
MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF CARSON, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT



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, 2014. 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, 2014 by \$364.3 million. This amount is referred to as the net position of the City. Of this amount, \$293.7 million represent net investment in capital assets, \$60.3 million is restricted, and \$10.3 million is unrestricted.
- The City's net position decreased by approximately \$7 million during the fiscal year as a result of total expenditures exceeding total revenues by \$7 million. For FY 2013/14, revenues increased by \$2.3 million while expenses decreased by \$8.7 million over the FY 2012/13 levels. The majority of the overall increases in revenues are related to the increase in utility users tax and franchise taxes. Grants and contributions also increased during the year because of new grants received during the last fiscal year. Expenditures decreased during the year due to the elimination of reimbursements from the Redevelopment Agency to offset the cost of administering redevelopment activities.
- The City's total long-term liabilities increased by \$1.6 million for the fiscal year ended June 30, 2014, from \$25.69 million to \$27.28.

Fund Financial Statements

- As of June 30, 2014, the City's governmental funds reported combined ending fund balances of \$77.0 million, a decrease of \$2.3 million over the prior fiscal year's fund balance. Approximately \$5.7 million (7.9%) of the \$77.0 million balance is unassigned and is available for spending at the government's discretion.
- As of June 30, 2014, the total fund balance of the City's General Fund was \$36.38 million, a slight increase of \$10 thousand from the prior year level of \$36.36 million.
- In the General Fund, expenditures exceeded revenues by \$828 thousand, before other financing sources/uses.

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 Position

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 Position* presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, public works, community 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 16 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 and the Carson Housing Authority Funds, 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 18 of this report.

The City adheres to Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The Statement establishes 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. The fiduciary funds include the Successor Agency to the Dissolved Carson Redevelopment Agency.

The fiduciary fund financial statements can be found on page 22 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 and the post employment medical benefits to its employees. A comparison of budgeted to actual results for the General Fund and Housing Authority Fund is likewise included. *Required supplementary information* can be found beginning on page 66 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 73 of this report.

Government-wide Financial Statements Analysis

Net position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, net position was approximately \$364.3 million as of June 30, 2014. Net position decreased by \$7 million, or 1.9%, for fiscal year 2013/14 as explained in the financial highlights at the beginning of the discussion. Assets decreased by \$2.7 million (.7%) and liabilities increased by \$4.3 million (13.2%) compared to June 30, 2013, mainly due to the increase of the current portion of interest and principal payable as of the end of the current year .

By far, the largest portion of the City's net position at June 30, 2014 (\$293.7 million, or 80% of total net position) reflects its net 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 position as of June 30, 2014 and June 30, 2013.

**Summary of Net Position
June 30, 2014 and 2013**

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2014</u>	<u>2013</u>	
ASSETS			
Cash and other assets	\$ 105,331,929	\$ 106,985,730	\$ (1,653,801)
Capital assets net of accumulated depreciation	<u>293,712,678</u>	<u>296,900,646</u>	<u>(3,187,968)</u>
Total assets	<u>399,044,607</u>	<u>403,886,376</u>	<u>(4,841,769)</u>
Deferred outflows of resources	<u>2,158,520</u>	-	<u>2,158,520</u>
Total deferred outflows of resources	<u>2,158,520</u>	-	<u>2,158,520</u>
LIABILITIES			
Current and other liabilities	<u>9,613,844</u>	<u>6,871,409</u>	2,742,435
Long-term liabilities	<u>27,242,539</u>	<u>25,690,723</u>	1,551,816
Total liabilities	<u>36,856,383</u>	<u>32,562,132</u>	<u>4,294,251</u>
NET POSITION			
Net investment in capital assets	<u>293,712,678</u>	296,900,646	(3,187,968)
Restricted	<u>60,352,072</u>	62,065,816	(1,713,744)
Unrestricted	<u>10,281,994</u>	<u>12,357,782</u>	<u>(2,075,788)</u>
Total net position	<u>\$ 364,346,744</u>	<u>\$ 371,324,244</u>	<u>\$ (6,977,500)</u>

**City of Carson
Management's Discussion and Analysis
Year ended June 30, 2014**

A portion of the City's net position, \$60.3 million (16.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10.3 million is unrestricted net position and is available for spending at the government's discretion.

Statement of Activities. Governmental activities decreased the City's net position by \$7 million for fiscal year 2013/14. The total revenue for the fiscal year is \$92.3 million, which is an increase of \$2.3 million from the prior year. The total expenses decreased by \$8.7 million from \$108.0 million to \$99.3 million. The following table presents the comparative revenue and expenditure data for fiscal years ended June 30, 2014 and 2013.

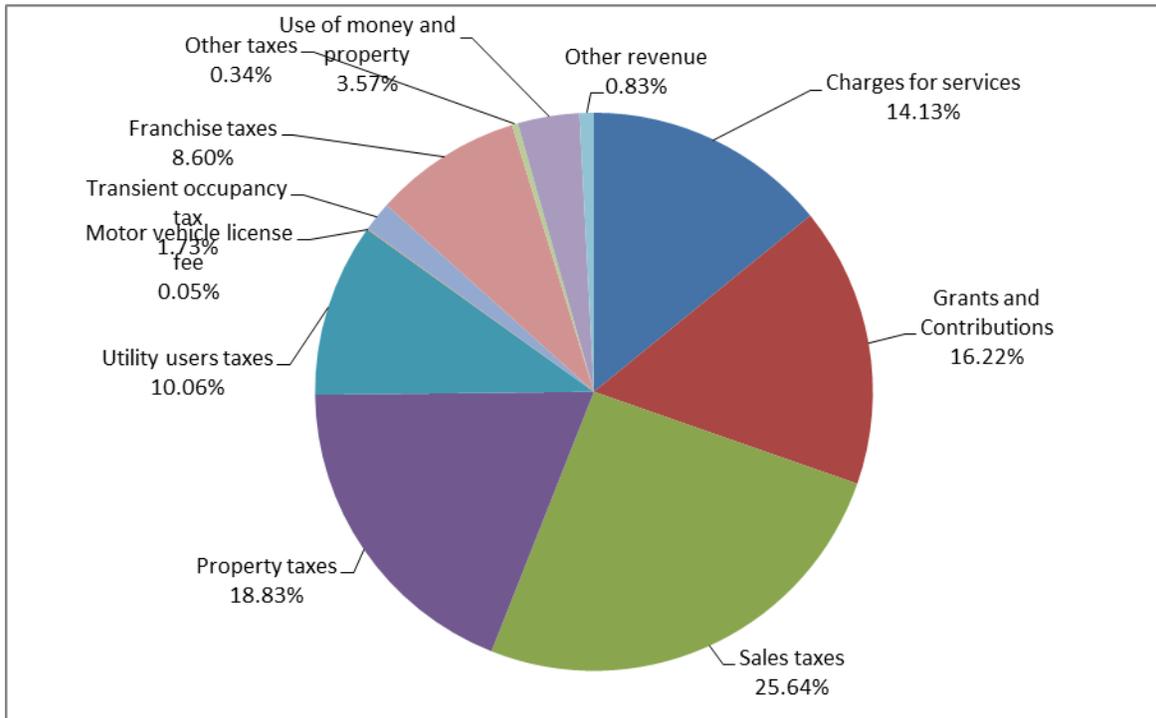
**Statement of Activities
For the Year Ended June 30, 2014 and 2013**

	<u>Governmental Activities</u>		<u>Increase/ (Decrease)</u>
	<u>2014</u>	<u>2013</u>	
Program revenues			
Charges for services	\$ 13,040,956	\$ 12,137,769	\$ 903,187
Grants and contributions	13,096,789	12,895,134	201,655
Capital grants and contributions	1,871,566	489,800	1,381,766
General revenues			
Taxes			
Sales taxes	23,668,795	25,187,734	(1,518,939)
Property taxes	17,381,673	19,247,084	(1,865,411)
Utility users taxes	9,284,071	7,495,997	1,788,074
Motor vehicle license fee, unrestricted	41,716	50,405	(8,689)
Transient occupancy tax	1,598,037	1,462,174	135,863
Franchise taxes	7,933,064	7,090,887	842,177
Other taxes	315,511	463,116	(147,605)
Use of money and property	3,295,319	2,568,878	726,441
Other revenue	768,416	938,422	(170,006)
Total	<u>92,295,913</u>	<u>90,027,400</u>	<u>2,268,513</u>
Expenses			
Governmental activities			
General government	23,721,702	22,049,082	1,672,621
Community development	19,125,990	32,878,975	(13,752,985)
Public works	18,349,893	15,799,718	2,550,174
Community services	37,649,609	35,247,843	2,401,765
Capital maintenance programs	426,219	2,031,237	(1,605,018)
	<u>99,273,413</u>	<u>108,006,855</u>	<u>(8,733,442)</u>
Change in net position	(6,977,500)	(17,979,455)	11,001,955
Net position, beginning	371,324,244	389,303,699	(17,979,455)
Net position, ending	<u>\$ 364,346,744</u>	<u>\$ 371,324,244</u>	<u>\$ (6,977,500)</u>

Key elements of the significant changes in fiscal year 2013/14 revenues are as follows:

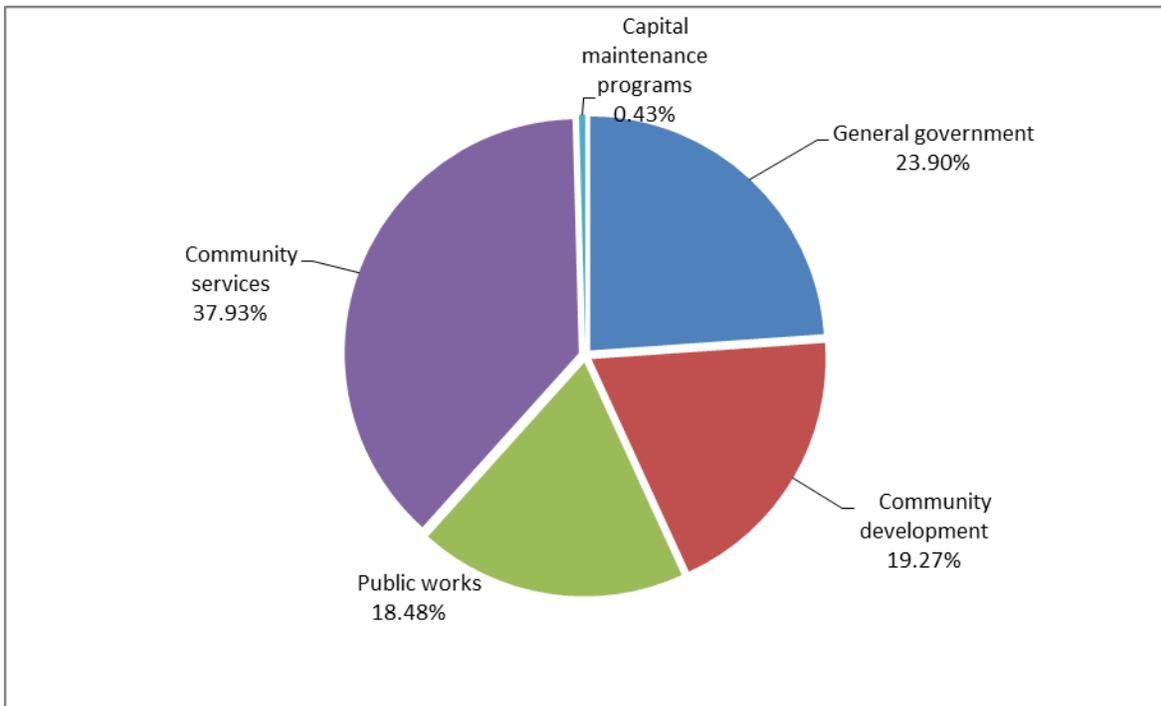
- Property taxes decreased by \$1.9 million due to the one-time receipt in 2013 of the \$974 thousand as proceeds of the settlement of the property tax administration fee litigation and another one-time Prop 1A repayment from the State in 2013 totalling \$1.7 million. The net decrease was \$1.9 million because without these non-recurring revenues, revenues actually went up by 3.3% due mainly to supplemental apportionment going up by 72%.
- Sales tax revenues decreased by \$1.5 million, a 6.0% decrease over FY2012/13. In FY2012/13, sales tax had a large increase of 21.7% due to a financial settlement as a result of the City prevailing in a sales tax sharing lawsuit against the City of La Mirada. Without this settlement, the FY2013/14 sales tax revenues are actually \$1.2 million more than the prior fiscal year and is an indication a recovering economy.
- Utility users tax increased by \$1.8 million due to an overall increase in usage of gas and electric and one-time true-up payments from large utility users.
- The \$842 thousand increase in franchise taxes, as compared to FY 2012/13 was on account of the increase in receipts from gas and electric franchise taxes.
- The \$1.4 million increase in capital grants and contributions was brought about by the increase in construction in progress.
- Charges for services increased by \$903 thousand. The increase resulted mainly from an increase in revenue from planning and zoning fees and from several park program fees.

Revenues by Source- Governmental Activities



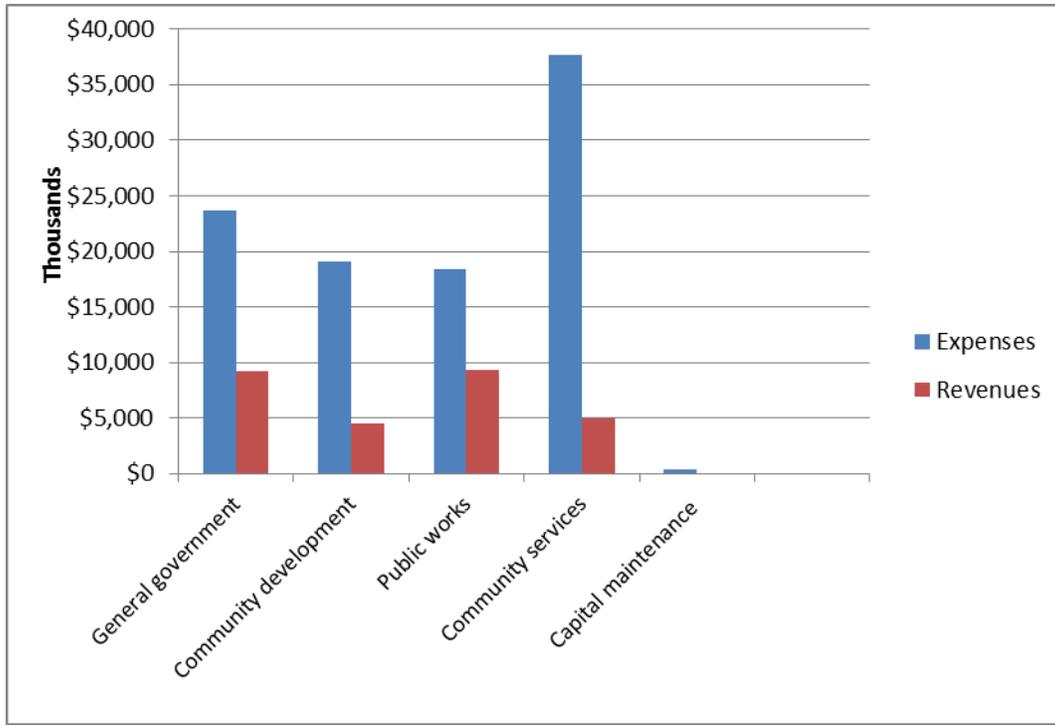
The top seven major revenue sources come from: 1) sales and use taxes – 26%, 2) No/low property taxes - 19%, 3) grants and contributions - 16%, 4) charges for services – 14%, 5) utility users taxes – 10%, 6) franchise taxes – 9%, and 7) use of money and property – 4%. Charges for services, which increased 7% 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 \$99.3 million, which is a decrease of \$8.8 million or 8.1% from the prior year. Community services, which account for 38% of total expenses, include the cost of public safety, parks and recreation, transportation, and human services programs.

Governmental Activities Expenses versus Program Revenues



Program expenses exceed program revenues in all categories resulting in a \$71.2 million deficit for FY 2013/14. 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 \$77 million. The City's governmental funds report a balance of \$5.7 million in its *unassigned fund balance*, which can be spent at the City's discretion. Assigned fund balance amounts to \$5.8 million which represents fund balance set aside for specific purposes. Restricted fund balance of \$35.3 million is subject to externally enforceable legal obligations which, mainly include (1) general fund - \$1.8 million, (2) Housing projects - \$25.9 million and (3) other governmental funds of \$7.7 million.

**City of Carson
Management's Discussion and Analysis
Year ended June 30, 2014**

Non-spendable fund balance of approximately \$9.1 million cannot be spent because the related assets are not in spendable form. These include (1) inventory - \$319 thousand, (2) advance funded pension costs totaling \$2.2 million and (3) land held for resale of \$6.6 million. Committed fund balance of \$20.9 million, which is set aside for economic uncertainties equates to 20% of the following year's adopted general fund budget, \$80 thousand for reward funds, \$2.5 million for budget stabilization funds and \$4.1 million for contributions to the OPEB Trust.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance is \$36.4 million, \$6.1 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 8.18% of total general fund expenditures of \$71.8 million. The City's General Fund balance increased by \$10 thousand during the current fiscal year. Key factor of this increase was the \$938 thousand of funds transferred into the general fund to cover the operating deficit of \$828 thousand, and the transfer out of \$100 thousand. Compare this measly increase of \$10 thousand to the prior year wherein the general fund balance ballooned by \$6.7 million due to windfall receipts of Prop1A borrowing repayment and proceeds from the favorable settlement of legal claims pertaining to the La Mirada sales tax sharing and the property tax administration fee. The following table presents the comparative revenue and expenditure data of the General Fund for the fiscal years ended June 30, 2014 and 2013:

**General Fund – Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2014 and 2013**

	General Fund		Increase
	2014	2013	(Decrease)
Revenues			
Taxes	\$ 57,210,774	\$ 58,039,523	\$ (828,749)
Licenses and permits	6,157,526	5,733,199	424,327
Fines and forfeitures	1,824,128	1,890,301	(66,173)
Intergovernmental	272,325	118,040	154,285
Charges for services	2,190,085	2,122,974	67,111
Use of money and property	1,669,220	1,261,475	407,745
Miscellaneous	1,680,463	3,987,743	(2,307,280)
Total revenues	71,004,521	73,153,255	(2,148,734)
Expenditures			
Current:			
General government	22,042,126	20,120,174	1,921,952
Community development	4,188,655	3,889,965	298,690
Public works	13,797,470	13,211,613	585,857
Community services	30,670,545	29,249,568	1,420,977
Capital improvement programs	1,134,021	407,452	726,569
Total expenditures	71,832,817	66,878,772	4,954,045
Excess (deficiency) of revenues over expenditures	(828,296)	6,274,483	(7,102,779)
Other financing sources (uses)			
Transfers in (Note 6)	938,605	1,014,636	(76,031)
Transfers out (Note 6)	(100,000)	(540,014)	440,014
Net other financing sources (uses)	838,605	474,622	363,983
Change in fund balance	10,309	6,749,105	(6,738,796)
Fund balance, beginning of year	36,368,010	29,618,905	6,749,105
Fund balance, end of year	\$ 36,378,319	\$ 36,368,010	\$ 10,309

General Fund Budgetary Highlights

In the General Fund, differences between the original budget and the final amended budget of \$7.4 million was due, among others, to increases in appropriation in (1) salaries and wages across departments necessitated by the implementation of the MOU provisions of the bargaining units that called for \$1.1 million in budget adjustment; (2) OPEB payment budget of \$4.1 million, per Council approved financial principles; (3) capital expenditure budget of \$900 thousand for the Juanita Millender-McDonald Community Center at Carson.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities amounts to \$293.7 million (net of accumulated depreciation of \$197 million) as of June 30, 2014. 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, 2014 and 2013**

	2014	2013
Land, land right and improvements	\$ 92,936,028	\$ 92,936,028
Buildings and improvements	18,566,036	19,676,548
Machineries and equipment	2,590,905	2,547,423
Infrastructure	160,341,944	166,582,200
Construction in progress	19,277,765	15,158,447
Total	\$ 293,712,678	\$ 296,900,646

Additional information on the City's capital assets can be found in note 4 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 \$17.0 million as of June 30, 2014. The City established an Employer's Retiree Benefit Trust and contributed \$5.4 million to this irrevocable trust fund during the year.

**Outstanding Debt
June 30, 2014 and 2013**

	2014	2013
Other long-term debt:		
Other post-employment benefits	\$ 16,990,072	16,917,931
Self-insurance claims payable	5,022,904	3,806,386
Compensated absences	5,229,563	4,966,407
Total	\$ 27,242,539	\$ 25,690,724

Additional information on the City's OPEB obligation can be found in note 9 to the basic financial statements of this report.

Economic Factors and Next Year's Budget

The City is slowly recovering from the economic downturn, which impacted the entire nation and California. Like many other cities, our City has experienced the impact through the declines in our revenue sources; however, 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 the last three fiscal years may show signs that the economy is slowly recovering, FY 2014/15 will show a decrease due to the change in the point of sale of Tesoro which is expected to bring down revenues by approximately \$1.5 million. All other major revenue sources are anticipated to be flat. Therefore, the city anticipates the continuance of lean budgets with very tight controls on the expenditures.

FY 2014/15 General Fund revenues are projected to be \$71,156,387, which is \$787 thousand less than the FY 2013/14 year-end actual revenues of \$71,943,126.

FY 2014/15 General Fund expenditures are projected to be \$71,203,475, which is \$729 thousand less than the year-end actual expenditures for FY 2013/14 of \$71,932,817.

On October 21, 2014, the City Council approved and passed Resolution 14-103 which calls and gives notice of a holding of a general municipal election on March 3, 2015 for the purpose of submitting to the voters a measure to amend and extend the Carson utility users tax. The 2% tax shall be extended on electric and gas and will be adding the use of cable, water, telephone and cellular utilities to continue essential services such as police, park safety enforcement teams, city special events, sidewalk and street repairs, senior social services programs and youth recreation programs. The City relies on this important revenue source to gap the growing discrepancy between revenues and expenditures of the City.

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

- 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 9 to the basic financial statements of this report. In FY 2012/13, the City established a policy to fund CERBT annually.
- Implementation of the Affordable Care Act and the enhanced government mandated sick leave benefit.
- Continuous spiking of the employer contribution rate to the California Public Employee Retirement System (CalPERS) which for FY 2014/15 is 23.726% and will rise to 26.140% in FY 2015/16.

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 Successor Agency to the Dissolved Redevelopment Agency, has implemented 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 has also lined up for implementation, various capital improvement projects that will improve the conditions of park facilities, City streets and overall architectural landscape. The City Council continues to demonstrate the high priority it places on public safety and its sensitivity to social issues via funding of the anti-bullying, Safety First Act Now and other public safety programs. The City intends to continue these programs in line with its commitment to preserve and enhance 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 its readers of the financial statements. Questions concerning any of the information in this report or request for additional financial information should be addressed to Trini H. Catbagan, Acting Director of Finance, 701 E Carson St. Carson, CA 90745.