ways to improve the level of services that it provides to the residents as well as to provide additional resources to the community. It is staff’s endeavor to continue to improve overall City performance by continuing programs which include public safety, public infrastructure maintenance, parks and recreation, youth outreach programs, and employment and business development programs. For example, the City, in conjunction with its Redevelopment Agency, has implemented multiple economic and housing development projects that will not only improve the aesthetic features of the City but will also generate revenues that will be used to enhance the quality of life of its residents. The City continues its effort to bridge the digital gap within the senior community by expanding its 18-computer Senior Technology center with an addition of a new 3-computer Senior Cyber Café which offers a social setting where seniors have a place to relax, surf the web, and drink coffee. The City intends to continue these programs while preserving and enhancing the safety and welfare of the community.

### **Request for Information**

This financial report is designed to provide a general overview of the City’s finances for readers of the financial statements. Questions concerning any of the information in this report or request for additional financial information should be addressed to Jackie Acosta, Administrative Services General Manager, Finance Department, 701 E Carson St. Carson, CA 90745.