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# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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CITY OF CARSON, CALIFORNIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT



This discussion and analysis of the City of Carson's (the City) financial performance offers readers of the City's financial statements an overview of the financial activities of the City for the fiscal year ended June 30, 2017. Our analysis includes information regarding the City's overall financial position and results of operations to assist users in evaluating the City's financial position. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements, and the accompanying notes to those financial statements.

## **Financial Highlights**

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

- The assets of the City exceeded its liabilities at June 30, 2017 by \$341.5 million. This amount is referred to as the net position of the City. Of this amount, \$380.9 million represents net investment in capital assets, \$42.7 million is restricted, and -\$82.1 million is unrestricted net position.
- The City's net position decreased by approximately \$16.1 million during the fiscal year.
- The City's total long-term liabilities increased by \$19.2 million for the fiscal year ended June 30, 2017, from \$100.5 million to \$119.7 million due mainly to increases in the pension and Other Post-Employment Benefits (OPEB) liabilities.

### **Fund Financial Statements**

- As of June 30, 2017, the City's governmental funds reported combined ending fund balances of \$57.9 million, a decrease of \$24.5 million over the prior fiscal year's fund balance. Approximately -\$0.9 million is unassigned.
- As of June 30, 2017, the total fund balance of the City's General Fund was \$18.9 million, an increase of \$0.2 million from the prior year level of \$18.7 million. Approximately \$2.1 million of the \$18.9 million general fund balance is unassigned and is available for spending at the government's discretion.
- In the General Fund, revenues exceeded expenditures by \$3.4 million, before other financing sources/uses.

## **USING THIS ANNUAL REPORT**

The financial statements presented herein include all of the activities of the City of Carson as prescribed by Governmental Accounting Standards Board (GASB) statement No. 34. The three components of the basic financial statements are as follows:

### **1) Government-Wide Financial Statements**

The Government-Wide Financial Statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting in a manner similar to a private-sector business. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt).

## 2) Fund Financial Statements

The fund financial statements include statements for each of the two categories of activities: governmental and fiduciary. For governmental activities, these fund statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds and other funds.

## 3) Notes to the Basic Financial Statements

The notes provide additional information necessary to enable the user to fully understand the various financial statements.

In addition to the basic financial statements and notes, this report contains other supplementary information.

## REPORTING THE CITY AS A WHOLE – GOVERNMENT-WIDE FINANCIAL STATEMENTS

### The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the City as a whole. These statements include all assets and liabilities of the City using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position reports 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 relating to how the City's net position changed during the fiscal year. All activities resulting in changes in net position are reported when earned or incurred, regardless of the receipt or disbursement of the related transactions cash flows. Some of the revenues and expenses reported in this statement will result in future fiscal period cash flows, such as the receipt of uncollected taxes, payment of interest expense or compensated absences.

In the statement of Net Position and the Statement of Activities, we separate the City's activities as follows:

**Governmental Activities** – Most of the City's basic services are reported in this category, including public services, public works, community development (planning and engineering), parks, recreation and community services. These activities are distinguished due to the use of property taxes, sales tax, transient occupancy tax, user fees, interest income, franchise fees, state and federal grants, contributions from other agencies and other revenues to finance these activities.

**Component Unit Activities** – The City of Carson is the primary government unit, with two component units that are legally separate entities. The Carson Joint Powers Financing Authority is reported as part of the City, as the City Council also serves as the governing board of the Finance Authority. Separate financial statements are not issued for the Financing Authority.

The activity of the Carson Housing Authority is reported in a major special revenue fund. Separate financial statements are not issued for the Housing Authority.

## **Fund Financial Statements**

A fund is a grouping of related accounts used to account for and accumulate financial information related to a specific activity or objective. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's three types of funds are governmental, proprietary 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. Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by this integrated approach.

The City maintains several individual governmental funds. The General Fund, Carson Housing Authority Special Revenue Fund, State CIP Grants Special Revenue Fund and Cooperation Agreement Bond Proceeds Special Revenue Fund are presented separately as major funds in the governmental fund balance sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. Financial data for the remaining Non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* in the *non-major governmental funds supplementary information* section of this report.

**Fiduciary Fund** - 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.

## **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.

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the comparison of budgeted to actual results for the major governmental funds, other post-employment benefits schedule of funding progress, schedule of changes in the City's net pension liability and related ratios, and a schedule of the City's pension contributions. This section is located after the Notes to the Financial Statements.

The combining statements referred to earlier in connection with the other governmental fund, internal service funds and fiduciary funds are presented immediately following the required supplementary information described in the previous paragraph in the supplementary information section.

## **Government-Wide Financial Analysis**

The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

The City's net position may be analyzed and used as an indicator of the City's overall financial condition. The City's combined net position decreased by \$16.1 million, from \$357.6 million in the prior period to \$341.5 million in the current fiscal year.

**Table 1**  
**City of Carson's Net Position**  
**June 30, 2017 and 2016**

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and other assets	\$ 89,664,349	\$ 104,711,084
Capital assets net of accumulated depreciation	380,935,329	369,068,436
<b>Total assets</b>	<b>470,599,678</b>	<b>473,779,520</b>
Deferred outflows of resources	20,585,879	11,164,331
<b>Total deferred outflows of resources</b>	<b>20,585,879</b>	<b>11,164,331</b>
<b>LIABILITIES</b>		
Current and other liabilities	27,823,063	21,951,957
Long-term liabilities	119,757,053	100,527,970
<b>Total liabilities</b>	<b>147,580,116</b>	<b>122,479,927</b>
Deferred inflows of resources	2,064,437	4,833,134
<b>Total deferred inflows of resources</b>	<b>2,064,437</b>	<b>4,833,134</b>
<b>NET POSITION</b>		
Net investment in capital assets	380,935,329	369,068,436
Restricted	42,723,868	64,048,692
Unrestricted	(82,118,193)	(75,486,338)
<b>Total net position</b>	<b>\$ 341,541,004</b>	<b>\$ 357,630,790</b>

The City's net position is made up of three components: Net Investment in Capital Assets, Restricted Net Position, and Unrestricted Net Position.

The largest component of the City's net position is represented by its \$380.9 million net investment in capital assets (e.g., infrastructure, land, buildings and improvements, equipment, and construction in progress) less accumulated depreciation and any outstanding debt used to acquire the capital assets. These capital assets are used to provide services to the citizens, and therefore are not available to finance future operations. In addition, resources necessary to repay the related debt must be provided by sources other than the capital assets, as the assets themselves cannot be used to satisfy these liabilities.

## Governmental Activities

Revenues from governmental activities increased by \$5.2 million, or 5.8%. The cost of all governmental activities this year was \$110.7 million, an increase of \$0.7 million, or 0.7%, over the prior year. Overall the City's governmental activities generated revenues of \$94.6 million and total expenses of \$110.7 million, resulting in a \$16.1 million decrease to net position.

**Table 2**  
**City of Carson's Changes in Net Position**  
**For the Year Ended June 30, 2016 and 2015**

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
<b>Program Revenues</b>		
Charges for services	\$ 14,425,776	\$ 13,725,032
Grants and contributions	13,900,254	11,159,230
Capital grants and contributions	255,576	1,335,164
<b>General Revenues</b>		
<b>Taxes</b>		
Sales taxes	24,721,304	25,364,057
Property taxes	15,026,130	15,128,210
Utility user taxes	7,030,672	6,754,075
Transient occupancy taxes	2,225,416	2,138,378
Franchise taxes	8,094,969	8,587,698
Admission taxes	-	256,343
Motor vehicle license fee, unrestricted	42,108	37,584
Use of money and property	1,326,385	1,199,856
Other revenue	7,551,798	3,699,275
<b>Total revenues</b>	<b>94,600,388</b>	<b>89,384,902</b>
<b>Expenses</b>		
<b>Governmental Activities</b>		
General government	49,415,055	35,319,096
Community development	19,633,718	12,330,080
Public works	20,204,915	19,819,103
Community services	21,436,486	42,477,759
Reclamation Authority	-	-
<b>Total expenses</b>	<b>110,690,174</b>	<b>109,946,038</b>
<b>Change in net position</b>	<b>(16,089,786)</b>	<b>(20,561,136)</b>
<b>Net position, beginning</b>	<b>357,630,790</b>	<b>378,191,926</b>
<b>Net position, ending</b>	<b>\$ 341,541,004</b>	<b>\$ 357,630,790</b>



## Governmental Funds Financial Analysis

The governmental funds reported a combined fund balance at the end of the current year of \$57.9 million, a decrease of \$24.5 million over the prior year. Approximately \$57 million is nonspendable in form (e.g. inventory), restricted, committed and assigned for specific purposes.

The total governmental fund balance includes the general fund balance of \$18.9 million, which increased by \$0.2 million over the prior period. The General Fund is the primary operating fund of the City of Carson. The unassigned fund balance of \$2.1 million is available for spending at the City's discretion. More detailed information about the City's classification of fund balances are presented in Note 10 to the financial statements.

### Other Major fund balance changes

**Carson Housing Authority** - The Carson Housing Authority fund balance decreased \$9.5 million from the prior year mainly due to increased spending in community development programs.

**Cooperation Agreement Bond Proceeds Fund** - The Cooperation Agreement Bond Proceeds fund balance decreased by \$15.5 million from the prior year, primarily due to construction of Carson Street Master Plan improvements.

In addition to the major funds, the fund balances for the other governmental funds had an aggregate increase of \$2.3 million.

### General Fund Budgetary Highlights

In the General Fund, differences between the original budget and the final amended budget of \$2.5 million was primarily due to increases in leave redemptions and professional services.

### Capital Asset and Debt Administration

**Capital Assets** - The City's investment in capital assets for its governmental activities totals \$380.9 million (net of accumulated depreciation of \$234.8 million) as of June 30, 2017. 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, 2017 and 2016

	Governmental Activities	
	2017	2016
Land, land rights, land improvements	\$ 92,936,028	\$ 92,936,028
Infrastructure - street trees	9,367,887	9,367,887
Buildings and improvements	60,183,492	61,679,988
Machinery and equipment	3,181,421	3,198,425
Infrastructure	157,535,032	161,759,617
Construction in Progress	57,731,469	40,126,491
	<u>\$ 380,935,329</u>	<u>\$ 369,068,436</u>

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 as these are now part of the dissolved redevelopment agency reported in the fiduciary fund financial statements. The City has a net OPEB obligation of \$21.4 million and net pension liability of \$90.4 million as of June 30, 2017.

**Outstanding Debt  
June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Other long-term debt:		
Other post-employment benefits	\$ 21,434,522	\$ 17,994,368
Self-insurance claims payable	3,070,871	3,137,108
Compensated absences	4,817,483	4,954,771
Net pension liability	90,434,177	74,441,723
Total	\$ 119,757,053	\$ 100,527,970

Additional information on the City’s OPEB obligation can be found in note 9 to the basic financial statements of this report. Additional information on the City’s net pension liability can be found in note 8 to the basic financial statements of this report.

**Economic Factors and Next Year’s Budget**

Even though the City’s revenues continue to be stable overall, the City’s costs are increasing faster than its revenues. Employee retirement costs, the City’s contract with the Los Angeles County Sheriff’s Department, and litigation costs are the primary drivers of this trend. In the future, either the City will have to decrease its service level to the community, or the City will have to secure new revenue sources. Most new revenue sources require voter approval. The City Council is committed to maintaining and improving service levels to the community.

FY 2017/18 General Fund revenues are projected to be \$76.2 million, which is \$0.7 million less than the FY 2016/17 year-end actual revenues of \$76.9 million.

FY 2017/18 General Fund expenditures are projected to be \$79.1 million, which is \$5.5 million more than the year-end actual expenditures for FY 2016/17 of \$73.6 million.

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

- The City’s voters approved a new “business license tax on persons engaged in the business of operating any facility where petroleum or petroleum products are blended, mixed, processed, or refined and/or any facility that stores petroleum products.” The tax is 0.25% of gross receipts from Carson business subject to the tax. Collections began in January 2018. Gross receipts information is confidential and subject to audit. The annual revenue from the new tax is unknown; as the City is currently in a phase of discovery. Based upon information provided by oil industry experts, potential General Fund revenue from the tax was originally estimated at \$24 million annually.

- The City’s employer contribution to the California Public Employee Retirement System (CalPERS) is expected to increase by more than \$1 million annually for the next five years. The contribution for FY17-18 is approximately \$7.7 million, including a \$4.9 million contribution to the unfunded liability and a normal cost of \$2.8 million. The increased contributions are due to CalPERS changes to actuarial assumptions, including the discount rate.
- The City’s workforce continues to turn over with retirements, which increases the City’s obligation to pay retiree health insurance, an “other post-employment benefit” or OPEB. During FY 2011/12, the City established a Section 115 Trust to offset the OPEB liability. Currently, due to budget constraints, the City is unable to continue making contributions to the Section 115 Trust; and during FY16-17 and FY17-18 has used approximately \$2 million of the fund to supplement payments for retiree health insurance. Annual retiree health expenditures are expected to increase by approximately \$1 million over the next five years.

### **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 the Finance Department at, 701 E Carson St. Carson, CA 90745.