
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, 2013. 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, 2013 by \$371.3 million. This amount is referred to as the net position of the City. Of this amount, \$296.9 million represent net investment in capital assets, \$62.1 million is restricted, and \$12.4 million is unrestricted.
- The City's net position decreased by approximately \$18 million during the fiscal year as a result of total expenditures exceeding total revenues by \$18 million. For FY 2012/13, revenues decreased by \$9.9 million while expenditures increased by \$9.5 million over the FY 2011/12 levels. The majority of the overall decreases in revenues are related to the passing of AB 1X 26, which approved the dissolution of redevelopment agencies as of February 1, 2012. Property tax increment revenues are now being distributed to the Successor Agency to the former Redevelopment Agency, which is now reported as a Private-purpose Trust Fund. Grants and contributions also decreased during the year because of completion and closure of ARRA grants during the last fiscal year. Expenditures increased during the year due to the elimination of reimbursements from Redevelopment Agency to offset the cost of administering redevelopment activities.

Fund Financial Statements

- As of June 30, 2013, the City's governmental funds reported combined ending fund balances of \$79.2 million, a decrease of \$7.5 million over the prior fiscal year's restated fund balance due to the dissolution of redevelopment agency. Approximately \$6.7 million (8.5%) of the \$79.2 million balance is unassigned and is available for spending at the government's discretion.
- As of June 30, 2013, the total fund balance of the City's General Fund was \$36.4 million, a \$6.7 million (22.8%) increase from the prior year level of \$29.6 million.
- In the General Fund, revenues exceeded expenditures by \$6.3 million, before other financing sources/uses.
- The City's total long-term liabilities decreased slightly by \$29 thousand for the fiscal year ended June 30, 2013, from \$25.72 million to \$25.69.

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, 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 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, 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 18 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.

As discussed in Note 1, during the FY 2012/13, the City also implemented the provisions of GASB Statement Nos. 61, 63 and 65.

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 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 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 66 of this report.

**City of Carson
Management's Discussion and Analysis
Year ended June 30, 2013**

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 \$371.3 million as of June 30, 2013. Net position decreased by \$18 million, or 4.8%, for fiscal year 2012/13 as explained in the financial highlights at the beginning of the discussion. Assets decreased by \$29.6 million (6.8%) and liabilities decreased by \$11.6 million (26.2%) compared to June 30, 2012, mainly due to the payment of short-term liabilities as of the end of the current year.

By far, the largest portion of the City's net position at June 30, 2013 (\$296.9 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, 2013 and June 30, 2012.

**Summary of Net Position
June 30, 2013 and 2012**

	Governmental Activities		Increase (Decrease)
	2013	2012 (As restated)	
ASSETS			
Cash and other assets	\$ 106,985,730	\$ 131,058,165	\$ (24,072,435)
Capital assets net of accumulated depreciation	<u>296,900,646</u>	<u>302,392,752</u>	<u>(5,492,106)</u>
Total assets	<u>403,886,376</u>	<u>433,450,917</u>	<u>(29,564,541)</u>
LIABILITIES			
Current and other liabilities	6,871,409	18,427,017	(11,555,608)
Long-term liabilities	<u>25,690,723</u>	<u>25,720,201</u>	<u>(29,478)</u>
Total liabilities	<u>32,562,132</u>	<u>44,147,218</u>	<u>(11,585,086)</u>
NET POSITION			
Net investment in capital assets	296,900,646	302,392,752	(5,492,106)
Restricted	62,065,816	84,339,606	(22,273,790)
Unrestricted	<u>12,357,782</u>	<u>2,571,341</u>	<u>9,786,441</u>
Total net position	<u>\$ 371,324,244</u>	<u>\$ 389,303,699</u>	<u>\$ (17,979,455)</u>

A portion of the City's net position, \$62.1 million (16.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$12.4 million is unrestricted net position and is available for spending at the government's discretion.

City of Carson
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Statement of Activities. Governmental activities decreased the City's net position by \$18 million for fiscal year 2012/13. The total revenue for the fiscal year is \$90 million, which is a decrease of \$9.9 million from the prior year. The total expenses increased by \$9.5 million from \$98.5 million to \$108.0 million. The following table presents the comparative revenue and expenditure data for fiscal years ended June 30, 2013 and 2012.

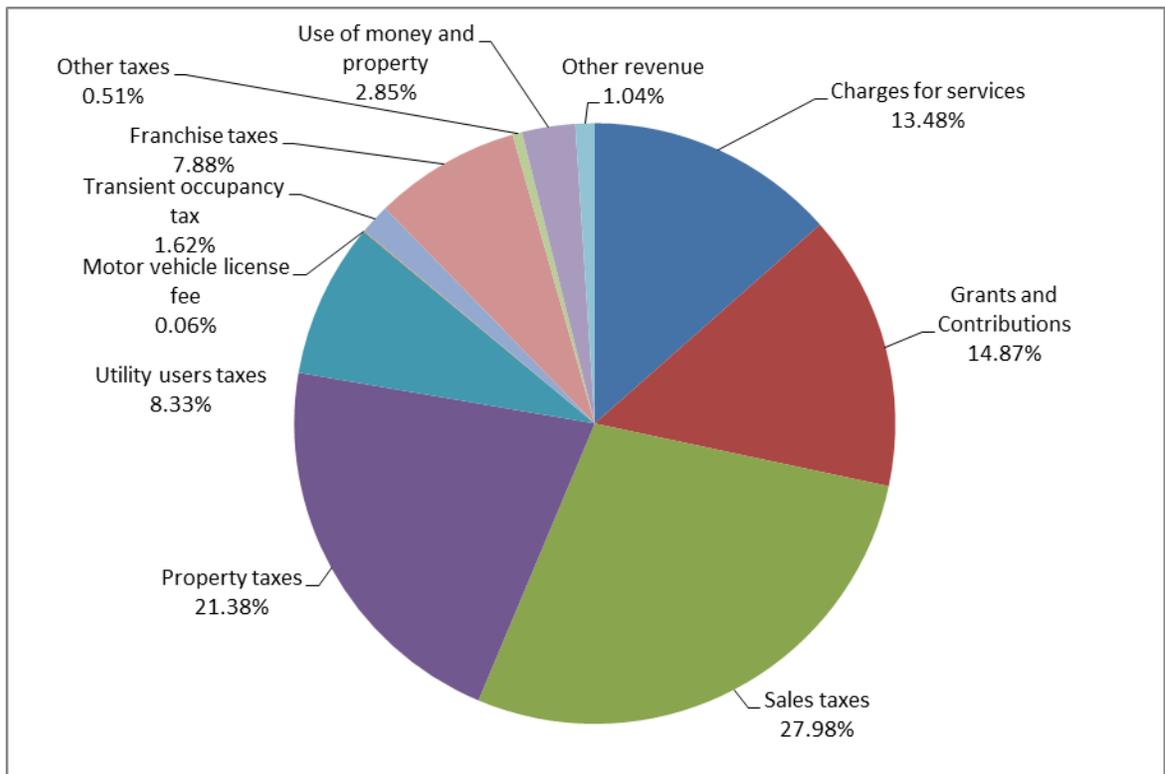
Statement of Activities
For the Year Ended June 30, 2013 and 2012

	<u>Governmental Activities</u>		Increase/ (Decrease)
	<u>2013</u>	2012 (As restated)	
Program revenues			
Charges for services	\$ 12,137,769	\$ 14,690,950	\$ (2,553,181)
Grants and contributions	12,895,134	13,483,809	(588,675)
Capital grants and contributions	489,800	3,148,874	(2,659,074)
General revenues			
Taxes			
Sales taxes	25,187,734	20,688,872	4,498,862
Property taxes	19,247,084	28,206,102	(8,959,018)
Utility users taxes	7,495,997	8,016,141	(520,144)
Motor vehicle license fee, unrestricted	50,405	256,016	(205,611)
Transient occupancy tax	1,462,174	1,307,732	154,442
Franchise taxes	7,090,887	7,746,907	(656,020)
Other taxes	463,116	390,600	72,516
Use of money and property	2,568,878	1,763,424	805,454
Other revenue	938,422	195,425	742,997
Total	<u>90,027,400</u>	<u>99,894,852</u>	<u>(9,867,452)</u>
Expenditures			
Governmental activities			
General government	22,049,082	22,940,199	(891,117)
Community development	32,878,975	13,071,236	19,807,739
Public works	15,799,718	14,060,876	1,738,842
Community services	35,247,843	41,684,670	(6,436,827)
Capital maintenance programs	2,031,237	-	2,031,237
Pass-through expenditures	-	1,397,879	(1,397,879)
Interest and other charges	-	5,350,108	(5,350,108)
	<u>108,006,855</u>	<u>98,504,968</u>	<u>9,501,887</u>
Change in net position before extraordinary items	(17,979,455)	1,389,884	(19,369,339)
Extraordinary items	-	(17,923,715)	17,923,715
Change in net position	(17,979,455)	(16,533,831)	(1,445,624)
Net position, beginning, as restated	389,303,699	405,837,530	(16,533,831)
Net position, ending	<u>\$ 371,324,244</u>	<u>\$ 389,303,699</u>	<u>\$ (17,979,455)</u>

Key elements of the significant changes in fiscal year 2012/13 revenues are as follows:

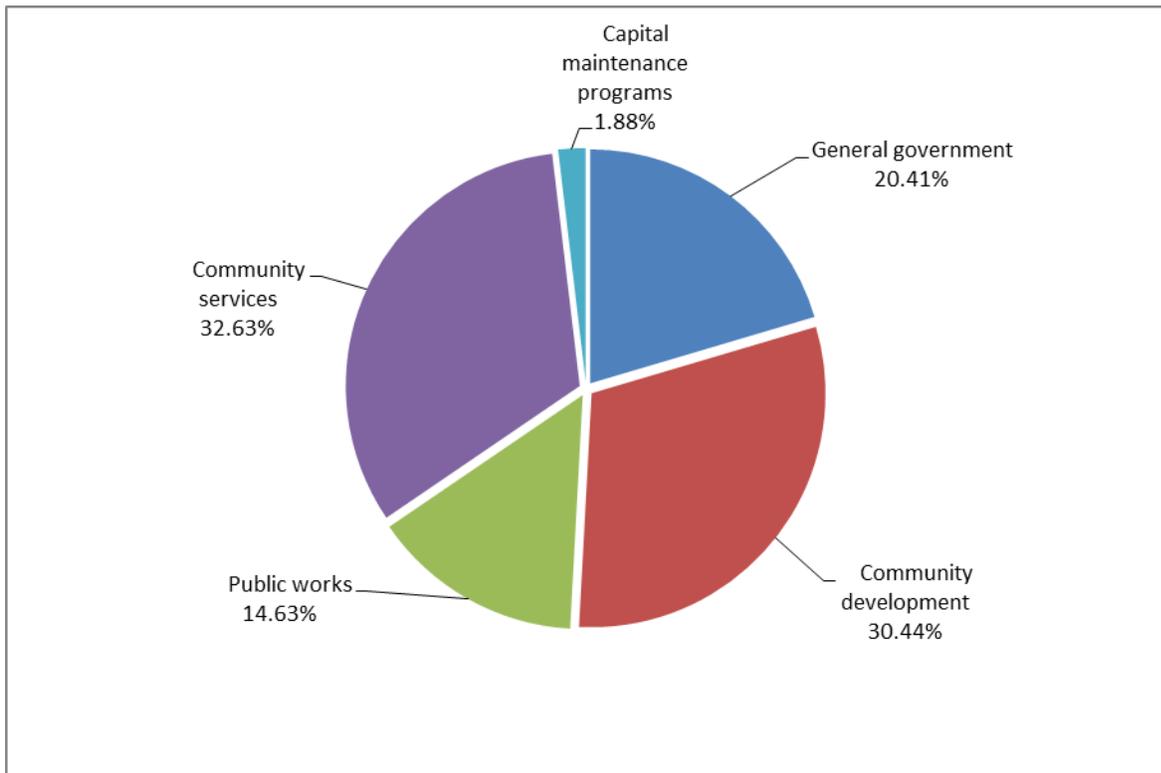
- Property taxes decreased by \$8.9 million due to the dissolution of redevelopment agency. The passage of AB 1X 26 dissolved the redevelopment agency as of February 1, 2012 and assets of the former agency were transferred to the Successor Agency of the Dissolved Carson Redevelopment Agency. Property tax information of the Successor Agency can be found in the fiduciary fund financial statement.
- Sales tax revenues had an increase of \$4.5 million, a 21.7% increase over FY2011/12. In FY2011/12, sales tax had an increase of 22%. 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.
- Miscellaneous revenue increased by \$2 million because of one-time distribution of property tax money that resulted from the dissolution of redevelopment agencies.
- Grants and contributions decreased by \$3.2 million primarily because of the completion and closure of ARRA grants during the FY 2011/12.
- Charges for services decreased by \$2.6 million. The decrease resulted mainly from a decrease in revenue from general government and public services.

Revenues by Source- Governmental Activities



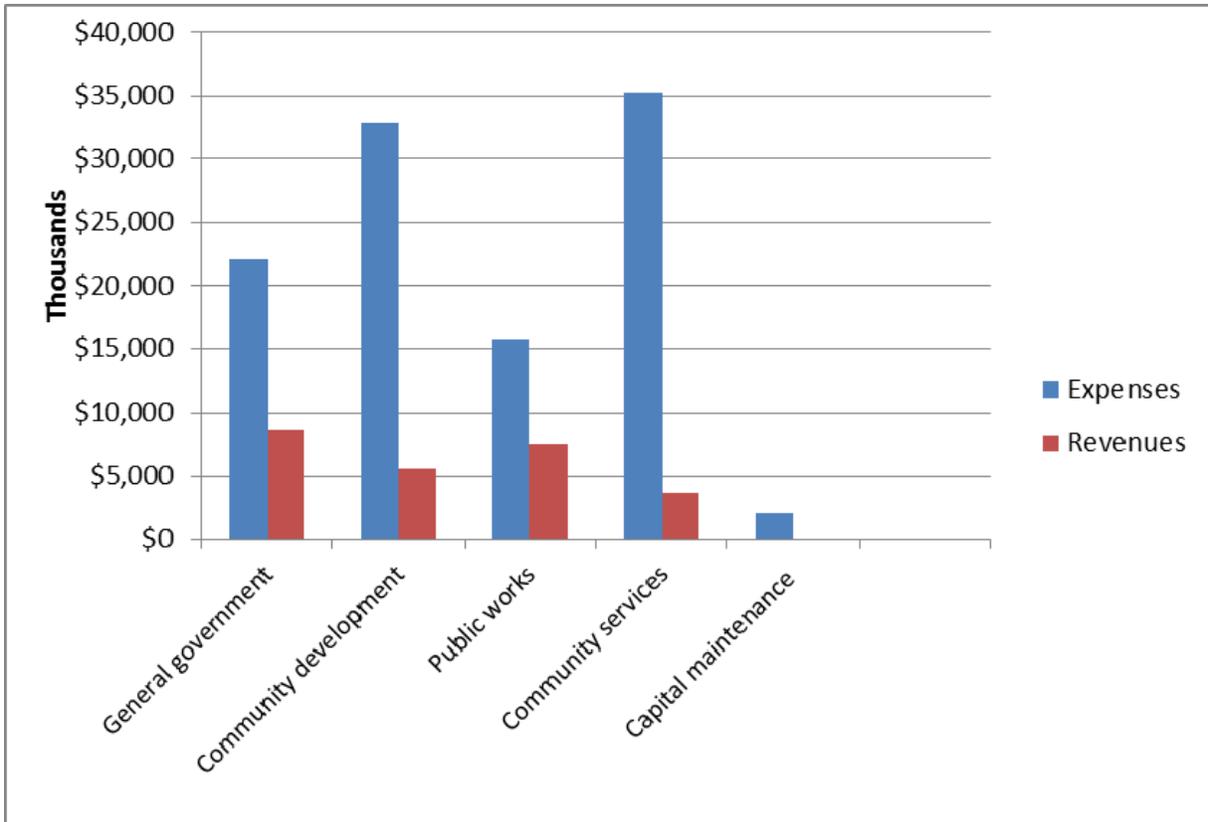
The top seven major revenue sources come from: 1) sales and use taxes – 28%, 2) grants and contributions - 15%, 3) No/low property taxes - 14%, 4) charges for services – 13%, 5) utility users taxes – 8%, 6) franchise taxes – 8%, and 7) motor vehicles in-lieu taxes – 8%. Charges for services, which decreased 17% 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 \$108.0 million, which is an increase of \$10 million or 10% from the prior year. While most expenses of the various governmental activities increased, the interest and other fiscal charges decreased due mainly to the dissolution of the redevelopment agency. Community services, which account for 33% 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 an \$83 million deficit for FY 2012/13. 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 \$79.2 million. The City's governmental funds report a balance of \$6.7 million in its *unassigned fund balance*, which can be spent at the City's discretion. Assigned fund balance reports a total of \$5.1 million which, are set aside for specific purposes. Restricted fund balance of \$36.3 million is subject to externally enforceable legal obligations which, mainly include (1) general fund - \$2.4 million, (2) Housing projects - \$28.6 million and (3) other governmental funds of \$5.2 million.

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Non-spendable fund balance of approximately \$9.8 million cannot be spent because they are not in spendable form. These include (1) inventory - \$374 thousand, (2) prepaid assets and loans receivable totaling \$1.2 million and (3) land held for resale of \$8.1 million. Committed fund balance of \$13.7 million, which is set aside for economic uncertainties equates to 20% of the following year's adopted general fund budget, \$90 thousand for reward fund, \$2.5 million for budget stabilization fund and \$4.1 million for contribution to OPEB Trust fund.

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, \$6.7 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 11.6% of total general fund expenditures of \$66.9 million. The City's General Fund balance increased by \$6.7 million during the current fiscal year. Key factors of this increase were attributed to an increase in revenue during the year. The following table presents the comparative revenue and expenditure data of the general fund for the fiscal year ended June 30, 2012 and 2013:

**General Fund – Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2013 and 2012**

	General Fund		Increase
	2013	2012	(Decrease)
Revenues			
Taxes	\$ 58,039,523	\$ 52,413,906	\$ 5,625,617
Licenses and permits	5,733,199	6,127,567	(394,368)
Fines and forfeitures	1,890,301	1,972,907	(82,606)
Charges for services	118,040	2,504,288	(2,386,248)
Intergovernmental	2,122,974	416,903	1,706,071
Use of money and property	1,261,475	1,098,287	163,188
Miscellaneous	3,987,743	890,761	3,096,982
Total revenues	73,153,255	65,424,619	7,728,636
Expenditures			
Current:			
General government	20,120,174	20,690,955	(570,781)
Interfund reimbursement	-	(5,198,738)	5,198,738
Community development	3,889,965	1,435,078	2,454,887
Public works	13,211,613	7,943,400	5,268,213
Community services	29,249,568	35,115,221	(5,865,653)
Capital improvement programs	407,452	495,902	(88,450)
Total expenditures	66,878,772	60,481,818	6,396,954
Excess (deficiency) of revenues over expenditures	6,274,483	4,942,801	1,331,682
Other financing sources (uses)			
Transfers in (Note 6)	1,014,636	1,177,316	(162,680)
Transfers out (Note 6)	(540,014)	(2,503)	(537,511)
Net other financing sources (uses)	474,622	1,174,813	(700,191)
Change in fund balance	6,749,105	6,117,614	631,491
Fund balance, beginning of year	29,618,905	23,501,291	6,117,614
Fund balance, end of year	\$ 36,368,010	\$ 29,618,905	\$ 6,749,105

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 \$3.7 million due to increases in community services and general government categories.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities amounts to \$296.9 million (net of accumulated depreciation of \$188 million) as of June 30, 2013. 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, 2013 and 2012**

	2013	2012
Land, land right and improvements	\$ 92,936,028	\$ 92,936,028
Buildings and improvements	19,676,548	20,459,885
Machineries and equipment	2,547,423	2,884,618
Infrastructure	166,582,200	170,171,096
Construction in progress	15,158,447	15,941,125
Total	\$ 296,900,646	\$ 302,392,752

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 \$16.9 million as of June 30, 2013. The City established an Employer's Retiree Benefit Trust and contributed \$3.4 million to this irrevocable trust fund during the year.

**Outstanding Debt
June 30, 2013 and 2012**

	2013	2012
Other long-term debt:		
Other post-employment benefits	\$ 16,917,930	16,803,490
Self-insurance claims payable	3,806,386	3,481,341
Compensated absences	4,966,407	5,435,370
Total	\$ 25,690,723	\$ 25,720,201

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, the projected increase in sales tax for FY 2013/14 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 2013/14 General Fund revenues are projected to be \$68,635,600, which is \$5.5 million less than the FY 2012/13 year-end actual revenues of \$74,167,891, which include transfers in.

FY 2013/14 General Fund expenditures are projected to be \$68,635,600, which is \$1.2 million more than the year-end actual expenditures for FY 2012/13 of \$67,418,786.

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.
- 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 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 continues its effort to bridge the digital gap within the senior community by ensuring that its current 21-computer Senior Technology center is up-to-date and its Senior Cyber Café continues to offer 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, Director of Administrative Services, Finance Department, 701 E Carson St. Carson, CA 90745.