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# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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CITY OF CARSON, CALIFORNIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT



# CITY OF CARSON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

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, 2016. 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 and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at June 30, 2016 by \$449.9 million. This amount is referred to as the net position of the City. Of this amount, \$405.1 million represents net investment in capital assets, \$113.6 million is restricted, and the unrestricted net position is a deficit of \$68.8 million.
- The City's net position increased by approximately \$29.4 million during the fiscal year. This is primarily due to a \$57.3 million contribution from the redevelopment Successor Agency to the Reclamation Authority, reflected in Business-type Activity. Governmental Activities expenses exceeded revenues by \$20.6 million. In FY 2014-15, the City received unspent bond proceeds from the Successor Agency; and during FY 2015-16 spent down the balance by \$13.5 million, primarily for the Carson Street Master Plan improvement project. In addition, the City accrued a liability for certain litigation matters for approximately \$8 million.
- The City's total long-term liabilities increased by \$15.3 million for the fiscal year ended June 30, 2016, from \$85.2 million to \$100.5 million due mainly to increases in the pension and Other Post-Employment Benefits (OPEB) liabilities.

#### **Fund Financial Statements**

- As of June 30, 2016, the City's governmental funds reported combined ending fund balances of \$82.5 million, a decrease of \$25.9 million over the prior fiscal year's fund balance.
- As of June 30, 2016, the total fund balance of the City's General Fund was \$18.7 million, a decrease of \$8.9 million from the prior year level of \$27.6 million.
- In the General Fund, expenditures exceeded revenues by \$8.8 million, before other financing sources/uses.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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June 30, 2016

**USING THIS ANNUAL REPORT**

The financial statements presented herein include all of the activities of the City of Carson and its component units using the integrated approach 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 and deferred outflows of resources of the City (including infrastructure) as well as all liabilities and deferred inflows of resources (including long-term debt).

**2) Fund Financial Statements**

The fund financial statements include statements for each of the three categories of activities: governmental, proprietary 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 required supplementary information and other supplementary information.

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**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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

**Business-Type Activity** - City functions that are intended to be primarily self-supporting through the imposition of user fees and charges are reported in the business-type activity category. The business-type activity for the City consists of the Reclamation Authority. The purpose of the Authority is to oversee and facilitate the remediation of contaminated properties in the City of Carson, California.

## CITY OF CARSON

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2016

**Component Unit Activities** - The City of Carson is the primary government unit, with three 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 issued for the Housing Authority, and may be viewed on the City's website or at City Hall.

The activity of the Carson Reclamation Joint Powers Authority is reported in a proprietary fund, which is reported as business-type activity in the government-wide financial statements. Separate financial statements are issued for the Reclamation Authority, and may be viewed on the City's website or at City Hall.

#### **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 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 Balances. Financial data for the remaining Nonmajor 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.

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June 30, 2016

**Proprietary Fund** - The City maintains one type of proprietary fund known as an enterprise fund. The enterprise fund is used to report the same functions presented as business-type activity in the government-wide financial statements, but the proprietary fund statements provide more detail and additional information, such as a statement of cash flows. The Carson Reclamation Authority accounts for the remediation of contaminated properties in the City.

**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. The fiduciary funds include the Successor Agency to the Dissolved Carson Redevelopment Agency Private-Purpose Trust Fund and several Agency Funds. The Agency Funds are custodial in nature and the measurement of operations is not appropriate.

**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 schedule of changes in the City's net pension liability and related ratios, the schedule of the City's pension contributions, the schedule of funding progress for other post-employment benefits plan, and the budgeted to actual results for the major governmental funds. This section is located after the Notes to the Basic Financial Statements.

The combining statements referred to earlier in connection with the nonmajor governmental funds, and agency funds are presented immediately following the required supplementary information described in the previous paragraph in the supplementary information section.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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June 30, 2016

**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 increased by \$29.4 million, from \$420.4 million in the prior period as restated to \$449.9 million in the current fiscal year.

**Table 1**  
**City of Carson's Net Position**  
**June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activity		Total	
	2016	2015 Restated	2016	2015 Restated	2016	2015 Restated
<b>ASSETS</b>						
Cash and other assets	\$ 104,711,084	\$ 136,062,562	\$ 57,187,879	\$ 7,428,407	\$ 161,898,963	\$ 143,490,969
Capital assets net of accumulated depreciation, restated	369,068,436	345,239,031	36,000,000	36,000,000	405,068,436	381,239,031
<b>Total assets</b>	<b>473,779,520</b>	<b>481,301,593</b>	<b>93,187,879</b>	<b>43,428,407</b>	<b>566,967,399</b>	<b>524,730,000</b>
Deferred outflows of resources	11,164,331	5,728,251	-	-	11,164,331	5,728,251
<b>Total deferred outflows of resources</b>	<b>11,164,331</b>	<b>5,728,251</b>	<b>-</b>	<b>-</b>	<b>11,164,331</b>	<b>5,728,251</b>
<b>LIABILITIES</b>						
Current and other liabilities	21,951,957	11,835,295	965,734	1,200,000	22,917,691	13,035,295
Long-term liabilities	100,527,970	85,169,899	-	-	100,527,970	85,169,899
<b>Total liabilities</b>	<b>122,479,927</b>	<b>97,005,194</b>	<b>965,734</b>	<b>1,200,000</b>	<b>123,445,661</b>	<b>98,205,194</b>
Deferred inflows of resources	4,833,134	11,832,724	-	-	4,833,134	11,832,724
<b>Total deferred inflows of resources</b>	<b>4,833,134</b>	<b>11,832,724</b>	<b>-</b>	<b>-</b>	<b>4,833,134</b>	<b>11,832,724</b>
<b>NET POSITION</b>						
Net investment in capital assets	369,068,436	345,239,031	36,000,000	36,000,000	405,068,436	381,239,031
Restricted	64,048,692	95,575,045	49,556,994	6,228,407	113,605,686	101,803,452
Unrestricted	(75,486,338)	(62,622,150)	6,665,151	-	(68,821,187)	(62,622,150)
<b>Total net position, restated</b>	<b>\$ 357,630,790</b>	<b>\$ 378,191,926</b>	<b>\$ 92,222,145</b>	<b>\$ 42,228,407</b>	<b>\$ 449,852,935</b>	<b>\$ 420,420,333</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 \$405.1 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.



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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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June 30, 2016

**Government-Wide Financial Analysis (Continued)**

Revenues from governmental activities decreased by \$100.4 million, or 53%, primarily due to contribution of assets from the redevelopment Successor Agency in the current year. The cost of all governmental activities this year was \$109.9 million, an increase of \$3.2 million, or 3.0%, over the prior year. Overall the City's governmental activities generated revenues of \$89.4 million and total expenses of \$109.9 million, resulting in a \$20.6 million decrease to net position. The business-type activity increased its net position by \$50.0 million primarily due to \$57.3 million in contributions from the Successor Agency to the Dissolved Redevelopment Agency.

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

	Governmental Activities		Business-Type Activity		Total	
	2016	2015 Restated	2016	2015 Restated	2016	2015 Restated
<b>Program Revenues</b>						
Charges for services	\$ 13,725,032	\$ 13,876,288	\$ -	\$ 251,000	\$ 13,725,032	\$ 14,127,288
Grants and contributions	11,159,230	13,457,894	57,255,151	5,977,407	68,414,381	19,435,301
Capital grants and contributions	1,335,164	104,316,574	-	36,000,000	1,335,164	140,316,574
<b>General Revenues</b>						
<b>Taxes</b>						
Sales taxes	25,364,057	21,820,128	-	-	25,364,057	21,820,128
Property taxes	15,128,210	14,720,272	-	-	15,128,210	14,720,272
Utility user taxes	6,754,075	8,135,144	-	-	6,754,075	8,135,144
Transient occupancy taxes	2,138,378	1,812,310	-	-	2,138,378	1,812,310
Franchise taxes	8,587,698	8,274,908	-	-	8,587,698	8,274,908
Admission taxes	256,343	458,117	-	-	256,343	458,117
Motor vehicle license fee, unrestricted	37,584	40,296	-	-	37,584	40,296
Use of money and property	1,199,856	748,051	45,695	-	1,245,551	748,051
Other revenue	3,699,275	2,161,737	-	-	3,699,275	2,161,737
<b>Total revenues</b>	<b>89,384,902</b>	<b>189,821,719</b>	<b>57,300,846</b>	<b>42,228,407</b>	<b>146,685,748</b>	<b>232,050,126</b>
<b>Expenses</b>						
General government	35,319,096	21,383,100	-	-	35,319,096	21,383,100
Community development	12,330,080	25,005,910	-	-	12,330,080	25,005,910
Public works	19,819,103	21,358,870	-	-	19,819,103	21,358,870
Community services	42,477,759	38,696,281	-	-	42,477,759	38,696,281
Capital maintenance programs	-	301,315	-	-	-	301,315
Reclamation Authority	-	-	7,307,108	-	7,307,108	-
<b>Total expenses</b>	<b>109,946,038</b>	<b>106,745,476</b>	<b>7,307,108</b>	<b>-</b>	<b>117,253,146</b>	<b>106,745,476</b>
<b>Change in net position</b>	<b>(20,561,136)</b>	<b>83,076,243</b>	<b>49,993,738</b>	<b>42,228,407</b>	<b>29,432,602</b>	<b>125,304,650</b>
<b>Net position, beginning, as restated</b>	<b>378,191,926</b>	<b>295,115,683</b>	<b>42,228,407</b>	<b>-</b>	<b>420,420,333</b>	<b>295,115,683</b>
<b>Net position, ending</b>	<b>\$ 357,630,790</b>	<b>\$ 378,191,926</b>	<b>\$ 92,222,145</b>	<b>\$ 42,228,407</b>	<b>\$ 449,852,935</b>	<b>\$ 420,420,333</b>

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2016

**Governmental Funds Financial Analysis**

The governmental funds reported a combined fund balance at the end of the current year of \$82.5 million, a decrease of \$25.9 million over the prior year. Approximately \$83.1 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 \$18.7 million, which decreased by \$8.9 million over the prior period. The General Fund is the primary operating fund of the City of Carson. The fund balance decrease of \$8.9 million is primarily due to a decrease in utility users' tax resulting from a decrease in the price of natural gas and an increase in litigation costs. 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 \$4.6 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 \$13.5 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 nonmajor governmental funds had an aggregate increase of \$1.1 million.

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The total net position increased by \$50 million over the prior year, primarily due to a transfer of bond proceeds and land sale proceeds from the Successor Agency to the Reclamation Authority.

**General Fund Budgetary Highlights**

In the General Fund, differences between the original budget and the final amended budget for expenditures of \$4.0 million was primarily due to a partial release of a hiring freeze and increases in legal costs, some of which were reimbursable by third parties such as developers.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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June 30, 2016

**Capital Asset and Debt Administration**

**Capital Assets** - The City's investment in capital assets for its governmental activities and business-type activity totals \$405.1 million (net of accumulated depreciation of \$225.4 million) as of June 30, 2016. 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, 2016 and 2015**

	Governmental Activities		Business-Type Activity		Total	
	2015		2015		2015	
	2016	Restated	2016	Restated	2016	Restated
Land, land rights, land improvements	\$ 92,936,028	\$ 92,936,028	\$ 36,000,000	\$ 36,000,000	\$ 128,936,028	\$ 128,936,028
Infrastructure - street trees	9,367,887	9,367,887	-	-	9,367,887	9,367,887
Buildings and improvements	61,679,988	63,607,319	-	-	61,679,988	63,607,319
Machinery and equipment	3,198,425	2,441,341	-	-	3,198,425	2,441,341
Infrastructure	161,759,617	149,277,861	-	-	161,759,617	149,277,861
Construction in Progress	40,126,491	42,377,855	-	-	40,126,491	42,377,855
	<u>\$ 369,068,436</u>	<u>\$ 360,008,291</u>	<u>\$ 36,000,000</u>	<u>\$ 36,000,000</u>	<u>\$ 405,068,436</u>	<u>\$ 396,008,291</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 \$18.0 million and net pension liability of \$74.4 million as of June 30, 2016.

**Outstanding Debt  
June 30, 2016 and 2015**

	2016	2015
		Restated
Other long-term debt:		
Compensated absences	\$ 4,954,771	\$ 5,232,799
Self-insurance claims payable	3,137,108	3,194,910
Net pension liability	74,441,723	61,417,016
Other post-employment benefits	17,994,368	15,325,174
Total	<u>\$ 100,527,970</u>	<u>\$ 85,169,899</u>

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

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**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 2016/17 General Fund revenues are projected to be \$76.2 million, which is \$2 million more than the FY 2015/16 year-end actual revenues of \$74.2 million.

FY 2016/17 General Fund expenditures are projected to be \$78.3 million, which is \$3.3 million more than the year-end actual expenditures for FY 2015/16 of \$75.0 million.

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

- 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 FY16-17 is approximately \$7.1 million, including a \$4.4 million contribution to the unfunded liability and a normal cost of \$2.7 million. The increased contributions are due to CalPERS investment performance and assumption changes, such as improved mortality rates and a decrease in the assumed rate of return.
- 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 expects to use approximately \$0.9 million of the trust balance during FY 2016/17 to pay for retiree health insurance. Annual retiree health expenditures are expected to increase by \$1.9 million over the next five years.

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**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.

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