



CITY OF SANTA MONICA CALIFORNIA

A SUSTAINABLE CITY
OF WELLBEING

*COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018*



COMMUNITY



PLACE & PLANET



LEARNING



HEALTH



ECONOMIC
OPPORTUNITY



GOVERNANCE

City of Santa Monica California

Comprehensive Annual Financial Report

Year ended June 30, 2018

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CITY OF SANTA MONICA, CALIFORNIA

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For the fiscal year ended June 30, 2018**

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City of Santa Monica, California
Year Ended June 30, 2018

INTRODUCTORY SECTION



Finance Department
1717 Fourth Street, Suite 250
Santa Monica, CA 90401

December 12, 2018

Dear Honorable Mayor and Members of the City Council, City Manager, and Citizens of Santa Monica:

Attached is the Comprehensive Annual Financial Report (CAFR) for the City of Santa Monica (City) for the fiscal year ended June 30, 2018 (FY 2017-18).

The CAFR has been prepared by Finance Department staff in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB), the authoritative body establishing U.S. generally accepted accounting principles for local governments.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls established for that purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The CAFR has been compiled in a manner designed to fairly set forth the financial positions and results of operations of the City. The CAFR includes disclosures designed to enable the reader to gain an understanding of the City's financial affairs.

In accordance with generally accepted accounting principles, a narrative overview and analysis of the basic financial statements in the form of Management's Discussion and Analysis (MD&A) is provided and can be found immediately following the independent auditors' report. This letter of transmittal complements the MD&A and should be read in conjunction with it.

Lance, Soll & Lunghard LLP has issued an unmodified opinion on the City of Santa Monica's basic financial statements for FY 2017-18. Their report is located at the front of the financial section of this report.

PROFILE OF THE CITY OF SANTA MONICA

The City of Santa Monica, bordered by the City of Los Angeles on three sides and by the Pacific Ocean on the west, encompasses an area slightly greater than eight square miles and serves a residential population of 92,416 making it the 19th largest of the 88 cities in Los Angeles County.

The City of Santa Monica, incorporated in 1886, adopted its City Charter in 1945, and established a council-manager form of government in 1947. Elections are held every two years for either three or four Council members elected to serve four-year terms on the seven-member City Council. Elected Council members select a Mayor and a Mayor Pro-Tempore to preside over Council meetings.

The City Council (Council) appoints a City Manager, a City Attorney and a City Clerk. The City Manager, responsible for supervising day-to-day operations of the City and for carrying out policies set by the Council, appoints Department directors.

Santa Monica's level and breadth of services surpass those of other cities of comparable size. The City provides a full range of services, including police and fire protection, water and wastewater, street maintenance, public landscaping, a regional transit system that serves 13.2 million riders each year, parking, parks and recreation including 245 acres of beaches, five public libraries, planning, building and safety, the iconic Santa Monica Pier, an airport, a cemetery, and a high level of support for social services, cultural programs and public education. Elementary and secondary education is provided by the Santa Monica Malibu Unified School District, and community college education is provided by the Santa Monica Community College District. Court, health, and social services are provided by the County of Los Angeles. Gas, electric and telephone services are provided by private utility companies. It is City policy to use internal staff rather than contractors for core services, and as a result labor costs make up nearly 68% of General Fund operating expenses.

Financial data for all funds through which services are provided by the City have been included in this report based on the criteria adopted by GASB.

FINANCIAL CONDITION AND OUTLOOK

As a AAA rated city, Santa Monica has long relied on conservative fiscal assumptions to plan ahead with two-year operating budgets, five-year capital plans and rolling five-year fiscal forecasts. Beginning in FY 2018-19, the long range forecast period will be extended to ten years. Financial planning also takes the form of continuous review and refinement of fiscal policies and forecasts, and an understanding of the initiatives being undertaken by the entire organization. This responsible approach has provided residents with a scope and quality of community services that stands out among California cities. It has also allowed Santa Monica to be a pioneer in innovative approaches to community wellbeing and sustainability. It has ensured that our workforce is competitively compensated, well-trained and well-equipped. Of course, the City's financial health is impacted in part by the national and State economic climates, therefore prudent planning includes continuous assessments of these areas as well as local conditions.

To ensure that Santa Monica's economic base – and the opportunities, services, and infrastructure it supports – remains healthy long into the future, the City believes that it must anticipate and plan for the technological and economic changes ahead. The City and community must determine how to preserve Santa Monica's unique assets while adapting to rapid changes affecting the economy on a local and global level. After months of research and dialogue, staff has identified several emerging themes related to exponential global changes in artificial intelligence, user options, and connectivity, which will have major local impacts on work, transportation, and retail. To advance the strategic planning process, the City Council has approved a plan to engage a team of experts to support the City's efforts to develop a long-term economic sustainability strategy pursuant to the themes that emerged from the initial research and dialogue.

The U.S. economy continues to grow, and the pace of growth has accelerated over the last few quarters. Economic growth as measured by gross domestic product (GDP) was positive in 2017 for the eighth consecutive year, one of the longest economic recoveries on record, but overall a fairly weak recovery by historical standards. Economic growth has averaged just 2.3% annually during the post-recession period. However, growth in recent quarters has increased to the 3.0% range. Most economists are projecting continued modest growth in the 2.5% to 3.0% for 2019 with a potential slowdown in 2020. Unemployment is approaching its lowest level in nearly fifty years. The housing market, while showing recent signs of moderating, remains strong and inflation on a national basis continues to be low. The Federal Reserve continues to periodically increase interest rates and these increases are expected to continue over the next two to three years in an effort

to “normalize” rates. However, the economy is not without risks. The policy impacts of the administration in Washington, particularly in the areas of trade and tariffs, cannot yet be determined. Also, history would indicate that the economy is likely to head into a recession sometime within the next few years.

The State economy recovered strongly from the “Great Recession.” Growth in household incomes is exceeding the national average. However, during that time, the State budget has also expanded in an attempt to correct long term issues. After several years of strong growth, State revenues are beginning to moderate. Despite this moderation, the Legislative Analyst Office’s (LAO) November 15, 2018 report on the State’s Fiscal Outlook projects that the State will have surpluses through FY 2022-23 assuming no major new spending commitments. While the possibility of a recession in the next few years continues to pose risks to the State Budget, the LAO’s analysis shows sufficient State reserves to weather the recession, again assuming no major increases in new spending.

Santa Monica’s economy remains relatively strong due in large part to its geographic location and its diversified tax revenue base, with continuous growth in the City’s economically-driven tax sources since the recession. However, there are signs of moderation in the local economy’s growth rate. General Fund revenue growth has begun to slow after several years of strong increases. Average annual growth the last three years has been 4.6% following growth rates of over 8.0% in the three years of recovery following the recession. Also, as with the State and national economies, the threat of a recession could significantly alter revenue projections. More information on some of the City’s key revenue sources is provided below. Property values in the City remain the third highest in Los Angeles County for a City with the 19th largest population. The FY 2017-18 assessed value increase was 3.8% after a 6.4% gain the previous year. Preliminary information from the Los Angeles County Assessor’s Office indicates a FY 2018-19 increase of 8.9%. However, this number could change after all exemptions are applied. Moderate increases of 3.0-4.5% are projected over the ensuing five years.

After an initial increase in sales tax revenues in FY 2016-17 and FY 2017-18 reflecting the passage of Measure GSH, sales tax growth is expected to moderate going forward, reflecting a continued shift of sales to online platforms. On November 8, 2016, Santa Monica voters passed measure GSH, raising the transaction and use tax by ½ percent to 1%, along with an advisory measure, GS, that recommended that Council allocate half of the revenue generated from the ½ percent tax rate increase to fund affordable housing and half for school purposes. This tax, which is assessed similarly to a sales tax, has no sunset. The new tax went into effect in April 2017. Measure GSH also incorporated taxes previously authorized by Measure Y, another ½ cent transaction and use tax passed by voters in November 2010 that also has no sunset date. Along with Measure Y, voters passed Measure YY, an advisory measure that recommended that Council allocate half of the revenue from Measure Y for school purposes. In summary, of the \$32.5 million in transaction and use tax revenues generated in FY 2017-18, half was shared with the Santa Monica Malibu Unified School District, one-quarter was set aside for affordable housing purposes, and one-quarter remained in the General Fund to fund general City services.

As noted above, sales tax growth rates are expected to be modest, reflecting the shifting of retail activity to on-line sales and the loss of several large tax generators. City taxable sales are projected to grow by 2.4% in FY 2018-19 then fall 0.8% in FY 2019-2020. A portion of the changes relate to payments due in FY 2017-18 that will not be paid by the State until FY 2018-19.

Tourism, which provides a major stimulus to the local economy by creating jobs and producing revenues, continues to be one of the strongest performing components of the local economy. Staff estimates that approximately 18% of General Fund revenues are generated by the tourism industry. Transient Occupancy Tax revenue growth continues to be strong. Revenue from Transient Occupancy Taxes have increased at an average annual rate of 9.2% over the last seven years, and revenues are expected to continue to increase over the forecast period, but at a lower rate of increase. Revenues will also be bolstered by a new hotel scheduled to open by the beginning of FY 2019-20.

Business License Taxes are expected to remain relatively flat in FY 2018-19, reflecting the loss of several of the City's largest taxpayers due to relocations, before resuming a moderate growth rate of about 1.5% annually. Utility Users Tax revenues are also expected to remain flat over the next several years as revenues from telecommunication services continue to drop due to non-taxed internet-enabled telecommunications services gaining ground over the more traditional services that are currently taxed. Parking Facility Taxes are expected to grow by just under 2% per year over the next several years. Interest rates, which fell to historically low levels over the last seven years, significantly impacting the City's investment income, increased the last two years. While a gradual increase is expected over the City's ten-year forecast period, rates are still expected to remain at relatively low levels.

MANAGING FISCAL CHALLENGES

Despite the City's diverse tax revenue base, all major sources of tax revenue are seeing slowing growth. This comes at a time when pressure on expenditures is accelerating. The key challenges the City faces are steep increases in pension costs over the next eight years as the effects of California Public Employees' Retirement System (CalPERS) discount rate decrease from 7.5% to 7.0% impact pension contribution rates starting in FY 2018-19, and continued increases in workers' compensation costs, both of which are outpacing revenue growth. Even without an economic downturn in the next two years, the City will face increasingly hard choices in the next budget cycle.

Overall, the City's fund balances continued to benefit from a number of cost saving measures approved by Council and implemented since FY 2010-11. The Miscellaneous employee bargaining group approved a second tier of reduced retirement benefits for new employees starting on or after July 1, 2012, and Miscellaneous group employees continue to contribute to a portion of their pension costs, while Public Safety employee bargaining groups have approved annual incremental increases to their employee pension contributions. Over the past eight years, Police and Fire sworn employees have increased their contributions towards pensions to reach over 28% of the total pension cost for Classic CalPERS members (those joining CalPERS before January 1, 2013), while Classic Miscellaneous employees are contributing over 29% of the pension cost. The passage of the Public Employee Pension Reform Act, or PEPRA, in September 2012 is working to further control cost increases in the future, as new employees entering CalPERS after January 1, 2013 are receiving reduced retirement benefits and cities are encouraged to further increase employees' share of contribution costs. To date, approximately 31% of the City's permanent workforce is receiving reduced pension benefits.

Another cost-saving measure is the series of payments made to CalPERS, beyond the actuarially required contribution determined by CalPERS. These additional payments serve to reduce the City's net pension liability. The City has made \$77.5 million in pay downs from FY 2010-11 to FY 2017-18. This has resulted in over \$8.0 million in annual pension contribution savings. In 2014, after a series of pay downs funded from year end savings, Council adopted a policy that, provided that there are sufficient funds, the annual budget would include a minimum set-aside of \$1.0 million in the General Fund, and commensurate set-aside amounts in all other funds, to be used towards pay downs of the CalPERS unfunded liability. Based on the availability of additional funds, staff would annually assess the set-aside of additional CalPERS payments against other unfunded needs, and present the Council with a recommendation. This policy will remain in effect until there is no remaining net pension liability. In June 2017, responding to the prospect of additional significant pension contribution rate increases beginning in FY 2018-19, Council approved a \$45 million pay down of the City's pension unfunded liability. The combination of the additional pay down and a better than anticipated experience level resulting from City employees retiring later is contributing to a 1/3 decrease in the projected growth of pension costs over the next 5 years.

Yet another cost-saving measure is the City's prepayment of its annual employer contributions to CalPERS since FY 2007-08. The City continued this practice in FY 2017-18, when it prepaid to the extent allowable

under new PERS rules implemented in FY 2017-18, where only the amortization of the unfunded liability is eligible for prepayment, whereas previously the normal cost was also prepaid. Discounts received from such prepayments are used for pay downs of the net pension liability.

Despite the mitigating steps taken by the City, CalPERS has made a number of changes to actuarial assumptions that have increased contribution rates. In addition to the phase in of the half percent discount rate decrease, CalPERS will also shorten the period over which future actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on unfunded actuarial liability bases attributable to assumption changes and non-investment gains and losses, and removes the 5-year ramp-down on investment gains and losses. These changes will apply to new unfunded liability bases and will likely further increase contributions beginning in FY 2021-22.

It is important for the City to continue to work both with its actuaries and with its employees to identify measures that will ensure increases in compensation costs do not outpace those of revenue growth. This fall, the City is working with an independent actuary to develop a set of options for mitigating its unfunded liability. Results of the study, the recommendations of a citizen and employee Pension Advisory Committee to the City Manager, and staff's recommendations will be considered by Council as part of the FY 2019-21 Biennial Budget process.

During FY 2014-15, the City began to prefund its Other Postemployment Benefits (OPEB) obligation by paying into an Internal Revenue Code Section 115 irrevocable trust administered through the California Employees' Retirement Benefit Trust (CERBT), an affiliate of CalPERS. Beginning in FY 2014-15, the City is paying the equivalent of its annual required OPEB contribution into the irrevocable trust. This has allowed the City to benefit from a higher discount rate used in calculating its OPEB unfunded liability.

To counter the trend of health insurance cost increases, members from all of the City's collective bargaining groups contribute to health insurance premiums, and these contribution rates will increase over the next three years for sworn Police and Fire employees. Additionally, the City has negotiated a new contract with a new insurance provider that is slated to save over \$500,000 per year in 2019, with fixed rates for the following two years. The impact of potential changes to the Patient Protection and Affordable Care Act (PPACA) by the current Congress and Administration are still largely unknown but are expected to result in cost increases.

Risk Management is implementing and managing a variety of measures to help control workers' compensation costs. The City Council recently authorized a pilot program in Big Blue Bus (BBB) to determine the most cost-effective model for managing workers' compensation claims. Claim administration was transferred to a private claims administrator that has increased claims closure and returned injured workers to work in far less time and at less cost. Risk Management also introduced a comprehensive case management program in the Police Department in July 2014 and expanded the program to the Fire Department in January 2016 to help reduce the number of litigated workers' compensation claims from sworn personnel. This helps reduce program costs by lowering medical expenses, temporary and permanent disability expenses, as well as legal expenses. After completing a successful three-year pilot in BBB, Risk Management began implementation of an ongoing citywide Functional Evaluation Testing Program in March, 2018. Under the program, a certified functional evaluation testing vendor administers functional tests to all candidates applying for physically demanding jobs at the City. This type of testing, considered an industry best practice, has been proven to reduce employee injuries and, over time, lower workers' compensation costs.

As fiscal challenges persist, it is important for the City to be strategic and transparent about how funds are spent. This is being done through a multi-year transition to performance based budgeting. The shift to a performance-based biennial budget provides staff and the community with a data-driven methodology by which to allocate existing resources to areas that help achieve outcomes through a Framework for a Sustainable City of Wellbeing. The transition to performance-based budgeting will continue through a number of future

biennial budget periods as various elements are introduced each year. The City is already working on the development of its FY 2019-21 Biennial Budget, where, as an interim step while metrics are being developed and populated, the City's activities will be prioritized as a way to reallocate resources if more are needed to achieve a particular outcome, discontinue services and activities that no longer meet a pressing need and/or reorganize services and activities so the City is providing those services in the most efficient and effective manner. Staff expects to have sufficient data to begin using metrics to inform budget decision-making during the FY 2021-23 Biennial Budget.

In October 2018, the Council adopted a Performance Management Policy that institutionalizes the City's commitment to data-driven decision-making. The policy defines the City's approach to developing, establishing, monitoring, and reporting on outcomes, and establish the commitment to use this outcome data in resource allocation decisions.

THE DISSOLUTION OF REDEVELOPMENT

On June 27, 2012, the State Legislature passed and the Governor signed AB 1484, a measure clarifying legislation related to the dissolution of redevelopment. On October 21, 2013, the Successor Agency reached a settlement agreement with the Department of Finance (DOF) to pay \$56.7 million as full remittance of unobligated cash and cash-equivalent balances previously held by the Redevelopment Agency (RDA) as identified in the Due Diligence Reviews. The settlement was paid in full on January 14, 2015. On January 16, 2015, the DOF issued a Finding of Completion to the Agency, allowing it to apply for repayment of previously-denied City/Agency agreements, and starting the process for the preparation of a Long Range Property Management Plan (LRPMP), which details disposition of the various Successor Agency properties. The LRPMP was approved on December 29, 2015, and during the course of FY 2015-16, the DOF approved the repayment of three City/Agency loans; it is anticipated that the City will receive approximately \$70 million in repayment over a period of 8 years. The Successor Agency has received Final and Conclusive Determinations on all of its indebtedness, ensuring that the DOF will continue to approve the use of tax increment funds for debt service payments.

The most significant and lasting impacts of the dissolution of redevelopment are the loss of ongoing funding for affordable housing rehabilitation and production in the City, and the suspension of the Civic Center Joint Use Project with the Santa Monica-Malibu Unified School District and the rehabilitation of the Civic Auditorium. However, the passage of Measures GS and GSH has established a regular, albeit decreased, revenue stream to fund affordable housing. In July 2018, the Oversight Board of the Successor Agency transitioned from a local board to a County-wide Oversight Board. This County-wide Board is responsible for reviewing, approving and submitting the Successor Agency's Required Obligation Payment Schedules to the State Department of Finance once a year. Because the Successor Agency has received Final and Conclusive determinations on all debt payment schedules, the City does not expect this change to have any significant financial or operational impact.

POLICIES, RESERVES AND TRANSPARENCY

An additional safeguard to the City's fiscal sustainability lies in the General Fund's economic uncertainty reserve. The Council created this reserve in FY 2008-09 at \$8.2 million and increased it in FY 2010-11 by \$1.5 million to a total current balance of \$9.7 million. The reserve is to be used as a buffer, if needed, to allow the City to bring its budget into balance in a measured way, minimizing the impact to our employees and residents to the greatest extent possible, in case of a shortfall. Corrective actions to date have allowed the City to avoid the need to use any of the reserve.

The City ended the fiscal year with a positive operating balance and a General Fund fund balance of \$435.8 million. Large reserves provide flexibility and resources for capital projects, future expenditures, and economic uncertainty, and contribute to Santa Monica continuing to be a preferred location for residents, employers and visitors.

The City has and continues to dedicate resources to ensuring its transparency to the public. The City convened a new Audit Subcommittee in FY 2015-16. This Subcommittee is meeting a minimum of four times per year to review the work and reports of the City's internal and external auditors and the progress made on internal controls process improvements. A seven-person ad hoc committee of residents joined the Audit Subcommittee to discuss findings and recommendations of a Compensation and Staffing study performed by the City's internal auditor. The report provides observations and recommendations on wage and benefits packages, drivers of compensation, and public safety overtime. Staff has developed a plan to implement the recommended actions of the Internal Auditor. Many of the proposed actions are already in progress, including the development of a framework, based on performance measures, to inform staff and council on the most efficient and effective way to allocate scarce resources. Another recommendation that has been completed is Council's July 24, 2018 adoption of a Compensation Philosophy, which establishes a consistent methodology for determining if the City's processes to recruit and retain highly qualified staff continue to be in line with the City's overarching goal of being an "employer of choice" while continuing to be fiscally responsible with a goal of this being evaluated every five years.

The open data portal allows the public easy access to a growing database of information, in addition to the Opengov application that allows users to view the City's budget from a number of perspectives.

CITYWIDE BUDGET

The City of Santa Monica employs a two-year budget process. In year one of the biennial budget cycle, the City Council formally adopts authorized appropriations for the first year of the two-year budget and approves "planned" appropriations for the second fiscal year. In year two of the budget cycle, the City Council considers revisions and formally adopts authorized appropriations for the second fiscal year. Although the budget cycle covers a two-year period, the City Charter requires that the City Council adopt an annual appropriations ordinance for each budget year.

The City's Capital Improvement Program (CIP) Budget, also a biennial budget, is adopted in the second year of the operating biennial budget process. The CIP Budget includes a Five-Year Capital Improvement Plan.

In addition to this budget planning process, the City maintains budgetary controls to ensure compliance with the annual appropriated budget approved by the City Council. The City Manager is authorized to transfer budgeted amounts within departments by fund to meet the City's needs. However, revisions that alter the total budget or move amounts from one fund or department to another must be approved by the City Council.

The City maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Purchase orders, contracts, and other commitments for the expenditure of money are secured in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balance. Unencumbered amounts lapse at year-end and may be appropriated as part of the following year's budget.

On June 27, 2017, Council approved the FY 2017-19 Biennial Operating Budget, adopting the FY 2017-18 proposed budget and approving the FY 2018-19 budget plan. Council also adopted the second year of the FY 2016-18 Biennial Capital Improvement Program Budget. On October 24, 2017, February 13, 2018 and November 27, 2018 Council approved certain revisions to the FY 2017-18 Revised Budget that adjusted

revenues, expenditures and staffing. On June 12, 2018, Council adopted the second year of the FY 2017-19 Biennial Budget, and adopted the first year of the FY 2018-20 Biennial Capital Improvement Program Budget.

The FY 2018-19 Adopted Budget includes \$733.9 million in expenditures, net of reimbursements and transfers, for all funds. This represents a decrease of 7.2% compared to the revised FY 2017-18 Budget, primarily due to operating changes and capital projects that advance Council's five strategic goals. Citywide revenues, net of reimbursements and transfers, are estimated at \$649.7 million, an increase of \$3.7 million or 0.6% above the FY 2017-18 estimated actual.

The General Fund operating budget for FY 2018-19, net of reimbursements and transfers, is \$373.6 million and the Capital Improvement Program adds an additional \$66.6 million, for a total General Fund budget of \$440.2 million. Operating expenditures are anticipated to decrease \$0.5 million, or 0.1%, as compared to the revised budget for FY 2017-18. General Fund revenues for FY 2018-19 are budgeted at \$403.5 million, a decrease of \$1 million or 0.2% from the FY 2017-18 estimated actual revenues.

The FY 2018-19 Budget reflects self-supporting funds in generally sound financial condition. The Water and Wastewater Funds have sufficient revenues to cover current operations. Rate increases in the Water Fund allow the implementation of the Sustainable Water Master Plan while also maintaining reserve levels. Council approved new water rates in February 2015. These rates had annual increases of up to 9.0%, effective March 1, 2015. Water rate increases are driven by the need to augment conservation plans, offset reduced revenues due to declining water sales as a result of citywide mandatory water conservation, and capital program funding needs to address continued infrastructure investment and Sustainable Water Master Plan requirements. Due to a stronger fund balance than initially projected, mostly as a result of the timing of capital projects, staff has been able to recommend, and Council has approved, lower rate increases of 5.0% in 2016 through 2018.

The Wastewater Fund remains healthy following multi-year rate increases approved by Council in FY 2008-09 continues to have adequate revenues and reserves to meet current operational and capital expenditures. Both the Water and Wastewater Funds are undergoing a new rate study and new rates will be recommended before January 2020.

The Resource Recovery and Recycling (RRR) Fund will maintain a positive fund balance for the next five years. There are several upcoming proposals that may have a substantial impact on the financial stability of the fund after FY 2019-20, including the piloting of a residential wet/dry collection system, the Fund's share of costs to complete the Corporate Yards modernization project, and changes in the structure of the recycling industry and how the City is disposing of its recyclable material. Staff has embarked on the process to complete a rate study in 2019 and new rates will be recommended before January 2020. Council last voted on rate changes in May 2014, when it also voted to increase Resource Recovery and Recycling rates by the consumer price index each year, effective July 1, 2014.

The Big Blue Bus (BBB) Fund balance reflects the Department's need to tap into reserves and Municipal Operator Service Improvement Program (MOSIP) funds as the Department embarks on the procurement of electric buses and related yard and facility infrastructure improvements needed to support electric buses. BBB's passenger revenue started leveling in FY 2017-18 after three consecutive years of decline. Revenue from the recently-approved Los Angeles County Measure M sales tax increase along with the implementation of planned operational strategies will assist the Department in reducing the impact of increased costs associated with workers' compensation, general liability, and other escalating costs, which will narrow the gap between operating revenues and expenses.

The Beach, Community Broadband, Cemetery and Airport Funds are also anticipated to generate adequate revenues to sustain their operations.

The Pier Fund is not able to sustain an adequate balance to cover both its operating costs and large capital expenditures. It has been Council practice to subsidize the Pier as a public space, rather than create a loan receivable to the General Fund. The Pier Fund has a projected operating structural deficit of \$0.5 million in FY 2021-22 due to anticipated decreases in lease revenues due to construction impacts of various planned capital projects.

The Housing Authority Fund has a projected operating structural deficit of approximately \$0.7 million to \$1 million annually throughout the forecast period. Operating subsidies are made from Successor Agency residual receipts funds that are set aside for affordable housing in the Special Revenue Source Fund.

MAJOR CAPITAL PROJECTS

The City Services Building project consists of constructing a 50,200 square foot office building annexed to historic City Hall to house City staff and provide a one-stop hub to better serve the community. This project is being built to obtain a full Living Building Certification. While design costs for this project were funded using General Fund reserves, the construction phase required bond financing in 2017. Debt service costs will ultimately be offset by lease savings when City staff from various non-City-owned office spaces moves into the City Services Building. Construction is 24% complete and scheduled to be completed in April 2020.

The Fire Station 1 project involves building a new 25,000 square foot facility at 1337-45 7th Street to replace the existing 60-year station at a different location. The project is in construction and scheduled to be completed in early 2020. Additionally, the Fire Training Facility project will convert Fire Station 4 to a functional set of classrooms and offices for training purposes, creating a new training drill yard, environmental burn building, and hydrant(s) structures. Lease revenue bonds were issued in Spring 2018 for these projects.

The City Yards Modernization project is a phased major renovation of the existing 14.7-acre facility located at 2500 Michigan Avenue. The project will retrofit and address long standing functional and space needs of the City's corporation yards. The current facility accommodates more staff than originally intended when it was built in the 1950s, and the buildings are beyond its useful life. The City Yards houses a majority of Public Works' field operations equipment and staff and site uses include resource recycling and recovery, water and wastewater operations, fleet maintenance, shop buildings and fire training space. Package A, which is the first phase of the renovation, is in design and construction is scheduled to be start in July 2019.

The Airport Runway Shortening project shortened the operational length of the runway at the Santa Monica Airport (SMO) to 3,500 feet per Consent Decree between the Federal Aviation Authority (FAA) and the City of Santa Monica. As of December 23, 2017, the runway has been operational in its new configuration with no objections raised by the FAA.

The Airport Building Facility Refurbishment project addresses the deficiencies of the City-owned buildings at the Airport resulting from previous deferred maintenance and to address the needs of 9 tenant-occupied City properties that recently reverted to City management. The assessment process started in September 2018 and is expected to be complete in June of 2019.

The Sustainable Water Infrastructure Project (SWIP) improves drought resiliency, increases water supply, and reduces stormwater discharges into the Santa Monica Bay. The project consists of three elements. Element 1 is a modular reverse osmosis (RO) unit at the Santa Monica Urban Runoff Recycling Facility (SMURRF) and new solar panels that will help offset the energy required for the new RO. Element 2 is a below grade stormwater and sewer treatment facility with 1 million gallons per day (MGD) capacity. Element 3 is a new stormwater harvesting tank with 4.5 million gallon (MG) capacity. The project is scheduled to be completed in 2020.

The Clean Beaches project for the Pier Watershed will capture up to 1.6 million gallons of stormwater and urban runoff generated by the downtown area in the Pier Basin for each storm event. Benefits of this project include improved beach water quality, implementation of the Enhanced Watershed Management Plan for compliance with the City's Stormwater Discharge Permit, additional parking and improved coastal access to the Pier, the production of 560 acre-feet per year (AFY) of new water from treated urban runoff and brackish groundwater, and financial savings to the City.

The Beach Playground Enhancements includes playground improvements on Santa Monica State Beach north of the Santa Monica Pier as identified in the North Beach Play Area Study. This includes installation of additional playground equipment at the Annenberg Community Beach House, Ocean Park Playground, and Muscle Beach, and a new playground on the beach at Montana Avenue. Construction for all parks was completed and opened to the public by the Fall of 2018. The North Beach Trail project includes improvements to the Ocean Front Walk north of the Pier and the bike path north from Bay Street to the northern City limit to solve the circulation conflicts on the bike path and identify options for either widening the bike path or creating a parallel pedestrian path where the bike path is frequently utilized by non-cyclists. This project is in design and construction is scheduled to start in the Spring/Summer 2019.

The Early Childhood Lab School, led by Santa Monica College in partnership with the City, will design and construct an early childhood education center that will serve as a 'lab school' for Santa Monica College students in the early childhood education department and will provide infant, toddler, pre-school services for approximately 110 children. Construction should be complete and the facility open in August 2020.

The Bus Replacement project includes the purchase of 19 40-foot and 7 30-foot Gillig with near-zero ultra-low emission CNG engines and 1 40-foot prototype battery electric bus. The 30-foot buses were delivered in March 2018 and the 40-foot buses will begin arriving in Fall 2018. The prototype battery electric bus is scheduled to be delivered in March 2019. Buses will be equipped with but not limited to, bicycle racks, advanced fleet management system, and near-zero emission engines. Staff is developing a plan to procure additional 40-foot battery electric buses by June 2019.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Monica for its CAFR for the fiscal year ended June 30, 2017. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of State and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Santa Monica has received a Certificate of Achievement for each of the last thirty-four years. We believe our current CAFR also conforms to the Certificate of Achievement program requirements.

In keeping with past practice, a copy of this CAFR will be placed on file in the City libraries and the City Clerk's Office, and sent to City Council and Audit Subcommittee members, City management personnel, bond rating agencies, and other agencies which have expressed an interest in the financial affairs of the City. It is also available at www.smgov.net/finance.

ACKNOWLEDGEMENTS

The preparation and development of this report would not have been possible without the year-round work of the Finance Department staff and their special efforts, working in conjunction with the City's independent auditors, to produce this report.

I would like to take this opportunity to compliment and thank the staff members of the City who were associated with the preparation of this report. I would also like to thank the City Council for their continued interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Gigi Decavalles-Hughes".

Gigi Decavalles-Hughes
Director of Finance/City Treasurer

OFFICIALS OF THE CITY OF SANTA MONICA

As of December 12, 2018

City Council

Gleam Davis, Mayor

Terry O'Day, Mayor Pro Tempore

Sue Himmelrich

Kevin McKeown

Greg Morena

Tony Vazquez

Ted Winterer

Administration and Department Heads

City Manager

Assistant City Manager

Deputy City Manager

City Attorney

City Clerk (Director of Records and Election Services)

Director of Finance/City Treasurer

Director of Human Resources (Acting)

Chief Information Officer

Chief of Police

Fire Chief

Director of Planning and Community Development

City Librarian

Director of Community and Cultural Services

Director of Transit Services

Director of Housing and Economic Development

Director of Public Works

Rick Cole

Katie Lichtig

Anuj Gupta

Lane Dilg

Denise Anderson-Warren

Gigi Decavalles-Hughes

Christina Winting

Joseph Cevetello

Cynthia Renaud

Bill Walker

David Martin

Patty Wong

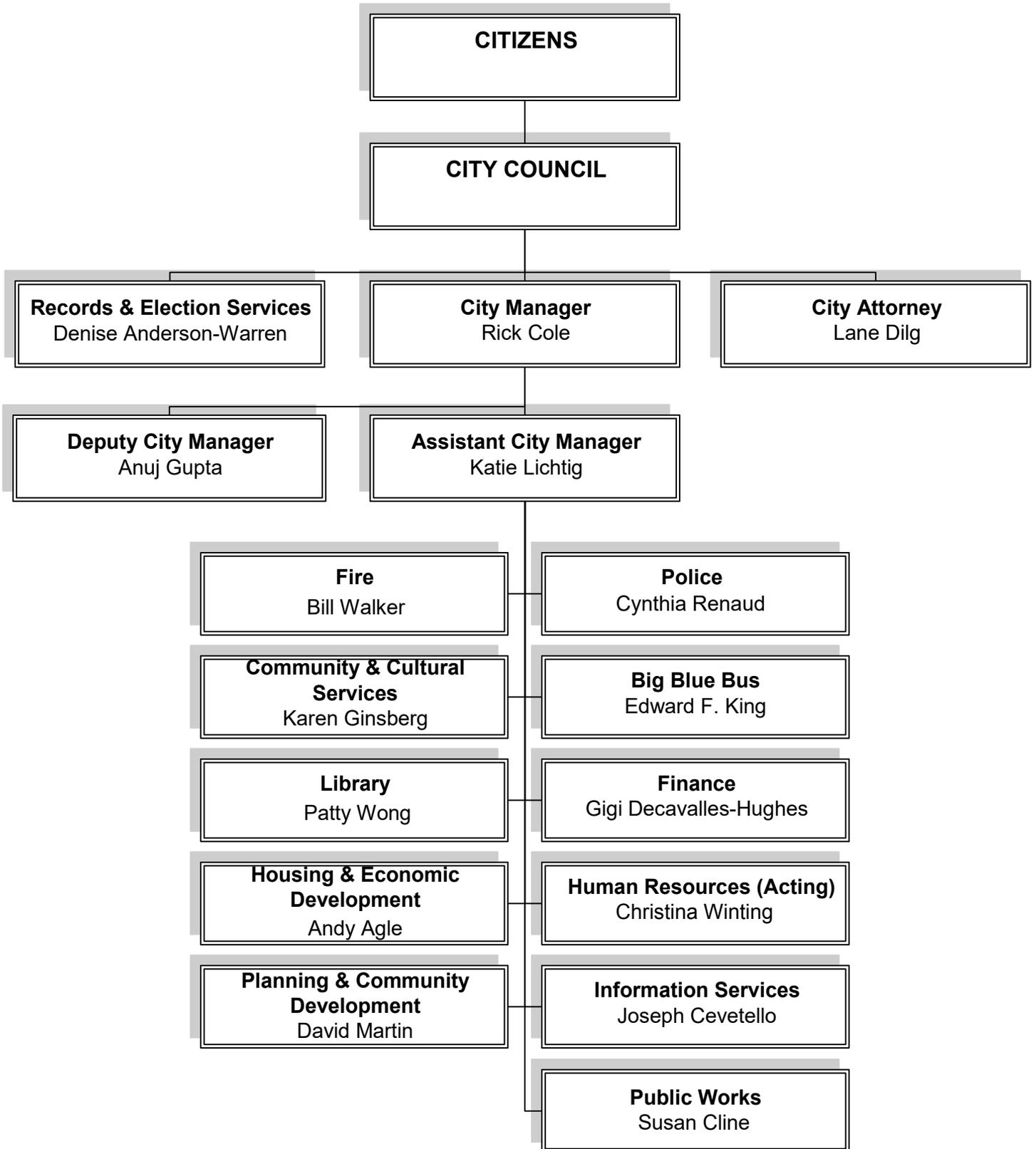
Karen Ginsberg

Edward F. King

Andy Agle

Susan Cline

**ORGANIZATION OF THE
CITY OF SANTA MONICA**
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Government Finance Officers Association

Certificate of
Achievement
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in Financial
Reporting

Presented to

**City of Santa Monica
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

City of Santa Monica, California
Year Ended June 30, 2018

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Santa Monica, California, (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Monica, California, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, in 2018 the City adopted new accounting guidance, *GASB No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of revenues, expenditures, and changes in fund balance – budget and actual for the general fund, special revenue source fund, and the low and moderate income housing assets fund, the schedule of changes in the net pension liability and related ratios, the schedule of contributions – pension plans, the schedule of changes in the net OPEB liability and related ratios and the schedule of contribution – OPEB plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.



To the Honorable Mayor and Members of the City Council
City of Santa Monica, California

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Lance, Solt & Lughard, LLP

Brea, California
December 12, 2018

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CITY OF SANTA MONICA, CALIFORNIA

Management's Discussion and Analysis For the fiscal year ended June 30, 2018 (Unaudited)

As management of the City of Santa Monica, California (City), we offer readers of the City's Comprehensive Annual Financial Report (CAFR) this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's basic financial statements, which immediately follow this section, and the CAFR transmittal letter in the preceding Introductory Section.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources by \$1,582.0 million, as of June 30, 2018. Of this amount, \$1,158.4 million represents net investment in capital assets, \$232.8 million represents net position restricted for specific purposes, and \$190.8 million represents unrestricted net position. \$984.6 million represents net position for governmental activities and \$597.4 million represents net position for business-type activities.
- For the fiscal year ended June 30, 2018, the City's total net position increased by \$29.3 million, to \$1,582.0 million at June 30, 2018 from \$1,552.7 million at June 30, 2017 (as restated). This increase was due to an increase in governmental activities net position of \$21.4 million and an increase in business-type activities net position of \$7.9 million during FY 2017-18.
- At the end of the current fiscal year, the City's governmental funds reported total ending fund balances of \$698.5 million, compared to \$583.1 million at the end of the prior fiscal year (as restated), which is an increase of \$115.4 million or 19.8%.
- The General Fund reported an ending fund balance of \$435.8 million as of June 30, 2018, compared to \$346.5 million as of June 30, 2017 (as restated), which represents an increase of \$89.3 million or 25.8%. The largest reason for the overall increase in fund balance is two bond issuances that totaled \$102.8 million and their related premiums of \$12.2 million.
- The City's net capital assets decreased by \$11.2 million or 0.9% to \$1,246.4 million as of June 30, 2018 from \$1,257.6 million as of June 30, 2017.
- The City's long-term debt (excluding issuance premiums) increased by \$93.8 million or 121.2% to \$171.2 million as of June 30, 2018 from \$77.4 million as of June 30, 2017. The increase is mainly due to two bond issuances completed during FY2017-18 totaling \$102.8 million.
- The City's net pension liability increased from \$460.7 million at June 30, 2017 to \$466.8 million at June 30, 2018; an increase of \$6.1 million or 1.3%. The increase in the liability was primarily due to the decrease in the CalPERS discount rate from 7.5% to 7.0%, offset by an additional \$45.0 million contribution the City paid to CalPERS in FY2016-17 (after the measurement date for the FY 2016-17 financial statements).
- The City implemented GASB 75 during FY 2017-18 which increased the net OPEB liability from \$10.5 million at June 30, 2017 to \$26.4 million at June 30, 2018, an increase of \$15.9 million or 151.4%. Additional information on the City's benefit plans can be found in note 16 to the basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA

Management's Discussion and Analysis, Continued For the fiscal year ended June 30, 2018 (Unaudited)

- The City's pollution remediation obligation decreased from \$111.4 million at June 30, 2017 to \$43.3 million at June 30, 2018, a decrease of \$68.1 million or 60.8%. The liability was revised downward in FY2017-18 based on the most current remediation information available and changes in the drinking water regulations of the State of California. Additional information on the City's pollution remediation obligation can be found in Note 4 to the basic financial statements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: government-wide financial statements, fund financial statements, and notes 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 statements of a private-sector business.

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the assets, deferred outflows of resources, liabilities and deferred inflow of resources 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 result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety (police and fire), general services, library, cultural and recreation and housing and community development. The business-type activities of the City include water, wastewater, stormwater, resource recovery and recycling, pier, airport, cemetery, Big Blue Bus, community broadband, and Parking Authority.

Component units are included in the basic financial statements and consist of legally separate entities for which the City is financially accountable and that have either the same governing board as the City or a governing board appointed by the City of Santa Monica City Council. The blended component units include the Santa Monica Public Financing Authority, the Parking Authority of the City of Santa Monica, the Housing Authority of the City of Santa Monica, and the Santa Monica Redevelopment Successor Agency.

The government-wide financial statements can be found on pages 1 and 2 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

CITY OF SANTA MONICA, CALIFORNIA

Management's Discussion and Analysis, Continued For the fiscal year ended June 30, 2018 (Unaudited)

legal requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary 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 financing 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 financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances are accompanied by a reconciliation to the government-wide financial statements in order to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 19 individual governmental funds for financial reporting purposes. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General, Special Revenue Source Fund, and Low and Moderate Income Housing Asset Fund which are considered to be major funds. Data for the other 16 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the nonmajor funds supplementary information section of this report.

The City Council adopts an annual appropriated budget for its General Fund and eight of the special revenue funds (no budget is adopted for the Rent Control Fund and Asset Seizure Fund) and five capital project funds. The City Council does not adopt budgets for the two permanent funds or the one debt service fund. A comparison schedule has been provided for the General Fund, Special Revenue Source Fund and Low and Moderate Income Housing Asset Fund in the required supplementary information to the basic financial statements.

The governmental funds financial statements can be found on pages 4 through 7 of this report.

Proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for water, wastewater, recycling, and bus operations, which are considered to be major funds of the City. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its vehicle operations, risk management program and information technology and communications operations. The vehicle operations and insurance services for bus operations primarily benefit business-type activities and are included within *business-type activities* in the government-wide financial statements. All other risk management functions, information technology and communication services primarily benefit governmental funds and are included within *governmental activities* in the

CITY OF SANTA MONICA, CALIFORNIA

Management's Discussion and Analysis, Continued
For the fiscal year ended June 30, 2018
(Unaudited)

government-wide financial statements. Individual fund data for the internal service funds is provided in the supplementary information section of this report.

The proprietary funds financial statements can be found at pages 10 through 13 of this report.

Fiduciary funds. Fiduciary funds consist of a private-purpose trust fund and agency funds. A private-purpose trust fund was created in 2012 and is used to pay enforceable obligations of the former Redevelopment Agency (Former Agency). Agency funds are used to account for resources held for the benefit of parties outside of the City. The fiduciary funds are *not* included in the government-wide financial statements because the resources are *not* available to support the City's operations.

The fiduciary funds financial statements can be found on pages 16 through 17 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 begin on page 19 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1.6 billion at the close of the current fiscal year.

As shown on the next page, the largest portion of the City's net position, \$1.2 billion or 73.2%, reflects the City's investment in capital assets less any related outstanding debt and associated deferred outflows of resources used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt and associated deferred outflows of resources, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities.

An additional portion of the City's net position, \$232.8 million or 14.7%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$190.8 million or 12.1%, may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reports positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

CITY OF SANTA MONICA, CALIFORNIA

Management's Discussion and Analysis, Continued
For the fiscal year ended June 30, 2018
(Unaudited)

A summary of the government-wide statement of net position follows:

CITY OF SANTA MONICA
Summary of Net Position
(in millions)

	Governmental activities		Business-type activities		Total	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Current and other assets	\$ 850.4	745.0	272.1	257.7	1,122.5	1,002.7
Capital assets	799.1	802.3	447.3	455.3	1,246.4	1,257.6
Total assets	1,649.5	1,547.3	719.4	713.0	2,368.9	2,260.3
Deferred outflows of resources	116.6	124.9	27.6	30.2	144.2	155.1
Current and other liabilities	66.8	51.2	30.9	26.8	97.7	78.0
Long-term liabilities	690.1	622.6	111.8	118.2	801.9	740.8
Total liabilities	756.9	673.8	142.7	145.0	899.6	818.8
Deferred inflows of resources	24.6	23.2	6.9	6.2	31.5	29.4
Net position:						
Net investment in capital assets	720.8	731.8	437.6	445.3	1,158.4	1,177.1
Restricted	209.4	198.7	23.4	18.9	232.8	217.6
Unrestricted	54.4	44.7	136.4	127.8	190.8	172.5
Total net position	\$ 984.6	975.2	597.4	592.0	1,582.0	1,567.2

Total current and other assets increased \$119.8 million or 11.9% from the prior fiscal year. Governmental activities increased by \$105.4 million and business-type activities increased by \$14.4 million. The increase in this category is primarily due to an increase in cash from the proceeds of two bond issuances during the year.

Total deferred outflows of resources decreased \$10.9 million or 7.0% from the prior fiscal year. Governmental activities decreased by \$8.3 million and business-type activities decreased by \$2.6 million. Per GASB 68, pension contributions made by the City to CalPERS are recorded on the Statement of Net Position as deferred outflow of resources during that fiscal period. In FY 2016-17, the City made an additional \$45 million payment to CalPERS, greatly increasing the deferred outflows of resources balance at June 30, 2017. In FY 2017-18, the \$45 million reduced the net pension liability and also decreased deferred outflows of resources. Offsetting this in FY 2017-18, CalPERS lowered the discount rate, resulting in an increase to deferred outflows of resources which is amortized over the expected average remaining service life of plan members.

Total current and other liabilities increased \$19.7 million or 25.3% from the prior fiscal year. Governmental activities increased by \$15.6 million and business-type activities increased by \$4.1 million. This increase is primarily due to additional payables outstanding at year-end from large capital projects and other capital-related expenses.

Total long-term liabilities increased \$61.1 million or 8.2% from the prior fiscal year. The increase in this category is primarily due to \$115.0 million in bonds issued and related premiums, an increase in the

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net OPEB liability of \$15.9 million offset by a \$68.1 million decrease in the pollution remediation obligation.

A summary of the government-wide statement of changes in net position follows:

CITY OF SANTA MONICA
Summary of Changes in Net Position
(in millions)

	Governmental activities		Business-type activities		Total	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Revenues						
Program revenues:						
Charges for services	\$ 140.9	136.7	126.0	116.5	266.9	253.2
Operating grants and contributions	28.0	27.9	44.3	48.3	72.3	76.2
Capital grants and contributions	5.4	9.8	18.0	23.1	23.4	32.9
General revenues:						
Sales and use taxes	68.5	54.5	—	—	68.5	54.5
Business license taxes	31.5	30.7	—	—	31.5	30.7
Property taxes	56.9	56.4	—	—	56.9	56.4
Transient occupancy taxes	60.6	55.5	—	—	60.6	55.5
Utility users taxes	29.3	29.5	—	—	29.3	29.5
Real property transfer taxes	8.2	10.9	—	—	8.2	10.9
Parking facility taxes	11.6	11.2	—	—	11.6	11.2
Other taxes	3.3	3.3	—	—	3.3	3.3
Investment income	4.4	3.1	1.5	1.6	5.9	4.7
Other revenue	11.2	11.7	4.6	4.3	15.8	16.0
Total revenues	<u>459.8</u>	<u>441.2</u>	<u>194.4</u>	<u>193.8</u>	<u>654.2</u>	<u>635.0</u>
Expenses						
General government	94.2	69.5	—	—	94.2	69.5
Public safety	152.3	133.5	—	—	152.3	133.5
General services	85.6	84.2	—	—	85.6	84.2
Cultural and recreation services	73.8	57.7	—	—	73.8	57.7
Library	14.8	12.9	—	—	14.8	12.9
Housing and community development	58.4	54.6	—	—	58.4	54.6
Interest on long-term debt	4.4	2.5	—	—	4.4	2.5
Water	—	—	25.7	23.6	25.7	23.6
Resource recovery and recycling	—	—	26.3	25.5	26.3	25.5
Community broadband	—	—	1.9	1.9	1.9	1.9
Pier	—	—	7.9	7.6	7.9	7.6
Wastewater	—	—	18.8	17.9	18.8	17.9
Airport	—	—	12.9	8.6	12.9	8.6
Stormwater management	—	—	0.4	0.3	0.4	0.3
Cemetery	—	—	2.1	2.3	2.1	2.3
Big Blue Bus	—	—	95.3	93.6	95.3	93.6
Parking Authority	—	—	0.2	—	0.2	—
Total expenses	<u>483.5</u>	<u>414.9</u>	<u>191.5</u>	<u>181.3</u>	<u>675.0</u>	<u>596.2</u>
Excess (deficiency) of revenues over expenses before special items and transfers	(23.7)	26.3	2.9	12.5	(20.8)	38.8
Special items	43.7	(1.1)	6	1.1	50.1	—
Transfers	1.4	5.5	(1.4)	(5.5)	—	—
Change in net position	21.4	30.7	7.9	8.1	29.3	38.8
Beginning net position, as restated (note 18)	<u>963.2</u>	<u>944.5</u>	<u>589.5</u>	<u>583.9</u>	<u>1,552.7</u>	<u>1,528.4</u>
Ending net position	<u>\$ 984.6</u>	<u>975.2</u>	<u>597.4</u>	<u>592.0</u>	<u>1,582.0</u>	<u>1,567.2</u>

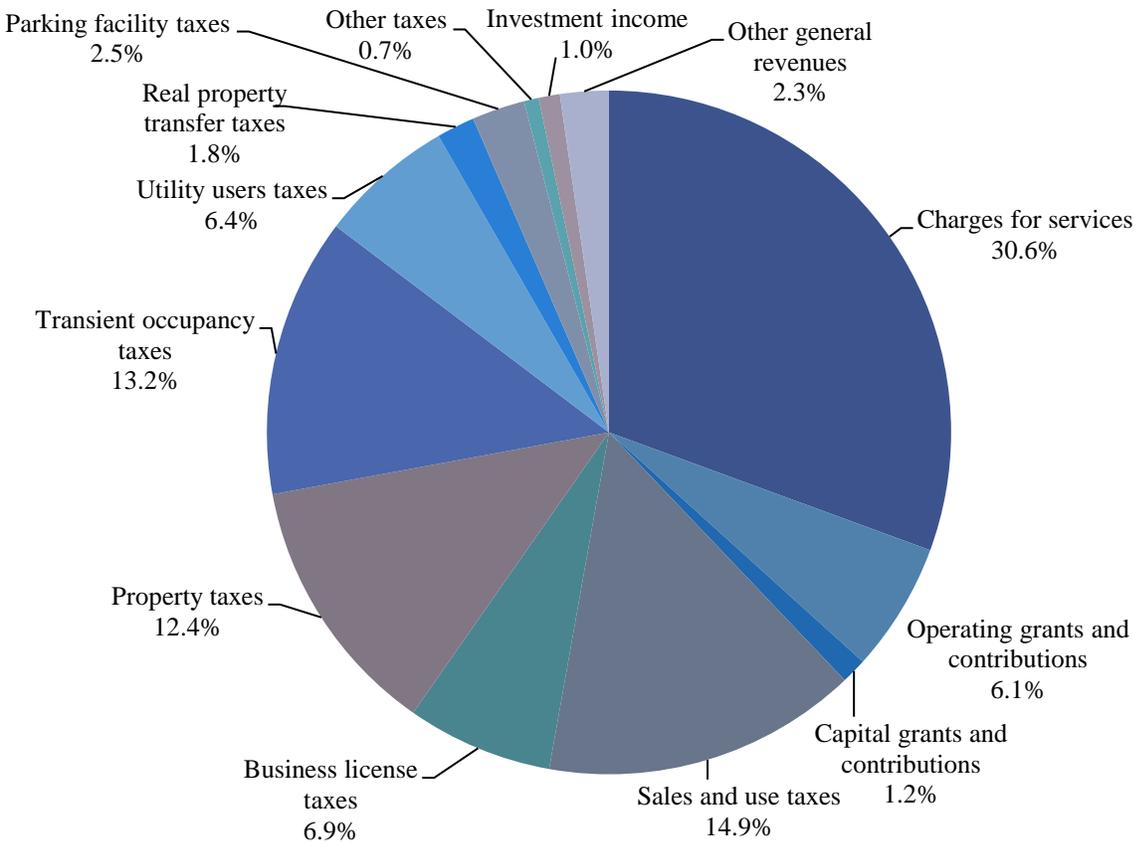
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Governmental Activities. The City's governmental activities net position increased by \$21.4 million, or 2.2%. Analysis of revenues and expenses are discussed below and on the following pages.

Revenue Sources: Governmental Activities. As shown in the chart below, the largest category of revenue for governmental activities is charges for services, which represents 30.6% of total governmental activities revenue. The category totaled \$140.9 million in FY 2017-18, compared to \$136.7 million in FY 2016-17, which is an increase of \$4.2 million or 3.1%. The second largest category is sales and use tax, which represents 14.9% of total governmental activities revenue. Sales and use tax increased \$14.0 million or 25.7% from the prior fiscal year. The increase in sales and use tax primarily reflects Measure GSH, a ½ cent transaction and use tax, effective as of April 2017. The third largest category is transient occupancy taxes, which represent 13.2% of total governmental activities revenue. Transient occupancy taxes increased \$5.1 million or 9.2% from the prior fiscal year. The increase in transient occupancy taxes reflects continuation of the strong tourism market in Santa Monica and the opening of two lodging properties in the spring of 2017.

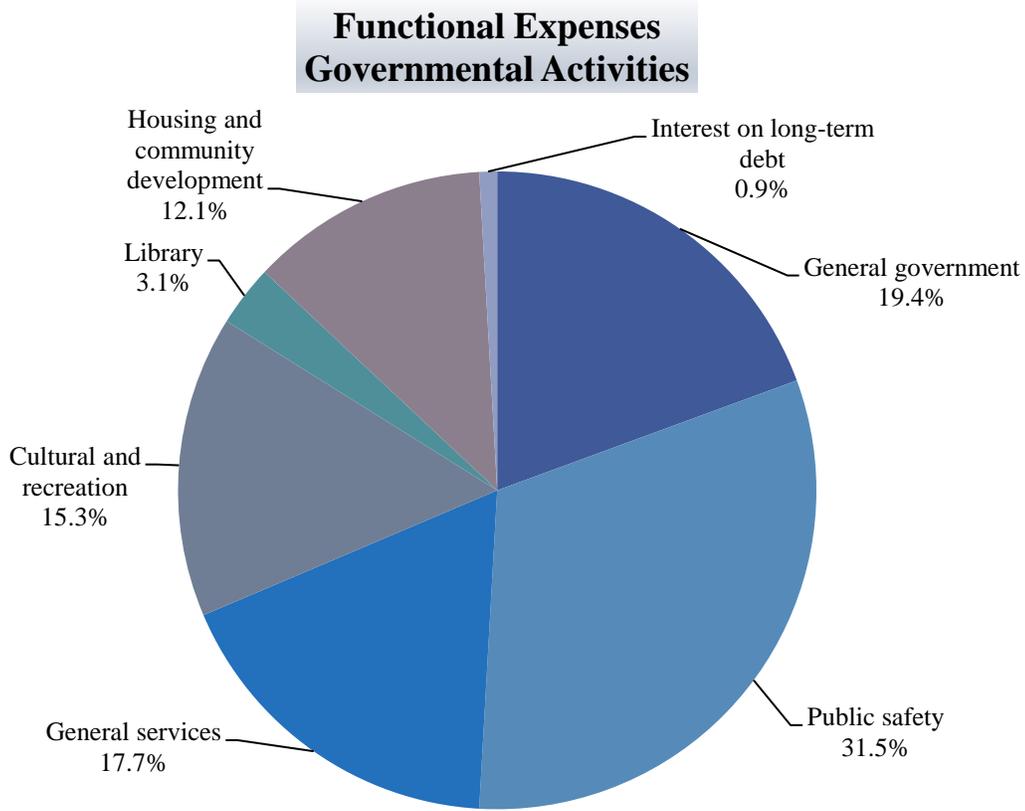
Sources of Revenue Governmental Activities



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Functional Expenses: Governmental Activities. As displayed in the chart below, general government, public safety, general services, cultural and recreation, and housing and community development accounted for 96.0% of total governmental activities expenses

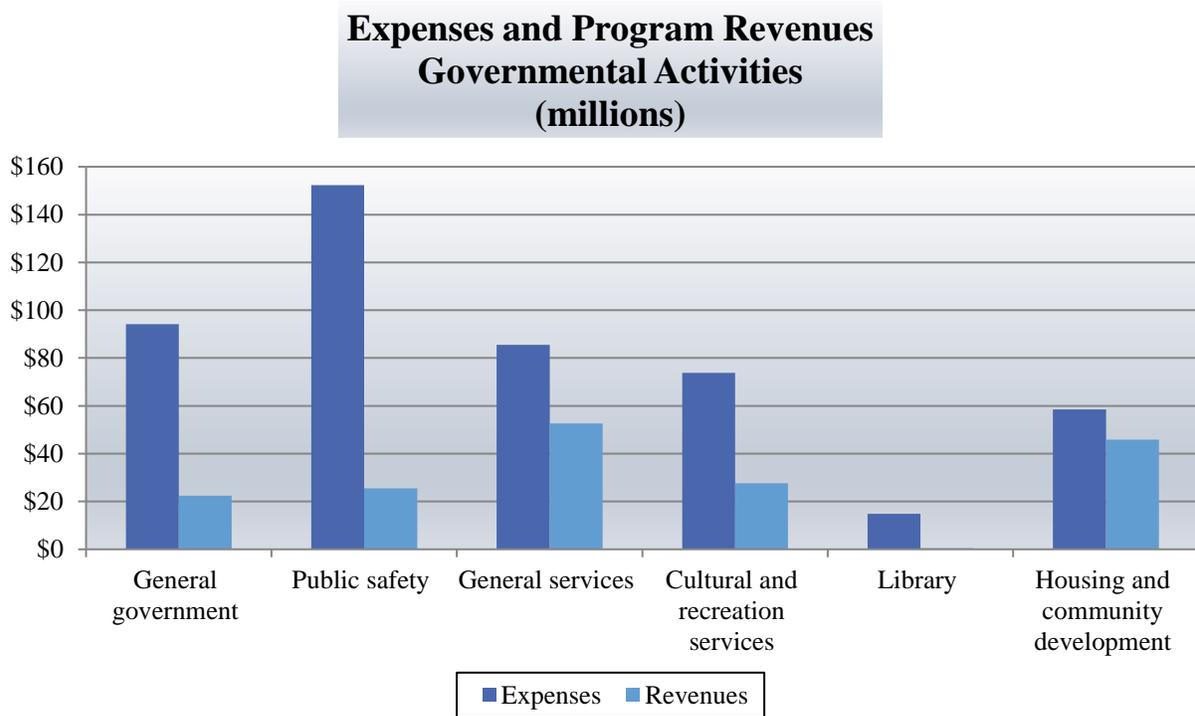


Total governmental activities expenses increased \$68.6 million or 16.5% from the prior fiscal year. The three categories with the largest variance from the prior year were general government, public safety, and cultural and recreation services. General government expenses increased \$24.7 million or 35.5%. Public safety expenses increased \$18.8 million or 14.1%. Cultural and recreation services expenses increased \$16.1 million or 27.9%. The increase in these categories was primarily due to an increase in pension expense associated with an increase in the net pension liability due to CalPERS lowering their discount rate from 7.5% to 7.0%. Additionally, cultural and recreation services expenses increased due to larger payments to the Santa Monica Malibu Unified School District per Advisory Measure GS providing half of the Measure GSH transaction and use tax revenue to the School District.

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Program Expenses: Governmental Activities. The following chart compares program revenues and expenses for governmental activities (excluding interest on long-term debt):



The comparison of direct expenses and program revenues identifies the extent to which each function is self-financing or draws from the general revenues of the City. A higher percentage of program revenues to direct expenses indicates that a function is generally self-financed through program revenues generated by activities within that function. In contrast, a lower percentage of program revenues to direct expenses indicates that a function is primarily financed through general revenues.

The function with the highest percentage of program revenues to direct expenses in FY 2017-18 is housing and community development, which had expenses of \$58.4 million and program revenues of \$45.8 million, which is a ratio of 78.4%. This high percentage indicates that most of the expenses in this category are financed by revenues generated by activities within the housing and community development category.

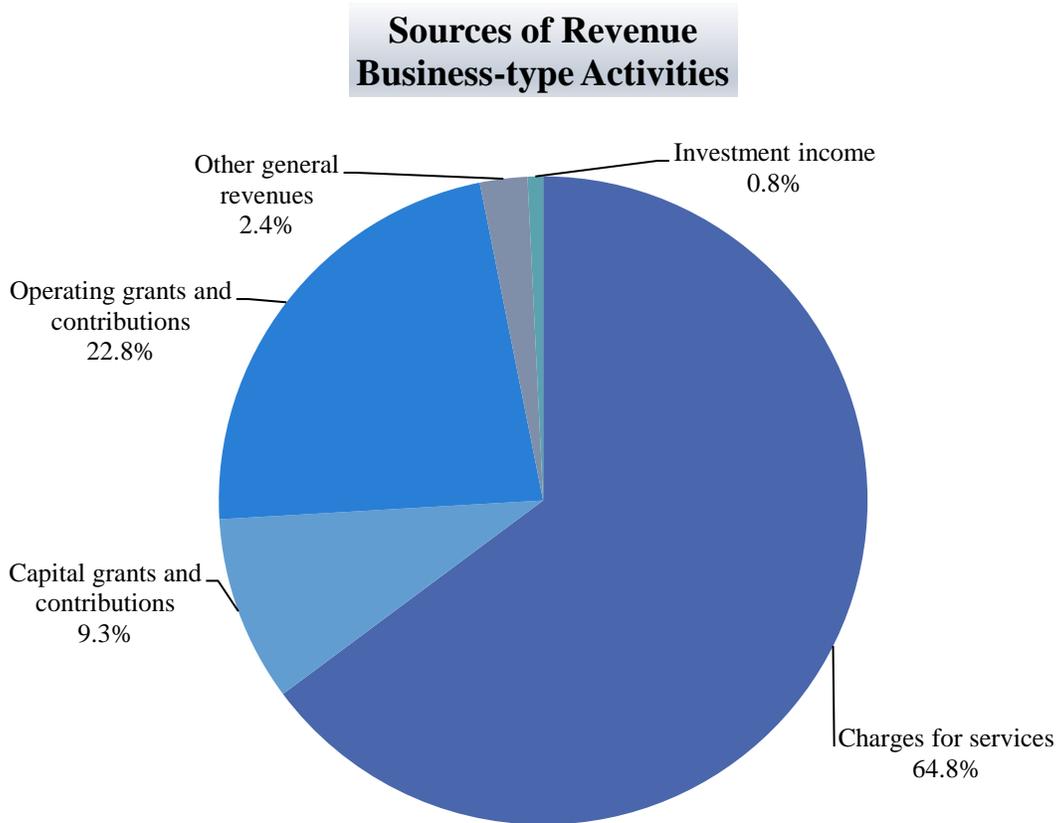
The function with the lowest percentage of program revenues to direct expenses in FY 2017-18 is the Library, which had expenses of \$14.8 million and program revenues of \$0.4 million, a ratio of 2.7%. This low percentage indicates that most of the expenses in this category are financed by the general revenues of the City.

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Business-type Activities. The City’s business-type activities net position increased \$7.9 million or 1.3% from the prior fiscal year.

Revenue Sources: Business-type activities. The chart below displays the key sources of revenue for business-type activities as a percentage of total revenues. The top three sources of revenue for business-type activities are charges for services, operating grants and contributions, and capital grants and contributions. These three categories account for 96.9% of the total business-type activities revenues of \$194.4 million.

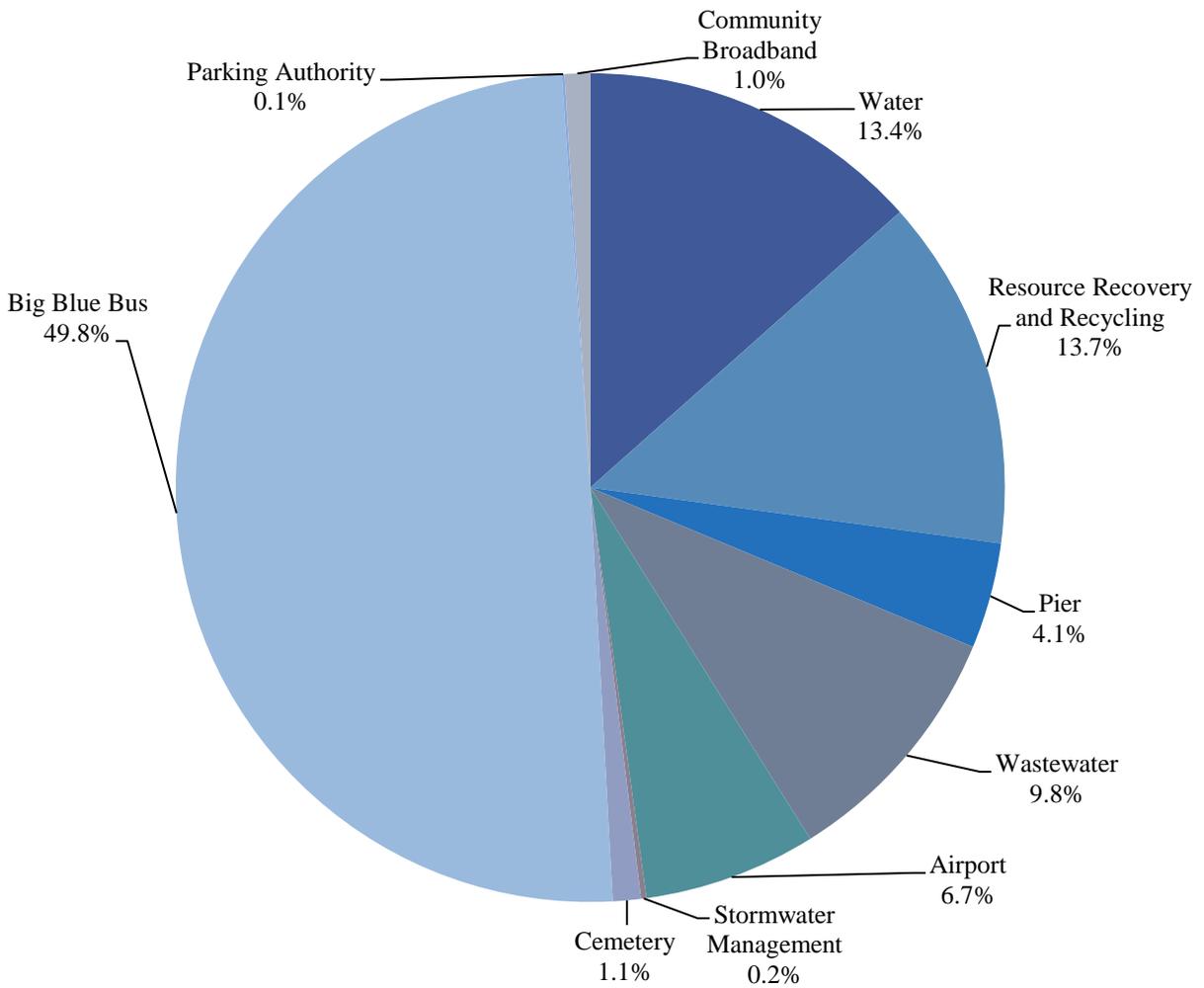


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Expenses: Business-type Activities. The chart below displays individual business-type activities as a percentage of total business-type activity expenses. The Big Blue Bus, Resource Recovery and Recycling, Water, and Wastewater activities accounted for 86.7% of total business-type activity expenses. Other business-type activities of the City include the Airport, Pier, Cemetery, Stormwater Management, Parking Authority, and Community Broadband.

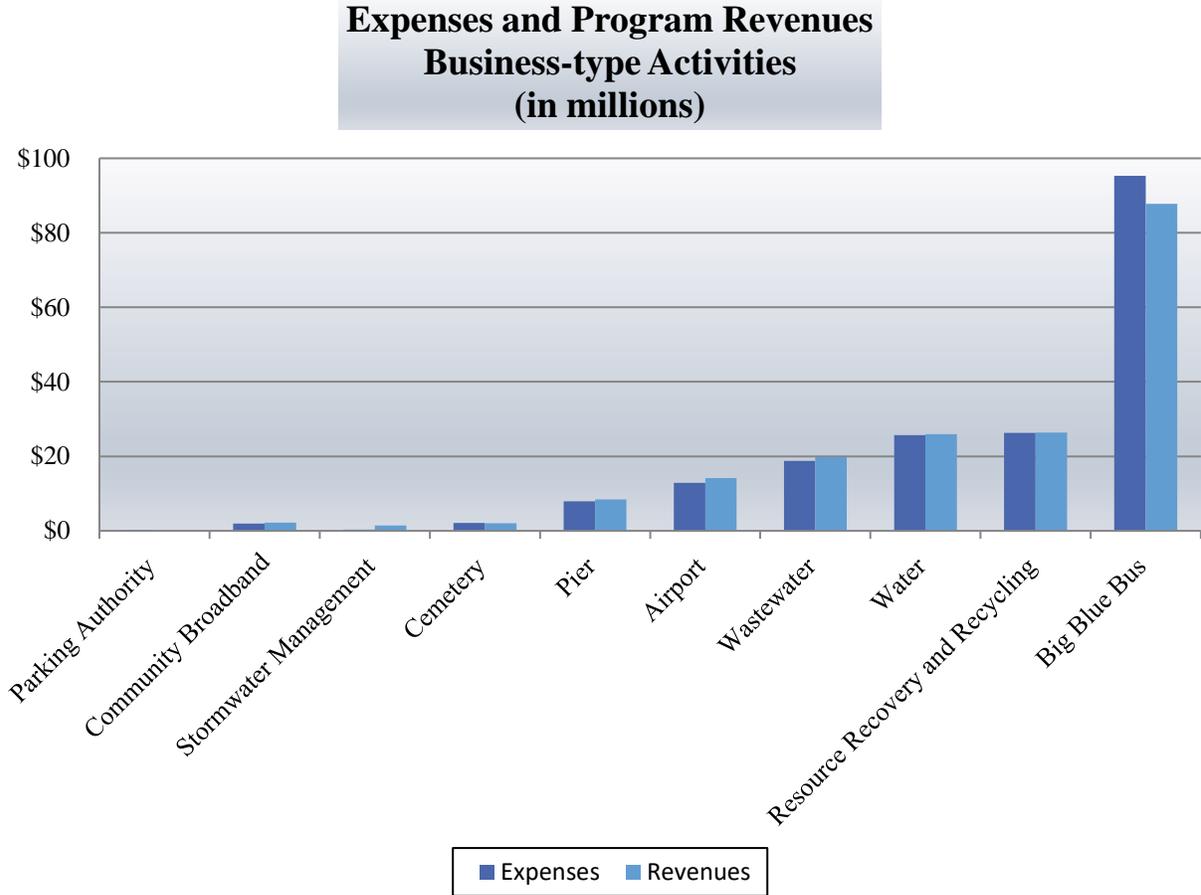
Business-type Activities Expenses



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Program Revenues and Expenses: Business-type Activities. The following chart compares program revenues and expenses for business-type activities:



For discussion and analysis of key points of business-type activities, see the following section on the City’s major proprietary funds.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR FUNDS

As noted earlier, the City uses fund accounting to 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 is useful in assessing the City’s financial requirements.

The City’s governmental funds total fund balance increased \$115.4 million, or 19.8% from the prior fiscal year. The primary reasons for the increase are discussed on the following pages.

General Fund

The General Fund is the chief operating fund of the City. Total fund balance in the General Fund increased \$89.3 million or 25.8% from the prior fiscal year.

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Management's Discussion and Analysis, Continued For the fiscal year ended June 30, 2018 (Unaudited)

Key factors in changes in revenues and expenditures from the prior year are as follows:

1. Total General Fund revenues increased \$26.7 million or 7.1% from the prior fiscal year. The largest revenue source in the General Fund is sales and use taxes, which increased \$14.0 million or 25.7%. The second largest revenue source in the General Fund is transient occupancy taxes, which increased \$5.1 million or 9.2%. The third largest revenue source is property taxes, which increased \$0.6 million or 1.1%. Combined, these three categories represented 46.1% of total General Fund revenues for FY 2017-18. Sales and use taxes increased due to Measure GSH becoming effective in April of 2017 which increased the City's transaction and use tax by ½%. Transient Occupancy Taxes increased primarily due to the opening of two large hotels in the spring of 2017, as well as general room rate increases. The increase in property taxes was due to increases in the City's assessed valuation, and all three categories benefited from positive economic conditions. Also, during FY 2017-18, the City renegotiated its pollution remediation agreement with The Gillette Company (Gillette) whereby Gillette made a lump sum payment of \$10.4 million to fully relieve their monetary obligations to the City. Finally, the City issued \$102.8 million in bonds and \$12.2 million in related premiums.
2. Total General Fund expenditures, excluding debt service, increased \$45.7 million or 12.8% from the prior fiscal year. This increase was due primarily to an increase in general government expenditures of \$19.4 million or 27.8%; an increase in general services expenditures of \$1.2 million or 1.7%; and an increase in public safety expenditures of \$11.5 million or 8.7%. These three expenditure categories represent the largest expenditure categories of the General Fund and include 75.0% of all General Fund expenditures for FY 2017-18. The increase in these three categories was primarily driven by an increase in salaries and wages of \$12.1 million or 6.2%. Included in this increase is a cost of living increase of 6.0% for sworn police officers in exchange for police officers now paying an additional 9% contribution to CalPERS and a new longevity bonus for sworn fire employees. Also, Worker's Compensation contributions increased by \$2.4 million. Furthermore, General Government increased due to several large capital projects currently under construction including the City Services Building at \$10.7 million and under design and construction including Fire Station 1 at \$1.6 million. Special items decreased from \$36.7 million for FY 2016-17, which represented an additional payment to CalPERS and a partial write-off of a note receivable from the Airport fund, to \$0 for FY 2017-18.

Special Revenue Source Fund

Total fund balance in the Special Revenue Source Fund increased \$20.6 million or 18.8% from the prior fiscal year. Total revenues decreased \$0.9 million or 9.5%. The decrease in revenues was due to the \$1.6 million decrease in other revenue offset by the \$0.8 million increase in charges for services. This decrease was primarily due to a \$6.2 million affordable housing settlement received last year and a \$1.1 million decrease in Affordable Housing Production Fees. Together, the \$7.3 million decrease reduced the impact of revenue gains from development agreements notably: Transportation Impact Fee - \$1.6 million, Childcare Linkage Fee - \$1.3 million, Parks and Recreation Fee - \$1.4 million, other development agreements - \$1.5 million. Total expenditures slightly increased by \$0.3 million or 10.0%.

Net transfers in decreased from \$21.8 million for fiscal year 2016-17 to \$15.3 million for fiscal year 2017-18; a decrease of \$6.5 million or 29.8% primarily because of a transfer of housing loans that occurred in FY 2016-17. These transfers in fund expenditures for cultural arts, inclusionary housing,

CITY OF SANTA MONICA, CALIFORNIA

Management's Discussion and Analysis, Continued For the fiscal year ended June 30, 2018 (Unaudited)

affordable housing program, transportation management and infrastructure expenditures and expenditures for City TV operations.

Low and Moderate Income Housing Asset Fund

Total fund balance in the Low and Moderate Income Housing Asset Fund increased \$2.3 million or 4.3% from the prior fiscal year. Total revenues and transfers in increased \$0.4 million or 21.1% from the prior fiscal year. The biggest reason for the increase in fund balance is an increase in interfund transfers in from \$1.0 million for FY 2016-17 to \$2.0 million for FY 2017-18. Transfers in represent the Fund's mandatory 20% share in the repayment of Successor Agency loans under SB107. The amount of the loan repayment is based on a formula primarily driven by property tax in the former redevelopment project areas. The total loans repaid in 2016-17 was \$4.0 million versus \$10.0 million in 2017-18. For expenditures in FY 2017-18, \$9.8 million was budgeted for low and moderate income housing projects, but due to various factors, primarily timing of cash flows necessary to support various projects, the budget rolled forward to FY 2018-19 and the actual expenditures will occur in future years.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

The total net position of all the City's enterprise funds increased \$4.2 million, or 0.7% from the prior fiscal year.

Water Fund

The total net position of the Water Fund increased \$16.6 million, or 34.8% from the prior fiscal year. Revenues reflect a \$1.7 million increase in water service charges primarily from increased water sales and a 5% water rate increase. A \$6.4 million adjustment to decrease the pollution remediation obligation was recorded in FY 2017-18, due to more current remediation information being available and new drinking water regulations adopted by the State of California in early 2018. Also, the fund received an \$11.1 million transfer in from the General Fund to supply capital for future remediation expenses. Operating expenses reflect an increase of \$2.4 million or 10.4%. This increase was primarily due to personnel services increase of \$0.8 million, due to filling of vacant positions, materials and supplies from the drilling of an unproductive water well for \$1.0 million, Smart Water Meter replacement project for \$0.2 million, and a \$0.4 million increase in water purchases.

Wastewater Fund

The total net position of the Wastewater Fund increased \$2.2 million, or 1.1% from the prior fiscal year. Revenues reflect a \$0.4 million decrease in sewer system charges primarily due to decreases in City of Los Angeles sewer repair of \$0.3 million and a \$0.1 million decrease in capital facility fees. Total operating expenses increased by \$1.1 million mostly because of materials and supplies increasing by \$0.7 million due to repairs at the Moss Avenue pumping station.

Resource Recovery and Recycling Fund

The total net position of the Resource Recovery and Recycling Fund decreased \$0.2 million or 6.7%.

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Revenues reflect an increase of \$0.5 million due to cost of living rate increases. Total operating expenses increased \$2.2 million or 8.9% from the prior fiscal year. This was primarily comprised of \$0.7 million increase in Worker's Compensation contributions and a \$0.5 million increase in vehicle maintenance.

Big Blue Bus Fund

The total net position of the Big Blue Bus Fund decreased \$11.2 million, or 5.2% from the prior fiscal year. Revenues reflect a \$1.0 million decrease in charges for services, a \$0.6 million increase in advertising revenue, a \$0.6 million decrease in alternative fuel tax credit, and a decrease in capital grants and contributions of \$4.8 million due to a decrease in new buses purchased. Operating expenses increased \$8.7 million or 9.6% from the prior fiscal year primarily due to an increase of \$1.2 million in casualty, property and liability costs, an increase of \$3.1 million in workers' compensation payments, and an increase of \$2.8 million in pension expense.

General Fund Budgetary Variances

Revenue Original Budget to Final Amended Budget. The final revenue budget of \$401.2 million for the General Fund exceeded the original budget of \$391.8 million by \$9.4 million or 2.4%. Revenue budget changes are approved by the City Council. The primary components of the variance were pollution remediation settlement income resulting from an accelerated lump sum payment, which had an original budget of \$6.1 million and a final budget of \$14.1 million for an increase of \$8.0 million or 131.1%, and other taxes, which include transient occupancy taxes, documentary transfer taxes, and parking facility taxes, which increased \$8.5 million or 6.4%, with an original budget of \$132.3 million and a final budget of \$140.8 million, due to higher than expected collections.

Revenue Final Amended Budget to Actuals. Actual revenues for the General Fund of \$403.5 million exceeded the final budget of \$401.2 million, by \$2.3 million. The primary components of the variance were other revenue, which includes consumer protection-related income, with actual revenues exceeding final budgeted amounts by \$3.5 million or 97.2%, charges for services, with actual revenues in excess of the final budgeted amount by \$1.9 million or 4.3%, and investment income which was lower than final budgeted amount by \$3.2 million or 57.1% due to mark to market adjustments.

Expenditure Original Budget to Final Amended Budget. The final expenditure budget is greater than the original budget by \$94.9 million, or 19.1%. The increase is primarily due to the capital budgeting process. The original capital budget includes only amounts adopted by Council as part of the biennial capital budgeting process. However, large capital projects often span across numerous years and remaining capital budgets from previous fiscal periods are rolled over to the current fiscal year in order to complete those projects. Funds are reserved as Assigned Continuing Capital Projects to cover these costs. The final budget includes both newly adopted and rolled over amounts. Significant projects that were rolled over include Fire Station 1, City Yards Improvements, City Services Building and Fire Apparatus Replacement at \$4.9 million, \$9.7 million, \$7.8 million and \$5.2 million, respectively.

Expenditure Final Amended Budget to Actuals. Actual expenditures (budgetary basis) for the General Fund totaled \$522.9 million, while the final budget totaled \$592.6 million, which is a variance of \$69.7 million. Almost all of the variance is due to capital improvement expenditures, which had actual expenditures of \$160.9 million, compared to the final budget of \$227.0 million, which is a variance of \$66.1 million. Many capital projects are constructed over numerous fiscal periods and the variance in this category is due to the timing between the establishment of the budget at the beginning of the project and actual capital improvement project spending. Unexpended capital budget will be

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reappropriated into FY 2018-19 to continue work on uncompleted projects. Actual operating expenditures totaled \$362.0 million, compared to the final budget of \$365.6 million, which is a variance of \$3.6 million or 1.0%. This small variance demonstrates accurate budgetary forecasting and prudent program management within spending limits.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City’s capital assets (net of accumulated depreciation) as of June 30, 2018 amounted to \$1,246.4 million, a decrease of \$11.2 million from the prior fiscal year. The decrease was primarily due to the disposal of the City’s mobile home park.

This investment in a broad range of capital assets, including land, infrastructure, buildings and improvements, equipment, and construction in progress, is detailed as follows:

CITY OF SANTA MONICA
Capital Assets (net of depreciation)
(in millions)

	Governmental activities		Business-type activities		Total	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
Land	\$ 200.3	206.4	53.4	53.4	253.7	259.8
Land held under easement	72.2	72.2	—	—	72.2	72.2
Construction in progress	48.8	19.2	5.8	2.0	54.6	21.2
Buildings	221.8	232.4	86.3	90.3	308.1	322.7
Improvements other than buildings	94.4	105.0	10.8	11.4	105.2	116.4
Machinery and equipment	18.0	19.2	83.0	85.0	101.0	104.2
Infrastructure	142.3	146.4	137.2	142.7	279.5	289.1
Utility systems	0.8	0.9	—	—	0.8	0.9
Intangibles	0.5	0.6	70.8	70.5	71.3	71.1
Capital assets, net	<u>\$ 799.1</u>	<u>802.3</u>	<u>447.3</u>	<u>455.3</u>	<u>1,246.4</u>	<u>1,257.6</u>

Some of the City’s major capital asset events in FY 2017-18 were:

Governmental Activities:

1. Major projects included \$10.7 million for the construction of the new City Services Building, \$4.2 million for the construction of the Pier Watershed, \$1.9 million for the design of City Yards Modernization, and \$1.6 million for the construction of Fire Station 1.
2. The amount in construction in progress increased as there are several major projects that have a targeted completion date of 2020 and beyond. These major projects include the new City Services Building, Pier Watershed, and the City Yards Modernization, with ending balances as of June 30, 2018 of \$17.9 million, \$4.2 million, and \$1.9 million, respectively. Construction began for Fire Station 1 during FY 2017-18, resulting in \$2.9 million in construction in progress

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as of June 30, 2018. The budget for Fire Station 1 is \$41.58 million and will be funded by bond proceeds.

- On June 29, 2018, the City transferred ownership of the Mountain View Mobile Home Park to the Caritas Corporation, a 501(c)3 non-profit, for \$1. The City recognized a loss of \$15.0 million on the Statement of Activities from the transaction, which is reported as a special item due to the unusual and infrequent nature of the loss.

Business-Type Activities:

- Major projects included \$4.3 million for the purchase of seven new buses in the Big Blue Bus Fund, \$1.7 million increase in infrastructure for coastal sub basin borings and drilling of new water production wells, and \$2.8 million increase in intangibles for capital payments made to the City of Los Angeles for Santa Monica’s shared cost of the Amalgamated System in the Wastewater Fund.
- Disposals included historical cost of \$7.1 million for buses and other vehicles that met or exceeded their useful lives.

Additional information on the City’s capital assets can be found in note 7 to the basic financial statements.

As of June 30, 2018, the City had \$84.2 million in construction commitments. For additional information on commitments see note 14.

Long-term Debt. At the end of the current fiscal year, the City’s total long-term debt outstanding (excluding issuance premiums) was \$171.2 million, an increase from the prior year of \$93.8 million or 121.2%, representing issuance of revenue bonds less debt service payments for existing debt. This amount was comprised of \$164.6 million in revenue bonds, which are secured by both governmental and business-type revenue sources, \$5.5 million in general obligation bonds backed by the full faith and credit of the City, and \$1.1 million in various notes and loans payable as shown in the following table:

	CITY OF SANTA MONICA					
	Outstanding Debt					
	(in millions)					
	Governmental activities		Business-type activities		Total	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
General obligation bonds (backed by the City)	\$ 5.5	6.6	—	—	5.5	6.6
Revenue bonds (backed by specific tax, fee and lease revenues)	155.6	60.5	9.0	9.0	164.6	69.5
Notes and loans	0.4	0.4	0.7	0.9	1.1	1.3
Total	<u>\$ 161.5</u>	<u>67.5</u>	<u>9.7</u>	<u>9.9</u>	<u>171.2</u>	<u>77.4</u>

On December 21, 2017 the City defeased the Public Financing Authority 2009 Lease Revenue Bonds resulting in an expected decrease in future debt service payments of \$139,500.

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On August 22, 2017, the Santa Monica Public Financing Authority (Public Financing Authority) issued \$68,565,000 (par value) in Lease Revenue Bonds, Series 2017 (City Services Building Project Bonds) (Green Bonds) to fund construction of the administrative building behind City Hall.

On September 21, 2017, the City entered into a Construction Installment Sale agreement with the State Water Resources Control Board to fund certain water recycling and conservation projects. The agreement provides funding in the amount of \$56.9 million and is payable with interest at 1.8% over a period of 30 years beginning June 11, 2021. The City has drawn \$39,491 on the loan as of June 30, 2018.

On June 6, 2018, the Santa Monica Public Financing Authority (Public Financing Authority) issued \$34,220,000 (par value) in Lease Revenue Bonds, Series 2018 (Downtown Fire Station Project Bonds) to fund construction of a new fire station.

The City of Santa Monica maintains a "AAA" rating from both Standard and Poor's and Fitch, and a "Aaa" rating from Moody's. There were no changes to any bond ratings during FY 2017-18.

Additional information on the City's long-term debt can be found in note 9 to the basic financial statements.

ECONOMIC FACTORS AND BIENNIAL BUDGET

The City's adopted General Fund budget for FY 2017-19 supports the basic responsibilities of local government, the policy interests of City Council Members and diverse concerns of the residents. Management feels that there are adequate resources available to fund the proposed expenditures.

In preparing the budget for FY 2017-19, many factors were taken into consideration:

- Signs of moderation in the local economy's growth rate as General Fund revenue growth has begun to slow after several years of strong increases.
- The adopted Performance Management Policy that institutionalizes the City's commitment to data-driven decision-making.
- Repurposing existing resources to areas addressing high priority needs, including projects and activities meeting Council-approved strategic outcomes and initiatives.
- Developing metrics so that the City's activities will be prioritized as a way to reallocate resources if more is needed to achieve a particular outcome, and to discontinue services and activities that no longer meet a pressing need and/or organize services and activities so the City is providing those services in the most efficient and effective manner.
- Focus on mobility and planning efforts that will improve circulation to, from and within the City limits, including the increased service from the EXPO light rail, the accompanying Big Blue Bus service integration plan that creates connections to light rail stations and increases north-south corridor service, and the network of shared mobility devices. Los Angeles County's Measure M and Senate Bill (SB) 1, also known as the Road Repair and Accountability Act of 2017, will assist funding transit and mobility initiatives.

CITY OF SANTA MONICA, CALIFORNIA

Management's Discussion and Analysis, Continued
For the fiscal year ended June 30, 2018
(Unaudited)

- Implementation of water self-sufficiency, climate action plan, and zero waste strategies.
- Focus on maintaining an inclusive and diverse community through efforts to maintain and augment the City's affordable housing and increase the City's minimum wage. Measure GSH, which went into effect in April 2017, assists in funding the creation of affordable housing. Additionally, the City will continue phasing in the \$15 minimum wage increase by 2020.
- Maintaining Santa Monica Airport operations through 2028 as the City plans for its conversion to a 227 acre park.
- Improving the wellbeing of youth and families by fostering a community climate of Learn + Thrive.
- Taking a leadership role in regional efforts to address homelessness.
- Implementing innovative approaches for creating a model for effective public service in the 21st Century, including managing and measuring performance; taking on 'total workplace' initiatives that modernize the way the City conducts business – from increased automation and mobile workspaces, to open and collaborative offices; making public services and information easily accessible and fostering two-way interaction and civic engagement.

CONTACTING THE CITY'S FINANCE DEPARTMENT

This management's discussion and analysis is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions or need additional financial information, please visit the City of Santa Monica's Finance Department website at www.smgov.net/finance or call (310) 458-8281.

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City of Santa Monica, California
Year Ended June 30, 2018

BASIC FINANCIAL STATEMENTS

CITY OF SANTA MONICA, CALIFORNIA

Statement of Net Position

June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (note 5)	\$ 534,240,951	171,034,754	705,275,705
Receivables (net of allowances for uncollectibles):			
Accounts	10,833,653	12,770,499	23,604,152
Interest	2,556,298	735,977	3,292,275
Taxes	13,500,368	-	13,500,368
Settlement	11,010,000	-	11,010,000
Notes (note 6)	126,716,067	-	126,716,067
Other governments	4,749,823	16,057,838	20,807,661
Internal balances	11,913,083	(11,913,083)	-
Inventory	-	3,122,272	3,122,272
Deposits	61,785	-	61,785
Prepays	1,056,750	72,607	1,129,357
Restricted cash and investments (note 5)	9,713,391	39,564,165	49,277,556
Restricted cash and investments with fiscal agent (note 5)	115,690,269	-	115,690,269
Notes receivable from Successor Agency	8,361,793	40,662,749	49,024,542
Capital assets (note 7):			
Capital assets not being depreciated:			
Land	200,323,024	53,380,750	253,703,774
Land held under easement	72,237,823	-	72,237,823
Construction in progress	48,824,161	5,849,977	54,674,138
Capital assets being depreciated:			
Buildings	340,429,097	147,870,482	488,299,579
Improvements other than buildings	172,223,443	27,329,659	199,553,102
Utility systems	1,742,913	-	1,742,913
Machinery and equipment	48,829,408	214,848,180	263,677,588
Infrastructure	374,721,201	236,232,527	610,953,728
Intangibles	695,710	106,321,795	107,017,505
Less accumulated depreciation	(460,899,738)	(344,520,793)	(805,420,531)
Total capital assets, net	799,127,042	447,312,577	1,246,439,619
TOTAL ASSETS	1,649,531,273	719,420,355	2,368,951,628
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refundings	107,185	266,933	374,118
Deferred outflows from pensions (note 16)	114,039,370	26,748,218	140,787,588
Deferred outflows from OPEB (note 16)	2,470,447	541,487	3,011,934
TOTAL DEFERRED OUTFLOWS OF RESOURCES	116,617,002	27,556,638	144,173,640
LIABILITIES			
Accounts payable	29,443,245	7,901,227	37,344,472
Accrued liabilities	7,017,194	3,107,586	10,124,780
Accrued interest payable	2,228,424	116,456	2,344,880
Contracts payable (retained percentage)	1,339,397	516,908	1,856,305
Unearned revenue (note 8)	25,665,779	1,694,774	27,360,553
Due to other governments	4,730	-	4,730
Deposits payable from restricted assets	1,167,391	17,506,792	18,674,183
Long-term liabilities:			
Compensated absences due within one year (note 9)	8,218,093	2,673,745	10,891,838
Compensated absences due in more than one year (note 9)	5,104,207	874,323	5,978,530
Claims payable due within one year (notes 9 and 15)	13,858,181	2,914,162	16,772,343
Claims payable due in more than one year (notes 9 and 15)	40,961,472	3,324,056	44,285,528
Loans and bonds payable due within one year (note 9)	4,830,000	2,437,144	7,267,144
Loans and bonds payable due in more than one year (note 9)	172,661,308	7,529,257	180,190,565
Pollution remediation obligation due within one year (note 4)	2,921,184	1,210,000	4,131,184
Pollution remediation obligation due in more than one year (note 4)	32,736,969	6,445,401	39,182,370
Net OPEB liability (note 16)	21,644,927	4,730,664	26,375,591
Net pension liability (note 16)	387,147,288	79,672,274	466,819,562
TOTAL LIABILITIES	756,949,789	142,654,769	899,604,558
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding	58,266	-	58,266
Deferred inflows from pensions (note 16)	23,385,239	6,696,279	30,081,968
Deferred inflows from OPEB (note 16)	1,156,069	253,039	1,409,108
TOTAL DEFERRED INFLOWS OF RESOURCES	24,599,574	6,949,768	31,549,342
NET POSITION			
Net investment in capital assets	720,769,829	437,613,109	1,158,382,938
Restricted for (note 12):			
Housing and community development	129,709,878	8,132,550	137,842,428
Culture and recreation services	16,052,470	-	16,052,470
Transportation	24,607,950	-	24,607,950
Clean beaches and ocean parcel tax	7,321,377	-	7,321,377
Debt service	4,281,826	2,298,946	6,580,772
Miscellaneous	14,754,312	-	14,754,312
Perpetual care - nonexpendable	12,700,377	-	12,700,377
Rail reserve and Prop 1B	-	12,977,588	12,977,588
Unrestricted	54,400,893	136,350,263	190,751,156
TOTAL NET POSITION	\$ 984,598,912	597,372,456	1,581,971,368

CITY OF SANTA MONICA, CALIFORNIA
Statement of Activities
For the fiscal year ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 94,164,749	19,860,025	2,452,112	71,938	(71,780,674)	-	(71,780,674)
Public safety	152,313,163	24,701,782	645,095	98,819	(126,867,467)	-	(126,867,467)
General services	85,543,024	43,938,775	3,628,653	5,013,998	(32,961,598)	-	(32,961,598)
Cultural and recreation services	73,826,217	25,508,247	2,122,401	-	(46,195,569)	-	(46,195,569)
Library	14,802,469	390,306	49,839	-	(14,362,324)	-	(14,362,324)
Housing and community development	58,442,889	26,517,764	19,114,380	193,535	(12,617,210)	-	(12,617,210)
Interest on long-term debt	4,375,324	-	-	-	(4,375,324)	-	(4,375,324)
Total governmental activities	483,467,835	140,916,899	28,012,480	5,378,290	(309,160,166)	-	(309,160,166)
Business-Type Activities:							
Water	25,659,062	25,946,122	-	-	-	287,060	287,060
Resource recovery and recycling	26,293,628	26,393,055	-	-	-	99,427	99,427
Community broadband	1,926,149	2,200,733	-	-	-	274,584	274,584
Pier	7,880,131	8,453,618	-	-	-	573,487	573,487
Wastewater	18,802,613	19,802,308	-	-	-	999,695	999,695
Airport	12,912,869	14,132,521	-	-	-	1,219,652	1,219,652
Stormwater management	359,488	1,462,683	-	-	-	1,103,195	1,103,195
Cemetery	2,071,650	2,043,185	-	-	-	(28,465)	(28,465)
Big Blue Bus	95,349,727	25,552,378	44,278,243	17,959,046	-	(7,560,060)	(7,560,060)
Parking authority	216,253	-	-	-	-	(216,253)	(216,253)
Total business-type activities	191,471,570	125,986,603	44,278,243	17,959,046	-	(3,247,678)	(3,247,678)
Total Primary Government	\$ 674,939,405	266,903,502	72,290,723	23,337,336	(309,160,166)	(3,247,678)	(312,407,844)
General revenues:							
Taxes:							
Business license					31,575,297	-	31,575,297
Property					56,954,925	-	56,954,925
Transient occupancy					60,631,025	-	60,631,025
Sales and use					68,479,438	-	68,479,438
Utility users					29,288,341	-	29,288,341
Real property transfer					8,169,163	-	8,169,163
Parking facility					11,557,811	-	11,557,811
Other					3,285,670	-	3,285,670
Other revenue					11,168,233	4,580,112	15,748,345
Investment income					4,360,799	1,573,331	5,934,130
Special items					43,678,729	6,408,992	50,087,721
Transfers					1,381,459	(1,381,459)	-
Total general revenues, special items, and transfers					330,530,890	11,180,976	341,711,866
Change in net position					21,370,724	7,933,298	29,304,022
Net position at beginning of year, as restated (note 18)					963,228,188	589,439,158	1,552,667,346
Net position at end of year					\$ 984,598,912	597,372,456	1,581,971,368

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA

Major Governmental Fund Financial Statements

General Fund – To account for all financial resources necessary to carry out basic governmental activities of the City that are not accounted for in another fund. The General Fund supports essential City services such as police and fire protection, street maintenance, libraries, parks and open space management.

Special Revenue Source Fund (Special Revenue Fund Type) – To account for receipt and expenditure of monies restricted, committed or assigned for specific uses.

Low and Moderate Income Housing Asset Fund (Special Revenue Fund Type) – Under Senate Bill 341, housing assets transferred to the City’s Housing Successor Agency together with any funds generated from housing assets, shall be maintained in a separate Low and Moderate Income Housing Asset Fund. These funds can be used as previously allowed under the Low and Moderate Income Housing Fund established under Community Redevelopment Law, program monitoring and preserving the long-term affordability of units subject to affordability restrictions, homeless prevention and rapid rehousing services, and for the development of affordable housing for lower income households. Under SB107, 20% of all Successor Agency/City loan payments are distributed to this fund.

CITY OF SANTA MONICA, CALIFORNIA
Balance Sheet
Governmental Funds
June 30, 2018

	<u>Special Revenue Fund</u>				
	<u>General Fund</u>	<u>Special Revenue Source Fund</u>	<u>Low and Moderate Income Housing Asset Fund</u>	<u>Nonmajor governmental funds</u>	
ASSETS					
Cash and investments (note 5)	\$ 336,406,540	93,920,551	9,051,369	35,355,752	474,734,212
Restricted cash and investments (note 5)	409,304	-	-	9,304,087	9,713,391
Receivables (net, where applicable, of allowances for uncollectibles):					
Accounts	5,754,221	17,595	-	1,158,264	6,930,080
Notes (note 6)	-	56,321,894	47,052,266	23,341,907	126,716,067
Taxes	13,500,368	-	-	-	13,500,368
Interest	1,764,103	307,134	29,044	241,881	2,342,162
Other governments	-	-	-	4,749,823	4,749,823
Settlement	11,010,000	-	-	-	11,010,000
Due from other funds (note 11)	3,230,990	-	-	-	3,230,990
Deposits	58,528	-	-	3,257	61,785
Prepays	994,792	-	-	51,884	1,046,676
Restricted cash and investments with fiscal agent (note 5)	98,771,076	-	-	16,919,193	115,690,269
Advances to other funds (note 11)	12,062,484	-	-	-	12,062,484
Notes receivable Successor Agency (note 17)	8,361,793	-	-	-	8,361,793
Total assets	<u>\$ 492,324,199</u>	<u>150,567,174</u>	<u>56,132,679</u>	<u>91,126,048</u>	<u>790,150,100</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 24,123,169	1,427,658	40	2,998,626	28,549,493
Accrued liabilities	6,686,042	-	-	261,248	6,947,290
Contracts payable (retained percentage)	889,539	3,282	-	446,576	1,339,397
Due to other funds (note 11)	-	-	-	3,230,990	3,230,990
Due to other governments	-	-	-	4,730	4,730
Unearned revenue (note 8)	7,181,878	18,109,930	-	373,971	25,665,779
Deposits payable	618,175	475,000	-	74,216	1,167,391
Advances from other funds (note 11)	-	-	-	4,313,513	4,313,513
Total liabilities	<u>39,498,803</u>	<u>20,015,870</u>	<u>40</u>	<u>11,703,870</u>	<u>71,218,583</u>
Deferred inflows of resources (note 8)	<u>17,014,268</u>	<u>115,479</u>	<u>10,920</u>	<u>3,271,065</u>	<u>20,411,732</u>
Fund balances (note 13)					
Nonspendable	12,853,565	-	-	12,752,261	25,605,826
Restricted	97,740,458	70,537,996	56,121,719	65,510,015	289,910,188
Committed	2,478,476	59,897,829	-	-	62,376,305
Assigned	256,273,855	-	-	-	256,273,855
Unassigned	66,464,774	-	-	(2,111,163)	64,353,611
Total fund balances	<u>435,811,128</u>	<u>130,435,825</u>	<u>56,121,719</u>	<u>76,151,113</u>	<u>698,519,785</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 492,324,199</u>	<u>150,567,174</u>	<u>56,132,679</u>	<u>91,126,048</u>	<u>790,150,100</u>

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA
 Reconciliation of the Governmental Funds Balance Sheet to the
 Government-Wide Statement of Net Position
 June 30, 2018

Fund balances - total governmental funds	\$ 698,519,785
Amounts reported for governmental activities in the statement of net position are different because (Note 3):	
(1) Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the balance sheet.	798,782,387
(2) Pension deferrals from reporting under GASB 68	90,081,342
(3) OPEB deferrals from reporting under GASB 75	1,305,145
(4) Deferred gain on refunding of debt is not a current financial resource and, therefore, is not reported in the balance sheet.	(58,266)
(5) Deferred loss on refundings of debt is not a current financial resource and, therefore, is not reported in the balance sheet.	107,185
(6) Long-term liabilities and accrued interest are not due and payable in the current period and therefore are not reported in the balance sheet.	(635,149,877)
(7) Revenue earned, but unavailable to pay for current period expenditures, is reporting as deferred inflows in the balance sheet, but recognized as revenue in the statement of activities.	20,411,732
(8) Internal service funds are used by management to charge the costs of vehicle management, information technology and risk management to individual funds. The assets and liabilities of the information technology and risk management (excluding bus) internal service funds are included in the governmental activities in the statement of net position.	10,599,479
Net position of governmental activities	\$ 984,598,912

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2018

	General Fund	Special Revenue Fund			Total governmental funds
		Special Revenue Source Fund	Low and Moderate Income Housing Asset Fund	Nonmajor governmental funds	
Revenues:					
Property taxes	\$ 56,954,925	-	-	-	56,954,925
Sales and use taxes	68,479,438	-	-	-	68,479,438
Transient occupancy taxes	60,631,025	-	-	-	60,631,025
Utility user taxes	29,288,341	-	-	-	29,288,341
Business license taxes	31,050,087	-	-	-	31,050,087
Other taxes	20,310,577	-	-	3,227,277	23,537,854
Licenses and permits	41,850,055	-	-	100,850	41,950,905
Intergovernmental	1,206,256	-	-	36,290,352	37,496,608
Charges for services	45,818,800	1,421,435	-	19,375,196	66,615,431
Fines and forfeitures	16,362,857	-	-	-	16,362,857
Investment income	2,372,838	175,360	26,888	831,286	3,406,372
Rental income	8,039,950	-	-	1,556,630	9,596,580
Settlement income	14,085,000	-	-	-	14,085,000
Other revenue	7,080,808	7,035,986	324,210	1,455,661	15,896,665
Total revenues	403,530,957	8,632,781	351,098	62,837,252	475,352,088
Expenditures:					
Current:					
General government	89,300,051	41,801	-	330,118	89,671,970
Public safety	143,822,470	3,943	-	781,470	144,607,883
General services	70,353,866	736,813	-	16,667,633	87,758,312
Cultural and recreation services	57,293,143	1,886,927	-	12,168,167	71,348,237
Library	12,939,806	-	-	27,539	12,967,345
Housing and community development	30,166,605	663,162	699	25,417,906	56,248,372
Debt service expenditures:					
Principal	-	-	-	9,039,900	9,039,900
Interest	-	-	-	3,596,620	3,596,620
Bond issuance costs	938,932	-	-	-	938,932
Total expenditures	404,814,873	3,332,646	699	68,029,353	476,177,571
Excess (deficiency) of revenues over (under) expenditures	(1,283,916)	5,300,135	350,399	(5,192,101)	(825,483)
Other financing sources (uses):					
Transfers in (note 11)	9,541,155	17,385,261	1,992,081	12,690,598	41,609,095
Transfers out (note 11)	(33,998,654)	(2,061,963)	-	(4,344,798)	(40,405,415)
Bonds issued	102,785,000	-	-	-	102,785,000
Premium on debt issued	12,247,767	-	-	-	12,247,767
Total other financing sources (uses)	90,575,268	15,323,298	1,992,081	8,345,800	116,236,447
Net change in fund balances	89,291,352	20,623,433	2,342,480	3,153,699	115,410,964
Fund balances at beginning of year, as restated (note 18)	346,519,776	109,812,392	53,779,239	72,997,414	583,108,821
Fund balances at end of year	\$ 435,811,128	130,435,825	56,121,719	76,151,113	698,519,785

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
to the Government-Wide Statement of Activities

For the fiscal year ended June 30, 2018

Net change in fund balances – total governmental funds \$ 115,410,964

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets:

- | | | |
|----|---|--------------|
| 1) | The acquisition of capital assets requires the use of current financial resources but has no effect on net position. | 41,514,515 |
| 2) | The cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense in the statement of activities. | (27,518,149) |
| 3) | The loss on disposal of capital assets is recorded as an expense in the statement of activities but is not recorded in the fund statements. | (2,060,183) |
| 4) | The loss on disposal of the Mountain View Mobile Home Park is recorded as a special item in the statement of activities but is not recorded in the fund statements. | (15,009,881) |

Measurement focus:

- | | | |
|-----|--|---------------|
| 5) | Change in accrued interest payable. | (1,368,416) |
| 6) | Bond proceeds from issuance of new debt are reported as financing resources in the statement of revenues expenditures and changes in fund balance but as an increase in liabilities on the statement of net position | (102,785,000) |
| 7) | Bond premium received from issuance of new debt is reported as revenue in the statement of revenues expenditures and changes in fund balance but as an increase in liabilities on the statement of net position | (12,247,767) |
| 8) | Principal payments on long-term obligations use current financial resources but have no effect on net position. | 8,835,000 |
| 9) | Bond premiums are recorded as other financing sources in the fund statements but are amortized in the statement of activities. | 862,273 |
| 10) | Deferred gain and loss on refunding is amortized in the statement of activities. | (67,661) |
| 11) | The increase in compensated absences liability does not use current financial resources but is recorded as an increase in expense in the statement of activities. | (1,044,940) |
| 12) | Interest income related to successor agency advances are recorded as revenue in the statement of activities but are reported as deferred inflows of resources in the fund statements. | 92,943 |
| 13) | Interest income recorded as revenue in the statement of activities but are reported as deferred inflows of resources in the fund statements. | 730,509 |
| 14) | Grant revenue previously recognized in the statement of activities is recorded as revenue in the fund statements. | (5,802,664) |
| 15) | Grant revenue earned but not yet available being recorded on the statement of activities that are not recorded on the fund statements. | 3,203,814 |
| 16) | Revenue previously recognized on the statement of activities from pollution remediation resources are now recognized on the fund statements. | (14,085,000) |
| 17) | Pollution remediation expense activity was recorded in the fund statements and reduced the liability in the statement of activities. | 1,491,873 |
| 18) | The decrease in pollution remediation obligation does not generate current financial resources but is recorded as a special item on the statement of activities. | 58,688,610 |
| 19) | Adjustment of unavailable revenue has no impact on current financial resources but decreases net position in the statement of activities. | (11,439,600) |
| 20) | GASB 75 OPEB reporting timing differences. | 268,459 |
| 21) | GASB 68 pension reporting timing differences. | (16,957,617) |

Internal service funds:

- 22) Certain internal service funds are used by management to charge the costs of information technology and risk management to individual funds.

The net revenue/(expense) of certain internal service funds is reported with governmental activities. 658,642

Change in net position (statement of activities, governmental activities) \$ 21,370,724

See accompanying notes to basic financial statements.

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CITY OF SANTA MONICA, CALIFORNIA

Proprietary Fund Financial Statements

Major Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services.

Water Fund – To account for revenues and expenses of providing water service to the citizens of the City.

Wastewater Fund – To account for revenues and expenses associated with maintaining the sanitary sewer systems within the City.

Resource Recovery and Recycling Fund – To account for revenues and expenses of operating the City's refuse collection, street sweeping and cleaning, and recycling programs.

Big Blue Bus Fund – To account for revenues and expenses related to operation of the City's municipal bus lines.

Internal Service Funds – To account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost-reimbursement basis.

CITY OF SANTA MONICA, CALIFORNIA
Statement of Net Position
Proprietary Funds
June 30, 2018

	Business-Type Activities - Enterprise Funds						Total internal service funds
	Water	Wastewater	Resource Recovery and Recycling	Big Blue Bus	Nonmajor enterprise funds	Total enterprise funds	
ASSETS							
Current assets:							
Cash and investments (note 5)	\$ 43,753,231	44,318,757	9,752,907	18,989,686	21,990,279	138,804,860	91,736,633
Restricted cash and investments (note 5)	338,867	2,298,955	-	9,607,613	5,485,327	17,730,762	-
Receivables (net, where applicable, of allowances for uncollectibles):							
Accounts	3,891,941	2,705,228	3,374,504	1,767,229	828,396	12,567,298	4,106,774
Notes receivable Successor Agency	-	-	-	-	15,000,000	15,000,000	-
Interest	151,876	173,699	99,044	119,860	97,777	642,256	307,857
Due from other governments	-	-	-	16,057,838	-	16,057,838	-
Inventory	-	-	-	3,098,315	-	3,098,315	23,957
Prepays	8,828	8,828	-	14,413	40,538	72,607	10,074
Total current assets	<u>48,144,743</u>	<u>49,505,467</u>	<u>13,226,455</u>	<u>49,654,954</u>	<u>43,442,317</u>	<u>203,973,936</u>	<u>96,185,295</u>
Noncurrent assets:							
Restricted cash and investments (note 5)	2,006,582	4,281,125	15,545,696	-	-	21,833,403	-
Notes receivable Successor Agency noncurrent	-	-	-	-	7,612,125	7,612,125	-
Accrued interest non current	-	-	-	-	18,050,624	18,050,624	-
Capital assets (note 7):							
Land	21,006	3,189,132	-	48,807,900	1,362,712	53,380,750	-
Construction in progress	1,738,104	452,341	-	421,834	3,183,473	5,795,752	54,225
Buildings	1,532,511	251,447	314,223	129,417,341	16,354,960	147,870,482	-
Improvements other than buildings	1,015,098	297,592	99,731	13,967,895	11,949,343	27,329,659	-
Machinery and equipment	3,778,029	1,649,296	703,287	170,352,761	1,332,133	177,815,506	38,564,364
Infrastructure	49,799,454	158,310,661	-	-	28,122,412	236,232,527	-
Intangibles	3,575,000	102,746,795	-	-	-	106,321,795	-
Less: accumulated depreciation	(31,217,421)	(98,399,971)	(680,882)	(159,010,106)	(31,176,218)	(320,484,598)	(25,223,230)
Net capital assets	<u>30,241,781</u>	<u>168,497,293</u>	<u>436,359</u>	<u>203,957,625</u>	<u>31,128,815</u>	<u>434,261,873</u>	<u>13,395,359</u>
Total noncurrent assets	<u>32,248,363</u>	<u>172,778,418</u>	<u>15,982,055</u>	<u>203,957,625</u>	<u>56,791,564</u>	<u>481,758,025</u>	<u>13,395,359</u>
TOTAL ASSETS	<u>80,393,106</u>	<u>222,283,885</u>	<u>29,208,510</u>	<u>253,612,579</u>	<u>100,233,881</u>	<u>685,731,961</u>	<u>109,580,654</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred loss on refunding	-	266,933	-	-	-	266,933	-
Deferred outflows from pensions	2,281,745	940,957	3,650,915	16,862,992	1,725,142	25,461,751	2,041,570
Deferred outflows from OPEB	54,243	14,745	90,265	321,856	26,213	507,322	51,514
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,335,988</u>	<u>1,222,635</u>	<u>3,741,180</u>	<u>17,184,848</u>	<u>1,751,355</u>	<u>26,236,006</u>	<u>2,093,084</u>
LIABILITIES							
Current liabilities:							
Accounts payable	1,806,723	288,339	1,010,647	2,102,708	1,689,634	6,898,051	1,896,881
Accrued liabilities	170,934	73,849	268,644	2,363,026	171,537	3,047,990	129,500
Contracts payable (retained percentage)	145,046	37,869	-	23,405	310,588	516,908	-
Compensated absences due within one year (note 9)	224,237	75,863	339,351	1,700,982	223,667	2,564,100	188,234
Claims payable due within one year (notes 9 and 15)	-	-	-	-	-	-	16,772,343
Unearned revenue (note 8)	-	-	-	1,685,183	9,591	1,694,774	-
Accrued interest payable	-	111,063	-	-	5,393	116,456	-
Loans and bonds payable due within one year (note 9)	-	2,130,000	-	-	307,144	2,437,144	-
Liabilities payable from restricted assets - deposits	316,094	-	15,545,696	47,975	1,597,027	17,506,792	-
Pollution remediation obligation due within one year (note 4)	1,210,000	-	-	-	-	1,210,000	-
Total current liabilities	<u>3,873,034</u>	<u>2,716,983</u>	<u>17,164,338</u>	<u>7,923,279</u>	<u>4,314,581</u>	<u>35,992,215</u>	<u>18,986,958</u>
Long-term liabilities:							
Compensated absences due in more than one year (note 9)	176,033	75,238	119,083	315,921	125,777	812,052	110,308
Advances from other funds (note 11)	-	-	-	-	7,748,971	7,748,971	-
Claims payable due in more than one year (notes 9 and 15)	-	-	-	-	-	-	44,285,528
Loans and bonds payable due in more than one year (note 9)	-	7,214,127	-	-	315,130	7,529,257	-
Pollution remediation obligation due in more than one year (note 4)	6,445,401	-	-	-	-	6,445,401	-
Net OPEB liability	475,455	128,799	790,547	2,811,773	224,524	4,431,098	451,892
Net pension liability	6,834,313	2,585,545	11,067,589	50,422,432	4,831,254	75,741,133	5,994,712
Total long-term liabilities	<u>13,931,202</u>	<u>10,003,709</u>	<u>11,977,219</u>	<u>53,550,126</u>	<u>13,245,656</u>	<u>102,707,912</u>	<u>50,842,440</u>
TOTAL LIABILITIES	<u>17,804,236</u>	<u>12,720,692</u>	<u>29,141,557</u>	<u>61,473,405</u>	<u>17,560,237</u>	<u>138,700,127</u>	<u>69,829,398</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows from pensions	571,688	223,719	927,510	4,229,019	421,926	6,373,862	505,181
Deferred inflows from OPEB	25,376	6,898	42,229	150,578	11,974	237,055	24,100
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>597,064</u>	<u>230,617</u>	<u>969,739</u>	<u>4,379,597</u>	<u>433,900</u>	<u>6,610,917</u>	<u>529,281</u>
NET POSITION							
Net investment in capital assets	30,241,781	159,420,099	436,359	203,957,625	30,506,541	424,562,405	13,395,359
Restricted for Rail Reserve and Prop 1B (note 12)	-	-	-	12,977,588	-	12,977,588	-
Restricted for housing	-	-	-	-	8,132,550	8,132,550	-
Restricted for debt service	-	2,298,946	-	-	-	2,298,946	-
Unrestricted	34,086,013	48,836,166	2,402,035	(11,990,788)	45,352,008	118,685,434	27,919,700
TOTAL NET POSITION	<u>\$ 64,327,794</u>	<u>210,555,211</u>	<u>2,838,394</u>	<u>204,944,425</u>	<u>83,991,099</u>	<u>566,656,923</u>	<u>41,315,059</u>
						34,879,645	
						(4,164,112)	
						<u>\$597,372,456</u>	

Net position, business-type activities - internal service funds 34,879,645
Net adjustment to reflect the allocation of the internal service funds net income (4,164,112)
Net position of business-type activities \$597,372,456

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the fiscal year ended June 30, 2018

	Business-Type Activities - Enterprise Funds						Total internal service funds
	Water	Wastewater	Resource Recovery and Recycling	Big Blue Bus	Nonmajor enterprise funds	Total enterprise funds	
Operating revenues							
Charges for services	\$ 25,928,094	19,796,423	26,282,163	14,490,526	27,329,502	113,826,708	45,423,597
Total operating revenues	<u>25,928,094</u>	<u>19,796,423</u>	<u>26,282,163</u>	<u>14,490,526</u>	<u>27,329,502</u>	<u>113,826,708</u>	<u>45,423,597</u>
Operating expenses							
Personnel services	6,358,652	2,740,251	11,700,477	59,106,274	6,131,085	86,036,739	5,602,521
Administrative indirect	1,492,301	714,400	1,191,439	4,585,713	1,785,102	9,768,955	1,264,858
Contractual services	1,635,139	3,918,816	4,569,548	3,046,628	3,122,028	16,292,159	1,009,345
Repairs and maintenance	1,176,824	892,203	2,588,001	7,131,825	1,221,997	13,010,850	2,224,159
Materials and supplies	5,074,351	1,478,611	5,580,762	3,312,466	8,230,760	23,676,950	5,287,236
Utilities	2,050,285	15,922	65,403	431,537	882,957	3,446,104	65,481
Water purchases	4,889,236	-	-	-	-	4,889,236	-
Casualty property and liability costs	282,497	174,978	134,224	3,997,190	649,712	5,238,601	148,727
Claims expense net of claims reserve adjustment	-	-	-	-	-	-	16,085,429
Insurance and bonds	-	-	-	-	-	-	5,060,622
Miscellaneous fees and costs	-	-	-	-	-	-	1,800,573
Depreciation and amortization	1,353,313	6,834,176	89,823	17,338,225	1,227,055	26,842,592	2,889,498
Other	1,164,576	1,718,593	856,930	293,628	1,659,375	5,693,102	-
Total operating expenses	<u>25,477,174</u>	<u>18,487,950</u>	<u>26,776,607</u>	<u>99,243,486</u>	<u>24,910,071</u>	<u>194,895,288</u>	<u>41,438,449</u>
Operating income (loss)	<u>450,920</u>	<u>1,308,473</u>	<u>(494,444)</u>	<u>(84,752,960)</u>	<u>2,419,431</u>	<u>(81,068,580)</u>	<u>3,985,148</u>
Nonoperating revenues (expenses)							
Operating grants	-	-	-	433,364	-	433,364	-
Shared sales tax proceeds	-	-	-	51,680,132	-	51,680,132	-
Investment income	139,089	203,173	88,529	187,350	806,122	1,424,263	384,429
Interest expense	(1,010)	(242,922)	-	-	(91,583)	(335,515)	-
Gain (loss) on disposal of capital assets	(40,224)	-	-	35,219	-	(5,005)	8,489
Other nonoperating revenues	549,077	587,456	661,448	2,976,418	3,667,519	8,441,918	208,939
Total nonoperating revenues (expenses) net	<u>646,932</u>	<u>547,707</u>	<u>749,977</u>	<u>55,312,483</u>	<u>4,382,058</u>	<u>61,639,157</u>	<u>601,857</u>
Income (loss) before capital contributions, transfers and special items	1,097,852	1,856,180	255,533	(29,440,477)	6,801,489	(19,429,423)	4,587,005
Capital contributions	-	-	-	18,229,046	-	18,229,046	-
Transfers in (note 11)	11,100,450	1,222,919	2,709	599,299	1,050,736	13,976,113	2,421,864
Transfers out (note 11)	(2,028,208)	(904,877)	(409,981)	(538,536)	(11,136,909)	(15,018,511)	(2,583,146)
Special item (note 19)	6,408,992	-	-	-	-	6,408,992	-
Change in net position	<u>16,579,086</u>	<u>2,174,222</u>	<u>(151,739)</u>	<u>(11,150,668)</u>	<u>(3,284,684)</u>	<u>4,166,217</u>	<u>4,425,723</u>
Net position at beginning of year, as restated (note 18)	47,748,708	208,380,989	2,990,133	216,095,093	87,275,783	562,490,706	36,889,336
Net position at end of year	<u>\$ 64,327,794</u>	<u>210,555,211</u>	<u>2,838,394</u>	<u>204,944,425</u>	<u>83,991,099</u>	<u>566,656,923</u>	<u>41,315,059</u>
Change in net position						\$ 4,166,217	
Net adjustment to reflect the consolidation of internal service fund activities related to enterprise funds						<u>3,767,081</u>	
Change in net position of business-type activities						<u>\$ 7,933,298</u>	

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA

Statement of Cash Flows

Proprietary Funds

For the fiscal year ended June 30, 2018

Business-type activities - Enterprise Funds

	<u>Water</u>	<u>Wastewater</u>	<u>Resource Recovery and Recycling</u>	<u>Big Blue Bus</u>	<u>Nonmajor enterprise funds</u>	<u>Total enterprise funds</u>	<u>Total internal service funds</u>
Cash flows from operating activities:							
Cash received from customers	\$ 25,832,608	20,024,263	29,270,691	14,547,962	27,433,427	117,108,951	45,257,118
Cash payments for materials and services	(19,615,108)	(9,224,169)	(14,757,311)	(24,487,435)	(17,071,420)	(85,155,443)	(15,860,528)
Cash payments to employees for services	(6,082,976)	(2,623,416)	(11,245,416)	(56,779,809)	(5,776,154)	(82,507,771)	(5,381,841)
Cash paid for claims and related services	—	—	—	—	—	—	(19,011,009)
Other revenue received	549,077	587,456	661,448	2,976,418	3,667,519	8,441,918	208,939
Net cash provided by (used in) operating activities	<u>683,601</u>	<u>8,764,134</u>	<u>3,929,412</u>	<u>(63,742,864)</u>	<u>8,253,372</u>	<u>(42,112,345)</u>	<u>5,212,679</u>
Cash flows from noncapital financing activities:							
Sales tax proceeds	—	—	—	52,139,183	—	52,139,183	—
Repayment of advances to/(from) other funds	—	56,560	—	—	(1,640,744)	(1,584,184)	—
Repayment of promissory note	—	—	—	—	9,000,000	9,000,000	—
Transfers in	11,100,450	1,222,919	2,709	599,299	1,050,736	13,976,113	2,421,864
Transfers out	(2,028,208)	(904,877)	(409,981)	(538,536)	(11,136,909)	(15,018,511)	(2,583,146)
Net cash provided by noncapital financing activities	<u>9,072,242</u>	<u>374,602</u>	<u>(407,272)</u>	<u>52,199,946</u>	<u>(2,726,917)</u>	<u>58,512,601</u>	<u>(161,282)</u>
Cash flows from capital and related financing activities:							
Capital contributions received	—	—	—	18,252,439	—	18,252,439	—
Acquisition and construction of capital assets	(2,115,416)	(3,375,849)	—	(7,955,828)	(3,772,465)	(17,219,558)	(3,630,355)
Proceeds from sale of capital assets	—	—	—	34,026	—	34,026	104,762
Reduction in long-term obligations	—	—	—	—	(299,361)	(299,361)	—
Interest paid on long-term obligations	(1,010)	(227,059)	—	—	(94,177)	(322,246)	—
Net cash provided by (used in) capital and related financing activities	<u>(2,116,426)</u>	<u>(3,602,908)</u>	<u>—</u>	<u>10,330,637</u>	<u>(4,166,003)</u>	<u>445,300</u>	<u>(3,525,593)</u>
Cash flows from investing activities:							
Investments income	114,917	153,207	58,015	231,851	103,494	661,484	321,452
Net cash provided by investing activities	<u>114,917</u>	<u>153,207</u>	<u>58,015</u>	<u>231,851</u>	<u>103,494</u>	<u>661,484</u>	<u>321,452</u>
Net increase (decrease) in cash and cash equivalents	7,754,334	5,689,035	3,580,155	(980,430)	1,463,946	17,507,040	1,847,256
Cash and cash equivalents at beginning of year, as restated (note 18)	<u>38,344,346</u>	<u>45,209,802</u>	<u>21,718,448</u>	<u>29,577,729</u>	<u>26,011,660</u>	<u>160,861,985</u>	<u>89,889,377</u>
Cash and cash equivalents at end of year	<u>\$ 46,098,680</u>	<u>50,898,837</u>	<u>25,298,603</u>	<u>28,597,299</u>	<u>27,475,606</u>	<u>178,369,025</u>	<u>91,736,633</u>
Cash and investments	\$ 43,753,231	44,318,757	9,752,907	18,989,686	21,990,279	138,804,860	91,736,633
Restricted cash and investments	2,345,449	6,580,080	15,545,696	9,607,613	5,485,327	39,564,165	—
Total cash and cash equivalents	<u>\$ 46,098,680</u>	<u>50,898,837</u>	<u>25,298,603</u>	<u>28,597,299</u>	<u>27,475,606</u>	<u>178,369,025</u>	<u>91,736,633</u>

(Continued)

See accompanying notes to basic financial statements

CITY OF SANTA MONICA, CALIFORNIA
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2018

	Business-type activities - Enterprise Funds						
	Water	Wastewater	Resource Recovery and Recycling	Big Blue Bus	Nonmajor enterprise funds	Total enterprise funds	Total internal service funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 450,920	1,308,473	(494,444)	(84,752,960)	2,419,431	(81,068,580)	3,985,148
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Add depreciation	1,353,313	6,834,176	89,823	17,338,225	1,227,055	26,842,592	2,889,498
Other revenue received	549,077	587,456	661,448	2,976,418	3,667,519	8,441,918	208,939
Change in assets and liabilities and deferred outflows and inflows of resources:							
(Increase) decrease in accounts receivable	(39,818)	227,840	153,425	(99,962)	104,198	345,683	(4,047,982)
Increase in due from other governments	—	—	—	(1,056,412)	—	(1,056,412)	—
Increase in prepaids	(257)	(257)	—	(4,244)	(24,513)	(29,271)	(198)
(Increase) decrease in inventory	—	—	—	(459,085)	—	(459,085)	18,332
Increase (decrease) in accounts payable	(408,494)	(300,074)	228,996	40,601	357,566	(81,405)	982,339
Decrease in accrued liabilities	(33,756)	(10,161)	(21,716)	(26,260)	(18,322)	(110,215)	(38,251)
Increase (decrease) in contracts payable	37,287	431	—	(63,558)	147,458	121,618	—
Increase (decrease) in unearned revenue	—	(10,746)	—	77,413	(330,650)	(263,983)	—
Increase (decrease) in deposits payable from restricted assets	(55,668)	—	2,835,103	(26,667)	330,377	3,083,145	—
Increase (decrease) in compensated absences payable	15,303	28,363	(34,103)	112,074	12,579	134,216	(2,160)
Increase in claims payable	—	—	—	—	—	—	955,923
Decrease in pollution remediation obligation	(1,478,435)	—	—	—	—	(1,478,435)	—
Net OPEB liability and related changes in deferred outflows and inflows of resources	(5,949)	(1,618)	(9,899)	(35,295)	(3,426)	(56,187)	(5,650)
Net pension liability and related changes in deferred outflows and inflows of resources	300,078	100,251	520,779	2,236,848	364,100	3,522,056	266,741
Total adjustments	232,681	7,455,661	4,423,856	21,010,096	5,833,941	38,956,235	1,227,531
Net cash provided by (used in) operating activities	\$ 683,601	8,764,134	3,929,412	(63,742,864)	8,253,372	(42,112,345)	5,212,679
Schedule of non-cash capital and related financing activities:							
Capital assets acquired through accounts payable	\$ 50,594	56,948	—	—	483,784	591,326	336,699
Gain/(Loss) on disposal of capital assets	(40,224)	—	—	35,219	—	(5,005)	8,489

See accompanying notes to basic financial statements

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CITY OF SANTA MONICA, CALIFORNIA

Fiduciary Fund Financial Statements

Private-Purpose Trust Fund is fiduciary in nature and used to receive and distribute the Redevelopment Property Tax Trust Fund distributions and use them to extinguish enforceable obligations approved by the Successor Agency Oversight Board and the California Department of Finance. The Redevelopment Agency of the City of Santa Monica was dissolved on February 1, 2012.

Agency Funds are custodial in nature and used to receive and disburse funds for an entity/individual, which are not part of the City. The General Trust Fund and Street Light Fund account for assets held by the City in an agency capacity, such as fees collected on behalf of and remitted to other government agencies and payroll deductions remitted to various other agencies.

CITY OF SANTA MONICA, CALIFORNIA

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2018

	Total Private-Purpose Trust Fund	Total Agency Funds
ASSETS		
Restricted cash (note 5)	\$ 19,962,319	3,953,422
Restricted cash and investments with fiscal agent (note 5)	6,936,613	-
Accounts receivable	826	56,856
Total assets	<u>26,899,758</u>	<u>4,010,278</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	<u>1,818,043</u>	
LIABILITIES		
Accounts payable and accrued liabilities	-	4,010,278
Long term liabilities:		
Loans and bonds payable, due within one year (note 17)	21,955,042	-
Loans and bonds payable, due in more than one year (note 17)	156,343,995	-
Accrued interest payable, due in more than one year (note 17)	27,193,258	-
Total liabilities	<u>205,492,295</u>	<u>4,010,278</u>
NET POSITION		
Restricted for the dissolution of the Former Redevelopment Agency	<u>\$ (176,774,494)</u>	

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA
Statement of Changes in
Fiduciary Net Position
Fiduciary Fund
For the fiscal year ended June 30, 2018

	Private-Purpose Trust Fund
Additions:	
Property tax distribution	\$ 29,562,043
Investment income	41,939
Total additions	29,603,982
Deductions:	
Project expenses	688,199
Interest expense	8,667,139
Total deductions	9,355,338
Change in net position	20,248,644
Net position at beginning of year	(197,023,138)
Net position at end of year	\$ (176,774,494)

See accompanying notes to basic financial statements.

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CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE REPORTING ENTITY

The City of Santa Monica, California (City) was incorporated November 30, 1886. The City operates under a Council-Manager form of government and provides traditional municipal services as authorized by its charter as well as various enterprise services. As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements present the activities of the City and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationships with the City.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The following entities are reported as blended component units because they have substantively the same governing board as the primary government and there is either a financial benefit or burden relationship between the City and the component unit or the City's management has operational responsibility for the component unit.

Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Additional detailed information and/or separately issued financial statements for these component units can be obtained from the City's Director of Finance.

The *Parking Authority of the City of Santa Monica* (Parking Authority) was established by the City in 1950 for the acquisition or building of parking facilities owned by the City Parking Authority.

The *Housing Authority of the City of Santa Monica* (Housing Authority) was established by the City in 1975 to address unsanitary and unsafe inhabited dwelling accommodations and the shortage of affordable safe and sanitary dwelling accommodations for persons with low incomes. Since January 1, 1989, the Housing Authority has administered the Section 8 Housing Assistance Payments Program funded by the United States Department of Housing and Urban Development on behalf of the City.

The *Santa Monica Public Financing Authority* (PFA) was established in 1995 for the purpose of assisting the City in financing capital improvements, working capital, and liability or other projects.

The *Successor Agency for the Redevelopment Agency of the City of Santa Monica* (Successor Agency) was established on February 1, 2012 by resolution of City Council. The Successor Agency is primarily responsible for winding down the operations of the former Redevelopment Agency and makes payments and performs existing obligations of the former Redevelopment Agency. The Successor Agency is a fiduciary component unit and is presented as a private-purpose trust fund.

The *Santa Monica Arts Foundation* promotes the arts by raising funds to finance art programs. On June 8, 1990, the City Council merged the City's Arts Commission with the Santa Monica Arts Foundation. While the Arts Foundation meets the requirements of being reported as a component unit of the City, the

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

operating results are immaterial to the City as a whole and therefore it is not included in the City's basic financial statements.

The *Santa Monica Pier Corporation*, originally named the Santa Monica Pier Restoration Corporation, is an organization created in 1984 as a nonprofit public benefit corporation. The Pier Corporation maintains and operates public educational and recreational programs and events at the Santa Monica Pier as part of a service agreement with the City. It also assists the City with public outreach on Santa Monica Pier related issues. The governing Board of the Corporation is appointed by the City of Santa Monica City Council for the benefit of the citizens of Santa Monica. The Pier Corporation is not presented in the basic financial statements because the economic resources received or held by the individual organization are not significant to the primary government. Separate financial statements for this organization can be obtained from the City's Director of Finance.

B. BASIC FINANCIAL STATEMENTS

Basic financial statements consist of the following:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to the basic financial statements.

The government-wide financial statements consist of the statement of net position and the statement of activities and report information on all of the non-fiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the statement of net position have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column. In the statement of activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. Exceptions to this general rule are charges between the City's Water Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, general services, cultural and recreation services, library and housing and community development. The business-type activities of the City include water, wastewater, stormwater, resource recovery and recycling, pier, airport, cemetery, community broadband, Big Blue Bus, and parking authority.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

specific function or segment. Indirect expenses are allocated based on the annual cost allocation plan. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions, including special assessments, which are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

For the year ended June 30, 2018, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 addresses reporting by governments that provide Other Postemployment Benefits (OPEB) to their employees and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Reference Note 16 for information on the City's employee benefit programs. Also implemented this year was the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues*. GASB Statement No. 86 increases consistency in reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. Reference Note 9 for information on the City's long-term liabilities.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary funds financial statements. Agency funds do not have a measurement focus but use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City in general considers revenues available if they are collected within 60 days. Additionally, grants and similar items are recognized as receivables as soon as all eligibility requirements have been met and are recognized as revenue when amounts are considered available. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when payment is due.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

In governmental funds, property taxes, sales taxes, franchise taxes, licenses, interest, special assessments, charges for services and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period subject to availability. Entitlements and shared revenues are recorded at the time of receipt or earlier if susceptible to accrual criteria. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred, all other eligibility requirements have been met and are recorded at the time of receipt or earlier, and susceptible to accrual criteria. All other revenue items are considered to be measurable and available only when cash is received by the government.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the City, except those required to be accounted for in other specialized funds.

The **Special Revenue Source Fund** accounts for receipt and expenditure of monies restricted, committed or assigned for specific uses. Funding comes primarily from developer and other fees.

The **Low and Moderate Income Housing Asset Fund** under Senate Bill 341, requires that housing assets transferred to the City's Housing Successor Agency, together with any funds generated from housing assets, be maintained in a separate Low and Moderate Income Housing Asset Fund. These funds can be used as previously allowed under the Low and Moderate Income Housing Fund established under Community Redevelopment Law, for program monitoring and preserving the long-term affordability of units subject to affordability restrictions, homeless prevention and rapid rehousing services, and the development of affordable housing for lower income households.

The City reports the following major enterprise funds:

The **Water Fund** accounts for the activities of the City's water service to the citizens.

The **Wastewater Fund** accounts for the activities of maintaining the sanitary sewer system within the City.

The **Resource Recovery and Recycling Fund** accounts for the activities of the City's refuse collection, street sweeping and cleaning, and recycling programs.

The **Big Blue Bus Fund** accounts for the activities of the City's municipal bus lines.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Additionally, the City reports the following fund types:

Special Revenue Funds account for proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds account for and report financial resources that are restricted to expenditures for principal and interest.

Permanent Funds account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.

Internal Service Funds account for vehicle operations, risk management, and information technology and communications operations that provide services to other departments of the City on a cost reimbursement basis.

Fiduciary Funds consist of a Private-purpose Trust Fund and Agency funds. The **Private-purpose Trust Fund** is established by the City to succeed the former redevelopment agency. The City serves as a custodian for the assets of the dissolved redevelopment agency pending distribution to the Successor Agency's creditors for enforceable obligations. **Agency Funds** account for assets held by the City as a trustee or as an agent for individuals or other government units. Agency funds are custodial in nature and do not involve measurement of results of operations. These funds account for assets held by the City in an agency capacity for development fees collected on behalf of the school district, various employee payroll deductions that will be remitted to various agencies and other assets held by the City in an agency capacity.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, NET POSITION OR FUND BALANCE

Cash and Investments

In order to maximize the flexibility of its investment program and to aid in cash budgeting, the City pools the cash of all funds, except for monies deposited with fiscal and escrow agents in accordance with related

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

bond indentures and agreements. The cash and investments balance in each fund represents that fund's equity share of the City's cash and investment pool. As the City places no restrictions on the deposit or withdrawal of its equity from the pool by a particular fund, the pool operates like a demand deposit account for the participating funds.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average month-end balances for the prior three months and is adjusted at year-end. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

The City's investments are carried at fair value, except for guaranteed investment contracts, which are carried at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from Securities and Exchange Commission (SEC) registered securities exchanges or National Association of Securities Dealers Automated Quotations (NASDAQ) dealers. Changes in fair value are allocated to each participating fund on an annual basis.

The City's share of Local Agency Investment Fund (LAIF) is reported to the City on a quarterly basis. LAIF operates in accordance with laws and regulations of the State of California. LAIF is not reported at fair value.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents to be change and petty cash funds and equity in the City's cash and investment pool.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as *interfund receivables/interfund payables*, i.e., *due to/due from other funds*, the current portion of interfund loans or *advances to/from other funds*, the non-current portion of interfund loans. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as *internal balances*.

Advances between funds and notes receivables, as reported in the fund financial statements, are offset by nonspendable fund balance in the applicable governmental funds to indicate that they are not in spendable form and are not available for appropriation. However, if the use of the proceeds from the collection of those receivables is restricted, committed, or assigned, they will be included in the appropriate fund balance classification, rather than nonspendable fund balance.

All trade receivables are shown net of an allowance for uncollectible accounts and estimated refunds due. As of June 30, 2018, the allowance for uncollectible accounts for governmental and business-type activities is \$707,255 and \$543,562, respectively.

Unbilled service receivables are accrued for at year-end.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Property Taxes

Assessed property values are determined on an annual basis for the period July 1 to June 30 by the Los Angeles County Assessor as of the prior January 1. Article XIII A of the State Constitution (Proposition 13, approved by voters in June 1978) limits the real property tax rate to 1% of the full market cash value plus rates imposed to fund indebtedness approved by the voters. Locally assessed property is appraised at the 1975-76 full cash value, the base year value, and is adjusted each year after 1975 by the change in the consumer price index, not to exceed an increase of 2%. Property is reappraised to current full value upon either a change in ownership or new construction. If property values decline, the assessed value may be adjusted to reflect the lower value. Taxes are levied annually in September and become a lien on real property at January 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively, at which time applicable penalties and interest are assessed.

Inventory and Prepaid Items

All materials and supplies inventory is valued at cost using the average cost method. The costs of such inventories are recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items are recorded as expenditures/expenses when consumed rather than when purchased.

Restricted Assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position and balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

In the absence of specific statutory provisions governing the issuance of bonds, certificates or leases, these bond monies may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions and indentures are generally more restrictive than the City's general investment policy. In no instance have additional types of investments been authorized that are not permitted by the City's general investment policy.

Restricted cash represents amounts restricted under agreements with grantors, trustees, developers, customers and lessees. Additionally, restricted cash in the Successor Agency is restricted by redevelopment dissolution legislation.

Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, intangibles, utility systems and infrastructure assets (e.g., roads, sidewalks, curbs and gutters and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets other than buildings, improvements, and infrastructure are defined by

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

the City as assets with an initial individual cost of \$50,000 or more and an estimated useful life of more than one year except for the Big Blue Bus Fund, which follows transit funding guidelines by capitalizing any capital expense which is funded by capital grant subsidies not related to bus repairs and maintenance. The City defines buildings, improvements other than buildings, and infrastructure as assets with an individual cost of \$100,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at acquisition value at the date of donation and capital assets received in a service concession arrangement are reported at acquisition value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are expensed when incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred, net of interest earned on unspent proceeds of tax-exempt borrowings, during the construction phase of capital assets of business-type and enterprise funds activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the fiscal year ended June 30, 2018.

Capital assets of the City are depreciated using a straight-line method, with a mid-year convention (only half a year’s depreciation is recorded in the first and last year of the asset) over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	5 to 85
Improvements other than buildings	5 to 50
Infrastructure	15 to 75
Utility systems	20 to 100
Intangibles	20 to 100
Machinery and equipment	2 to 30

The City has elected not to capitalize its collection of artwork. GASB Statement No. 34 waives the requirement for artwork capitalization if the collection meets all the following conditions:

- The collection is held for reasons other than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.
- The collection is subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.

The City’s artwork collection meets the above criteria and therefore qualifies for the exemption from the capitalization requirement. The collection includes both permanent and portable artworks, artworks integrated into overall projects, murals, and stand-alone permanently installed paintings and sculptures, art integrated into the design of public works projects (not stand-alone), and a contemporary collection of almost 100 portable artworks, which are on display in public areas of City facilities.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Lease Obligations

The City leases various assets under operating lease agreements.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits up to a maximum determined by bargaining unit agreements. Employees are paid 100% of their accumulated vacation when they terminate employment for any reason. All vacation is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements. Additionally, employees of the International Association of Sheet Metal, Air, Rail and Transportation Workers are able to exchange unused sick days balances for equal dollars of medical insurance premiums. In order to qualify, the employee must have 10 years of service at retirement and at least 50 days of unused sick leave.

Long-Term Liabilities

In the government-wide financial statements, proprietary funds financial statements and private-purpose trust fund statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Initial-issue bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Offering costs are expensed when incurred. Bonds payable are reported net of the unamortized portion of applicable premium or discount. Deferred amounts on refunding are reported as deferred outflows or inflows of resources. Bond issuance costs, including underwriters' discount, are expensed when incurred. Amortization of bond premiums or discounts and deferred amounts on refunding are included in interest expense.

In the governmental funds financial statements, bond premiums, discounts and issuance costs are recognized during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Interest and principal payments are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position, governmental fund balance sheet, proprietary statement of net position, and statement of fiduciary net position will sometimes report a separate section for *deferred outflows of resources*. The deferred outflows of resources is a separate financial statement element that represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and governmental fund balance sheet will sometimes report a separate section for *deferred inflows of resources*. The deferred inflows of resources is a separate

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

financial statement element that represents an acquisition of net position or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City reports the following items as deferred outflows of resources:

- Deferred outflows from pensions
- Deferred outflows from OPEB
- Deferred loss on refundings

The City reports the following items as deferred inflows of resources:

- Deferred inflows from pensions
- Deferred inflows from OPEB
- Deferred gain on refunding
- Unavailable revenue

Deferred outflows from pensions and OPEB include contributions made subsequent to the measurement date. Deferred outflows and inflows relating to pensions and OPEB are the result of differences between the expected and actual experience, changes in assumptions, and difference between projected and actual earnings on investments. See note 16 for a detailed discussion of deferred outflows and inflows related to pensions and OPEB.

The deferred gain and loss on refunding is attributable to the unamortized portion of the gain or loss on refunding of debt.

Finally, on the governmental funds balance sheet, when an asset is recorded but the revenue is not available, a deferred inflow of resources is reported for unavailable revenue until such time as the revenue becomes available.

Net Position and Fund Balance

In the government-wide financial statements and proprietary funds financial statements, net position is reported in three categories: net investment in capital assets, restricted net position and unrestricted net position. Net investment in capital assets represents capital assets less accumulated depreciation less outstanding principal of related debt. Net investment in capital assets does not include the unspent proceeds of capital debt or the related amount of debt, liabilities and deferred inflows related to those assets. Restricted net position represents assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws and regulations of other governments, or law through constitutional provisions or enabling legislation) and includes unspent proceeds of bonds issued to acquire or construct capital assets and those unspent proceeds are offset by an equivalent amount of debt and deferred inflows to those assets. The nonexpendable portion of permanent funds is reported as a component of restricted net position. The City's other components of restricted net position are temporarily restricted (ultimately expendable) assets. All other components of net position are considered unrestricted.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent based on the adopted City Council policy in the City's most recently adopted budget. As of June 30, 2018, fund balances for governmental funds include nonspendable, restricted, committed, assigned and unassigned balances.

In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are restricted for specific purposes when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Amounts that can only be used for specific purpose pursuant to constraints imposed by the government's highest level of decision making authority, the City Council, are reported as committed fund balance. The City Council can create committed fund balance through ordinance, resolution or other council action that is equally binding. Ordinances make up the local laws of the City. An ordinance is a legislative act prescribing general rules of organization or conduct relating to the corporate affairs of the municipality. Council action shall be taken by ordinance when required by law, or where prescribed conduct may be enforced by penalty and represents the most binding constraint. Once adopted, ordinances become effective upon 30 days after publication, unless otherwise set forth. A resolution is an administrative act, which is a formal statement of policy concerning matters of special or temporary character. The adoption of a resolution by the City Council can also establish, modify, or rescind a fund balance commitment previously created by resolution. Assigned fund balance are amounts that are constrained by the government's intent by the governing body itself or a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The City Council, in the City's most recently adopted budget, which included the fiscal policies contained in the fund balance policies, has delegated the authority to assign fund balances to the City Manager or their designee. Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund. Unassigned fund balance can also be used in other governmental funds where the fund balance is negative, because a negative amount should not be reported for restricted, committed or assigned in any fund. In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is expended in the order of restricted, committed, assigned, and unassigned.

Self-Insurance Program

The City has self-insurance programs to provide for general liability, bus and automobile liability, and workers' compensation claims. These activities are accounted for in self-insurance internal service funds.

Premiums are charged to individual funds and are designed to cover current and future expenses. The City's Risk Manager oversees the self-insurance programs. It is his or her duty to ensure that programs are operated in accordance with City policies. The City's Risk Manager also provides budget guidance and

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

case reserves and claims analysis. It is the City's intent to maintain cash reserves in the self- insurance funds equal to or greater than estimated losses.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's defined benefit retirement plans, Miscellaneous and Public Safety Police and Fire, of the California Employees' Retirement System ("CalPERS") and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB)

For the purposes of measuring the net OPEB liability, the deferred inflows of resources related to OPEB, and the OPEB expense, information about the fiduciary net position of the City's OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined using the same actuarial methods and assumptions. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	June 30, 2016 to June 30, 2017

Use of Estimates

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(2) BUDGETARY AND LEGAL COMPLIANCE

The City Council is required to adopt an annual budget resolution by June 30 each fiscal year for the General Fund, each special revenue fund and each capital projects fund, except the Rent Control Fund and the Asset Seizure Fund. The legal level of budgetary control is the department level. The City Council also approves annual operating budgets for the City's proprietary and internal service funds to facilitate management evaluation and control.

The budget is prepared on a non-GAAP budgetary basis, which considers encumbrances outstanding at year-end as an expenditure of that year. Encumbrances outstanding at the beginning of a fiscal year, which were recognized as budgetary expenditures in the prior year, are recognized as GAAP-basis expenditures but not as budgetary expenditures unless re-appropriated. It is the City's policy to only re-appropriate capital encumbrances and unencumbered balances of specific capital appropriations. Appropriations in governmental funds outstanding at year-end lapse, except for encumbered amounts, for which fund balances are restricted, committed or assigned at year-end for governmental funds.

The actual results of operations on a budgetary basis compared to the appropriations adopted by the City Council for budgeted major governmental funds are presented in the required supplementary information. The comparisons of actual results with the budget for nonmajor funds are presented as supplementary information in the combining schedules.

For the fiscal year ended June 30, 2018, expenditures exceeded appropriations in the General Fund. The Police Department was over budget due to lower vacancy savings and increased overtime, the Fire Department was over budget due to the mutual aid strike team's expenditures for which the City was fully reimbursed, and the Information Services Department was over budget due to lower vacancy savings.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(3) RECONCILIATION OF FUND BALANCE SHEET/STATEMENT OF NET POSITION TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Amounts reported for governmental activities in the government-wide statement of net position are different from those reported for governmental funds in the funds balance sheet. The following provides a reconciliation of those differences:

	Total governmental funds	Long-term assets and liabilities (1)	Total governmental activities internal service funds (2)	Other adjustments and eliminations (3)	Statement of net position totals
Assets					
Cash and investments	\$ 474,734,212	—	59,506,739	—	534,240,951
Restricted cash and investments	9,713,391	—	—	—	9,713,391
Receivables (net, where applicable, of allowances for uncollectibles):					
Accounts	6,930,080	—	3,903,573	—	10,833,653
Notes	126,716,067	—	—	—	126,716,067
Taxes	13,500,368	—	—	—	13,500,368
Interest	2,342,162	—	214,136	—	2,556,298
Other governments	4,749,823	—	—	—	4,749,823
Settlement	11,010,000	—	—	—	11,010,000
Internal balances	—	—	4,164,112	7,748,971	11,913,083
Due from other funds	3,230,990	—	—	(3,230,990)	—
Deposits	61,785	—	—	—	61,785
Prepays	1,046,676	—	10,074	—	1,056,750
Restricted cash and investments with fiscal agent	115,690,269	—	—	—	115,690,269
Advances to other funds	12,062,484	—	—	(12,062,484)	—
Notes Receivable Successor Agency	8,361,793	—	—	—	8,361,793
Capital assets, net	—	798,782,387	344,655	—	799,127,042
Total assets	<u>790,150,100</u>	<u>798,782,387</u>	<u>68,143,289</u>	<u>(7,544,503)</u>	<u>1,649,531,273</u>
Deferred Outflows of Resources					
Deferred loss on refundings	—	107,185	—	—	107,185
Deferred outflows from pensions	—	112,985,500	1,053,870	—	114,039,370
Deferred outflows from OPEB	—	2,453,098	17,349	—	2,470,447
Total deferred outflow of resources	<u>—</u>	<u>115,545,783</u>	<u>1,071,219</u>	<u>—</u>	<u>116,617,002</u>
Liabilities, Deferred Inflows of Resources and Fund Balances/Net Position					
Liabilities:					
Accounts payable	28,549,493	—	893,752	—	29,443,245
Accrued liabilities	6,947,290	—	69,904	—	7,017,194
Accrued interest payable	—	2,228,424	—	—	2,228,424
Contracts payable (retained percentage)	1,339,397	—	—	—	1,339,397
Due to other funds	3,230,990	—	—	(3,230,990)	—
Due to other governments	4,730	—	—	—	4,730
Unearned revenue	25,665,779	—	—	—	25,665,779
Deposits payable from restricted assets	1,167,391	—	—	—	1,167,391
Advances from other funds	4,313,513	—	—	(4,313,513)	—
Compensated absences due within one year	—	8,139,504	78,589	—	8,218,093
Compensated absences due in more than one year	—	5,056,170	48,037	—	5,104,207
Claims payable due within one year	—	—	13,858,181	—	13,858,181
Claims payable due in more than one year	—	—	40,961,472	—	40,961,472
Loans and bonds payable due within one year	—	4,830,000	—	—	4,830,000
Loans and bonds payable due in more than one year	—	172,661,308	—	—	172,661,308
Pollution remediation obligation due within one year	—	2,921,184	—	—	2,921,184
Pollution remediation obligation due in more than one year	—	32,736,969	—	—	32,736,969
Net OPEB liability	—	21,492,601	152,326	—	21,644,927
Net pension liability	—	385,083,717	2,063,571	—	387,147,288
Total liabilities	<u>71,218,583</u>	<u>635,149,877</u>	<u>58,125,832</u>	<u>(7,544,503)</u>	<u>756,949,789</u>
Deferred Inflows of Resources					
Unavailable revenue	20,411,732	—	—	(20,411,732)	—
Deferred gain on refunding	—	58,266	—	—	58,266
Deferred inflows from pensions	—	22,904,158	481,081	—	23,385,239
Deferred inflows from OPEB	—	1,147,953	8,116	—	1,156,069
Total deferred inflows of resources	<u>20,411,732</u>	<u>24,110,377</u>	<u>489,197</u>	<u>(20,411,732)</u>	<u>24,599,574</u>
Total fund balances/net position	<u>\$ 698,519,785</u>	<u>255,067,916</u>	<u>10,599,479</u>	<u>20,411,732</u>	<u>984,598,912</u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

1) Capital assets used in governmental activities are not current financial resources and therefore are not reported in the balance sheet. Capital assets of internal service funds of \$344,655 net of accumulated depreciation, are not included in this amount.	\$ 1,258,495,090
Less accumulated depreciation/amortization	<u>(459,712,703)</u>
	798,782,387
Deferred amounts on refunding	48,919
Deferred outflows from pension	112,985,500
Deferred outflows from OPEB	2,453,098
Long-term liabilities are not due and payable in the current period and therefore are not reported in the balance sheet.	
General obligation bonds	(5,460,000)
Revenue bonds	(155,610,000)
Loans payable	(400,000)
Accrued interest on long-term debt	(2,228,424)
Unamortized premium on long-term debt	(16,021,308)
Employee compensated absences	(13,195,674)
Accrued pollution remediation costs	(35,658,153)
Accrued OPEB liability	(21,492,601)
Net pension liability	<u>(385,083,717)</u>
Total long-term liabilities	(635,149,877)
Deferred inflows from pension	(22,904,158)
Deferred inflows from OPEB	<u>(1,147,953)</u>
	<u>\$ 255,067,916</u>
2) Internal service funds are used by management to charge the costs of information technology and communications operations, self-insurance comprehensive, auto and workers' compensation to individual funds. The assets and liabilities of these internal service funds are included in the governmental activities on the statement of net position.	\$ 6,435,367
Adjustments for Internal Service Funds are necessary to "close" those funds by recording charges to and payments from business-type activities to completely cover the Internal Service Funds' costs for the year.	4,164,112
	<u>\$ 10,599,479</u>
3) Other adjustments and eliminations:	
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds and recognized as revenue in the statement of activities.	<u>\$ 20,411,732</u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Amounts reported for business-type activities in the government-wide statement of net position are different from those reported for enterprise funds in the fund statement of net position. The following provides a reconciliation of those differences:

Assets	Total enterprise funds	Total business- type internal service funds (1)	Other adjustments and eliminations	Statement of net position totals
Cash and investments	\$ 138,804,860	32,229,894	—	171,034,754
Receivables (net, where applicable, of allowances for uncollectibles):				
Accounts	12,567,298	203,201	—	12,770,499
Interest	18,692,880	93,721	—	18,786,601
Due from other governments	16,057,838	—	—	16,057,838
Internal balances	—	(4,164,112)	(7,748,971)	(11,913,083)
Inventory	3,098,315	23,957	—	3,122,272
Prepays	72,607	—	—	72,607
Restricted cash and investments	39,564,165	—	—	39,564,165
Advances to other funds	—	—	—	—
Notes	22,612,125	—	—	22,612,125
Capital assets, net	434,261,873	13,050,704	—	447,312,577
Total assets	<u>685,731,961</u>	<u>41,437,365</u>	<u>(7,748,971)</u>	<u>719,420,355</u>
Deferred Outflows of Resources				
Deferred loss on refunding	266,933	—	—	266,933
Deferred outflows from pensions	25,461,751	1,286,467	—	26,748,218
Deferred outflows from OPEB	507,322	34,165	—	541,487
Total deferred outflows of resources	<u>26,236,006</u>	<u>1,320,632</u>	<u>—</u>	<u>27,556,638</u>
Liabilities				
Accounts payable	6,898,051	1,003,176	—	7,901,227
Accrued liabilities	3,047,990	59,596	—	3,107,586
Accrued interest payable	116,456	—	—	116,456
Contracts payable (retained percentage)	516,908	—	—	516,908
Internal balances	7,748,971	—	(7,748,971)	—
Unearned revenue	1,694,774	—	—	1,694,774
Liabilities payable from restricted assets	17,506,792	—	—	17,506,792
Compensated absences due within one year	2,564,100	109,645	—	2,673,745
Compensated absences due in more than one year	812,052	62,271	—	874,323
Claims payable due within one year	—	2,914,162	—	2,914,162
Claims payable due in more than one year	—	3,324,056	—	3,324,056
Loans and bonds payable due within one year	2,437,144	—	—	2,437,144
Loans and bonds payable due in more than one year	7,529,257	—	—	7,529,257
Pollution remediation obligation due within one year	1,210,000	—	—	1,210,000
Pollution remediation obligation due in more than one year	6,445,401	—	—	6,445,401
Net OPEB liability	4,431,098	299,566	—	4,730,664
Net pension liability	75,741,133	3,931,141	—	79,672,274
Total liabilities	<u>138,700,127</u>	<u>11,703,613</u>	<u>(7,748,971)</u>	<u>142,654,769</u>
Deferred Inflows of Resources				
Deferred inflows from pensions	6,373,862	322,867	—	6,696,729
Deferred inflows from OPEB	237,055	15,984	—	253,039
Total deferred inflows of resources	<u>6,610,917</u>	<u>338,851</u>	<u>—</u>	<u>6,949,768</u>
Total Net Position	<u>\$ 566,656,923</u>	<u>30,715,533</u>	<u>—</u>	<u>597,372,456</u>

1) Internal service funds are used by management to charge the costs of vehicle management, information technology and risk management to individual funds. The assets and liabilities of the vehicle management and self-insurance bus internal service funds are included in business-type activities in the statement of net position.

\$ 34,879,645

Adjustment for Internal Service Funds are necessary to "close" those funds for charges to and payments from participating governmental-type activities to completely cover the Internal Service Funds' costs for the year.

\$ 4,164,112

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(4) POLLUTION REMEDIATION

The City follows the guidance of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishing accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

On December 1, 2006, the City amended a settlement agreement that it had entered into in 2003 with a consortium of oil companies in relation to methyl tertiary butyl ether (“MTBE”) contamination that had occurred at the City’s Charnock Well Field. The Charnock Well Field is used to supply drinking water to the City. The amended 2006 agreement called for the oil companies to pay the City \$131.0 million in exchange for the City's agreement to treat to applicable drinking water standards any water produced from the Charnock Well Field, which contains MTBE, tertiary butyl alcohol (“TBA”) and related petroleum hydrocarbons. Prior to this amended 2006 agreement and under the terms of other settlement agreements with other companies, the City received an additional \$122.1 million also related to MTBE contamination of the City's Charnock Well Field. Of this amount, \$18.0 million was deposited into an escrow account specifically to be used for the design and building of a remediation plant. The account was to be replenished by the consortium of oil companies once exhausted until the remediation construction was complete. The City has received all the proceeds from each of these agreements, including the amended 2006 agreement.

To meet its Charnock Well Field water treatment obligation, the City has constructed and is operating a water treatment remediation plant using the proceeds of the 2006 and the other earlier settlements.

On November 13, 2009, the City entered into a settlement and release agreement with The Gillette Company (Gillette), guaranteed by The Procter & Gamble Company, in relation to groundwater contamination of the City’s Olympic Well Field. The Olympic Well Field is used to supply drinking water to the City. The agreement calls for Gillette to make payments to the City ranging from \$150,000 to \$11,183,175 annually, totaling \$64.8 million over 30 years which included the City receiving title to property valued at \$3.2 million. Under the agreement, the City has agreed to construct and operate facilities for treatment of certain contaminants and treat to applicable drinking water standards any water that it produces from the Olympic Well Field. At the end of FY 2016-17, the City had received cash payments of \$42,895,400. During FY 2017-18, the City and Gillette agreed to modify their agreement whereby a lump sum payment of \$10,415,000 was made by Gillette in exchange for a release from any and all future liabilities.

On May 15, 2012, the City entered into a settlement and release agreement with The Boeing Company (Boeing) also in relation to groundwater contamination of the City’s Olympic Well Field. The agreement calls for Boeing to make payments to the City ranging from \$150,000 to \$5,000,000 annually over a ten-year period, totaling \$39,500,000. On December 12, 2012, the agreement was modified with \$21,000,000 being due from Boeing in January 2013 and payments of \$3,670,000 being due from Boeing annually beginning in 2017 through 2021. The City received Boeing's payment of \$21,000,000 on January 7, 2013. Under the agreement, the City has agreed to construct and operate facilities for treatment of certain contaminants and treat to applicable drinking water standards any water that it produces from the Olympic Well Field. To date, \$28,490,000 has been recognized as income in the fund financial statements.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Using the expected cash flow technique utilizing present value, the City has measured the potential water treatment liability under the agreements by the anticipated cost of construction/remediation/operating contracts, which include a contingency of 10% for unforeseen costs.

During FY 2017-18, the City revised its estimate of both the Olympic Well Field and Charnock Well Field remediation liability based on the most current information available. The main reason for the sharp decline in the Charnock remediation liability was the City's reassessment of the categories of costs which previously included items that the City would continue even after the remediation process was complete. The reduction in the calculations for the Olympic Well Field remediation project are based on proposals received by the City, consultants' reports, and the expertise of the City's Water Resources staff based on past history. As such the revised figures more accurately portray the City's estimated liability.

Based on current consultant reports and new drinking water regulations adopted by the State of California in early 2018, the City adjusted the liability downward to \$32,337,312 for the Olympic Well Field and \$7,655,401 for the Charnock Well Field. This adjustment has been reported as Special Items on the Statement of Activities and Statement of Revenues, Expenses and Changes in Fund Net position.

In FY 2017-18, Council authorized the transfer of \$11,100,000 in cash from the General Fund to the Water Fund to be used for ongoing and future remediation costs associated with polluted groundwater in the Olympic Well Field estimated liability of \$32,337,312 included in the Statement of Net Position Governmental Activities.

Additionally, the City engages in an ongoing program of pollution remediation related to its various properties. Two such sites are currently undergoing remediation in the form of either soil or vaporous contaminant removal or containment. By State law these occurrences are required to be reported to California Department of Health Services.

The balance of the pollution remediation liability is \$35,658,153 in the governmental activities of which \$2,921,184 is due within one year and \$7,655,401 in the business-type activities, of which \$1,210,000 is due within one year. These liabilities are reported in the Governmental Activities on the Statement of Net Assets.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(5) CASH AND INVESTMENTS

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 705,275,705
Restricted cash and investments	49,277,556
Restricted cash with fiscal agent	115,690,269
Fiduciary funds:	
Restricted cash and investments	23,915,741
Restricted cash with fiscal agent	6,936,613
Total cash and investments	<u>\$ 901,095,884</u>

Cash and investments as of June 30, 2018 consist of the following:

Cash on hand	\$ 27,572
Deposits with financial institutions	48,657,226
Investments	852,411,086
Total cash and investments	<u>\$ 901,095,884</u>

All interest income legally accrues to the benefit of the General Fund in the absence of a legal provision to the contrary. Accordingly, accumulated interest income from the Special Revenue Source Fund in the amount of \$1,022,321 has been included as interest income in the General Fund.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Investments Authorized by the California Government Code and the City’s Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City’s investment policy. The table also identifies certain provisions of the California Government Code (or the City’s investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City’s investment policy. The table also does not address certain escrow accounts established for purposes such as construction project retention, which are governed by the specific escrow agreement(s).

Investment types authorized by state law	Authorized by investment policy	*Maximum maturity	*Maximum percentage of portfolio	*Maximum investment in one issuer
Local agency bonds	Yes	5 years	None	None
U.S. Treasury obligations	Yes	5 years	None	None
U.S. agency securities/obligations	Yes	5 years	None	50%
Municipal Bonds	Yes	5 years	None	None
CA Local Agency obligations	Yes	5 years	None	None
Banker's acceptances	Yes	180 days	10%	30%
Commercial paper-Pooled funds	Yes	270 days	15%	10%
Commercial paper-Non-pooled funds	Yes	270 days	15%	10%
Negotiable certificates of deposit	Yes	5 years	30%	10%
CD/Deposit Placement services	Yes	5 years	30%	None
Repurchase agreements	Yes	1 year	None	None
Reverse repurchase agreements	Yes	92 days	20% of base value	None
Corporate medium-term notes	Yes	5 years	30%	None
Supranationals	Yes	5 years	30%	None
Mutual funds	Yes	N/A	20%	10%
Money market mutual funds	Yes	N/A	20%	10%
Mortgage pass-through securities	Yes	5 years	20%	None
Time deposits	Yes	5 years	None	None
Collateralized certificates of deposit	Yes	5 years	None	None
County pooled investment funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA pools (other investment pools)	Yes	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy. However, in most cases, the bond agreements generally conform to the City’s policy. The table below identifies the investment types that are generally authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized investment type	Maximum maturity	Maximum percentage allowed	Maximum investment in one issuer
U.S. Treasury obligations	None	None	None
Federal Housing Administration debentures	None	None	None
U.S. agency securities	None	None	None
Time deposits	None	None	None
Unsecured certificates of deposit	180 days	None	None
Banker's acceptances	180 days	None	None
State obligations	None	None	None
Repurchase agreements	1 year	None	None
Pre-refunded municipal obligations	None	None	None
Commercial paper	270 days	None	None
Money market mutual funds	None	None	None
Investment contracts	30 years	None	None

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Investments Authorized by Actions of the City Council

Cemetery and Mausoleum Perpetual Care funds are received from Woodlawn Cemetery users for the perpetual care of cemetery grounds and of the mausoleum. The funds are legally restricted to the extent that only earnings, and not principal, can be used for restricted perpetual care purposes. These funds represent the accumulation of unspent monies from non-government sources and are not considered by the City to constitute “surplus funds” of a local government. Accordingly, these funds are not considered by the City to be subject to the provisions of the California Government Code Section 53601 or the City’s investment policy. These funds have been invested per instructions of the City Council. The table below identifies the investment types generally authorized for these investments. Current City Council instructions limit the amount invested in equities to 60% of the total portfolio with the balance to be invested primarily in fixed income securities. The table also identifies certain provisions of these agreements that address interest rate risk and concentration of credit risk.

Authorized investment type	Maximum maturity	Maximum percentage allowed	Maximum investment in one issuer
U.S. Treasury obligations	None	None	None
U.S. agency securities	None	None	None
Equities	None	60%	None
Corporate bonds	None	None	None

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The fair value of callable securities is also sensitive to market changes in that if interest rates decrease between the time of purchase and the call dates, the likelihood that a bond will be called and reinvested at a lower interest rate increases. The City's portfolio also includes certain callable structured investments for which the coupon interest rate changes if the investments are not called on or before certain pre-determined dates. The fair value of these investments, which primarily falls into the Federal agency security category, is also sensitive to market changes. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees and others) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. For purposes of the schedule shown below, any callable securities are assumed to be held to maturity.

Investment type	Amount	Remaining maturity (in months)				N/A
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months	
Held by City:						
Federal agency securities	\$489,148,166	115,874,408	145,424,014	227,849,744	—	—
Corporate medium term notes	117,503,672	31,445,548	9,873,370	76,184,754	—	—
Municipal bonds	17,215,332	2,995,890	10,016,939	4,202,503	—	—
U.S. Treasury securities	2,987,580	2,987,580	—	—	—	—
Supranationals	50,077,075	16,402,980	—	33,674,095	—	—
State investment pool	54,075,362	54,075,362	—	—	—	—
Held by others:						
Treasury notes/bonds	16,662,602	13,865,432	978,445	779,190	1,039,535	—
Federal agency securities	26,862,606	15,526,123	11,336,483	—	—	—
Corporate medium term notes	2,218,050	—	178,707	1,557,575	481,768	—
Common stock	7,451,656	—	—	—	—	7,451,656
Money market funds	68,208,985	68,208,985	—	—	—	—
Total	\$852,411,086	321,382,308	177,807,958	344,247,861	1,521,303	7,451,656

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City's investments as of June 30, 2018 (including investments held by bond trustees) do not include any investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated in the information provided above.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Investment type	Amount	Minimum legal rating	Actual ratings - Standard & Poor's										
			AAA/AAAm	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	Not rated
Held by City:													
Federal agency securities	\$ 489,148,166	N / A	—	466,693,959	—	—	—	—	—	—	—	—	22,454,207
Corporate medium term notes	117,503,672	A	21,692,135	11,691,530	4,463,095	20,674,676	28,985,390	19,250,655	—	10,746,191	—	—	—
Municipal bonds	17,215,332	N/A	—	2,463,254	6,375,558	8,376,520	—	—	—	—	—	—	—
U.S. Treasury securities	2,987,580	N/A	—	2,987,580	—	—	—	—	—	—	—	—	—
Supranationals	50,077,075	AA	50,077,075	—	—	—	—	—	—	—	—	—	—
State investment pool	54,075,362	N / A	—	—	—	—	—	—	—	—	—	—	54,075,362
	<u>731,007,187</u>												
Held by others:													
Treasury notes/bonds	26,862,606	N / A	—	26,862,606	—	—	—	—	—	—	—	—	—
Federal agency securities	16,662,602	N / A	—	16,662,602	—	—	—	—	—	—	—	—	—
Corporate medium term notes	2,218,050	N / A	—	—	—	—	—	—	375,747	780,156	558,396	503,751	—
Common stock	7,451,656		—	—	—	—	—	—	—	—	—	—	7,451,656
Money market funds	68,208,985	*	68,038,494	—	—	—	—	—	—	—	—	—	170,491
	<u>\$ 852,411,086</u>		<u>139,807,704</u>	<u>527,361,531</u>	<u>10,838,653</u>	<u>29,051,196</u>	<u>28,985,390</u>	<u>19,250,655</u>	<u>375,747</u>	<u>11,526,347</u>	<u>558,396</u>	<u>503,751</u>	<u>84,151,716</u>

**Money market mutual funds must have the highest rating of at least two nationally recognized rating organizations or must have the investment advisor registered with the SEC with no less than 5 yrs. experience and have assets under management in excess of \$500 million. The unrated money market fund amount is part of the Cemetery and Mausoleum Perpetual Care Funds and therefore is not subject to the minimum legal rating. However, it does meet the second criteria of no less than 5 year experience and have assets under management in excess of \$500 million.*

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements For the fiscal year ended June 30, 2018

As of June 30, 2018, all investments were in compliance with State law and the City's Investment Policy at the time of purchase. State law requires that any investment subject to a credit downgrade subsequent to the time of purchase shall be reviewed for possible sale within a reasonable amount of time after the downgrade.

The portfolio includes three Starbucks bonds with a fair market value of \$10,746,191 as of June 30, 2018 that were downgraded by S&P from A to A- in November 2017 and further downgraded to BBB+ in June 2018. Staff reviewed the reason for the most recent downgrade as well as analyzed the financial status of the company over the remaining life of the bonds. The estimated probability of default of the bonds ranges from 0 to 0.2% depending on the maturity dates of the bonds. Weighing this very low risk of default against the fact that the City would realize a loss of approximately \$0.4 million from selling the bonds at this time, the City concluded that holding the bonds is the appropriate course of action at this time.

Concentration of Credit Risk

In regards to limitations on the amount that can be invested in any one issuer, the City's investment policy generally follows stipulations by the California Government Code. However, the City's policy adds an additional stipulation that no more than 50% of the portfolio may be invested in a single issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments (excluding investments held by others) are as follows:

<u>Issuer</u>	<u>Investment type</u>	<u>Reported amount</u>	<u>% of Investments</u>
FNMA (Fannie Mae)	Federal agency securities	\$ 112,016,210	14.5 %
Federal Farm Credit Bank	Federal agency securities	47,589,960	5.7
FHLMC (Freddie Mac)	Federal agency securities	182,007,983	24.9
Federal Home Loan Bank	Federal agency securities	124,080,906	17.0

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The collateral is held by the pledging financial institution's trust

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements For the fiscal year ended June 30, 2018

department and is considered held in the City's name. The investments held by the City were not subject to custodial credit risk at June 30, 2018.

As of June 30, 2018, no City investments were held by the same broker-dealer (counterparty) that was used by the City to buy the securities.

For investments identified herein as held by bond trustee, the bond trustee, under direction of the City/Redevelopment Successor Agency/Parking Authority selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the applicable agency.

Investment in State Investment Pool

Both the City and the Successor Agency (SA) are voluntary participants in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of City investments in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. As of June 30, 2018, \$53,901,624 was invested in the City's account and \$173,738 was invested in the SA account. The total amount invested by all public agencies in LAIF at that date was \$22.5 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2018, the investments in the PMIA totaled \$88.8 billion, nearly all of which is invested in non-derivative financial products. The weighted average of LAIF investments was 193 days as of June 30, 2018. LAIF is not rated.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of June 30, 2018:

Investment Type	Totals	1	2	3
Federal agency securities	\$ 489,148,166	—	489,148,166	—
Corporate medium term notes	117,503,672	—	117,503,672	—
Municipal bonds	17,215,332	—	17,215,332	—
Supranationals	50,077,075	—	50,077,075	—
U.S. Treasury securities	2,987,580	2,987,580	—	—
Local Agency Investment Fund	54,075,362	—	54,075,362	—
Held by Others:				
Treasury notes/bonds	16,662,602	16,662,602	—	—
Federal agency securities	26,862,606	—	26,862,606	—
Corporate medium term notes	2,218,050	—	2,218,050	—
Common stock	7,451,656	7,451,656	—	—
Money market mutual funds	68,208,985	68,038,494	170,491	—
Investments at Fair Value	<u>\$ 852,411,086</u>	<u>95,140,332</u>	<u>757,270,754</u>	<u>—</u>

Deposits and securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Federal Agency Securities, Municipal Bonds, Corporate Medium Term Notes, and Supranationals are classified in Level 2 of the fair value hierarchy and are valued using information provided by the firm FT Interactive Data using institutional bond quotes.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(6) NOTES RECEIVABLE

Notes receivable related to governmental activities total \$126,716,067 as follows:

	<u>Balance at June 30,</u> <u>2017</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30,</u> <u>2018</u>
Special Revenue Source Fund					
Community Corporation of Santa Monica (a)	\$ 6,774,763	—	—	—	6,774,763
Community Corporation of Santa Monica (b)	3,350,000	—	—	—	3,350,000
Community Corporation of Santa Monica (c)	7,114,401	—	—	—	7,114,401
Community Corporation of Santa Monica (d)	448,280	—	—	—	448,280
Community Corporation of Santa Monica (e)	4,420,698	—	—	—	4,420,698
FAME Santa Monica Senior Apartments (f)	7,416,347	—	—	—	7,416,347
Step Up (g)	2,029,437	—	—	—	2,029,437
Santa Monica Housing Partners (h)	19,400,000	—	—	—	19,400,000
Mountain View Mobile Home Park resident (i)	87,830	—	—	—	87,830
Community Corporation of Santa Monica (j)	—	—	5,280,138	—	5,280,138
Total Special Revenue Source Fund	<u>51,041,756</u>	<u>—</u>	<u>5,280,138</u>	<u>—</u>	<u>56,321,894</u>
Low and Moderate Income Housing Asset Fund					
Community Corporation of Santa Monica (k)	2,900,000	—	—	—	2,900,000
Community Corporation of Santa Monica (l)	5,408,035	—	—	—	5,408,035
Step Up (m)	5,870,000	—	—	—	5,870,000
Community Corporation of Santa Monica (n)	4,234,506	—	—	—	4,234,506
Santa Monica Housing Partners (o)	5,684,455	—	—	—	5,684,455
Community Corporation of Santa Monica (p)	2,738,277	—	—	—	2,738,277
Community Corporation of Santa Monica (q)	7,979,656	—	—	—	7,979,656
Community Corporation of Santa Monica (r)	4,437,001	—	—	—	4,437,001
FAME Santa Monica Senior Apartments (s)	4,058,652	—	—	—	4,058,652
Step Up (t)	3,011,818	—	—	—	3,011,818
Community Corporation of Santa Monica (u)	729,866	—	—	—	729,866
Total Low and Moderate Income Housing Asset Fund	<u>47,052,266</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>47,052,266</u>
Other Nonmajor Governmental Funds					
Low- and moderate-income housing (DPRLP) (v)	200,000	—	—	—	200,000
Low- and moderate-income housing (DPRLP) (v)	200,000	—	—	—	200,000
Ocean Park Community Center (w)	800,000	—	—	—	800,000
Step Up (x)	1,300,000	—	—	—	1,300,000
MERL Program (y)	4,237,200	—	—	74,233	4,162,967
Community Corporation of Santa Monica (z)	669,456	—	—	—	669,456
Community Corporation of Santa Monica (aa)	1,691,965	—	—	—	1,691,965
Low- and moderate-income housing (bb)	839,334	—	—	119,715	719,619
Ocean Park Community Center (cc)	400,000	—	—	—	400,000
Community Corporation of Santa Monica (dd)	6,345,807	—	—	—	6,345,807
Community Corporation of Santa Monica (ee)	841,600	—	—	—	841,600
MERL Program (ff)	6,208,789	—	—	198,296	6,010,493
Total nonmajor governmental funds	<u>23,734,151</u>	<u>—</u>	<u>—</u>	<u>392,244</u>	<u>23,341,907</u>
Total notes receivable	<u>\$ 121,828,173</u>	<u>—</u>	<u>5,280,138</u>	<u>392,244</u>	<u>126,716,067</u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Special Revenue Source Fund

- a. A revised promissory note dated March 9, 2005 in the amount of \$6,774,763 was executed with Pacific Court Limited Partnership, c/o Community Corporation of Santa Monica, for an affordable housing project located at 2209 Main Street. Forty-four low- and very low-income housing units were constructed on the site. This is a 55-year loan with 1% interest rate per annum. Payments are to be made from residual receipts. As of June 30, 2018, \$6,774,763 had been disbursed to the borrower.
- b. A revised promissory note dated October 26, 2004 in the amount of \$3,350,000 was executed with 1424 Broadway Apartments Limited Partnership, c/o Community Corporation of Santa Monica, for an affordable housing project located at 1424 Broadway/1512 15th Street. This is a 55-year loan with 3% interest rate per annum. Payments are to be made from residual receipts. As of June 30, 2018, \$3,350,000 had been disbursed to the borrower.
- c. A promissory note dated January 12, 2009 in the amount of \$6,223,333 was executed with Community Corporation of Santa Monica for an affordable housing project located at 430-508 Pico Boulevard. This was a 0% interest loan with the principal amount due and payable after a two-year deferral period. It was superseded by a new loan dated January 26, 2012, which increased the note to \$10,947,475, changed the interest rate to 3% and the term to 55 years. As of June 30, 2018, \$7,114,401 had been disbursed to the borrower. See item “p” below for amounts disbursed from Low and Moderate Income Housing Asset Fund.
- d. A promissory note dated February 1, 2011 in the amount of \$9,407,103 was executed with Community Corporation of Santa Monica for an affordable housing project located at 2602 Broadway. This is a 55-year loan with an interest rate of 3% per annum. As of June 30, 2018, \$448,280 had been disbursed to the borrower. See item “q” below for the amount disbursed from the Low and Moderate Income Housing Asset Fund.
- e. A promissory note dated February 2, 2009 in the amount of \$5,595,897 was executed with Community Corporation of Santa Monica for an affordable housing project located at 2802 Pico Boulevard. This was a 0% interest loan with the principal amount due and payable after a two-year deferral period. It was superseded by a new loan dated November 29, 2011, which increased the note to \$9,207,402, changed the interest rate to 3% and the term to 55 years. As of June 30, 2018, \$4,420,698 had been disbursed to the borrower. See item “r” below for the amount disbursed from the Low and Moderate Income Housing Asset Fund.
- f. A promissory note dated June 16, 2009 in the amount of \$4,424,711 was executed with FAME Santa Monica Senior Apartments, L.P. for an affordable housing project located at 1754 19th Street. This loan was superseded by a loan in the amount of \$11,475,000 dated November 17, 2011. It is a 0% interest loan for 55 years. As of June 30, 2018, \$7,416,347 had been disbursed to the borrower. See item “s” below for the amount disbursed from the Low and Moderate Income Housing Asset Fund.
- g. A promissory note dated December 15, 2010 in the amount of \$3,645,422 was executed with Step Up on Second Street, Inc. for an affordable housing project at 520 Colorado Avenue. The loan is for the

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements For the fiscal year ended June 30, 2018

acquisition and predevelopment of the site. This loan was superseded by a loan in the amount of \$5,041,255 dated January 25, 2012. It is a 3% interest loan for 55 years. As of June 30, 2018, \$2,029,437 had been disbursed to the borrower. See item “t” below for the amount disbursed from the Low and Moderate Income Housing Asset Fund.

- h. A promissory note dated December 8, 2011 in the amount of \$19,400,000 was executed with Santa Monica Housing Partners for the acquisition and predevelopment expenses for an affordable housing project located at 1725 Ocean Ave. This is a 0% interest loan with the principal amount due and payable after the 55-year anniversary of conversion to permanent financing. As of June 30, 2018, \$19,400,000 had been disbursed to the borrower.
- i. A shared appreciation promissory note dated October 18, 2012 in the amount of \$87,830 was executed with residents for a unit purchase in Mountain View Mobile Home Park at 1930 Stewart Street. This is a 55-year loan with a 0% interest rate. As of June 30, 2018, \$87,830 had been loaned to the borrower.
- j. A promissory note dated December 6, 2017 in the amount of \$9,558,843 was executed with Community Corporation of Santa Monica for an affordable housing project located at 1820 & 1826 14th Street. This was a 0% interest loan with the principal amount due and payable after a two-year deferral period. As of June 30, 2018, \$5,280,138 had been disbursed to the borrower.

Low and Moderate Income Housing Asset Fund

- k. A revised promissory note dated October 26, 2004 in the amount of \$2,900,000 was executed with 1424 Broadway Apartments Limited Partnership, c/o Community Corporation of Santa Monica, for an affordable housing project located at 1424 Broadway/1512 15th Street. This is a 55-year loan with 3% interest rate per annum. Payments are to be made from residual receipts. As of June 30, 2018, \$2,900,000 had been disbursed to the borrower.
- l. Promissory notes dated October 26, 2004, October 26, 2004 and June 12, 2007 in the amount of \$4,458,035, \$1,691,965 and \$950,000, respectively for a total of \$7,100,000 were executed with 26th and Santa Monica Family Housing Limited Partnership, c/o Community Corporation of Santa Monica, for an affordable housing project located at 1349 26th Street. Forty-four low- and very low-income housing units were constructed on the site. They are 55-year loans with 3% interest rate per annum. Payments are to be made from residual receipts. As of June 30, 2018, \$5,408,035 had been disbursed to the borrower. See item “aa” below for the amount disbursed from the CDBG Fund.
- m. Two promissory notes dated February 13, 2007, one in the amount of \$5,870,000 and one for \$1,300,000 for a total of \$7,170,000 were executed with Step Up on Fifth, L.P. for an affordable housing project located at 1548 Fifth Street. These loans are for the acquisition and construction of the site. This is a 55-year loan with a simple interest rate of 5% per annum. Payments are to be made from residual receipts. As of June 30, 2018, \$5,870,000 had been disbursed to the borrower. See item “x” below for the amount disbursed from the Miscellaneous Grants Fund.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements For the fiscal year ended June 30, 2018

- n. A promissory note dated July 24, 2006 in the amount of \$4,234,506 was executed with The Tahiti, L.P. c/o Community Corporation of Santa Monica for an affordable housing project located at 2411-2423 Centinela Avenue. The loan was for the construction of 36 affordable rental housing units. This is a 55-year loan with a simple interest rate of 3% per annum. Payments are to be made from residual receipts. As of June 30, 2018, \$4,234,506 had been disbursed to the borrower.
- o. An amended promissory note dated February 22, 2008, in the amount of \$5,207,314 and a promissory note dated March 15, 2011 for \$477,141 were executed with the Santa Monica Housing Partners, L.P. for the development of 20 units of affordable senior housing at 1458 14th Street. The loans represent land acquisition financing that achieves site control. These are 55-year loans with an interest rate of 3% per annum on the \$5,207,314 loan and 4.36% on the \$477,141 loan. As of June 30, 2018, the outstanding balance is \$5,684,455.
- p. A promissory note dated January 12, 2009 in the amount of \$6,223,333 was executed with Community Corporation of Santa Monica for an affordable housing project located at 430-508 Pico Boulevard. This was a 0% interest loan with the principal amount due and payable after a two-year deferral period. It was superseded by a new loan dated January 26, 2012, which increased the note to \$10,947,475, changed the interest rate to 3% and the term to 55 years. As of June 30, 2018, \$2,738,277 had been disbursed to the borrower. See item “c” above for amounts disbursed from the Special Revenue Source Fund.
- q. A promissory note dated February 1, 2011 in the amount of \$9,407,103 was executed with Community Corporation of Santa Monica for an affordable housing project located at 2602 Broadway. This is a 55-year loan with an interest rate of 3% per annum. As of June 30, 2018, the outstanding balance is \$7,979,656. See item “d” above for the amount disbursed from the Special Revenue Source Fund.
- r. A promissory note dated February 2, 2009 in the amount of \$5,595,897 was executed with Community Corporation of Santa Monica for an affordable housing project located at 2802 Pico Boulevard. This was a 0% interest loan with the principal amount due and payable after a two-year deferral period. It was superseded by a new loan dated November 29, 2011, which increased the note to \$9,207,402, changed the interest rate to 3% and the term to 55 years. As of June 30, 2018, the outstanding balance is \$4,437,001. See item “e” above for the amount disbursed from the Special Revenue Source Fund.
- s. A promissory note dated June 16, 2009 in the amount of \$4,424,711 was executed with FAME Santa Monica Senior Apartments, L.P. for an affordable housing project located at 1754 19th Street. This loan was superseded by a loan in the amount of \$11,475,000 dated November 17, 2011. It is a 0% interest loan for 55 years. As of June 30, 2018, \$4,058,652 had been disbursed to the borrower. See item “f” above for the amount disbursed from the Special Revenue Source Fund.
- t. A promissory note dated December 15, 2010 in the amount of \$3,645,422 was executed with Step Up on Second Street, Inc. for an affordable housing project at 520 Colorado Avenue. The loan is for the acquisition and predevelopment of the site. This loan was superseded by a loan in the amount of \$5,041,255 dated January 25, 2012. It is a 3% interest loan for 55 year. As of June 30, 2018, \$3,011,818 had been disbursed to the borrower. See item “g” above for the amount disbursed from the Special Revenue Source Fund.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements For the fiscal year ended June 30, 2018

- u. A promissory note dated October 21, 1987 in the amount of \$778,603 was executed with Community Corporation of Santa Monica for affordable housing projects located at 504 Ashland, 518 Pier, 536 Ashland, 642 Marine, and 3005 Highland. The overall project is called Ocean Park 43 (OP43). This is a 40 year loan with an interest rate of 5% per annum. As of June 30, 2018, \$729,866 had been disbursed to the borrower.

Nonmajor Governmental Funds

- v. Two promissory notes dated December 22, 1988 and December 29, 1989, for \$200,000 each, one for 3 Vicente Terrace and one for 2020/30 Cloverfield Boulevard, were executed with the owners of certain rental properties. The first note was for five years at 3% interest per year, and could be renewed for five additional five-year terms as long as the rental properties are maintained for low-and moderate-income households. The first note was due December 22, 1993, and has been extended for the fifth time to December 22, 2018; the second note was due December 29, 1994, and has been extended to December 29, 2019 under the same interest rate and similar terms and conditions. The promissory notes are payable in full upon sale or transfer of the property (whichever occurs first) or upon expiration of the term of the promissory notes. Upon payment to the City, proceeds must be paid to the State of California as repayment for two \$200,000 State Department of Housing and Urban Development Deferred Payment Rehabilitation Loan Program (DPRLP) loans. There were no changes in the loan balances during the fiscal year ended June 30, 2018. These were disbursed from the Miscellaneous Grants Fund.
- w. A promissory note dated September 30, 2003 in the amount of \$1,200,000 was executed with Ocean Park Community Center for congregate housing and emergency shelter for very low-income use, located at 1751 Cloverfield Boulevard. This loan is for the acquisition and rehabilitation of the site. This is a 55-year loan with 5.98% interest rate per annum with a two-year deferral period. Payments are to be made from residual receipts. As of June 30, 2018, \$800,000 had been disbursed to the borrower. This was disbursed from the Miscellaneous Grants Fund. See item “cc” below for the amount disbursed from the TORCA Fund.
- x. Two promissory notes dated February 13, 2007, one in the amount of \$5,870,000 and one for \$1,300,000 for a total of \$7,170,000 were executed with Step Up on Fifth, L.P. for an affordable housing project located at 1548 Fifth Street. These loans are for the acquisition and construction of the site. This is a 55-year loan with a simple interest rate of 5% per annum. Payments are to be made from residual receipts. As of June 30, 2018, \$1,300,000 had been disbursed to the borrower. This was disbursed from the Miscellaneous Grants Fund. See item “m” above for the amount disbursed from the Low and Moderate Income Housing Asset Fund.
- y. The January 17, 1994 Northridge Earthquake resulted in damaged multifamily residences in the City. To facilitate repair of damaged multifamily residences, the U.S. Department of Housing and Urban Development awarded the City a total of \$33,388,000 in emergency funds to finance the City's Multifamily Earthquake Repair Loan (MERL) Program. The funds were allocated as follows: \$2,027,000 – HOME Program Emergency Supplemental Fund, \$6,361,000 – HOME Program Presidential Contingency Fund, and \$25,000,000 – CDBG Program Emergency Supplemental Fund. Loans were

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements For the fiscal year ended June 30, 2018

- made between 1995 and 2001. As of June 30, 2018, the Miscellaneous Grants Fund outstanding balance is \$4,162,967. See item “ff” below for the amount disbursed from the CDBG fund.
- z. On October 22, 1998, the City executed a promissory note with Community Corporation of Santa Monica for the construction of a twenty unit, large family, affordable housing complex located at 708 Pico Boulevard. \$579,000 was funded from the City’s Pico Neighborhood Trust Fund but now known as CDBG Housing Trust Fund, while \$221,000 is funded from the Community Development Block Grant (CDBG) Fund. This note is a 0% interest loan to be repaid from residual receipts of the project and is due on October 22, 2053. As of June 30, 2018, the outstanding balance is \$669,456.
- aa. Promissory notes dated October 26, 2004, October 26, 2004 and June 12, 2007 in the amount of \$4,458,035, \$1,691,965 and \$950,000, respectively for a total of \$7,100,000 were executed with 26th and Santa Monica Family Housing Limited Partnership, c/o Community Corporation of Santa Monica, for an affordable housing project located at 1349 26th Street. Forty-four low- and very low-income housing units are to be constructed on the site. They are 55-year loans with 3% interest rate per annum. Payments are to be made from residual receipts. As of June 30, 2018, \$1,691,965 had been disbursed to the borrower. This was disbursed from the CDBG Fund. See item “l” above for the amount disbursed from the Low and Moderate Income Housing Asset Fund.
- bb. These represent non-interest bearing, limited appreciation and shared appreciation loans made between 1991 and 2001 pursuant to Tenant Ownership Rights Charter Amendment (TORCA) Program guidelines to assist low- and moderate-income households to purchase their rental units. The loans are due the earlier of 20 years or 30 years as applicable or upon resale, transfer or default. As of June 30, 2018, the outstanding balances of such loans total \$719,619.
- cc. A promissory note dated September 30, 2003 in the amount of \$1,200,000 was executed with Ocean Park Community Center for congregate housing and emergency shelter for very low-income use, located at 1751 Cloverfield Boulevard. This loan is for the acquisition and rehabilitation of the site. This is a 55-year loan with 5.98% interest rate per annum with a two-year deferral period. Payments are to be made from residual receipts. As of June 30, 2018, \$400,000 had been disbursed to the borrower. This was disbursed from the TORCA Fund. See item “w” above for the amount disbursed from the Miscellaneous Grants Fund.
- dd. A revised promissory note dated February 8, 2006 in the amount of \$6,745,807 was executed with Community Corporation of Santa Monica for an affordable housing project located at 3021-3031 Santa Monica Boulevard. This loan was for the acquisition, predevelopment expenses and construction of low- and very low-income housing. This is a 3% interest loan with the principal amount due and payable February 8, 2061, 55-years from February 8, 2006. As of June 30, 2018, \$6,345,807 had been disbursed to the borrower. This was disbursed from the TORCA Fund.
- ee. A promissory note dated December 22, 1988 in the amount of \$841,600 was executed with Community Corporation of Santa Monica for low- and very low-income housing at 2020-2030 Cloverfield Boulevard. This is a 35-year loan with 10.44% interest rate per annum. As of June 30, 2018, \$841,600 had been disbursed to the borrower. This was disbursed from the CDBG Fund.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

ff. The January 17, 1994 Northridge Earthquake resulted in damaged multifamily residences in the City. To facilitate repair of damaged multifamily residences, the U.S. Department of Housing and Urban Development awarded the City a total of \$33,388,000 in emergency funds to finance the City's Multifamily Earthquake Repair Loan (MERL) Program. The funds were allocated as follows: \$2,027,000 – HOME Program Emergency Supplemental Fund, \$6,361,000 – HOME Program Presidential Contingency Fund, and \$25,000,000 – CDBG Program Emergency Supplemental Fund. Loans were made between 1995 and 2001. As of June 30, 2018, the CDBG Program Emergency Supplemental Fund outstanding balance is \$6,010,493. See item “y” above for the amount disbursed from the Miscellaneous Grants Fund.

The following summarizes the total loan amount authorized, amount disbursed since inception of the loan program, the amounts repaid by the borrowers, and the loan balances:

Fund	Loan amount authorized	Loan amount disbursed	Amounts repaid/forgiven	Loan balance at June 30, 2018
Miscellaneous Grants (y)	\$ 7,790,695	7,790,695	3,627,728	4,162,967
CDBG (ff)	21,739,088	21,727,929	15,717,436	6,010,493
Total	<u>\$ 29,529,783</u>	<u>29,518,624</u>	<u>19,345,164</u>	<u>10,173,460</u>

Due to the length of the repayment plan and uncertainty of collection of housing loans, the City's policy is not to record interest until received.

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Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(7) CAPITAL ASSETS

Capital assets activity for the primary government for fiscal year ended June 30, 2018 is as follows:

	<u>Adjusted Balance at</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance at</u> <u>June 30, 2018</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 206,448,024	—	(6,125,000)	—	200,323,024
Land held under easement	72,237,823	—	—	—	72,237,823
Construction in progress	19,210,169	37,872,067	—	(8,258,075)	48,824,161
Total capital assets, not being depreciated	<u>297,896,016</u>	<u>37,872,067</u>	<u>(6,125,000)</u>	<u>(8,258,075)</u>	<u>321,385,008</u>
Capital assets, being depreciated:					
Buildings	344,149,020	185,693	(3,905,616)	—	340,429,097
Improvements other than buildings	177,137,324	—	(6,939,181)	2,025,300	172,223,443
Utility systems	1,742,913	—	—	—	1,742,913
Machinery and equipment	48,894,018	2,477,962	(3,071,697)	529,125	48,829,408
Infrastructure	368,038,758	978,793	—	5,703,650	374,721,201
Intangibles	695,710	—	—	—	695,710
Total capital assets being depreciated	<u>940,657,743</u>	<u>3,642,448</u>	<u>(13,916,494)</u>	<u>8,258,075</u>	<u>938,641,772</u>
Less accumulated depreciation for:					
Buildings	(111,723,321)	(8,004,899)	1,086,470	—	(118,641,750)
Improvements other than buildings	(72,113,248)	(6,630,866)	873,446	—	(77,870,668)
Utility systems	(831,038)	(87,146)	—	—	(918,184)
Machinery and equipment	(29,772,398)	(2,062,049)	1,011,514	—	(30,822,933)
Infrastructure	(221,682,731)	(10,804,037)	—	—	(232,486,768)
Intangibles	(124,649)	(34,786)	—	—	(159,435)
Total accumulated depreciation	<u>(436,247,385)</u>	<u>(27,623,783)</u>	<u>2,971,430</u>	<u>—</u>	<u>(460,899,738)</u>
Total capital assets, being depreciated, net	<u>504,410,358</u>	<u>(23,981,335)</u>	<u>(10,945,064)</u>	<u>8,258,075</u>	<u>477,742,034</u>
Subtotal governmental activities	<u>802,306,374</u>	<u>13,890,732</u>	<u>(17,070,064)</u>	<u>—</u>	<u>799,127,042</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	53,380,750	—	—	—	53,380,750
Construction in progress	1,998,853	6,029,651	—	(2,178,527)	5,849,977
Total capital assets, not being depreciated	<u>55,379,603</u>	<u>6,029,651</u>	<u>—</u>	<u>(2,178,527)</u>	<u>59,230,727</u>
Capital assets, being depreciated:					
Buildings	147,870,482	—	—	—	147,870,482
Improvements other than buildings	34,483,991	840,423	(7,994,755)	—	27,329,659
Machinery and equipment	208,228,552	11,614,048	(7,172,947)	2,178,527	214,848,180
Infrastructure	235,774,598	457,929	—	—	236,232,527
Intangibles	103,485,911	2,835,884	—	—	106,321,795
Total capital assets being depreciated	<u>729,843,534</u>	<u>15,748,284</u>	<u>(15,167,702)</u>	<u>2,178,527</u>	<u>732,602,643</u>
Less accumulated depreciation for:					
Buildings	(57,535,213)	(4,049,557)	—	—	(61,584,770)
Improvements other than buildings	(23,514,286) *	(990,498)	7,994,755	—	(16,510,029)
Machinery and equipment	(122,794,026) *	(16,114,373)	7,036,453	—	(131,871,946)
Infrastructure	(93,115,113)	(5,932,122)	—	—	(99,047,235)
Intangibles	(32,966,907)	(2,539,906)	—	—	(35,506,813)
Total accumulated depreciation	<u>(329,925,545)</u>	<u>(29,626,456)</u>	<u>15,031,208</u>	<u>—</u>	<u>(344,520,793)</u>
Total capital assets, being depreciated, net	<u>399,917,989</u>	<u>(13,878,172)</u>	<u>(136,494)</u>	<u>2,178,527</u>	<u>388,081,850</u>
Subtotal business-type activities	<u>455,297,592</u>	<u>(7,848,521)</u>	<u>(136,494)</u>	<u>—</u>	<u>447,312,577</u>
Total	<u>\$ 1,257,603,966</u>	<u>6,042,211</u>	<u>(17,206,558)</u>	<u>—</u>	<u>1,246,439,619</u>

*Reclassification of \$473,133 from improvements to machinery and equipment to correct prior balances.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Depreciation and amortization expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 567,685
Public safety	3,371,042
General services	14,009,628
Cultural and recreation services	4,087,085
Library	1,297,035
Housing and community development	4,185,674
Capital assets held by the government's internal service funds are charged to the various functions based on their assets' usage	<u>105,634</u>
Total depreciation and amortization expense - governmental activities	<u><u>\$ 27,623,783</u></u>

Business-type activities:

Water	\$ 1,353,313
Resource Recovery and Recycling	89,823
Broadband	10,417
Pier	591,357
Wastewater	6,834,176
Airport	263,007
Stormwater management	301,816
Cemetery	44,631
Big Blue Bus	17,338,225
Parking authority	15,827
Capital assets held by the government's internal service funds are charged to the various programs based on their assets' usage	<u>2,783,864</u>
Total depreciation and amortization expense - business-type activities	<u><u>\$ 29,626,456</u></u>

The City's infrastructure assets are recorded at historical cost and estimated historical cost in the government-wide statements as required by GASB Statement No. 34.

On June 29, 2018, the City transferred ownership of the Mountain View Mobile Home Park to the Caritas Corporation (Caritas), a 501(c)3 non-profit, for \$1. As part of the terms of the sale, Caritas agreed to maintain affordability and resident protections and the City is to provide a loan commitment up to \$500,000 to cover operating expense overages for the next five years at \$100,000 per year. The City recognized a loss of \$15,009,881 on the Statement of Activities from the transaction. Because of the non-recurring nature of this transaction, it has been reported as a special item. This note includes decreases to Land, Buildings, and Improvements Other Than Buildings in Governmental Activities to account for the transaction.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(8) UNEARNED REVENUE AND DEFERRED INFLOWS OF RESOURCES

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental and enterprise funds also report a liability in connection with resources that have been received as of year-end, but not yet earned (unearned revenue).

The interest on advances reported in the General Fund represents interest on advances to the Successor Agency and the nonmajor enterprise funds and is recognized in the government-wide financial statements. This interest is earned and included in promissory note balances at year-end. GASB Statement No. 34 requires the City to recognize and present interfund activity between governmental and business-type funds on the government-wide financial statements.

The components of unearned revenue are as follows:

Governmental funds:	
General Fund:	
Unearned user fees	\$ 966,242
Unearned rent	75,164
Business license tax	5,901,769
Unearned sponsorship fees	238,703
Total General Fund	<u>7,181,878</u>
Special Revenue Source Fund:	
Civic Center Village advanced lease payments	18,109,930
Total Special Revenue Source Fund	<u>18,109,930</u>
Nonmajor governmental funds:	
Unearned user fees	373,971
Total nonmajor governmental funds:	<u>373,971</u>
Total governmental funds	<u>25,665,779</u>
Enterprise funds:	
Big Blue Bus Fund:	
Unearned developer fees	185,000
Grant and other funds received prior to meeting all eligibility requirements	1,500,183
Total Big Blue Bus Fund	<u>1,685,183</u>
Nonmajor enterprise fund:	
Unearned rent	9,591
Total enterprise funds	<u>1,694,774</u>
Total unearned revenue	<u>\$ 27,360,553</u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

The components of deferred inflows of resources for unavailable revenue are as follows:

	Fund financial statements	Recognized in government- wide financials	Government- wide financial statements
Governmental funds:			
General Fund:			
Interest on advances	\$ 5,467,409	(5,467,409)	—
Investment income	536,859	(536,859)	—
Settlement proceeds	11,010,000	(11,010,000)	—
Total General Fund	<u>17,014,268</u>	<u>(17,014,268)</u>	—
Special Revenue Source Fund:			
Investment income	115,479	(115,479)	—
Total Special Revenue Source Fund	<u>115,479</u>	<u>(115,479)</u>	—
Low and Moderate Inc Housing Fund:			
Investment income	10,920	(10,920)	—
Total Low and Moderate Inc Housing Fund	<u>10,920</u>	<u>(10,920)</u>	—
Nonmajor governmental funds:			
Investment income	67,251	(67,251)	—
Grants receivable	3,203,814	(3,203,814)	—
Total Nonmajor governmental funds	<u>3,271,065</u>	<u>(3,271,065)</u>	—
Total deferred inflows of resources	<u>\$ 20,411,732</u>	<u>(20,411,732)</u>	—

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(9) LONG-TERM LIABILITIES

Changes in long-term liabilities:

Long-term liability activity for the fiscal year ended June 30, 2018, was as follows:

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Due within one year	Due beyond one year
Governmental Activities:						
Loans payable	\$ 400,000	—	—	400,000	200,000	200,000
Lease Revenue bonds	60,530,000	102,785,000	7,705,000	155,610,000	3,510,000	152,100,000
General obligation bonds	6,590,000	—	1,130,000	5,460,000	1,120,000	4,340,000
Plus deferred amounts:						
For issuance premiums	4,635,814	12,247,767	862,273	16,021,308	—	16,021,308
Total loans and bonds payable	72,155,814	115,032,767	9,697,273	177,491,308	4,830,000	172,661,308
Compensated absences ⁽¹⁾	12,270,159	8,632,386	7,580,245	13,322,300	8,218,093	5,104,207
Claims payable	52,964,654	19,081,272	17,226,273	54,819,653	13,858,181	40,961,472
Subtotal governmental activities	137,390,627	142,746,425	34,503,791	245,633,261	26,906,274	218,726,987
Business-type activities:						
Loans payable	921,635	39,491	299,361	661,765	307,144	354,621
Revenue bonds	8,955,000	—	—	8,955,000	2,130,000	6,825,000
Plus deferred amounts:						
For issuance premiums	449,531	—	99,895	349,636	—	349,636
Total loans and bonds payable	10,326,166	39,491	399,256	9,966,401	2,437,144	7,529,257
Compensated absences	3,423,213	2,705,329	2,580,474	3,548,068	2,673,745	874,323
Claims payable	7,137,294	648,111	1,547,187	6,238,218	2,914,162	3,324,056
Subtotal business-type activities	20,886,673	3,392,931	4,526,917	19,752,687	8,025,051	11,727,636
Total	\$ 158,277,300	146,139,356	39,030,708	265,385,948	34,931,325	230,454,623

(1) Compensated absences are predominantly liquidated by General Fund resources.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

A summary of long-term bonds and loans outstanding at year-end is as follows:

	<u>Date of issue</u>	<u>Original issue</u>	<u>Final maturity date</u>	<u>Interest rate</u>	<u>Balance at June 30, 2018</u>
Governmental activities:					
Lease Revenue bonds ⁽¹⁾ :					
Public Finance Authority 2011 (Series A)	Nov 16, 2011	\$ 32,065,000	June 1, 2031	4.00-5.00%	\$ 25,470,000
Public Finance Authority Refunding 2011 (Series B)	Nov 16, 2011	8,625,000	Dec 1, 2020	2.00-4.00%	3,000,000
Public Finance Authority Refunding 2015	Jul 9, 2015	26,360,000	July 1, 2033	3.00-5.00%	24,355,000
Public Finance Authority 2017	Aug 22, 2017	68,565,000	July 1, 2047	3.00-5.00%	68,565,000
Public Finance Authority 2018	Jun 6, 2018	34,220,000	July 1, 2048	3.625-5.000%	34,220,000
Subtotal lease revenue bonds - governmental activities					<u>155,610,000</u>
General obligation bonds ⁽¹⁾ :					
Main Library Improvements 2012	May 30, 2012	11,325,000	July 1, 2022	0.20-4.00%	5,460,000
Subtotal general obligation bonds - governmental activities					<u>5,460,000</u>
Loans payable:					
State Dept. of Housing and Community Development loan ⁽²⁾	Dec 22, 1988	200,000	Dec 22, 2018	0.00%	200,000
State Dept. of Housing and Community Development loan ⁽²⁾	Dec 29, 1989	200,000	Dec 29, 2019	0.00%	200,000
Subtotal loans payable					<u>400,000</u>
Subtotal governmental activities					<u>161,470,000</u>
Business-type activities ⁽³⁾ :					
Revenue bonds:					
Hyperion Project Revenue Refunding 2012	May 30, 2012	8,955,000	Feb 1, 2022	2.00-4.00%	8,955,000
Subtotal revenue bonds - business-type activities					<u>8,955,000</u>
Loans:					
State Water Resources Control Board loan	Jan 29, 1999	5,000,000	July 1, 2019	2.60%	622,274
State Water Resources Control Board Construction Installment Sale Agreement	Sep 21, 2017	56,885,903	June 11, 2050	1.80%	39,491
					<u>661,765</u>
Subtotal business-type activities					<u>9,616,765</u>
Total					<u>\$ 171,086,765</u>

(1) For construction of City facilities.

(2) To fund promissory note receivable from the owner of certain rental property.

(3) To fund capital contribution towards wastewater treatment facility.

Management believes it is in compliance with all debt covenants. See Note 17.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Annual debt service requirements to maturity are as follows:

Governmental Activities								
Fiscal year ending June 30,	Lease Revenue bonds		General obligation bonds		Loans payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 3,510,000	6,125,388	1,120,000	185,050	200,000	—	4,830,000	6,310,438
2020	3,645,000	6,644,863	1,110,000	140,450	200,000	—	4,955,000	6,785,313
2021	3,815,000	6,485,563	1,095,000	101,825	—	—	4,910,000	6,587,388
2022	3,505,000	6,309,763	1,075,000	63,900	—	—	4,580,000	6,373,663
2023	5,095,000	6,096,763	1,060,000	21,200	—	—	6,155,000	6,117,963
2024-2028	29,375,000	26,579,406	—	—	—	—	29,375,000	26,579,406
2029-2033	31,325,000	19,311,143	—	—	—	—	31,325,000	19,311,143
2034-2038	20,690,000	13,814,458	—	—	—	—	20,690,000	13,814,458
2039-2043	23,425,000	9,010,163	—	—	—	—	23,425,000	9,010,163
2044-2048	29,155,000	3,291,019	—	—	—	—	29,155,000	3,291,019
2049	2,070,000	37,519	—	—	—	—	2,070,000	37,519
	<u>\$ 155,610,000</u>	<u>103,706,048</u>	<u>5,460,000</u>	<u>512,425</u>	<u>400,000</u>	<u>—</u>	<u>161,470,000</u>	<u>104,218,473</u>

Business-type activities						
Fiscal year ending June 30,	Revenue bonds		Loans payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 2,130,000	266,550	307,144	16,179	2,437,144	282,729
2020	2,210,000	181,350	315,130	8,193	2,525,130	189,543
2021	2,275,000	115,050	39,491	—	2,314,491	115,050
2022	2,340,000	46,800	—	—	2,340,000	46,800
	<u>\$ 8,955,000</u>	<u>609,750</u>	<u>661,765</u>	<u>24,372</u>	<u>9,616,765</u>	<u>634,122</u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Pledged Revenue

The City has a number of debt issues that involve the pledging of revenues. The amounts and terms of the remainder of these commitments and the purposes for which the proceeds of the debt issuances are utilized are indicated in the summary of long-term bonds and loans and notes outstanding at year-end presented in this note. For the current year, debt service payments as a percentage of the pledged gross revenue (net of certain expenses where so specified in debt covenants) are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of pledged revenue/debt:	Annual amount of pledged revenue (net of expenses, where required)	Annual debt service payments (of all debt secured by this revenue)	Debt service as a percentage of pledged revenue	Future amount of pledged revenue
Base rental payments				
Public Finance Authority Refunding 2011	\$ 1,067,200	1,067,200	100%	3,180,000
Public Finance Authority 2011	2,669,131	2,669,131	100%	34,687,631
Public Finance Authority Refunding 2015	2,055,444	2,055,444	100%	30,774,869
Public Finance Authority Refunding 2017	2,384,970	2,384,970	100%	124,281,900
Public Finance Authority Refunding 2018	-	-	N/A	63,336,126
Library bond tax revenue				
Main Library Improvements Refunding 2012	1,327,450	1,347,691	102%	4,748,700
Wastewater charges for services				
Hyperion Project Revenue Refunding 2012	266,550	266,550	100%	9,564,750

Debt Issuance

On August 22, 2017, the Santa Monica Public Financing Authority (Public Financing Authority) issued \$68,565,000 (par value) in Lease Revenue Bonds, Series 2017 (City Services Building Project Bonds) (Green Bonds) to fund construction of the administrative building behind City Hall. The bonds were sold at a premium of \$8,754,002 with a final maturity date in 2047.

On September 21, 2017, the City entered into a Construction Installment Sale agreement with the State Water Resources Control Board to fund certain water recycling and conservation projects. The agreement provides funding in the amount of \$56.9 million and is payable with interest at 1.8% over a period of 30 years beginning June 11, 2021. The City has drawn \$39,491 on the loan as of June 30, 2018.

On June 6, 2018, the Santa Monica Public Financing Authority (Public Financing Authority) issued \$34,220,000 (par value) in Lease Revenue Bonds, Series 2018 (Downtown Fire Station Project Bonds) to fund construction of a new fire station. The bonds were sold at a premium of \$3,493,765 with a final maturity date in 2048.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Defeasance

On December 21, 2017, the \$3,535,000 par value of Public Financing Authority 2009 Lease Revenue Bonds were defeased. The City deposited \$3,739,900 of City funds to an escrow account. The total remaining debt service on the bonds is \$3,879,400, for a savings of \$139,500. The outstanding principal balance of the bonds was \$3,535,000 as of June 30, 2018. As a result, the City recognized an economic loss of \$83,378 which is reported in Statement of Activities. The bonds were defeased to release the leased asset to secure the newly issued Downtown Fire Station bonds.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(10) FUND DEFICITS

Internal Service Funds. A net deficit of \$519,274 exists in the Self-Insurance Workers' Compensation Fund. However, the City's September 2018 actuarial study confirmed that the fund is in very stable financial condition (i.e., it is funded at a 90% confidence level). Increased contributions in FY 2017-18 helped decrease the deficit by \$4,052,611.

A net deficit of \$1,709,214 exists in the Self-Insurance Bus Fund due to the adverse development of new and existing claims. Management intends to eliminate the deficit over the next year through increased contributions to the fund in FY 2018-19. Increased contributions in FY 2017-18 decreased the deficit by \$1,680,473.

A net deficit of \$64,821 exists in the Self-Insurance Risk Management Admin Fund primarily due to the implementation of GASB 75. Management intends to eliminate the deficit over time through increased contributions to the fund.

A net deficit of \$413,080 exists in the Housing Authority Fund due to subsidies being received outside the City's revenue accrual policy. The deficit was cleared in September 2018.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(11) INTERFUND TRANSACTIONS

The following tables summarize the due to/from other funds, interfund advances to/from, and transfers in/out as of and for the fiscal year ended June 30, 2018.

Advances to/from

Advances to/from other funds at June 30, 2018 are as follows:

<u>Advances to (receivable fund)</u>	<u>Advances from (payable fund)</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 4,313,513
	Nonmajor enterprise funds	7,748,971
	Total General Fund	<u>12,062,484</u>
	Total advances to/from	<u>\$ 12,062,484</u>

Advances represent loans made to cover operating shortfalls or to provide financing resources for capital projects. These amounts are expected to be repaid in future years, subject to the various loan terms.

Due from/to

Balances due to/from other funds at June 30, 2018 are as follows:

<u>Due From (receivable fund)</u>	<u>Due to (payable fund)</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 3,230,990
	Total due to/from	<u>\$ 3,230,990</u>

Due to/from other funds are primarily short-term loans made to eliminate negative cash balances at year-end. These amounts are expected to be repaid in one year.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Transfers

Transfers to/from other funds for the fiscal year ended June 30, 2018 are as follows:

<u>Transfer in (receivable fund)</u>	<u>Transfer out (payable fund)</u>	<u>Amount</u>
General Fund	Special Revenue Source Fund	\$ 1,502,545 (1)
	Nonmajor governmental funds	3,059,385 (2)
	Water Fund	2,013,538 (3)
	Big Blue Bus Fund	538,536 (4)
	Wastewater Fund	904,877 (3)
	Resource Recovery and Recycling Fund	409,981 (3)
	Nonmajor enterprise funds	951,011 (5)
	Internal service funds	161,282 (6)
	Total General Fund	<u>9,541,155</u>
Special Revenue Source Fund	General Fund	10,185,261 (7)
	Nonmajor enterprise funds	7,200,000 (7)
	Total Special Revenue Source Fund	<u>17,385,261</u>
Low/Moderate Housing Fund	General Fund	192,081 (7)
	Nonmajor enterprise funds	1,800,000 (7)
	Total Low/Moderate Housing Fund	<u>1,992,081</u>
Nonmajor governmental funds	General Fund	12,077,491 (8)
	Special Revenue Source Fund	559,418 (9)
	Nonmajor governmental funds	53,689 (9)
	Total nonmajor governmental funds	<u>12,690,598</u>
Water Fund	General Fund	11,100,450 (10)
	Total Water Fund	<u>11,100,450</u>
Resource Recovery and Recycling Fund	Nonmajor governmental funds	2,709 (11)
	Total Resource Recovery and Recycling Fund	<u>2,709</u>
Wastewater Fund	General Fund	37,021 (12)
	Nonmajor enterprise funds	1,185,898 (13)
	Total Wastewater Fund	<u>1,222,919</u>
Big Blue Bus Fund	Nonmajor governmental funds	599,299 (14)
	Total Big Blue Bus Fund	<u>599,299</u>
Nonmajor enterprise funds	General Fund	406,350 (15)
	Water Fund	14,670 (16)
	Nonmajor governmental funds	629,716 (17)
	Total nonmajor enterprise funds	<u>1,050,736</u>
Internal service funds	Internal service funds	2,421,864 (6)
	Total Internal service funds	<u>2,421,864</u>
	Total transfers	<u>\$ 58,007,072</u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements For the fiscal year ended June 30, 2018

- (1) Transfer of monies to subsidize cultural arts, inclusionary housing, affordable housing program, transportation management and infrastructure expenditures and payments for property used in CityTV operations.
- (2) Transfer of monies to subsidize environmental, literacy, nutrition, housing, transportation and street program expenditures and an advance to the Rent Control Fund to fund a PERS paydown.
- (3) Transfer of monies to subsidize infrastructure improvements and environmental program expenditures.
- (4) Transfer of monies to subsidize finance, human resources, and transit mall maintenance expenditures.
- (5) Transfer of monies to subsidize infrastructure improvements, environmental, and economic development program expenditures.
- (6) Transfer of monies to subsidize risk management program expenditures.
- (7) Transfer of monies to subsidize affordable housing program expenditures.
- (8) Transfer of monies to subsidize maintenance expenditures and payment of debt service.
- (9) Transfer of monies to subsidize housing program expenditures.
- (10) Transfer of monies to subsidize utility rates for low income families and pollution remediation.
- (11) Transfer of monies to subsidize environmental program expenditures.
- (12) Transfer of monies to subsidize utility rates for low income families.
- (13) Transfer of monies to subsidize operating and maintenance expenditures associated with the Santa Monica Urban Runoff Recycling Facility.
- (14) Transfer of monies to subsidize transportation program expenditures.
- (15) Transfer of monies to subsidize Pier operations and the Twilight Concert Series.
- (16) Transfer of monies received from Metropolitan Water District Recycled Water Rebate program.
- (17) Transfer of monies to subsidize cemetery operation and maintenance expenditures and maintenance expenditures associated with the Santa Monica Urban Runoff Recycling Facility.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(12) RESTRICTED NET POSITION

In the government-wide financial statements and proprietary fund financial statements, restricted net position is reported when constraints on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations or other governments, or imposed by law through constitutional provisions or enabling legislation. See note 1 for a detailed explanation of the City's net position policies.

Restricted net position for governmental activities at June 30, 2018 is as follows:

Housing and community development	
Low and moderate income housing funds	\$ 56,752,258
Special revenue source funds	40,958,454
Tenant Ownership Rights Charter Amendment (TORCA) funds	14,091,836
Community Development Block Grant (CDBG) funds	9,627,941
Miscellaneous grant funds	6,782,459
Rent control funds	1,375,197
Housing authority funds	121,733
Total housing and community development	<u>129,709,878</u>
Culture and recreation services	
Beach recreation funds	10,684,917
Special revenue source funds	5,159,626
Parks and recreation funds	195,089
Miscellaneous grant funds	12,838
Total culture and recreation services	<u>16,052,470</u>
Transportation	
Special revenue source funds - traffic	2,469,604
Special revenue source funds - parking	3,361,706
Special revenue source funds - roads	812,923
Special revenue source funds - transit	8,856,805
Local return funds	8,569,343
Gas tax funds	537,569
Total transportation	<u>24,607,950</u>
Clean beaches and ocean parcel tax	7,321,377
Debt service	4,281,826
Miscellaneous	14,754,312
Perpetual care - nonexpendable	<u>12,700,377</u>
Total governmental restricted net position	<u>\$ 209,428,190</u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Restricted net position for business-type activities at June 30, 2018 is as follows:

Housing and community development -	
Low and moderate income housing funds	\$ 8,132,550
Rail reserve	1,788,915
Prop 1B	11,188,673
Debt service	<u>2,298,946</u>
 Total business-type restricted net position	 \$ <u><u>23,409,084</u></u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(13) FUND BALANCES

In the fund financial statements fund balance is displayed in categories that describe the nature and extent of constraints on resources that the City is bound to observe. See note 1 for a detailed explanation of the City’s fund balance policies.

Fund balance reported on the governmental funds balance sheet as of June 30, 2018 includes the following:

Nonspendable fund balance

Nonspendable fund balance includes amounts that are not in a spendable form, such as prepaid and advances to other funds, or are required to be maintained intact, such as funds held by the City associated with the perpetual care of the City's cemetery and mausoleum.

Nonspendable fund balances are presented as a component of fund balances as follows:

	General Fund	Special Revenue Source Fund	Low and Moderate Income Housing Asset Fund	Nonmajor governmental funds	Total governmental funds
<u>Nonspendable</u>					
Prepays	\$ 994,792	—	—	51,884	1,046,676
Advances	11,858,773	—	—	—	11,858,773
Perpetual care	—	—	—	12,700,377	12,700,377
Total nonspendable	<u>\$ 12,853,565</u>	<u>—</u>	<u>—</u>	<u>12,752,261</u>	<u>25,605,826</u>

Restricted fund balance

Restricted fund balance represents amounts that can only be spent for the specific purposes stipulated by either external resource providers or by enabling legislation that created the revenue source and restricted its use. These restrictions may be changed or lifted only with the consent of the resource providers.

The largest component of restricted fund balance is affordable housing, which represents funds received from grants, taxes, and fees that are all dedicated to ensuring the affordability of housing in the City. The next largest categories are the City Services Building project and the Fire Station 1 project, which represent the unspent portion of lease revenue bond proceeds that were issued to finance these large-scale capital projects. Other significant categories include transit, traffic, roads, and parking, which are all dedicated to improving the City’s transportation systems for its citizens and visitors. Another noteworthy category is cultural and recreation services, which includes funds restricted for beach recreation activities, the upgrade and/or expansion of parks and recreation facilities, and funds that support public art programs. Childcare programs are designed to assist eligible residents with childcare needs, as well as for the construction of new childcare facilities. Finally, debt service represents amounts held by trustees for the future repayment of outstanding City obligations.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Restricted fund balances are presented as a component of fund balances as follows:

	General Fund	Special Revenue Source Fund	Low and Moderate Income Housing Asset Fund	Nonmajor governmental funds	Total governmental funds
<u>Restricted</u>					
Affordable housing	\$ 619,619	40,891,510	56,121,719	31,695,049	129,327,897
City Services Building project	58,765,014	—	—	—	58,765,014
Fire Station 1 project	35,755,546	—	—	—	35,755,546
Childcare programs	—	4,705,726	—	—	4,705,726
Cultural and recreation services	—	5,151,193	—	10,853,462	16,004,655
Clean beaches and ocean parcel tax	—	—	—	7,309,158	7,309,158
Traffic	—	2,465,568	—	—	2,465,568
Parking	—	3,356,211	—	—	3,356,211
Roads	—	811,594	—	536,121	1,347,715
Transit	—	8,842,329	—	8,559,174	17,401,503
Overnight accommodations	—	3,120,618	—	—	3,120,618
Miscellaneous	2,600,279	1,193,247	—	2,275,225	6,068,751
Debt service	—	—	—	4,281,826	4,281,826
Total restricted	<u>\$ 97,740,458</u>	<u>70,537,996</u>	<u>56,121,719</u>	<u>65,510,015</u>	<u>289,910,188</u>

Committed fund balance

Committed fund balance represents amounts that can only be used for the specific purposes determined by a formal action of the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that originally imposed the constraint.

The largest component of committed fund balance is affordable housing, which includes funds received from settlement proceeds, the sale of City-owned properties, funds received from the Successor Agency, and one quarter of the City’s Transaction and Use Tax revenue, which are committed to ensuring the affordability of housing in the City.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Committed fund balances are presented as a component of fund balances as follows:

	General Fund	Special Revenue Source Fund	Low and Moderate Income Housing Asset Fund	Nonmajor governmental funds	Total governmental funds
<u>Committed</u>					
Affordable housing	\$ 2,478,476	59,897,829	—	—	62,376,305
Total committed	\$ 2,478,476	59,897,829	—	—	62,376,305

Assigned fund balance

Assigned fund balance represents amounts intended to be used by the City for specific purposes expressed by the City Council or by an official to which the City Council has delegated the authority.

The largest components of assigned fund balance are continuing capital projects and future projects, which represent funds that are dedicated to completing capital improvement and other projects throughout the City, including City Yards and the Civic Center Sports Field. The next largest component represents Gillette Boeing settlement funds that are assigned for pollution remediation projects. Other funds are assigned for compensated absences, homeless programs, reappropriation of FY 2017-18 funds for work in progress, and other key projects necessary to advance the City’s strategic initiatives and framework outcomes.

Assigned fund balances are presented as a component of fund balances as follows:

	General Fund	Special Revenue Source Fund	Low and Moderate Income Housing Asset Fund	Nonmajor governmental funds	Total governmental funds
<u>Assigned</u>					
Continuing capital projects	\$ 74,978,473	—	—	—	74,978,473
Future projects	76,075,085	—	—	—	76,075,085
Expenditure control budget account	4,835,965	—	—	—	4,835,965
Compensated absences	12,678,781	—	—	—	12,678,781
Gillette Boeing settlement funds	55,786,329	—	—	—	55,786,329
Homeless programs	935,570	—	—	—	935,570
Reappropriations	7,775,413	—	—	—	7,775,413
Other purposes	23,208,239	—	—	—	23,208,239
Total assigned	\$ 256,273,855	—	—	—	256,273,855

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Unassigned fund balance

Unassigned fund balance is the residual classification for the General Fund and includes all amounts not contained in other classifications. Other governmental funds may report negative unassigned fund balance if expenditures incurred for a specific purpose exceed the resources that are restricted, committed, or assigned to that purpose. This occurs when reimbursements are received after expenditures are incurred and the deficit will be eliminated as reimbursements for eligible grant expenditures are received from grantors.

The largest component of unassigned fund balance is operating and capital contingency, which represents funds for unforeseen events and circumstances. Similarly, economic uncertainty represents funds for unforeseen changes in economic conditions. The unrealized gain (loss) represents the portion of fund balance related to investments that is not available for appropriation. Negative unassigned fund balance for nonmajor governmental funds is due to the timing of expenditures being incurred prior to reimbursement from grant and other revenue sources. The deficits will be eliminated as future revenues are received.

Unassigned fund balances are presented as a component of fund balances as follows:

	General Fund	Special Revenue Source Fund	Low and Moderate Income Housing Asset Fund	Nonmajor governmental funds	Total governmental funds
<u>Unassigned</u>					
Operating and capital contingency	\$ 59,199,410	—	—	—	59,199,410
Unrealized gain (loss)	(5,434,636)	—	—	—	(5,434,636)
Economic uncertainty	9,700,000	—	—	—	9,700,000
Other unassigned	3,000,000	—	—	(2,111,163)	888,837
Total unassigned	\$ 66,464,774	—	—	(2,111,163)	64,353,611

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(14) COMMITMENTS AND CONTINGENCIES

Litigation

In the case of Pico Neighborhood Association, et al. v. City of Santa Monica, on November 8, 2018, the trial court filed a tentative decision finding in favor of plaintiffs and against the City of Santa Monica. If the trial court were to abide by its tentative decision, Plaintiffs would have the ability to seek an award of reasonable attorney's fee and litigation expenses. The City has reserved an amount it reasonably believes sufficient to cover any such award. The court is expected to issue a final judgment in the near future. The City would have the ability to pursue an appeal of the final judgment in the California Court of Appeals.

Airport

On October 31, 2013, the City filed suit against the Federal Aviation Administration (FAA) regarding the City's desire to cease aviation activity at the airport.

In dispute was whether a reverter clause in an Instrument of Transfer from 1948 obligated the City to use the land as an airport in perpetuity and if the City attempted to change its use, the land would revert to the federal government.

Additionally, the City accepted several federal grants to fund improvements at the Airport and outside aviation interests contended that the City's grant obligations required the Airport to operate until 2023, instead of 2014, which was twenty years after the acceptance of the City's last federal grant, and this too resulted in a federal court lawsuit.

On January 28, 2017, the City reached an agreement with the FAA which included the following:

- Closure of the Santa Monica Airport to all aeronautical use forever can occur after December 31, 2028
- Reduction of the operational runway length to 3,500 feet
- U.S. Government acknowledgement that the City has the right to establish its own proprietary fixed base operation services
- Airport property released from all federal grant assurance obligations
- Consent decree
- Settles all legal disputes between the City and the federal government about the Airport

The City completed construction on the runway shortening project in FY 17-18.

Grants

The City recognizes as revenue grant monies received as reimbursement for costs incurred in certain Federal and State programs it administers. Although the City's Federal grant programs have been audited through June 30, 2017 in accordance with the Uniform Guidance requirements issued by the U.S. Office of Management and Budget, these programs may be subject to financial and compliance audits by the reimbursing agencies.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

The amount, if any, of expenditures, which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Construction Commitments

The City has a number of construction projects currently underway. Purchase orders, contracts and other commitments for these projects are recorded in order to reserve the portion of the applicable appropriation and are segregated at year-end as an unavailable fund balance. Approximately \$84.2 million will be payable upon future performance under these contracts.

Other Commitments

In 1999 the City entered into a thirty year agreement with the City of Los Angeles for the conveyance, treatment, and disposal of wastewater. The Amalgamated System Sewerage System Charge (ASSSC) from this agreement is based on the City of Los Angeles' estimated costs and actual flows and strengths of wastewater in 2016-17. Per the City of Los Angeles, as of June 30, 2018 \$8.7 million will be due under this agreement for fiscal year 2018-19. This agreement may be renegotiated by either party after the initial 10 years of the agreement.

On June 29, 2018, the City transferred ownership of the Mountain View Mobile Home Park to the Caritas Corporation (Caritas), a 501(c)3 non-profit, for \$1. As part of the terms of the sale, Caritas agreed to maintain affordability and resident protections and the City will provide a loan commitment up to \$500,000 to cover operating expense overages for the next five years at \$100,000 per year.

Encumbrances

The City uses "encumbrances" to control expenditure commitments for the year. Encumbrances represent commitments related to contracts not yet performed and purchase orders not yet filled. Commitments for such expenditures are encumbered to reserve applicable appropriations. As of June 30, 2018 total encumbrances for the governmental funds are reported as follows:

General Fund	\$	5,297,643
Special Revenue Fund		305,455
Low and Moderate Income Housing Asset Fund		—
Nonmajor governmental funds		1,244,248
Total	\$	<u>6,847,346</u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Operating Lease Revenue/Expenses

The City has entered into operating lease arrangements as lessor for property. The following schedule is an analysis of the City's investment in property under operating leases by major classes as of June 30, 2018:

Land	\$ 102,952,014
Buildings	34,890,734
Improvements other than buildings	4,811,845
Machinery and equipment	1,782,774
Infrastructure	8,213,438
	<hr/>
	152,650,805
Less: Accumulated depreciation	(34,544,287)
	<hr/>
Total	<u>\$ 118,106,518</u>

The following is a schedule of both future minimum lease rental revenue to be received by the City as lessor and lease payments to be made by the City as lessee under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2018:

<u>Fiscal year ending June 30</u>	<u>Rental revenue</u>	<u>Lease payments</u>
2019	\$ 10,171,726	2,931,964
2020	10,337,025	2,232,399
2021	10,033,944	222,658
2022	7,950,271	19,464
2023	4,423,202	-
2024 - 2028	17,473,380	-
2029 - 2033	13,982,596	-
2034 - 2038	8,724,982	-
2039 - 2043	6,726,180	-
2044 - 2048	5,720,182	-
2049 - 2053	4,359,214	-
2054 - 2058	4,359,214	-
2059 - 2063	4,359,214	-
2064 - 2068	2,489,646	-
2069 - 2073	960,000	-
2074 - 2078	864,000	-
Total	<u>\$ 112,934,776</u>	<u>5,406,485</u>

The total long-term lease annual rental revenues and expenditures/expenses for the year ended June 30, 2018, were \$10,743,290 and \$2,931,964 respectively.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Land	\$ 102,952,014
Buildings	34,890,734
Improvements other than buildings	4,811,845
Machinery and equipment	1,782,774
Infrastructure	8,213,438
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	152,650,805
Less: Accumulated depreciation	(34,544,287)
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2021	10,033,944	222,658
2022	7,950,271	19,464
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2034 - 2038	8,724,982	-
2039 - 2043	6,726,180	-
2044 - 2048	5,720,182	-
2049 - 2053	4,359,214	-
2054 - 2058	4,359,214	-
2059 - 2063	4,359,214	-
2064 - 2068	2,489,646	-
2069 - 2073	960,000	-
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Total	<u><u>\$ 112,934,776</u></u>	<u><u>5,406,485</u></u>

The total long-term lease annual rental revenues and expenditures/expenses for the year ended June 30, 2018, were \$10,743,290 and \$2,931,964 respectively.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(15) SELF-INSURANCE

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. The City has chosen to establish risk financing internal service funds where assets are set aside for claim settlements associated with such risks of loss up to certain limits and has obtained excess liability coverage through the Authority for California Cities Excess Liability (ACCEL), a joint powers authority of twelve medium-size California municipalities. ACCEL is a member of the California State Association of Counties Excess Insurance Authority for the purpose of providing access to excess workers' compensation coverage for major employee injury risks through a program of pooled self-insurance/re-insurance and insurance on a risk sharing basis.

The City retains self-insurance up to \$1,000,000 for general liability, automobile liability, and bus operations liability. The ACCEL pool covers all general liability losses between \$1,000,000 and \$5,000,000, and purchases excess liability insurance to cover losses over \$5,000,000 and up to \$200,000,000. The City shares limits with two other cities within ACCEL to cover losses between \$100,000,000 and \$150,000,000 and one other city within ACCEL to cover losses over \$150,000,000 to \$200,000,000. The City retains self-insurance up to \$750,000 for workers' compensation. California State Association of Counties Excess Insurance Authority covers up to an additional \$4,250,000 for workers' compensation and arranges for excess of workers' compensation over \$5,000,000 and up to statutory limits. No claim settlements have exceeded insurance coverage in any of the past three years.

In order to provide funds to pay claims, ACCEL collects premiums from each member. The premiums paid are credited with investment income at the rate earning on the Authority's investments. Based on ACCEL's June 30, 2018 audited financial statements, the net reserves amounts related to the City were \$2,555,361 (22% of ACCEL's total net reserves and incurred but not reported). Total assets of ACCEL at June 30, 2018 were \$50,376,318. ACCEL has no capital contributions.

The City's unpaid claims liabilities are based on the results of actuarial studies. The unpaid claims liabilities are compiled by the Risk Manager of the City and include amounts for claims incurred but not reported as of year-end. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. Net present values of the unpaid claims liabilities are estimated for the year ended June 30, 2018, based on interest rates of 2.0% for general, automobile, and transit and 5.0% for workers' compensation. Revenues of the risk management funds, together with funds to be provided in the future, are expected to provide adequate resources to meet liabilities as they come due. Non-incremental claims expenses have not been included as part of the liability for claims.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Changes in the liability for claims during the past two fiscal years for the self-insurance funds follow:

Fund (by fiscal year)	Beginning of year	Current-year claims and changes in estimates	Claims payments (net)	End of year	Due within one year
June 30, 2017:					
General Liability and Automobile	\$ 6,450,660	5,047,546	(1,862,627)	9,635,579	4,414,434
Bus	5,961,272	4,221,596	(3,045,574)	7,137,294	4,123,283
Workers' Compensation	40,074,372	11,527,006	(8,272,303)	43,329,075	9,299,042
	<u>\$ 52,486,304</u>	<u>20,796,148</u>	<u>(13,180,504)</u>	<u>60,101,948</u>	<u>17,836,759</u>
June 30, 2018:					
General Liability and Automobile	\$ 9,635,579	6,191,837	(7,483,995)	8,343,421	3,868,093
Bus	7,137,294	648,111	(1,547,187)	6,238,218	2,914,162
Workers' Compensation	43,329,075	12,889,435	(9,742,278)	46,476,232	9,990,088
	<u>\$ 60,101,948</u>	<u>19,729,383</u>	<u>(18,773,460)</u>	<u>61,057,871</u>	<u>16,772,343</u>

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(16) EMPLOYEE BENEFIT PROGRAMS

Santa Monica Public Employees’ Retirement Plan

General Information about the Pension Plan

The City’s defined benefit pension plan, Santa Monica Public Employees’ Retirement Plan (Plan) provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees’ Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees’ Retirement Law establish a menu of benefit provisions as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through City resolution. CalPERS issues a separate comprehensive annual financial report available from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Plan Description

All full-time employees of the City and part-time employees who have worked over 1,000 hours during a fiscal year are eligible to participate in either one of the Safety Plans (Police and Fire) or the Miscellaneous Plan (all others). The City is authorized by statute to establish and amend all plan provisions. Related benefits vest after five years of service. Upon five years of service, employees who retire are entitled to receive an annual retirement benefit according to the following Plan provision chart for each employee group:

	Miscellaneous		
	Prior to July 1, 2012	Between July 1, 2012 and December 31, 2012	On or after January 1, 2013
Hire Date			
Benefit formula	2.70% @ 55	2.00% @ 55	2.00% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefits payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-62	52-67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.43% to 2.42%	1.00% to 2.50%
Cost of living adjustment	2.00%	2.00%	2.00%
Required employee contribution rate	8.00%	7.00%	6.25%
Required employer contribution rate	21.37%	21.37%	21.37%

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

	Police	
	Prior to December 31, 2012	On or after January 1, 2013
Hire Date		
Benefit formula	3.00% @ 50	2.70% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefits payments	monthly for life	monthly for life
Retirement age	50	50-57
Monthly benefits, as a % of eligible compensation	3.00%	2.00% - 2.70%
Cost of living adjustment	2.00%	2.00%
Required employee contribution rate	9.00%	11.25%
Required employer contribution rate	49.26%	49.26%

	Fire	
	Prior to December 31, 2012	On or after January 1, 2013
Hire Date		
Benefit formula	3.00% @ 55	2.70% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefits payments	monthly for life	monthly for life
Retirement age	50-55	50-57
Monthly benefits, as a % of eligible compensation	2.40% - 3.00%	2.00% - 2.70%
Cost of living adjustment	2.00%	2.00%
Required employee contribution rate	9.00%	9.50%
Required employer contribution rate	38.14%	38.14%

As of June 30, 2018, the City had 2,307 active members of which 1,583 were considered “classic” members (hired prior to 12/31/2012) and 724 fall under the decreased benefits as prescribed in the Public Employees Pension Reform Act of 2012 (PEPRA). As noted in the table above, Safety PEPRA members pay a significantly higher employee contribution which, by law, cannot be paid by the employer. Additionally, PEPRA employees have a higher eligible retirement age and a lower benefit.

For FY 2017-18, CalPERS changed payment for the employer paid amortization of the unfunded pension liability from using a level percentage of pay to a flat dollar amount. In FY 2017-18, the City paid CalPERS \$14,439,032, \$6,952,998 and \$3,228,014 for the employer paid amortization of the unfunded liability for the miscellaneous, police and fire plans respectively.

Funding Policy

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS.

Active full-time members in the Plan are required to contribute 6.25% to 8.00% (for miscellaneous employees), 9.00% to 11.25% (for Police safety employees), and 9.00% to 9.5% (for Fire safety employees), of their annual covered salary. The City makes such employee contributions on behalf and for employees hired before

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

July 1, 2012 for miscellaneous employees only. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members earned during the year with an additional amount to amortize the unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Miscellaneous members hired prior to July 1, 2012 reimburse the City for the cost of an enhanced benefit at a rate of 6.7%. Police safety employees hired prior to July 1, 2012 reimburse the City at a rate of 6.5% during FY 2017-18 and 7.5% during FY 2018-19 and fire safety employees reimburse the City at a rate of 4.0% during FY 2017-18 and 5.0% during FY 2018-19. Employee reimbursements totaled \$10,505,613 in FY 2017-18.

Employees Covered

At June 30, 2016, the following employees were covered by the benefit terms for each Plan:

Employees	Miscellaneous	Public Safety	
		Police	Fire
Inactive employees or their beneficiaries currently receiving benefits	1,227	310	139
Inactive employees entitled to but not yet receiving benefits	535	21	12
Active members	1,892	204	110
Total	3,654	535	261

Note: Information derived from 2016 CalPERS Census Data

Net Pension Liability

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The total pension liability of each of the Plans is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was determined using the following actuarial methods and assumptions:

	<u>Miscellaneous</u>	<u>Safety - Police</u>	<u>Safety - Fire</u>
Valuation date	June 30, 2016	June 30, 2016	June 30, 2016
Measurement date	June 30, 2017	June 30, 2017	June 30, 2017
Actuarial cost method	Entry-Age Normal		
Actuarial assumptions:			
Discount rate	7.15%	7.15%	7.15%
Inflation	2.75%	2.75%	2.75%
Projected salary increase	Varies by entry age and service		
Investment rate of return ¹	7.15%	7.15%	7.15%
Mortality ²	Derived using CalPERS' membership data for all funds		
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protections Allowance Floor on Purchasing Power applies, 2.75% thereafter		

¹ Net of pension plan investment expenses, including inflation. 7.0% after 0.15% administrative costs.

² The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at www.calpers.ca.gov under "Forms and Publications."

Change in assumption

In 2017, the accounting discount rate was reduced from 7.65% to 7.15% or 7.5% to 7.0% after 0.15% administrative costs.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate, and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements For the fiscal year ended June 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, both short- and long-term market return expectations were considered by CalPERS as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective July 1, 2014. These geometric rates of return are net of administrative expenses.

Asset Class	Current Target Allocation %	Real Return % Years 1 - 10 ¹	Real Return % Years 11+ ²
Global Equity	47.00	4.90	5.38
Global Fixed Income	19.00	0.80	2.27
Inflation Sensitive	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Estate	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	2.00	(0.40)	(0.90)
Total	100.00		

¹ An expected inflation of 2.50% used for this period

² An expected inflation of 3.00% used for this period

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings on investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives of all members that are provided benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on members' probability of decrementing due to an event other than receiving a cash refund.

Changes in Net Pension Liability

The following tables display the changes in net pension liability recognized over the measurement period for each of the City's Plans:

Miscellaneous:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(c)=(a)-(b)
Balance at 6/30/2016 (VD) ¹	\$ 988,226,788	721,993,066	266,233,722
Changes recognized for the measurement period			
Service cost	27,164,949	—	27,164,949
Interest on total pension liability	73,555,405	—	73,555,405
Changes of assumptions	62,254,788	—	62,254,788
Differences between expected and actual experience	(14,768,176)	—	(14,768,176)
Plan to plan resource movement	—	(61,526)	61,526
Contribution - employer	—	56,350,053	(56,350,053)
Contribution - employee	—	11,398,672	(11,398,672)
Net investment income	—	82,395,628	(82,395,628)
Benefit payments, includes employee contribution refunds	(41,097,884)	(41,097,884)	—
Administrative expense	—	(1,065,974)	1,065,974
Net changes	<u>107,109,082</u>	<u>107,918,969</u>	<u>(809,887)</u>
Balance at 6/30/2017 (MD) ²	<u>\$ 1,095,335,870</u>	<u>829,912,035</u>	<u>265,423,835</u>

¹ VD = Valuation Date

² MD = Measurement Date

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Public Safety - Police:

	Increase (Decrease)		
	Total Pension	Plan Fiduciary Net	Net Pension
	Liability (a)	Position (b)	Liability/(Asset) (c)=(a)-(b)
Balance at 6/30/2016 (VD) ¹	\$ 415,624,714	289,949,561	125,675,153
Changes recognized for the measurement period			
Service cost	9,940,041	—	9,940,041
Interest on total pension liability	31,045,060	—	31,045,060
Changes of assumptions	26,521,719	—	26,521,719
Differences between expected and actual experience	(3,121,761)	—	(3,121,761)
Plan to plan resource movement	—	61,526	(61,526)
Contribution - employer	—	26,559,693	(26,559,693)
Contribution - employee	—	2,827,317	(2,827,317)
Net investment income	—	32,951,701	(32,951,701)
Benefit payments, includes employee contribution refunds	(19,596,092)	(19,596,092)	—
Administrative expense	—	(428,091)	428,091
Net changes	<u>44,788,967</u>	<u>42,376,054</u>	<u>2,412,913</u>
Balance at 6/30/2017 (MD) ²	<u>\$ 460,413,681</u>	<u>332,325,615</u>	<u>128,088,066</u>

¹ VD = Valuation Date

² MD = Measurement Date

Public Safety - Fire:

	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability (a)	Net Position (b)	Liability/(Asset) (c)=(a)-(b)
Balance at 6/30/2016 (VD) ¹	\$ 217,540,182	148,785,695	68,754,487
Changes recognized for the measurement period			
Service cost	4,623,044	—	4,623,044
Interest on total pension liability	16,174,733	—	16,174,733
Changes of assumptions	13,218,472	—	13,218,472
Differences between expected and actual experience	(943,161)	—	(943,161)
Contribution - employer	—	10,375,991	(10,375,991)
Contribution - employee	—	1,565,941	(1,565,941)
Net investment income	—	16,797,654	(16,797,654)
Benefit payments, includes employee contribution refunds	(11,813,956)	(11,813,956)	—
Administrative expense	—	(219,672)	219,672
Net changes	<u>21,259,132</u>	<u>16,705,958</u>	<u>4,553,174</u>
Balance at 6/30/2017 (MD) ²	<u>\$ 238,799,314</u>	<u>165,491,653</u>	<u>73,307,661</u>

¹ VD = Valuation Date

² MD = Measurement Date

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plans as of the Measurement Date, calculated using the discount rate of 7.15% (7.0% after 0.15% administrative costs), as well as the net pension liability if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate (all rates are gross of 0.15% administrative cost):

Discount Rate	Plan		
	Miscellaneous	Safety - Police	Safety - Fire
1% Decrease	6.15%	6.15%	6.15%
Net Pension Liability	\$ 417,826,034	192,998,086	105,123,221
Current Discount Rate	7.15%	7.15%	7.15%
Net Pension Liability	\$ 265,423,835	128,088,066	73,307,661
1% Increase	8.15%	8.15%	8.15%
Net Pension Liability	\$ 139,641,362	75,065,504	47,071,650

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City recognized pension expense as follows:

Plan	Pension Expense
Miscellaneous	\$ 40,226,190
Safety - Police	21,519,649
Safety - Fire	<u>9,576,737</u>
Total	<u>\$ 71,322,576</u>

As of June 30, 2018, the City had deferred outflows and deferred inflows of resources related to pensions as follows:

	Miscellaneous		Safety - Police		Safety - Fire	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 46,292,022	(3,860,064)	18,944,085	(1,191,723)	10,858,031	(1,660,665)
Difference between expected and actual experience	—	(17,658,092)	—	(2,807,104)	—	(2,904,320)
Net difference between projected and actual earnings on pension plan investments	9,299,505	—	3,936,523	—	2,076,459	—
Employer contributions subsequent to the measurement date	29,331,033	—	13,773,882	—	6,276,048	—
Total	<u>\$ 84,922,560</u>	<u>(21,518,156)</u>	<u>36,654,490</u>	<u>(3,998,827)</u>	<u>19,210,538</u>	<u>(4,564,985)</u>

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal year ended June 30, 2018.

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Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Contributions of \$49,380,963 that were made by the City subsequent to the measurement date are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources will be recognized in future pension expense as follows:

Measurement Periods ended June 30	Deferred Outflows / (Inflows) of Resources		
	Miscellaneous	Safety - Police	Safety - Fire
2018	\$ 2,906,167	4,864,853	755,788
2019	22,033,606	11,322,601	3,472,144
2020	15,137,660	5,080,786	2,226,294
2021	(6,004,062)	(2,386,459)	600,063
2022	—	—	1,315,216

\$1,451,645 was due CalPERS for legally required contributions to the pension plan as of June 30, 2018, which was paid in July 2018.

Deferred Compensation Plans

The City offers to its employees an optional deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. This plan is available to substantially all employees and allows participants to defer a portion of their current income until future years to shelter such funds and earnings from state and federal taxation until withdrawal. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency. For the fiscal year ended June 30, 2018 the total employee contributions were \$11,039,236.

The City offers an employer discretionary, defined contribution plan established and governed under Internal Revenue Code Section 401(a). Employee-only contributions are calculated based upon a percentage of employee compensation under agreements with employee bargaining groups and unions. For the fiscal year ended June 30, 2018 the total employee contributions were \$552,663.

The City offers to its as-needed employees a separate Section 457 deferred compensation plan under the Omnibus Budget Reconciliation Act (OBRA). This plan is available to all as-needed employees who are not eligible to participate in CalPERS. This plan requires equal employer and employee contributions based on a percentage of earnings. For the fiscal year ended June 30, 2018 the combined employee/employer contributions were \$406,272.

These plans are administered through third-party administrators. The City does not perform the investing function and has no fiduciary accountability for the plans. Thus, plan assets and any related liabilities to plan participants have been excluded from the City’s basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Other Postemployment Benefits

In addition to providing pension benefits through CalPERS, the City, in accordance with agreements with various bargaining units and groups, provides medical insurance benefits that are considered other postemployment benefits (OPEB) to certain retired employees under a single employer benefit plan. These benefits are subject to negotiations between the City and each bargaining unit and the related memorandum of understanding (MOU) is approved by the City Council. Employees of the Executive Pay Plan group and management employees of the Rent Control Board are eligible for a City paid medical insurance benefit if their combined retirement age and years of City service equals or exceeds 70. Under the terms of a MOU between the City and a coalition of the various non-sworn bargaining units (Coalition), all non-sworn permanent retirees are allowed to continue participating in one of the City’s health plans at the same rate as active employees. As with other MOU’s, this benefit is subject to bargaining between the City and the Coalition. The City also maintains minimum benefits for public safety employees provided by the City’s contract with its healthcare provider CalPERS. The City pays for OPEB through employer only contributions to a qualified OPEB trust, with no contribution required from employees. The Plan does not issue a stand-alone financial statement.

Employees Covered

As of the June 30, 2017 actuarial valuation date, the following current and former employees were covered by the benefit terms under the OPEB plan:

Active employees	2,137
Inactive employees or beneficiaries receiving benefits	218
Inactive employees entitled to, but not receiving benefits	<u>116</u>
Total	<u>2,471</u>

Contributions

The OPEB Plan and its contribution requirements are established by Memorandum of Understanding with the applicable employee bargaining units and may be amended by agreements between the City and these bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the City’s cash contributions were \$2,686,113 in payments to a CalPERS CERBT trust.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by actuarial valuation also dated June 30, 2017 based on the following assumptions:

Actuarial Assumptions:

Discount rate	6.73%
Inflation	2.75%
Salary increases	3.25% per year , used only to allocate the costs between service years.
Investment rate of return	6.73%
Mortality rate	Mortality rates used were those published by CalPERS, adjusted to back out 20 years of Scale BB central year 2008, then projected on a generational basis using the MacLeod Watts Scale 2017.
Pre-retirement Turnover	Assumed rates of termination vary based on the current age, service and employee type (fire, police or miscellaneous) as developed by CalPERS and published in their January 2014 Experience Study Report.
Healthcare Trend Rate	7.50% decreasing to 5.00%

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return ⁽¹⁾</u>
Public Equity	40%	5.71%
Fixed Income	39%	2.40%
Treasury Inflation		
Protected Securities	10%	2.25%
Real Estate Investment		
Trusts	8%	7.88%
Commodities	3%	4.95%

⁽¹⁾ Geomeotric representation
Inflation 3.0%

Discount Rate

The discount rate used to measure the OPEB liability was 6.73%. The projection of cash flows used to determine the discount rate assumed that the City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Changes in OPEB liability

The changes in the net OPEB liability for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c)=(a)-(b)
Balance at 6/30/2016	\$ 30,507,710	2,718,536	27,789,174
Changes recognized for the measurement period			
Service cost	1,017,718	—	1,017,718
Interest on total OPEB liability	2,063,748	—	2,063,748
Changes of assumptions	(321,247)	—	(321,247)
Differences between expected and actual experience	(1,164,748)	—	(1,164,748)
Contribution - employer	—	2,686,113	(2,686,113)
Net investment income	—	325,621	(325,621)
Benefit payments	(1,721,051)	(1,721,051)	—
Administrative expense	—	(2,680)	2,680
Net changes	<u>(125,580)</u>	<u>1,288,003</u>	<u>(1,413,583)</u>
Balance at 6/30/2017	<u>\$ 30,382,130</u>	<u>4,006,539</u>	<u>26,375,591</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2017:

	Current		
	1% Decrease	Discount Rate	1% Increase
	(5.73%)	(6.73%)	(7.73%)
Net OPEB Liability	\$ 29,763,214	26,375,591	23,516,683

Sensitivity of the Net OPEB Liability to Changes in Health Care Cost Trend Rates

The following presents the net OPEB liability of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

	1% Decrease (6.5% decreasing to 4.0%)	Current Healthcare Cost Trend Rates (7.5% decreasing to 5.0%)	1% Increase (8.5% decreasing to 6.0%)
Net OPEB Liability	\$ 22,595,018	26,375,591	31,641,055

OPEB Plan Fiduciary Net Position

CalPERS issues publicly available financial statement for the California Employers’ Retiree Benefit Trust that may be obtained from CalPERS, 400 Q Street, Sacramento, CA 95811 or at www.calpers.ca.gov.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are recognized in future OPEB expense.

The recognition period differs depending on the source of gain or loss:

Net difference between projected and actual earnings on investments

5 year straight-line amortization

All other amounts

Straight-line amortization over the expected average remaining service lives of all members that are provided benefits (active, inactive, and retired) as of the beginning of the measurement period (9.0 years for June 30, 2017)

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018 the City recognized OPEB expense of \$2,681,638. As of fiscal year ended June 30, 2018, the City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumption	\$ -	285,553
Differences between expected and actual experience	-	1,035,332
Net difference between projected and actual earnings on investments	-	88,223
OPEB contributions subsequent to measurement date	3,011,934	-
	<u>\$ 3,011,934</u>	<u>1,409,108</u>

The \$3,011,934 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ending June 30	Recognized Deferred Outflows(Inf lows) of Resources
2019	\$ (187,166)
2020	(187,166)
2021	(187,166)
2022	(187,165)
2023	(165,110)
Thereafter	(495,335)

Medical Trusts

The City contributes, consistent with bargaining unit agreements, monies to medical trusts, a defined contribution plan that provide postemployment medical benefits to employees. The amount of benefits provided to employees under these plans is limited solely to the amount contributed (determined by

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

negotiations between the various bargaining groups and the City) related investment earnings, and forfeitures. For the fiscal year ended June 30, 2018 the City contributed \$4,073,376 towards the retiree medical trusts. These are administered through third-party administrators and the City does not perform the investing function or have other significant responsibility relating to the management of plan assets. Thus, plan assets and any related liabilities have been excluded from the City's basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(17) SUCCESSOR AGENCY TRUST FUND FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld AB 1X26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Santa Monica that previously reported a redevelopment agency as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency (RDA), either the sponsoring city or another unit of local government will agree to serve as the “successor agency” to hold the former RDA’s non-housing assets until they are distributed to other units of state and local government and all enforceable obligations have been paid. In accordance with the Bill, the successor agency is a separate legal entity from the sponsoring city or other local government unit. The Bill also provides for the transfer of the former RDA's housing assets to the City, acting in its municipal capacity.

On January 10, 2012, the City Council elected to become the Successor Agency for the Redevelopment Agency of the City of Santa Monica in accordance with the Bill as part of City resolution number 10647.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. The assets and activities of the dissolved redevelopment agency are reported in a private-purpose trust fund in the financial statements of the City.

Cash and Investments

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Fiduciary Net Position:	
Restricted cash and investments	\$ 19,962,319
Restricted cash and investments with fiscal agent	<u>6,936,613</u>
Total cash and investments	\$ <u><u>26,898,932</u></u>

Investments of the Successor Agency are governed by Government Code Section 53601 and the City’s Investment Policy, which restrict the term and types of investments that can be made. See Note 5.

Fair Value Hierarchy

The Successor Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2018, the Successor Agency had \$6,936,613 (invested in money market mutual funds) classified in Level 1 of the fair value hierarchy valued using prices quoted in active markets for those securities.

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Notes to Basic Financial Statements
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Investments Not Measured at Fair Value

The Successor Agency holds \$173,738 in the Local Agency Investment Fund which is not measured at fair value.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Successor Agency’s investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S Treasury Obligations	None	None	None
Federal Housing Administration Debentures	None	None	None
U.S. Agency Securities	None	None	None
Time Deposits	None	None	None
Unsecured Certificates of Deposit	180 days	None	None
Banker's Acceptances	180 days	None	None
State Obligations	None	None	None
Repurchase Agreements	1 year	None	None
Pre-refunded Municipal Obligations	None	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	None	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The primary way the Successor Agency manages its exposure to interest rate risk is by keeping funds in very liquid vehicles such as money market mutual funds and demand deposit accounts providing the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Successor Agency’s investments held by bond trustee to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

<u>Investment Type</u>	<u>12 Months or less</u>
Held by City	
State Investment Pool	\$ 173,738
Held by bond trustee:	
Money market mutual funds	<u>6,936,613</u>
Total	<u>\$ 7,110,351</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City’s investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>AAAm</u>	<u>Not rated</u>
Held by City				
State Investment Pool	\$ 173,738	N/A	-	173,738
Held by bond trustee:				
Money market mutual funds	<u>6,936,613</u>	AAAm	<u>6,936,613</u>	-
Total	<u>\$ 7,110,351</u>		<u>6,936,613</u>	<u>173,738</u>

Concentration of Credit Risk

No investments in any one issuer (other than U.S. Treasury securities, mutual funds, and investment pools) represent 5% or more of total investments.

Custodial Credit Risk

The Successor Agency does not have separate certificates of deposit or demand accounts held by bond trustee that have disclosable custodial credit risk (as defined by GASB Statement No. 40). For the investments held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement and under the direction of reporting agency, acquires the investment, and holds the investment on behalf of the reporting agency.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

SUCCESSOR AGENCY LONG-TERM LIABILITIES

Changes in long-term liabilities:

Long-term liability activity for the fiscal year ended June 30, 2018 was as follows:

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Due within one year	Due beyond one year
Loans and notes payable	\$ 52,593,419	—	13,447,950	39,145,469	631,090	38,514,379
Term loan	34,848,482	—	3,030,306	31,818,176	3,030,303	28,787,873
Tax allocation bonds	83,920,000	—	2,520,000	81,400,000	2,625,000	78,775,000
Notes payable to the City of Santa Monica ⁽¹⁾	35,670,626	—	9,960,406	25,710,220	15,668,649	10,041,571
Less deferred amounts:						
For issuance discounts	(97,001)	—	(8,083)	(88,918)	—	(88,918)
For issuance premiums	327,744	—	13,654	341,090	—	341,090
Total loans, notes and bonds payable	<u>\$ 207,263,270</u>	<u>—</u>	<u>28,964,233</u>	<u>178,299,037</u>	<u>21,955,042</u>	<u>156,343,995</u>

(1) The original note agreements called for any accrued interest to be added to the principal balance to create a new principal balance. SB 107 requires that interest be calculated at a simple 3% and is not included in the principal balance. The restatement removes the accrued interest from this table.

On July 3, 2017, the Successor Agency paid off the Wells Fargo Bank loan.

A summary of long-term bonds and loans outstanding at year-end is as follows:

	Date of issue	Original issue	Final maturity date	Interest rate	Balance at June 30, 2018
Tax allocation bonds:					
Earthquake Recovery Project 2011 *	June 7, 2011	\$ 41,050,000	July 1, 2042	5.00-5.875%	\$ 41,050,000
Earthquake Recovery Project Refunding 2006 *	April 1, 2006	64,720,000	July 1, 2029	4.00-5.50%	40,350,000
Subtotal tax allocation bonds					<u>81,400,000</u>
Loans and notes:					
Bank of America Term Loan ⁽¹⁾ *	May 1, 2008	50,000,000	July 15, 2028	LIBOR plus 1.25%	31,818,176
Promissory note to the City of Santa Monica ⁽²⁾	Oct 24, 1978	4,400,000	June 29, 2028	3.00%	3,098,095
Promissory note to the City of Santa Monica ⁽³⁾	Jan 9, 2003	38,930,000	Jan 1, 2021	3.00 %	13,452,725
Promissory note to the City of Santa Monica ⁽³⁾	Jan 9, 2003	21,070,000	Jan 1, 2022	3.00 %	9,159,400
Promissory notes payable to others ^{(4)*}	Nov 1, 2010	42,500,000	Jan 1, 2042	6.82%	39,145,469
Subtotal loans and notes					<u>96,673,865</u>
Total					<u>\$ 178,073,865</u>

*Final and conclusive determination received from the Department of Finance

Revisions to the Health and Safety Code changed the interest rate on all City Agency Loans to a simple 3%

- (1) To fund low moderate income housing projects
- (2) For project area costs including the purchase of land and other capital assets.
- (3) For purchase of real estate
- (4) To fund public improvements

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Tax allocation bonds		Loans and notes payable		Promissory notes payable City of Santa Monica		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 2,625,000	4,033,248	3,661,393	3,309,958	15,668,649	—	21,955,042	7,343,206
2020	2,730,000	3,918,771	3,704,421	3,204,377	4,052,725	6,600,000	10,487,146	13,723,148
2021	2,855,000	3,797,623	3,750,381	3,097,319	4,559,400	9,716,382	11,164,781	16,611,324
2022	2,975,000	3,669,720	3,799,476	2,984,214	1,429,446	7,498,101	8,203,922	14,152,035
2018	3,110,000	3,534,295	3,851,917	2,869,218	—	—	6,961,917	6,403,513
2023-2027	17,755,000	15,392,653	20,180,242	12,487,901	—	—	37,935,242	27,880,554
2028-2032	15,405,000	11,186,781	8,951,196	9,479,550	—	—	24,356,196	20,666,331
2033-2037	14,665,000	7,486,031	10,913,992	6,486,006	—	—	25,578,992	13,972,037
2038-2042	19,280,000	2,758,656	12,150,627	2,149,367	—	—	31,430,627	4,908,023
	<u>\$ 81,400,000</u>	<u>55,777,778</u>	<u>70,963,645</u>	<u>46,067,910</u>	<u>25,710,220</u>	<u>23,814,483</u>	<u>178,073,865</u>	<u>125,660,171</u>

Pledged Revenue

The Former Redevelopment Agency had a number of debt issues that were assumed by the Successor Agency that involve the pledging of revenues. The amounts and terms of the remainder of these commitments and the purposes for which the proceeds of the debt issuances are utilized are indicated in the summary of long-term bonds and loans and notes outstanding at year-end presented in this note. AB1X26 only allows sufficient tax revenues to be allocated to the Successor Agency in an amount equal to pay debt service that is deemed to be an enforceable obligation and debt service payments as a percentage of the pledged gross revenue (net of certain expenses where so specified in debt covenants) will always be 100%. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of pledged revenue/debt:	Annual amount of pledged revenue (net of expenses, where required)	Annual debt service payments (of all debt secured by this revenue)	Debt service as a percentage of pledged revenue	Future amount of pledged revenue
Tax increment				
Earthquake Recovery Project Refunding 2006	\$ 4,451,616	4,451,616	100%	\$ 48,929,970
Earthquake Recovery Project 2011	2,262,413	2,262,413	100%	83,578,293
Note Payable to Others	3,300,000	3,300,000	100%	81,600,000
Bank of America Term Loan	3,988,352	3,988,352	100%	33,590,707

State Controller Asset Transfer Review

The Governor and Legislature directed the State Controller's Office (SCO) to review all Redevelopment Agency (RDA) asset transfers made to a city, county or other local agency after January 1, 2011. Any asset transferred to a public agency that was not contractually committed to a third party by June 28, 2011 must be sent to the RDA's successor agency and be used to retire debt or support local services.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements For the fiscal year ended June 30, 2018

On June 30, 2015 the SCO issued its final findings on its review of asset transfers. The findings identified two transfers that purportedly did not comply with the redevelopment dissolution statute. One of these transfers was comprised of unspent Wells Fargo loan proceeds in the amount of \$12,249,173. Although the City disagreed with the findings, the Successor Agency had recorded a receivable from the City in the amount of \$19,149,678 as of June 30, 2015 and payment was made in March 2016. As compliance with the Last and Final ROPS submission during FY 2017-18, the Successor Agency paid off the Wells Fargo Bank loan with the unspent loan proceeds and will await direction from the DOF for the final disposition of the remaining funds.

Last and final ROPS

On November 16, 2016, the Successor Agency submitted its Last and Final ROPS schedule for approval by the Department of Finance (DOF). On January 6, 2017 the DOF denied the last and Final ROPS schedule, but stated they would continue to approve funding of debt service with each annual ROPS submission and have done so for the 2018-19 annual ROPS.

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(18) PRIOR PERIOD ADJUSTMENTS

The accompanying financial statements reflect adjustments resulting from a restatement of net positions as of June 30, 2017 as follows:

Restatement on Government-wide Statements:

	Governmental Activities	Business Type Activities
Beginning Net Position, as previously reported	\$ 975,239,500	591,991,292
Restatements		
Implementation of GASB 75	(12,302,301)	(2,260,243)
Correction of Interest Allocation	290,989	(291,891)
Beginning Net Position, as restated	\$ 963,228,188	589,439,158

Restatement on Fund Statements, Governmental Funds:

	General Fund	Special Revenue Source Fund	Low and Moderate Income Housing Asset Fund	Nonmajor Governmental Funds
Beginning Fund Balance, as previously reported	\$ 346,298,522	109,807,280	53,776,073	72,968,775
Restatements				
Correction of Interest Allocation	221,254	5,112	3,166	28,639
Beginning Fund Balance, as restated	\$ 346,519,776	109,812,392	53,779,239	72,997,414

Restatement on Fund Statements, Proprietary Funds:

	Water Fund	Wastewater Fund	Resource Recovery and Recycling Fund	Big Blue Bus Fund	Nonmajor Enterprise Funds	Internal Service Funds
Beginning Net Position, as previously reported	\$ 47,904,108	208,396,512	3,317,007	217,910,496	87,364,064	37,068,314
Restatements						
Implementation of GASB 75	(183,992)	(39,006)	(338,712)	(1,427,694)	(101,561)	(230,421)
Correction of Interest Allocation	28,592	23,483	11,838	(387,709)	13,280	51,443
Beginning Net Postion, as restated	\$ 47,748,708	208,380,989	2,990,133	216,095,093	87,275,783	36,889,336

CITY OF SANTA MONICA, CALIFORNIA

Notes to Basic Financial Statements
For the fiscal year ended June 30, 2018

(19) SPECIAL ITEMS

Special items are unusual and infrequent in nature but within the control of management.

The following transactions are reported as special items:

- The Governmental activities sold the Mountain View Mobile Home Park incurring a loss of \$15,009,881. More information is available in Note 7 Capital Assets.
- The City adjusted its pollution remediation liability based on current remediation information and analysis. The Governmental Activities reported a reduction in the liability of \$58,668,610 and the Water Fund and Business-Type Activities reported a reduction in liability of \$6,408,992. More information is available in Note 4 Pollution Remediation.

	Governmental Activities	Proprietary Fund and Business-Type Activities
Sale of mobile home park	\$ (15,009,881)	-
Pollution remediation adjustment	58,668,610	6,408,992
Total special items	<u>\$ 43,658,729</u>	<u>6,408,992</u>

City of Santa Monica, California
Year Ended June 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SANTA MONICA, CALIFORNIA

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual

General Fund

For the fiscal year ended June 30, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with final budget</u>
Revenues:						
Property taxes	\$ 57,688,119	57,875,318	56,954,925	—	56,954,925	(920,393)
Sales and use taxes	71,079,000	69,043,000	68,479,438	—	68,479,438	(563,562)
Other taxes	135,257,000	140,803,000	141,280,030	—	141,280,030	477,030
Licenses and permits	45,803,373	41,468,244	41,850,055	—	41,850,055	381,811
Intergovernmental	1,181,673	1,181,673	1,206,256	—	1,206,256	24,583
Charges for services	41,521,035	43,859,376	45,818,800	—	45,818,800	1,959,424
Fines and forfeitures	15,694,057	15,770,057	16,362,857	—	16,362,857	592,800
Investment income	4,727,000	5,600,000	2,372,838	—	2,372,838	(3,227,162)
Rental income	7,784,545	7,835,444	8,039,950	—	8,039,950	204,506
Settlement income	6,103,175	14,085,000	14,085,000	—	14,085,000	—
Other revenue	4,922,227	3,649,294	7,080,808	—	7,080,808	3,431,514
Total revenues	<u>391,761,204</u>	<u>401,170,406</u>	<u>403,530,957</u>	<u>—</u>	<u>403,530,957</u>	<u>2,360,551</u>
Expenditures:						
General government:						
City council	969,117	1,390,165	850,093	22,000	872,093	518,072
City manager	6,559,423	7,349,367	6,845,626	351,527	7,197,153	152,214
Record and election services	2,596,129	2,625,781	2,488,838	34,132	2,522,970	102,811
Finance	15,100,051	15,117,053	14,773,126	10,070	14,783,196	333,857
City attorney	11,433,371	15,905,197	15,769,099	19,362	15,788,461	116,736
Human resources	4,964,956	4,982,542	4,662,305	—	4,662,305	320,237
Information services	8,605,398	8,696,259	8,771,575	—	8,771,575	(75,316)
Community and cultural services	266,564	262,151	255,504	—	255,504	6,647
Public Works	6,250,060	6,565,052	3,849,242	2,693,733	6,542,975	22,077
Other	8,144,020	6,495,137	5,351,693	623,820	5,975,513	519,624
Capital improvement	85,956,584	117,232,572	25,682,950	62,044,141	87,727,091	29,505,481
Total general government	<u>150,845,673</u>	<u>186,621,276</u>	<u>89,300,051</u>	<u>65,798,785</u>	<u>155,098,836</u>	<u>31,522,440</u>
Public safety:						
City Manager	5,490,778	5,542,248	5,231,045	—	5,231,045	311,203
Police	85,669,292	86,494,941	88,597,131	105,702	88,702,833	(2,207,892)
Fire	40,693,359	41,346,705	42,363,633	11,638	42,375,271	(1,028,566)
Capital improvement	44,312,774	57,398,598	7,630,661	36,392,442	44,023,103	13,375,495
Total public safety	<u>176,166,203</u>	<u>190,782,492</u>	<u>143,822,470</u>	<u>36,509,782</u>	<u>180,332,252</u>	<u>10,450,240</u>

See accompanying notes to basic financial statements.

(Continued)

CITY OF SANTA MONICA, CALIFORNIA

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual

General Fund

For the fiscal year ended June 30, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with final budget</u>
General services:						
Planning and community development	\$ 13,599,314	13,121,141	13,347,243	—	13,347,243	(226,102)
Public works	44,929,361	45,507,380	44,778,576	273,184	45,051,760	455,620
Other	—	1,107,980	257,701	192,500	450,201	657,779
Capital improvement	12,378,450	36,440,946	11,970,346	9,319,414	21,289,760	15,151,186
Total general services	<u>70,907,125</u>	<u>96,177,447</u>	<u>70,353,866</u>	<u>9,785,098</u>	<u>80,138,964</u>	<u>16,038,483</u>
Cultural and recreation services:						
Community and cultural services	27,397,770	28,631,666	27,177,039	613,441	27,790,480	841,186
Other	25,603,020	26,850,645	26,807,278		26,807,278	43,367
Capital improvement	3,446,596	13,682,793	3,308,826	3,736,975	7,045,801	6,636,992
Total cultural and recreation services	<u>56,447,386</u>	<u>69,165,104</u>	<u>57,293,143</u>	<u>4,350,416</u>	<u>61,643,559</u>	<u>7,521,545</u>
Library:						
Library	12,910,497	13,184,259	12,797,619	136,399	12,934,018	250,241
Capital improvement	—	328,283	142,187	47,241	189,428	138,855
Total library	<u>12,910,497</u>	<u>13,512,542</u>	<u>12,939,806</u>	<u>183,640</u>	<u>13,123,446</u>	<u>389,096</u>
Housing and community development:						
Planning and community development	20,858,125	23,002,152	21,417,322	818,198	22,235,520	766,632
Housing and economic development	6,201,731	6,903,184	5,787,002	208,257	5,995,259	907,925
Other	2,701,168	3,536,214	2,706,168	—	2,706,168	830,046
Capital improvement	631,960	1,934,855	256,113	395,380	651,493	1,283,362
Total housing and community development	<u>30,392,984</u>	<u>35,376,405</u>	<u>30,166,605</u>	<u>1,421,835</u>	<u>31,588,440</u>	<u>3,787,965</u>
Bond issuance costs						
	—	938,932	938,932	—	938,932	—
Total expenditures	<u>497,669,868</u>	<u>592,574,198</u>	<u>404,814,873</u>	<u>118,049,556</u>	<u>522,864,429</u>	<u>69,709,769</u>
Excess (deficiency) of revenues over expenditures	(105,908,664)	(191,403,792)	(1,283,916)	(118,049,556)	(119,333,472)	72,070,320
Other financing sources (uses):						
Transfers in	11,338,879	9,254,267	9,541,155	—	9,541,155	286,888
Transfers out	(19,093,141)	(31,536,933)	(33,998,654)	—	(33,998,654)	(2,461,721)
Bonds issued	—	—	102,785,000	—	102,785,000	102,785,000
Premium on debt issued	—	—	12,247,767	—	12,247,767	12,247,767
Total other financing sources (uses)	<u>(7,754,262)</u>	<u>(22,282,666)</u>	<u>90,575,268</u>	<u>—</u>	<u>90,575,268</u>	<u>112,857,934</u>
Net change in fund balance	(113,662,926)	(213,686,458)	89,291,352	(118,049,556)	(28,758,204)	184,928,254
Fund balance at beginning of year , as restated (note 18)	<u>346,519,776</u>	<u>346,519,776</u>	<u>346,519,776</u>	<u>—</u>	<u>346,519,776</u>	<u>—</u>
Fund balance at end of year	<u>\$ 232,856,850</u>	<u>132,833,318</u>	<u>435,811,128</u>	<u>(118,049,556)</u>	<u>317,761,572</u>	<u>184,928,254</u>

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual
Special Revenue Source Fund
For the fiscal year ended June 30, 2018

	Original budget	Final budget	Actual, GAAP basis	Encumbrance	Actual, budgetary basis	Variance with final budget
Revenues:						
Charges for services	\$ 546,053	546,053	1,421,435	—	1,421,435	875,382
Investment income	25,000	140,000	175,360	—	175,360	35,360
Other	2,615,394	2,925,394	7,035,986	—	7,035,986	4,110,592
Total revenues	<u>3,186,447</u>	<u>3,611,447</u>	<u>8,632,781</u>	<u>—</u>	<u>8,632,781</u>	<u>5,021,334</u>
Expenditures:						
General government						
Capital improvement	—	2,488,209	41,801	2,165,036	2,206,837	281,372
Total general government	—	2,488,209	41,801	2,165,036	2,206,837	281,372
Public safety:						
Police	4,089	4,089	1,180	—	1,180	2,909
Fire	—	2,762	2,763	—	2,763	(1)
Total public safety	4,089	6,851	3,943	—	3,943	2,908
General services:						
Capital improvement	—	4,988,991	736,813	626,334	1,363,147	3,625,844
Total general services	—	4,988,991	736,813	626,334	1,363,147	3,625,844
Cultural and recreation services:						
Planning and community development	250,000	580,426	240,216	266,755	506,971	73,455
Community and cultural services	97,796	97,796	94,104	—	94,104	3,692
Other	—	356,200	356,200	—	356,200	—
Capital improvement	—	1,197,192	1,196,407	—	1,196,407	785
Total cultural and recreation services	347,796	2,231,614	1,886,927	266,755	2,153,682	77,932
Housing and community development:						
Planning and community development	70,469	70,469	5,683	—	5,683	64,786
Housing and economic development	—	300,000	108,145	38,700	146,845	153,155
Capital improvement	14,794,686	55,118,897	549,334	—	549,334	54,569,563
Total housing and community development	14,865,155	55,489,366	663,162	38,700	701,862	54,787,504
Library						
Library	—	100,000	—	—	—	100,000
Total general services	—	100,000	—	—	—	100,000
Total expenditures	<u>15,217,040</u>	<u>65,305,031</u>	<u>3,332,646</u>	<u>3,096,825</u>	<u>6,429,471</u>	<u>58,875,560</u>
Excess (deficiency) of revenues over expenditures	(12,030,593)	(61,693,584)	5,300,135	(3,096,825)	2,203,310	63,896,894
Other financing sources (uses):						
Transfers in	17,456,324	17,218,324	17,385,261	—	17,385,261	(166,937)
Transfers out	(1,720,666)	(2,040,111)	(2,061,963)	—	(2,061,963)	21,852
Total other financing sources (uses)	15,735,658	15,178,213	15,323,298	—	15,323,298	(145,085)
Net change in fund balance	3,705,065	(46,515,371)	20,623,433	(3,096,825)	17,526,608	64,041,979
Fund balance at beginning of year , as restated (note 18)	<u>109,812,392</u>	<u>109,812,392</u>	<u>109,812,392</u>	<u>—</u>	<u>109,812,392</u>	<u>—</u>
Fund balance at end of year	<u>\$ 113,517,457</u>	<u>63,297,021</u>	<u>130,435,825</u>	<u>(3,096,825)</u>	<u>127,339,000</u>	<u>64,041,979</u>

See accompanying notes to basic financial statements.

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual
Low and Moderate Income Housing Asset Special Revenue Fund
For the fiscal year ended June 30, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:						
Investment income	\$ 50,000	90,000	26,888	—	26,888	(63,112)
Other revenue and special assessments	600,000	600,000	324,210	—	324,210	(275,790)
Total revenues	<u>650,000</u>	<u>690,000</u>	<u>351,098</u>	<u>—</u>	<u>351,098</u>	<u>(338,902)</u>
Expenditures:						
Housing and community development:						
Other	—	699	699	—	699	—
Capital improvements	3,557,876	9,774,060	—	—	—	9,774,060
Total housing and community development	<u>3,557,876</u>	<u>9,774,759</u>	<u>699</u>	<u>—</u>	<u>699</u>	<u>9,774,060</u>
Total expenditures	<u>3,557,876</u>	<u>9,774,759</u>	<u>699</u>	<u>—</u>	<u>699</u>	<u>9,774,060</u>
Excess (deficiency) of revenues over (under) expenditures	(2,907,876)	(9,084,759)	350,399	—	350,399	9,435,158
Other financing sources:						
Transfers in	1,992,081	1,992,081	1,992,081	—	1,992,081	—
Total other financing sources	<u>1,992,081</u>	<u>1,992,081</u>	<u>1,992,081</u>	<u>—</u>	<u>1,992,081</u>	<u>—</u>
Net change in fund balance	(915,795)	(7,092,678)	2,342,480	—	2,342,480	9,435,158
Fund balance at beginning of year , as restated (note 18)	<u>53,779,239</u>	<u>53,779,239</u>	<u>53,779,239</u>	<u>—</u>	<u>53,779,239</u>	<u>—</u>
Fund balance at end of year	<u>\$ 52,863,444</u>	<u>46,686,561</u>	<u>56,121,719</u>	<u>—</u>	<u>56,121,719</u>	<u>9,435,158</u>

CITY OF SANTA MONICA, CALIFORNIA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios Miscellaneous Plan
Last Four Fiscal Years (Unaudited)¹

Total Pension Liability	2018	2017	2016	2015
Service Cost	\$ 27,164,949	24,044,347	23,584,538	24,972,667
Interest on the total pension liability	73,555,405	70,686,179	67,091,447	63,926,580
Changes in assumptions	62,254,788	-	(16,726,947)	-
Difference between expected and actual experience	(14,768,176)	(7,701,743)	(12,672,814)	-
Benefit payments, including refunds of employee contributions	(41,097,884)	(36,967,774)	(35,460,612)	(32,834,279)
Net change in total pension liability	107,109,082	50,061,009	25,815,612	56,064,968
Total pension liability - beginning	988,226,788	938,165,779	912,350,167	856,285,199
Total pension liability - ending (a)	\$ 1,095,335,870	988,226,788	938,165,779	912,350,167
Plan fiduciary net position				
Contribution - employer	\$ 56,350,053	28,154,218	28,349,184	27,433,064
Contribution - employee	11,398,672	11,256,065	10,754,206	11,418,160
Net investment income ²	82,395,628	3,759,440	15,956,734	104,724,175
Benefit payments	(41,097,884)	(36,967,774)	(35,460,612)	(32,834,279)
Plan to plan resource movement	(61,526)	(767)	(909)	-
Administrative expense	(1,065,974)	(436,504)	(806,463)	-
Net change in plan fiduciary - net position	107,918,969	5,764,678	18,792,140	110,741,120
Plan fiduciary net position - beginning	721,993,066	716,228,388	697,436,244	586,695,124
Plan fiduciary net position - ending (b)	829,912,035	721,993,066	716,228,384	697,436,244
Net pension liability - ending (a)-(b)	\$ 265,423,835	266,233,722	221,937,395	214,913,922
Plan fiduciary net position as a percentage of the total pension liability	75.77%	73.06%	76.34%	76.44%
Covered payroll	\$ 142,073,394	139,449,349	134,606,146	131,384,667
Net pension liability as a percentage of covered-employee payroll	186.82%	190.92%	164.88%	163.58%

¹Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

²Net of administrative expenses of \$888,896 in 2015

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes of Assumptions: In fiscal year 2018, the discount rate was changed from 7.65% to 7.15%. In fiscal year 2017, there were no changes. In fiscal year 2016, amounts reported reflect an adjustment of the discount rate was changed from 7.5% (net of administration expenses) to 7.65%.

In fiscal 2015, amounts reported were based in the 7.5% discount rate.

CITY OF SANTA MONICA, CALIFORNIA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios Police Safety Plan
Last Four Fiscal Years (Unaudited)¹

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability				
Service Cost	\$ 9,940,041	8,471,379	8,324,522	8,493,146
Interest on the total pension liability	31,045,060	29,901,653	28,537,027	27,132,667
Changes in assumptions	26,521,719	-	(7,150,335)	-
Difference between expected and actual experience	(3,121,761)	(1,152,112)	(501,077)	-
Benefit payments, including refunds of employee contributions	(19,596,092)	(18,767,835)	(17,121,429)	(16,130,411)
Net change in total pension liability	<u>44,788,967</u>	<u>18,453,085</u>	<u>12,088,708</u>	<u>19,495,402</u>
Total pension liability - beginning	<u>415,624,714</u>	<u>397,171,629</u>	<u>385,082,921</u>	<u>365,587,519</u>
Total pension liability - ending (a)	<u>\$ 460,413,681</u>	<u>415,624,714</u>	<u>397,171,629</u>	<u>385,082,921</u>
Plan fiduciary net position				
Contribution - employer	\$ 26,559,693	12,697,470	13,033,273	12,515,162
Contribution - employee	2,827,317	2,753,594	2,695,506	3,372,358
Net investment income ²	32,951,701	1,516,091	6,513,781	43,315,499
Benefit payments	(19,596,092)	(18,767,835)	(17,121,429)	(16,130,411)
Plan to plan resource movement	61,526	767	-	-
Administrative expense	(428,091)	(177,915)	(328,610)	-
Net change in plan fiduciary - net position	<u>42,376,054</u>	<u>(1,977,828)</u>	<u>4,792,521</u>	<u>43,072,608</u>
Plan fiduciary net position - beginning	<u>289,949,561</u>	<u>291,927,389</u>	<u>287,134,868</u>	<u>244,062,260</u>
Plan fiduciary net position - ending (b)	<u>332,325,615</u>	<u>289,949,561</u>	<u>291,927,389</u>	<u>287,134,868</u>
Net pension liability - ending (a)-(b)	<u>\$ 128,088,066</u>	<u>125,675,153</u>	<u>105,244,240</u>	<u>97,948,053</u>
Plan fiduciary net position as a percentage of the total pension liability	72.18%	69.76%	73.50%	74.56%
Covered payroll	\$ 33,219,255	29,940,893	29,213,137	28,375,509
Net pension liability as a percentage of covered-employee payroll	385.58%	419.74%	360.26%	345.19%

¹Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

²Net of administrative expenses of \$361,114 in 2015

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes of Assumptions: In fiscal year 2018, the discount rate was changed from 7.65% to 7.15%. In fiscal year 2017, there were no changes. In fiscal year 2016, amounts reported reflect an adjustment of the discount rate was changed from 7.5% (net of administration expenses) to 7.65%. In fiscal 2015, amounts reported were based in the 7.5% discount rate.

CITY OF SANTA MONICA, CALIFORNIA
Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios Fire Safety Plan
Last Four Fiscal Years (Unaudited)¹

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability				
Service Cost	\$ 4,623,044	3,778,677	3,766,398	3,975,757
Interest on the total pension liability	16,174,733	15,730,320	15,338,448	14,735,448
Changes in assumptions	13,218,472	-	(3,653,466)	-
Difference between expected and actual experience	(943,161)	(2,919,523)	(515,792)	-
Benefit payments, including refunds of employee contributions	(11,813,956)	(11,409,171)	(10,728,684)	(10,085,994)
Net change in total pension liability	<u>21,259,132</u>	<u>5,180,303</u>	<u>4,206,904</u>	<u>8,625,211</u>
Total pension liability - beginning	<u>217,540,182</u>	<u>212,359,879</u>	<u>208,152,975</u>	<u>199,527,764</u>
Total pension liability - ending (a)	<u>\$ 238,799,314</u>	<u>217,540,182</u>	<u>212,359,879</u>	<u>208,152,975</u>
Plan fiduciary net position				
Contribution - employer	\$ 10,375,991	5,320,402	5,142,818	4,954,271
Contribution - employee	1,565,941	1,479,400	1,375,301	1,421,733
Net investment income ²	16,797,654	706,789	3,458,100	23,479,329
Benefit payments	(11,813,956)	(11,409,171)	(10,728,684)	(10,085,994)
Plan to plan resource movement	-	-	-	-
Administrative expense	(219,672)	(93,112)	(171,948)	-
Net change in plan fiduciary - net position	<u>16,705,958</u>	<u>(3,995,692)</u>	<u>(924,413)</u>	<u>19,769,339</u>
Plan fiduciary net position - beginning	<u>148,785,695</u>	<u>152,781,387</u>	<u>153,705,800</u>	<u>133,936,461</u>
Plan fiduciary net position - ending (b)	<u>165,491,653</u>	<u>148,785,695</u>	<u>152,781,387</u>	<u>153,705,800</u>
Net pension liability - ending (a)-(b)	<u>\$ 73,307,661</u>	<u>68,754,487</u>	<u>59,578,492</u>	<u>54,447,175</u>
Plan fiduciary net position as a percentage of the total pension liability	69.30%	68.39%	71.94%	73.84%
Covered payroll	\$ 16,015,291	16,307,173	15,272,985	15,475,954
Net pension liability as a percentage of covered-employee payroll	457.74%	421.62%	390.09%	351.82%

¹Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

²Net of administrative expenses of \$194,446 in 2015

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes of Assumptions: In fiscal year 2018, the discount rate was changed from 7.65% to 7.15%. In fiscal year 2017, there were no changes. In fiscal year 2016, amounts reported reflect and adjustment of the discount rate was changed from 7.5% (net of administration expenses) to 7.65%. In fiscal 2015, amounts reported were based in the 7.5% discount rate.

CITY OF SANTA MONICA, CALIFORNIA
 Required Supplementary Information
 Schedule of Contributions - Miscellaneous Pension Plan
 Last Four Fiscal Years (Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 29,021,468	29,097,156	27,377,582	25,320,840
Contributions in relation to actuarially determined contributions	<u>(29,331,033)</u>	<u>(56,352,251)</u>	<u>(28,152,578)</u>	<u>(28,349,184)</u>
Contribution excess	<u>\$ (309,565)</u>	<u>(27,255,095)</u>	<u>(774,996)</u>	<u>(3,028,344)</u>
Covered payroll	\$ 127,838,531	142,073,394	139,449,349	134,606,146
Contributions as a percentage of covered-payroll	22.94%	39.66%	20.19%	21.06%

Notes to Schedule

Valuation date

Actuarially determined contribution rates are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported.

Actuarial Cost Method

Entry Age Normal

Amortization Method

Level Percentage of Payroll

Asset Valuation Method

Market Value

Inflation

2.75%

Salary increases

Varies by entry age and service

Payroll Growth

3.00%

Investments Rate of Return

7.15%

Retirement Age

The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011

Mortality

The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

CITY OF SANTA MONICA, CALIFORNIA
 Required Supplementary Information
 Schedule of Contributions - Safety Police Pension Plan
 Last Four Fiscal Years (Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 13,453,498	13,559,983	12,327,896	11,589,142
Contributions in relation to actuarially determined contributions	<u>(13,773,882)</u>	<u>(26,557,166)</u>	<u>(12,697,470)</u>	<u>(13,033,273)</u>
Contribution excess	<u>\$ (320,384)</u>	<u>(12,997,183)</u>	<u>(369,574)</u>	<u>(1,444,131)</u>
Covered payroll	\$ 30,674,924	33,219,255	29,940,893	29,213,137
Contributions as a percentage of covered-payroll	44.90%	79.95%	42.41%	44.61%

Notes to Schedule

Valuation date

Actuarially determined contribution rates are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported.

Actuarial Cost Method

Entry Age Normal

Amortization Method

Level Percentage of Payroll

Asset Valuation Method

Market Value

Inflation

2.75%

Salary increases

Varies by entry age and service

Payroll Growth

3.00%

Investments Rate of Return

7.15%

Retirement Age

The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011

Mortality

The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

CITY OF SANTA MONICA, CALIFORNIA
 Required Supplementary Information
 Schedule of Contributions - Safety Fire Pension Plan
 Last Four Fiscal Years (Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 5,884,665	5,624,625	5,185,401	4,615,293
Contributions in relation to actuarially determined contributions	<u>(6,276,048)</u>	<u>(10,372,347)</u>	<u>(5,320,402)</u>	<u>(5,142,818)</u>
Contribution excess	<u>\$ (391,383)</u>	<u>(4,747,722)</u>	<u>(135,001)</u>	<u>(527,525)</u>
Covered payroll	\$ 18,324,833	16,015,291	16,307,173	15,272,985
Contributions as a percentage of covered payroll	34.25%	64.77%	32.63%	33.67%

Notes to Schedule

Valuation date	Actuarially determined contribution rates are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Asset Valuation Method	Market Value
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll Growth	3.00%
Investments Rate of Return	7.15%
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

CITY OF SANTA MONICA, CALIFORNIA
 Required Supplementary Information
 Schedule of Changes in the Net OPEB Liability and Related Ratios
 For the Fiscal Year Ended June 30 (Unaudited) ¹

	<u>2018</u>
Total OPEB Liability	
Service Cost	\$ 1,017,718
Interest on the total OPEB liability	2,063,748
Changes in assumptions	(321,247)
Difference between expected and actual experience	(1,164,748)
Benefit payments, including refunds of employee contributions	<u>(1,721,051)</u>
Net change in total OPEB liability	<u>(125,580)</u>
Total OPEB liability - beginning	<u>30,507,710</u>
Total OPEB liability - ending (a)	<u><u>\$ 30,382,130</u></u>
Plan fiduciary net position	
Contribution - employer	\$ 2,686,113
Net investment income	325,621
Benefit payments	(1,721,051)
Administrative expense	<u>(2,680)</u>
Net change in plan fiduciary - net position	<u>1,288,003</u>
Plan fiduciary net position - beginning	<u>2,718,536</u>
Plan fiduciary net position - ending (b)	<u>4,006,539</u>
Net OPEB liability - ending (a)-(b)	<u><u>\$ 26,375,591</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	13.19%
Covered employee payroll	\$ 206,778,649
Net OPEB liability as a percentage of covered employee payroll	12.76%

¹Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown.

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes of Assumptions: The mortality projection scale used to project future mortality improvement was updated from MacLeod Watts Scale 2014 to MacLeod Watts Scale 2017, based on new data provided by the Society of Actuaries and the Social Security Administration. Medical plan premium rates are assumed to increase at slightly higher rates than were assumed in the prior valuation. The percentage of future police safety retirees assumed to cover a spouse in retirement increased slightly. The percentage of non-police retirees assumed to cover a spouse decreased.

Historical information is required only for measurement periods for which GASB 75 is applicable.

Future years' information will be displayed up to 10 years as information becomes available.

CITY OF SANTA MONICA, CALIFORNIA

Required Supplementary Information

Schedule of Contributions OPEB

Current Fiscal Year (Unaudited)

	2018
Actuarially determined contribution	\$ 2,645,395
Contributions in relation to actuarially determined contributions	(3,011,934)
Contribution excess	\$ (366,539)
 Covered payroll	 \$ 216,623,938
 Contributions as a percentage of covered payroll	 1.39%

Notes to Schedule

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Asset Valuation Method	Market Value
Inflation	2.75%
Salary increases	3.25% per year, used only to allocate the cost of benefits between service years
 Payroll Growth	 3.00%
Investments Rate of Return	6.73%
Retirement Age	Assumed rates of retirement are based on the current age and service of each employee, the type of employee (fire, police or miscellaneous) and the employee's applicable pension formula. The various rates are those developed by CalPERS and published in their January 2014 Experience Study Report.
 Mortality	 MacLeod Watts Scale 2017 applied generationally
Healthcare Trend Rate	7.5% decreasing to 5.00%

City of Santa Monica, California
Year Ended June 30, 2018

SUPPLEMENTARY INFORMATION

CITY OF SANTA MONICA, CALIFORNIA

Nonmajor Governmental Fund Financial Statements

Special Revenue Funds are used to account for specific revenue sources that are restricted or committed to expenditures for particular purposes. The nonmajor special revenue funds used in this report are listed below:

Beach Recreation Fund – To account for beach parking and concession revenues restricted or committed for expenditures related to beach maintenance and recreation activities.

Housing Authority Fund – To account for the receipt and expenditure of Federal and State funds related to housing programs.

Tenant Ownership Rights Charter Amendment (TORCA) Fund – To account for filing fee and conversion tax revenues and expenditures related to various housing programs authorized by Chapter XX of the City Charter.

Asset Seizure Fund – To account for the receipt and expenditure of equitable sharing program funds.

Citizens Option for Public Safety Fund – To account for the receipt and expenditure of the Citizens Option for Public Safety program established by AB3229 of 1996.

Rent Control Fund – To account for revenues and expenditures that are restricted or committed for rent control activities.

Gas Tax Fund – To account for State and County gasoline tax allocations and any Federal funds provided to the City for street-related purposes.

Local Return Fund – To account for State Grant activities including Proposition A and C.

Capital Projects Funds are used to account for the accumulation of resources that are restricted, committed or assigned for the acquisition or construction of major capital facilities of the City other than those financed by proprietary funds and trust funds. The nonmajor capital projects funds used in this report are listed below:

Clean Beaches and Ocean Parcel Tax Fund – To account for activity related to implementation of Watershed Management Plan and the passage of Measure V in November 2006.

Community Development Block Grant (CDBG) Fund – To account for Federal entitlements under the Housing and Community Development Act of 1974, as amended. The City Council annually allocates CDBG funds to various programs.

Miscellaneous Grants Fund (Capital Projects Fund Type) – To account for the receipt and expenditure of Federal, State and County awarded grants and special allocations provided to the City.

South Coast Air Quality Management District (SCAQMD) Fund – To account for the receipt and expenditure of Air Quality Management District funds.

Parks and Recreation Fund – To account for funds collected under the City's Unit Dwelling Tax. These funds are to be used for the acquisition, improvement and expansion of public parks, playgrounds and recreational facilities.

CITY OF SANTA MONICA, CALIFORNIA

Debt Service Funds are used to accumulate resources that are restricted, committed, or assigned for, and the payment of, general long-term debt principal, interest and related costs. The debt service funds used by the City in this report are listed below:

Debt Service Fund – To account for accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs for public facilities.

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for restricted purposes. The specific permanent funds used by the City in this report are listed below:

Cemetery Perpetual Care Fund – To account for all funds received by the City from cemetery users for the perpetual care of the cemetery grounds.

Mausoleum Perpetual Care Fund – To account for all funds designated for perpetual care of the mausoleum located at the City cemetery.

CITY OF SANTA MONICA, CALIFORNIA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

		Special Revenue Funds					
		Beach Recreation	Housing Authority	TORCA	Asset Seizure	Citizens Option for Public Safety	Rent Control
Assets							
Cash and investments	\$	16,390,196	-	6,603,734	1,156,714	417,056	1,859,796
Restricted cash and investments		73,216	261,559	-	-	-	-
Receivables (net, where applicable, of allowances for uncollectibles):							
Accounts		299,791	4,197	-	-	-	72,146
Notes		-	-	7,465,426	-	-	-
Interest		69,904	-	22,847	3,542	1,325	10,458
Other governments		-	807,669	-	-	-	-
Deposits		-	-	-	-	-	-
Prepays		-	16,763	-	-	-	35,121
Restricted cash and investments with fiscal agent		-	-	-	-	-	-
Total assets	\$	<u>16,833,107</u>	<u>1,090,188</u>	<u>14,092,007</u>	<u>1,160,256</u>	<u>418,381</u>	<u>1,977,521</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances (deficit)							
Liabilities							
Accounts payable	\$	1,704,969	140,564	171	-	3,000	42,164
Accrued liabilities		132,714	30,466	-	-	-	89,620
Contracts payable (retained percentage)		19,347	-	-	-	-	-
Due to other funds		-	797,425	-	-	-	-
Due to other governments		-	-	-	-	-	-
Unearned revenue		373,971	-	-	-	-	-
Deposits payable		74,216	-	-	-	-	-
Advances from other funds		3,842,973	-	-	-	-	470,540
Total liabilities		<u>6,148,190</u>	<u>968,455</u>	<u>171</u>	<u>-</u>	<u>3,000</u>	<u>602,324</u>
Deferred inflows of resources		<u>26,283</u>	<u>534,813</u>	<u>8,590</u>	<u>1,332</u>	<u>498</u>	<u>3,932</u>
Fund balances (deficit)							
Nonspendable		-	16,763	-	-	-	35,121
Restricted		10,658,634	-	14,083,246	1,158,924	414,883	1,336,144
Unassigned		-	(429,843)	-	-	-	-
Total fund balances (deficit)		<u>10,658,634</u>	<u>(413,080)</u>	<u>14,083,246</u>	<u>1,158,924</u>	<u>414,883</u>	<u>1,371,265</u>
Total liabilities and fund balances (deficit)	\$	<u>16,833,107</u>	<u>1,090,188</u>	<u>14,092,007</u>	<u>1,160,256</u>	<u>418,381</u>	<u>1,977,521</u>

continued

CITY OF SANTA MONICA, CALIFORNIA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>			
	<u>Gas Tax</u>	<u>Local Return</u>	<u>Clean Beaches and Ocean Parcel Tax</u>	<u>Community Development Block Grant</u>	<u>Miscellaneous Grants</u>	<u>SCAQMD</u>
Assets						
Cash and investments	\$ 337,960	-	7,590,906	49,721	-	707,054
Restricted cash and investments	-	8,650,317	-	318,995	-	-
Receivables (net, where applicable, of allowances for uncollectibles):						
Accounts	198,880	-	88,759	494,491	-	-
Notes	-	-	-	9,213,513	6,662,968	-
Interest	3,852	27,045	32,499	1,814	1,424	3,466
Other governments	-	8,392	-	-	3,902,869	30,893
Deposits	-	-	-	3,257	-	-
Prepays	-	-	-	-	-	-
Restricted cash and investments with fiscal agent	-	-	-	-	-	-
Total assets	<u>\$ 540,692</u>	<u>8,685,754</u>	<u>7,712,164</u>	<u>10,081,791</u>	<u>10,567,261</u>	<u>741,413</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances (deficit)						
Liabilities						
Accounts payable	\$ 2,186	112,827	164,141	445,711	295,980	38,692
Accrued liabilities	-	-	-	-	8,448	-
Contracts payable (retained percentage)	937	3,584	226,646	8,139	187,923	-
Due to other funds	-	-	-	-	2,433,565	-
Due to other governments	-	-	-	-	4,730	-
Unearned revenue	-	-	-	-	-	-
Deposits payable	-	-	-	-	-	-
Advances from other funds	-	-	-	-	-	-
Total liabilities	<u>3,123</u>	<u>116,411</u>	<u>390,787</u>	<u>453,850</u>	<u>2,930,646</u>	<u>38,692</u>
Deferred inflows of resources	<u>1,448</u>	<u>10,169</u>	<u>12,219</u>	<u>15,250</u>	<u>2,654,967</u>	<u>1,303</u>
Fund balances (deficit)						
Nonspendable	-	-	-	-	-	-
Restricted	536,121	8,559,174	7,309,158	9,612,691	6,662,968	701,418
Unassigned	-	-	-	-	(1,681,320)	-
Total fund balances (deficit)	<u>536,121</u>	<u>8,559,174</u>	<u>7,309,158</u>	<u>9,612,691</u>	<u>4,981,648</u>	<u>701,418</u>
Total liabilities and fund balances (deficit)	<u>\$ 540,692</u>	<u>8,685,754</u>	<u>7,712,164</u>	<u>10,081,791</u>	<u>10,567,261</u>	<u>741,413</u>

continued

CITY OF SANTA MONICA, CALIFORNIA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Capital Projects Funds	Debt Service Fund	Permanent Funds		Total nonmajor governmental funds
	Parks and Recreation	Debt Service	Cemetery Perpetual Care	Mausoleum Perpetual Care	
Assets					
Cash and investments	\$ 194,394	-	31,783	16,438	35,355,752
Restricted cash and investments	-	-	-	-	9,304,087
Receivables (net, where applicable, of allowances for uncollectibles):					
Accounts	-	-	-	-	1,158,264
Notes	-	-	-	-	23,341,907
Interest	695	-	56,487	6,523	241,881
Other governments	-	-	-	-	4,749,823
Deposits	-	-	-	-	3,257
Prepays	-	-	-	-	51,884
Restricted cash and investments with fiscal agent	-	4,281,826	11,301,373	1,335,994	16,919,193
Total assets	<u>\$ 195,089</u>	<u>4,281,826</u>	<u>11,389,643</u>	<u>1,358,955</u>	<u>91,126,048</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances (deficit)					
Liabilities					
Accounts payable	\$ -	-	31,783	16,438	2,998,626
Accrued liabilities	-	-	-	-	261,248
Contracts payable (retained percentage)	-	-	-	-	446,576
Due to other funds	-	-	-	-	3,230,990
Due to other governments	-	-	-	-	4,730
Unearned revenue	-	-	-	-	373,971
Deposits payable	-	-	-	-	74,216
Advances from other funds	-	-	-	-	4,313,513
Total liabilities	<u>-</u>	<u>-</u>	<u>31,783</u>	<u>16,438</u>	<u>11,703,870</u>
Deferred inflows of resources	<u>261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,271,065</u>
Fund balances (deficit)					
Nonspendable	-	-	11,357,860	1,342,517	12,752,261
Restricted	194,828	4,281,826	-	-	65,510,015
Unassigned	-	-	-	-	(2,111,163)
Total fund balances (deficit)	<u>194,828</u>	<u>4,281,826</u>	<u>11,357,860</u>	<u>1,342,517</u>	<u>76,151,113</u>
Total liabilities and fund balances (deficit)	<u>\$ 195,089</u>	<u>4,281,826</u>	<u>11,389,643</u>	<u>1,358,955</u>	<u>91,126,048</u>

CITY OF SANTA MONICA, CALIFORNIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2018

	Special Revenue Funds					
	Beach Recreation	Housing Authority	TORCA	Asset Seizure	Citizens Option for Public Safety	Rent Control
Revenues:						
Other taxes	\$ -	-	118,725	-	-	-
Licenses and permits	100,850	-	-	-	-	-
Intergovernmental	25,879	17,320,695	-	334,527	200,410	-
Charges for services	13,746,073	-	-	-	-	5,288,265
Investment income (loss)	49,170	1,161	18,304	3,319	991	24,158
Rental income	1,556,630	-	-	-	-	-
Other revenue	1,021,751	-	428,084	-	-	4,826
Total revenues	<u>16,500,353</u>	<u>17,321,856</u>	<u>565,113</u>	<u>337,846</u>	<u>201,401</u>	<u>5,317,249</u>
Expenditures:						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	16,746	122,155	-
General services	5,975,761	-	-	-	-	-
Cultural and recreation services	11,331,301	-	-	-	-	-
Library	-	-	-	-	-	-
Housing and community development	-	18,434,100	33,469	-	-	4,684,792
Debt service expenditures:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>17,307,062</u>	<u>18,434,100</u>	<u>33,469</u>	<u>16,746</u>	<u>122,155</u>	<u>4,684,792</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(806,709)</u>	<u>(1,112,244)</u>	<u>531,644</u>	<u>321,100</u>	<u>79,246</u>	<u>632,457</u>
Other financing sources (uses)						
Transfers in	55,073	613,107	-	-	-	-
Transfers out	-	-	(55,684)	-	-	(519,525)
Total other financing sources (uses)	<u>55,073</u>	<u>613,107</u>	<u>(55,684)</u>	<u>-</u>	<u>-</u>	<u>(519,525)</u>
Net change in fund balances	<u>(751,636)</u>	<u>(499,137)</u>	<u>475,960</u>	<u>321,100</u>	<u>79,246</u>	<u>112,932</u>
Fund balances at the beginning of year, as restated (note 18)	<u>11,410,270</u>	<u>86,057</u>	<u>13,607,286</u>	<u>837,824</u>	<u>335,637</u>	<u>1,258,333</u>
Fund balances (deficit) at end of year	<u>\$ 10,658,634</u>	<u>(413,080)</u>	<u>14,083,246</u>	<u>1,158,924</u>	<u>414,883</u>	<u>1,371,265</u>

continued

CITY OF SANTA MONICA, CALIFORNIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2018

	Special Revenue Funds		Capital Projects Funds			
	Gas Tax	Local Return	Clean Beaches and Ocean Parcel Tax	Community Development Block Grant	Miscellaneous Grants	SCAQMD
Revenues:						
Other taxes	\$ -	-	3,058,352	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	2,511,929	3,789,001	-	1,926,432	10,060,918	120,561
Charges for services	-	-	-	-	-	-
Investment income (loss)	(905)	19,670	25,373	(1,055)	(4,183)	(1,429)
Rental income	-	-	-	-	-	-
Other revenue	-	-	-	-	1,000	-
Total revenues	<u>2,511,024</u>	<u>3,808,671</u>	<u>3,083,725</u>	<u>1,925,377</u>	<u>10,057,735</u>	<u>119,132</u>
Expenditures:						
Current:						
General government	3,850	-	199	4,659	316,163	5,247
Public safety	-	-	-	-	642,569	-
General services	-	871,179	4,465,136	162,878	5,119,181	73,498
Cultural and recreation services	-	-	-	201,268	592,610	-
Library	-	-	-	-	27,539	-
Housing and community development	-	96,000	-	1,735,423	434,122	-
Debt service expenditures:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>3,850</u>	<u>967,179</u>	<u>4,465,335</u>	<u>2,104,228</u>	<u>7,132,184</u>	<u>78,745</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,507,174</u>	<u>2,841,492</u>	<u>(1,381,610)</u>	<u>(178,851)</u>	<u>2,925,551</u>	<u>40,387</u>
Other financing sources (uses)						
Transfers in	-	-	-	-	-	-
Transfers out	(2,048,455)	(606,210)	(443,891)	(169,087)	(109,857)	-
Total other financing sources (uses)	<u>(2,048,455)</u>	<u>(606,210)</u>	<u>(443,891)</u>	<u>(169,087)</u>	<u>(109,857)</u>	<u>-</u>
Net change in fund balances	458,719	2,235,282	(1,825,501)	(347,938)	2,815,694	40,387
Fund balances at the beginning of year, as restated (note 18)	77,402	6,323,892	9,134,659	9,960,629	2,165,954	661,031
Fund balances (deficit) at end of year	<u>\$ 536,121</u>	<u>8,559,174</u>	<u>7,309,158</u>	<u>9,612,691</u>	<u>4,981,648</u>	<u>701,418</u>

continued

CITY OF SANTA MONICA, CALIFORNIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the fiscal year ended June 30, 2018

	Capital Projects Funds	Debt Service Fund	Permanent Funds		Total nonmajor governmental funds
	Parks and Recreation	Debt Service	Cemetery Perpetual Care	Mausoleum Perpetual Care	
Revenues:					
Other taxes	\$ 50,200	-	-	-	3,227,277
Licenses and permits	-	-	-	-	100,850
Intergovernmental	-	-	-	-	36,290,352
Charges for services	-	-	290,479	50,379	19,375,196
Investment income (loss)	477	47,280	594,180	54,775	831,286
Rental income	-	-	-	-	1,556,630
Other revenue	-	-	-	-	1,455,661
Total revenues	<u>50,677</u>	<u>47,280</u>	<u>884,659</u>	<u>105,154</u>	<u>62,837,252</u>
Expenditures:					
Current:					
General government	-	-	-	-	330,118
Public safety	-	-	-	-	781,470
General services	-	-	-	-	16,667,633
Cultural and recreation services	42,988	-	-	-	12,168,167
Library	-	-	-	-	27,539
Housing and community development	-	-	-	-	25,417,906
Debt service expenditures:					
Principal	-	9,039,900	-	-	9,039,900
Interest	-	3,596,620	-	-	3,596,620
Total expenditures	<u>42,988</u>	<u>12,636,520</u>	<u>-</u>	<u>-</u>	<u>68,029,353</u>
Excess (deficiency) of revenues over (under) expenditures	7,689	(12,589,240)	884,659	105,154	(5,192,101)
Other financing sources (uses)					
Transfers in	-	12,022,418	-	-	12,690,598
Transfers out	-	-	(350,504)	(41,585)	(4,344,798)
Total other financing sources (uses)	<u>-</u>	<u>12,022,418</u>	<u>(350,504)</u>	<u>(41,585)</u>	<u>8,345,800</u>
Net change in fund balances	7,689	(566,822)	534,155	63,569	3,153,699
Fund balances at the beginning of year, as restated (note 18)	187,139	4,848,648	10,823,705	1,278,948	72,997,414
Fund balances (deficit) at end of year	<u>\$ 194,828</u>	<u>4,281,826</u>	<u>11,357,860</u>	<u>1,342,517</u>	<u>76,151,113</u>

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual
Beach Recreation Special Revenue Fund
For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Licenses and permits	\$ 143,000	100,850	—	100,850	(42,150)
Intergovernmental	27,092	25,879	—	25,879	(1,213)
Charges for services	12,665,079	13,746,073	—	13,746,073	1,080,994
Investment income	230,000	49,170	—	49,170	(180,830)
Rental income	1,451,072	1,556,630	—	1,556,630	105,558
Other revenue	898,433	1,021,751	—	1,021,751	123,318
Total revenues	<u>15,414,676</u>	<u>16,500,353</u>	<u>—</u>	<u>16,500,353</u>	<u>1,085,677</u>
Expenditures:					
General services:					
Public Works	5,651,855	5,487,735	268,062	5,755,797	(103,942)
Capital improvement	648,026	488,026	—	488,026	160,000
Total general services	<u>6,299,881</u>	<u>5,975,761</u>	<u>268,062</u>	<u>6,243,823</u>	<u>56,058</u>
Cultural and recreation services:					
Community and cultural services	9,341,740	9,250,938	7,409	9,258,347	83,393
Other	35,172	35,172	—	35,172	—
Capital improvement	5,527,734	2,045,191	1,329,106	3,374,297	2,153,437
Total cultural and recreation services	<u>14,904,646</u>	<u>11,331,301</u>	<u>1,336,515</u>	<u>12,667,816</u>	<u>2,236,830</u>
Total expenditures	<u>21,204,527</u>	<u>17,307,062</u>	<u>1,604,577</u>	<u>18,911,639</u>	<u>2,292,888</u>
Excess (deficiency) of revenues over expenditures	(5,789,851)	(806,709)	(1,604,577)	(2,411,286)	3,378,565
Other financing sources:					
Transfers In	44,411	55,073	—	55,073	10,662
Total other financing sources	<u>44,411</u>	<u>55,073</u>	<u>—</u>	<u>55,073</u>	<u>10,662</u>
Net change in fund balance	(5,745,440)	(751,636)	(1,604,577)	(2,356,213)	3,389,227
Fund balance at beginning of year , as restated (note 18)	<u>11,410,270</u>	<u>11,410,270</u>	<u>—</u>	<u>11,410,270</u>	<u>—</u>
Fund balance at end of year	<u>\$ 5,664,830</u>	<u>10,658,634</u>	<u>(1,604,577)</u>	<u>9,054,057</u>	<u>3,389,227</u>

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual
Housing Authority Special Revenue Fund
For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Intergovernmental	\$ 17,606,615	17,320,695	—	17,320,695	(285,920)
Investment income	<u>2,000</u>	<u>1,161</u>	<u>—</u>	<u>1,161</u>	<u>(839)</u>
Total revenues	<u>17,608,615</u>	<u>17,321,856</u>	<u>—</u>	<u>17,321,856</u>	<u>(286,759)</u>
Expenditures:					
Housing and community development:					
Housing and economic development	18,589,854	18,421,689	—	18,421,689	168,165
Capital improvement	<u>12,411</u>	<u>12,411</u>	<u>—</u>	<u>12,411</u>	<u>—</u>
Total housing and community development	<u>18,602,265</u>	<u>18,434,100</u>	<u>—</u>	<u>18,434,100</u>	<u>168,165</u>
Total expenditures	<u>18,602,265</u>	<u>18,434,100</u>	<u>—</u>	<u>18,434,100</u>	<u>168,165</u>
Deficiency of revenues over expenditures	(993,650)	(1,112,244)	—	(1,112,244)	(118,594)
Other financing sources:					
Transfers in	<u>613,127</u>	<u>613,107</u>	<u>—</u>	<u>613,107</u>	<u>(20)</u>
Total other financing sources	<u>613,127</u>	<u>613,107</u>	<u>—</u>	<u>613,107</u>	<u>(20)</u>
Net change in fund balance	(380,523)	(499,137)	—	(499,137)	(118,614)
Fund balance at beginning of year , as restated (note 18)	<u>86,057</u>	<u>86,057</u>	<u>—</u>	<u>86,057</u>	<u>—</u>
Fund balance at end of year	<u><u>\$ (294,466)</u></u>	<u><u>(413,080)</u></u>	<u><u>—</u></u>	<u><u>(413,080)</u></u>	<u><u>(118,614)</u></u>

CITY OF SANTA MONICA, CALIFORNIA

Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual

Tenant Ownership Rights Charter Amendment
(TORCA) Special Revenue Fund

For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Other taxes	\$ 25,000	118,725	—	118,725	93,725
Investment income	50,000	18,304	—	18,304	(31,696)
Other revenue	185,720	428,084	—	428,084	242,364
Total revenues	<u>260,720</u>	<u>565,113</u>	<u>—</u>	<u>565,113</u>	<u>304,393</u>
Expenditures:					
Housing and community development:					
Capital improvement	5,780,879	33,469	—	33,469	5,747,410
Total housing and community development	<u>5,780,879</u>	<u>33,469</u>	<u>—</u>	<u>33,469</u>	<u>5,747,410</u>
Total expenditures	<u>5,780,879</u>	<u>33,469</u>	<u>—</u>	<u>33,469</u>	<u>5,747,410</u>
Excess (deficiency) of revenues over (under) expenditures	(5,520,159)	531,644	—	531,644	(6,051,803)
Other financing uses:					
Transfers out	(55,684)	(55,684)	—	(55,684)	—
Total other financing uses	<u>(55,684)</u>	<u>(55,684)</u>	<u>—</u>	<u>(55,684)</u>	<u>—</u>
Net change in fund balance	(5,575,843)	475,960	—	475,960	(6,051,803)
Fund balance at beginning of year , as restated (note 18)	<u>13,607,286</u>	<u>13,607,286</u>	<u>—</u>	<u>13,607,286</u>	<u>—</u>
Fund balance at end of year	<u>\$ 8,031,443</u>	<u>14,083,246</u>	<u>—</u>	<u>14,083,246</u>	<u>(6,051,803)</u>

CITY OF SANTA MONICA, CALIFORNIA

Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual

Citizens Option for Public Safety Special Revenue Fund

For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Intergovernmental	\$ 160,000	200,410	—	200,410	40,410
Investment income	2,000	991	—	991	(1,009)
Total revenues	<u>162,000</u>	<u>201,401</u>	<u>—</u>	<u>201,401</u>	<u>39,401</u>
Expenditures:					
Public safety:					
Police	122,155	122,155	44,050	166,205	(44,050)
Total public safety	<u>122,155</u>	<u>122,155</u>	<u>44,050</u>	<u>166,205</u>	<u>(44,050)</u>
Total expenditures	<u>122,155</u>	<u>122,155</u>	<u>44,050</u>	<u>166,205</u>	<u>(44,050)</u>
Net change in fund balance	39,845	79,246	(44,050)	35,196	(4,649)
Fund balance at beginning of year , as restated (note 18)	<u>335,637</u>	<u>335,637</u>	<u>—</u>	<u>335,637</u>	<u>—</u>
Fund balance at end of year	<u><u>\$ 375,482</u></u>	<u><u>414,883</u></u>	<u><u>(44,050)</u></u>	<u><u>370,833</u></u>	<u><u>(4,649)</u></u>

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual
Gas Tax Special Revenue Fund
For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Intergovernmental	\$ 2,675,673	2,511,929	—	2,511,929	(163,744)
Investment income	<u>5,000</u>	<u>(905)</u>	<u>—</u>	<u>(905)</u>	<u>(5,905)</u>
Total revenues	<u>2,680,673</u>	<u>2,511,024</u>	<u>—</u>	<u>2,511,024</u>	<u>(169,649)</u>
Expenditures:					
General Government	<u>4,900</u>	<u>3,850</u>	<u>—</u>	<u>3,850</u>	<u>1,050</u>
General services:					
Capital improvements	<u>879,075</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>879,075</u>
Total general services	<u>879,075</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>879,075</u>
Total expenditures	<u>883,975</u>	<u>3,850</u>	<u>—</u>	<u>3,850</u>	<u>880,125</u>
Excess of revenues over expenditures	1,796,698	2,507,174	—	2,507,174	710,476
Other financing uses:					
Transfers out	<u>(2,048,455)</u>	<u>(2,048,455)</u>	<u>—</u>	<u>(2,048,455)</u>	<u>—</u>
Total other financing uses	<u>(2,048,455)</u>	<u>(2,048,455)</u>	<u>—</u>	<u>(2,048,455)</u>	<u>—</u>
Net change in fund balance	(251,757)	458,719	—	458,719	710,476
Fund balance at beginning of year , as restated (note 18)	<u>77,402</u>	<u>77,402</u>	<u>—</u>	<u>77,402</u>	<u>—</u>
Fund balance at end of year	<u>\$ (174,355)</u>	<u>536,121</u>	<u>—</u>	<u>536,121</u>	<u>710,476</u>

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual

Local Return Fund

For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Intergovernmental	\$ 3,952,014	3,789,001	—	3,789,001	(163,013)
Investment income	—	19,670		19,670	19,670
Total revenues	<u>3,952,014</u>	<u>3,808,671</u>	<u>—</u>	<u>3,808,671</u>	<u>(143,343)</u>
Expenditures:					
General Government:					
Capital improvement	50,000	—	—	—	50,000
General services:					
Big Blue Bus	387,538	374,303	—	374,303	13,235
Capital improvement	7,672,794	496,876	305,620	802,496	6,870,298
Total general services	<u>8,060,332</u>	<u>871,179</u>	<u>305,620</u>	<u>1,176,799</u>	<u>6,883,533</u>
Housing and community development:					
Big Blue Bus	96,000	96,000	—	96,000	—
Capital improvement	43,667	—	—	—	43,667
Total housing and community development	<u>139,667</u>	<u>96,000</u>	<u>—</u>	<u>96,000</u>	<u>43,667</u>
Total expenditures	<u>8,249,999</u>	<u>967,179</u>	<u>305,620</u>	<u>1,272,799</u>	<u>6,977,200</u>
Excess (Deficiency) of revenues over expenditures	<u>(4,297,985)</u>	<u>2,841,492</u>	<u>(305,620)</u>	<u>2,535,872</u>	<u>6,833,857</u>
Other Financing uses:					
Transfers out	(624,299)	(606,210)	—	(606,210)	18,089
Total other financing uses	<u>(624,299)</u>	<u>(606,210)</u>	<u>—</u>	<u>(606,210)</u>	<u>18,089</u>
Net change in fund balance	<u>(4,922,284)</u>	<u>2,235,282</u>	<u>(305,620)</u>	<u>1,929,662</u>	<u>6,851,946</u>
Fund balance at beginning of year , as restated (note 18)	<u>6,323,892</u>	<u>6,323,892</u>	<u>—</u>	<u>6,323,892</u>	<u>—</u>
Fund balance at end of year	<u>\$ 1,401,608</u>	<u>8,559,174</u>	<u>(305,620)</u>	<u>8,253,554</u>	<u>6,851,946</u>

CITY OF SANTA MONICA, CALIFORNIA

Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual

Clean Beaches and Ocean Parcel Tax Capital Projects Fund

For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Other taxes	\$ 3,085,776	3,058,352	—	3,058,352	(27,424)
CO Catch Basin Maintenance reimbursement	5,100	—	—	—	(5,100)
Investment income	100,000	25,373	—	25,373	(74,627)
Total revenues	<u>3,190,876</u>	<u>3,083,725</u>	<u>—</u>	<u>3,083,725</u>	<u>(107,151)</u>
Expenditures:					
General Government					
Capital improvement	<u>2,923,633</u>	<u>199</u>	<u>—</u>	<u>199</u>	<u>2,923,434</u>
General services:					
Public works	853,724	285,798	58,823	344,621	509,103
Capital improvement	<u>5,869,382</u>	<u>4,179,338</u>	<u>787,159</u>	<u>4,966,497</u>	<u>902,885</u>
Total general services	<u>6,723,106</u>	<u>4,465,136</u>	<u>845,982</u>	<u>5,311,118</u>	<u>1,411,988</u>
Total expenditures	<u>9,646,739</u>	<u>4,465,335</u>	<u>845,982</u>	<u>5,311,317</u>	<u>4,335,422</u>
Excess (deficiency) of revenues over (under) expenditures	(6,455,863)	(1,381,610)	(845,982)	(2,227,592)	4,228,271
Other financing uses:					
Transfers out	<u>(443,891)</u>	<u>(443,891)</u>	<u>—</u>	<u>(443,891)</u>	<u>—</u>
Total other financing uses	<u>(443,891)</u>	<u>(443,891)</u>	<u>—</u>	<u>(443,891)</u>	<u>—</u>
Net change in fund balance	(6,899,754)	(1,825,501)	(845,982)	(2,671,483)	4,228,271
Fund balance at beginning of year , as restated (note 18)	<u>9,134,659</u>	<u>9,134,659</u>	<u>—</u>	<u>9,134,659</u>	<u>—</u>
Fund balance at end of year	<u><u>\$ 2,234,905</u></u>	<u><u>7,309,158</u></u>	<u><u>(845,982)</u></u>	<u><u>6,463,176</u></u>	<u><u>4,228,271</u></u>

CITY OF SANTA MONICA, CALIFORNIA

Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual

Community Development Block Grant
(CDBG) Capital Projects Fund

For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Intergovernmental	\$ 2,737,760	1,926,432	—	1,926,432	(811,328)
Investment income	5,000	(1,055)	—	(1,055)	(6,055)
Total revenues	<u>2,742,760</u>	<u>1,925,377</u>	<u>—</u>	<u>1,925,377</u>	<u>(817,383)</u>
Expenditures:					
General government:					
Other	6,899	4,659	—	4,659	2,240
Total general government	6,899	4,659	—	4,659	2,240
General services:					
Capital improvement	311,123	162,878	28,113	190,991	120,132
Total general government	311,123	162,878	28,113	190,991	120,132
Cultural and recreation services:					
Community and cultural services	201,268	201,268	—	201,268	—
Total cultural and recreation services	201,268	201,268	—	201,268	—
Housing and community development:					
Housing and community development:	575,000	340	478,823	479,163	95,837
Other	22,600	—	—	—	22,600
Capital improvement	1,951,904	1,735,083	92,498	1,827,581	124,323
Total housing and community development	2,549,504	1,735,423	571,321	2,306,744	242,760
Total expenditures	<u>3,068,794</u>	<u>2,104,228</u>	<u>599,434</u>	<u>2,703,662</u>	<u>365,132</u>
Deficiency of revenues over expenditures	(326,034)	(178,851)	(599,434)	(778,285)	(452,251)
Other financing uses:					
Transfers out	(193,452)	(169,087)	—	(169,087)	24,365
Total other financing uses	<u>(193,452)</u>	<u>(169,087)</u>	<u>—</u>	<u>(169,087)</u>	<u>24,365</u>
Net change in fund balance	(519,486)	(347,938)	(599,434)	(947,372)	(427,886)
Fund balance at beginning of year , as restated (note 18)	9,960,629	9,960,629	—	9,960,629	—
Fund balance at end of year	<u>\$ 9,441,143</u>	<u>9,612,691</u>	<u>(599,434)</u>	<u>9,013,257</u>	<u>(427,886)</u>

CITY OF SANTA MONICA, CALIFORNIA
 Schedule of Revenues, Expenditures and Changes in
 Fund Balance – Budget and Actual

Miscellaneous Grants Capital Projects Fund

For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Intergovernmental	\$ 21,884,038	10,060,918	—	10,060,918	(11,823,120)
Investment income	—	(4,183)	—	(4,183)	(4,183)
Other	—	1,000	—	1,000	1,000
Total revenues	<u>21,884,038</u>	<u>10,057,735</u>	<u>—</u>	<u>10,057,735</u>	<u>(11,826,303)</u>
Expenditures:					
General government					
City manager	261,121	1,306	25,000	26,306	234,815
Public works	25,366	—	—	—	25,366
Capital improvement	1,937,609	314,857	1,172,752	1,487,609	450,000
Total general government	<u>2,224,096</u>	<u>316,163</u>	<u>1,197,752</u>	<u>1,513,915</u>	<u>710,181</u>
Public safety					
Police	898,914	340,137	—	340,137	558,777
Fire	684,316	277,182	—	277,182	407,134
Capital improvement	26,557	25,250	—	25,250	1,307
Total public safety	<u>1,609,787</u>	<u>642,569</u>	<u>—</u>	<u>642,569</u>	<u>967,218</u>
General services					
Public works	268,720	137,815	—	137,815	130,905
Capital improvement	21,080,885	4,981,366	2,016,655	6,998,021	14,082,864
Total general services	<u>21,349,605</u>	<u>5,119,181</u>	<u>2,016,655</u>	<u>7,135,836</u>	<u>14,213,769</u>
Cultural and recreation services:					
Community and cultural services	788,013	592,610	60,441	653,051	134,962
Total cultural and recreation services	<u>788,013</u>	<u>592,610</u>	<u>60,441</u>	<u>653,051</u>	<u>134,962</u>
Library					
Library	67,595	27,539	747	28,286	39,309
Total library	<u>67,595</u>	<u>27,539</u>	<u>747</u>	<u>28,286</u>	<u>39,309</u>
Housing and community development:					
Planning and community development	427,559	74,352	344,944	419,296	8,263
Housing and economic development	1,073,603	359,770	—	359,770	713,833
Capital improvement	364,592	—	—	—	364,592
Total housing and community development	<u>1,865,754</u>	<u>434,122</u>	<u>344,944</u>	<u>779,066</u>	<u>1,086,688</u>
Total expenditures	<u>27,904,850</u>	<u>7,132,184</u>	<u>3,620,539</u>	<u>10,752,723</u>	<u>17,152,127</u>
Excess (Deficiency) of revenues over expenditures	<u>(6,020,812)</u>	<u>2,925,551</u>	<u>(3,620,539)</u>	<u>(694,988)</u>	<u>5,325,824</u>
Other Financial uses:					
Transfers out	(113,931)	(109,857)	—	(109,857)	4,074
Total other financing uses	<u>(113,931)</u>	<u>(109,857)</u>	<u>—</u>	<u>(109,857)</u>	<u>4,074</u>
Net change in fund balance	<u>(6,134,743)</u>	<u>2,815,694</u>	<u>(3,620,539)</u>	<u>(804,845)</u>	<u>5,329,898</u>
Fund balance at beginning of year , as restated (note 18)	<u>2,165,954</u>	<u>2,165,954</u>	<u>—</u>	<u>2,165,954</u>	<u>—</u>
Fund balance at end of year	<u>\$ (3,968,789)</u>	<u>4,981,648</u>	<u>(3,620,539)</u>	<u>1,361,109</u>	<u>5,329,898</u>

CITY OF SANTA MONICA, CALIFORNIA

Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual

South Coast Air Quality Management District (SCAQMD) Capital Projects Fund

For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Intergovernmental	\$ 710,000	120,561	—	120,561	(589,439)
Investment income	5,300	(1,429)	—	(1,429)	(6,729)
Total revenues	<u>715,300</u>	<u>119,132</u>	<u>—</u>	<u>119,132</u>	<u>(596,168)</u>
Expenditures:					
General government:					
Other	5,247	5,247	—	5,247	—
Total general government	<u>5,247</u>	<u>5,247</u>	<u>—</u>	<u>5,247</u>	<u>—</u>
General services:					
Capital improvement	159,145	73,498	85,647	159,145	—
Total general services	<u>159,145</u>	<u>73,498</u>	<u>85,647</u>	<u>159,145</u>	<u>—</u>
Total expenditures	<u>164,392</u>	<u>78,745</u>	<u>85,647</u>	<u>164,392</u>	<u>—</u>
Net change in fund balance	550,908	40,387	(85,647)	(45,260)	(596,168)
Fund balance at beginning of year , as restated (note 18)	<u>661,031</u>	<u>661,031</u>	<u>—</u>	<u>661,031</u>	<u>—</u>
Fund balance at end of year	<u><u>\$ 1,211,939</u></u>	<u><u>701,418</u></u>	<u><u>(85,647)</u></u>	<u><u>615,771</u></u>	<u><u>(596,168)</u></u>

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual
Parks and Recreation Capital Projects Fund
For the fiscal year ended June 30, 2018

	<u>Budget</u>	<u>Actual, GAAP basis</u>	<u>Encumbrance</u>	<u>Actual, budgetary basis</u>	<u>Variance with budget</u>
Revenues:					
Other taxes	\$ 12,400	50,200	—	50,200	37,800
Investment income	1,000	477	—	477	(523)
Total revenues	<u>13,400</u>	<u>50,677</u>	<u>—</u>	<u>50,677</u>	<u>37,277</u>
Expenditures:					
Cultural and recreation services:					
Capital improvement	238,591	42,988	—	42,988	195,603
Total cultural and recreation services	<u>238,591</u>	<u>42,988</u>	<u>—</u>	<u>42,988</u>	<u>195,603</u>
Total expenditures	<u>238,591</u>	<u>42,988</u>	<u>—</u>	<u>42,988</u>	<u>195,603</u>
Net change in fund balance	(225,191)	7,689	—	7,689	232,880
Fund balance at beginning of year , as restated (note 18)	<u>187,139</u>	<u>187,139</u>	<u>—</u>	<u>187,139</u>	<u>—</u>
Fund balance at end of year	<u>\$ (38,052)</u>	<u>194,828</u>	<u>—</u>	<u>194,828</u>	<u>232,880</u>

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CITY OF SANTA MONICA, CALIFORNIA

Nonmajor Enterprise Fund Financial Statements

Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met: (a) The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.) (b) Laws or regulations require that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues. (c) The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Community Broadband Fund – To account for the activity of leasing the City’s dark and lit fiber networks known as “CityNet”.

Airport Fund – To account for revenues and expenses connected with management of the Santa Monica Municipal Airport.

Pier Fund – To account for revenues and expenses connected with management and development of the Santa Monica Pier.

Stormwater Management Fund – To account for revenues and expenses associated with storm water management.

Cemetery Fund – To account for revenues and expenses associated with operation of Woodlawn Cemetery and Mausoleum.

Parking Authority Fund – To account for acquisition of parking lots or contributing to the construction of parking structures by the City Parking Authority.

CITY OF SANTA MONICA, CALIFORNIA
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2018

	Business-Type Activities - Enterprise Funds						Total nonmajor enterprise funds
	Community Broadband	Airport	Pier	Stormwater Management	Cemetery	Parking Authority	
Assets							
Current assets:							
Cash and investments	\$ 42,298	12,944,255	6,221,717	-	302,620	2,479,389	21,990,279
Restricted cash and investments	-	1,314,713	282,314	3,888,300	-	-	5,485,327
Receivables (net, where applicable, of allowances for uncollectibles):							
Accounts	250,853	106,602	59,108	79,140	332,693	-	828,396
Notes receivable Successor Agency	-	-	-	-	-	15,000,000	15,000,000
Interest	-	49,062	16,353	22,528	262	9,572	97,777
Prepays	40,538	-	-	-	-	-	40,538
Total current assets	<u>333,689</u>	<u>14,414,632</u>	<u>6,579,492</u>	<u>3,989,968</u>	<u>635,575</u>	<u>17,488,961</u>	<u>43,442,317</u>
Noncurrent assets:							
Notes receivable Successor Agency noncurrent	-	-	-	-	-	7,612,125	7,612,125
Accrued interest non current	-	-	-	-	-	18,050,624	18,050,624
Capital assets:							
Land	-	8	-	-	4	1,362,700	1,362,712
Construction in progress	-	122,753	126,000	2,934,720	-	-	3,183,473
Buildings	-	7,769,091	5,916,024	-	1,723,603	946,242	16,354,960
Improvements other than buildings	-	5,604,488	5,272,807	147,299	782,158	142,591	11,949,343
Machinery and equipment	52,086	568,080	289,426	35,750	379,554	7,237	1,332,133
Infrastructure	-	-	17,382,609	10,739,803	-	-	28,122,412
Less: accumulated depreciation	(15,481)	(9,618,504)	(14,072,283)	(4,762,210)	(2,202,861)	(504,879)	(31,176,218)
Net capital assets	<u>36,605</u>	<u>4,445,916</u>	<u>14,914,583</u>	<u>9,095,362</u>	<u>682,458</u>	<u>1,953,891</u>	<u>31,128,815</u>
Total noncurrent assets	<u>36,605</u>	<u>4,445,916</u>	<u>14,914,583</u>	<u>9,095,362</u>	<u>682,458</u>	<u>27,616,640</u>	<u>56,791,564</u>
Total assets	<u>370,294</u>	<u>18,860,548</u>	<u>21,494,075</u>	<u>13,085,330</u>	<u>1,318,033</u>	<u>45,105,601</u>	<u>100,233,881</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows from pensions	-	588,257	855,636	-	281,249	-	1,725,142
Deferred outflows from OPEB	-	8,034	10,528	-	7,651	-	26,213
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>596,291</u>	<u>866,164</u>	<u>-</u>	<u>288,900</u>	<u>-</u>	<u>1,751,355</u>
Liabilities							
Current liabilities:							
Accounts payable	17,262	816,766	764,805	12	38,470	52,319	1,689,634
Accrued liabilities	19,327	59,173	73,202	-	19,835	-	171,537
Contracts payable (retained percentage)	-	107,240	56,612	146,736	-	-	310,588
Compensated absences due within one year	23,158	77,768	98,991	-	23,750	-	223,667
Unearned revenue (note 8)	-	9,591	-	-	-	-	9,591
Accrued interest payable	-	-	-	5,393	-	-	5,393
Loans and bonds payable due within one year	-	-	-	307,144	-	-	307,144
Liabilities payable from restricted assets - deposits	-	1,314,713	282,314	-	-	-	1,597,027
Total current liabilities	<u>59,747</u>	<u>2,385,251</u>	<u>1,275,924</u>	<u>459,285</u>	<u>82,055</u>	<u>52,319</u>	<u>4,314,581</u>
Long-term liabilities:							
Compensated absences due in more than one year	17,529	24,955	78,010	-	5,283	-	125,777
Advances from other funds	-	7,748,971	-	-	-	-	7,748,971
Loans and bonds payable due in more than one year	-	-	-	315,130	-	-	315,130
Net OPEB liability	-	70,379	86,929	-	67,216	-	224,524
Net pension liability	-	1,471,998	2,536,620	-	822,636	-	4,831,254
Total long-term liabilities	<u>17,529</u>	<u>9,316,303</u>	<u>2,701,559</u>	<u>315,130</u>	<u>895,135</u>	<u>-</u>	<u>13,245,656</u>
Total liabilities	<u>77,276</u>	<u>11,701,554</u>	<u>3,977,483</u>	<u>774,415</u>	<u>977,190</u>	<u>52,319</u>	<u>17,560,237</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows from pensions	-	135,550	209,819	-	76,557	-	421,926
Deferred inflows from OPEB	-	3,759	4,636	-	3,579	-	11,974
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>139,309</u>	<u>214,455</u>	<u>-</u>	<u>80,136</u>	<u>-</u>	<u>433,900</u>
Net position							
Net investment in capital assets	36,605	4,445,916	14,914,583	8,473,088	682,458	1,953,891	30,506,541
Restricted for housing	-	-	-	-	-	8,132,550	8,132,550
Unrestricted	256,413	3,170,060	3,253,718	3,837,827	(132,851)	34,966,841	45,352,008
Total net position	<u>\$ 293,018</u>	<u>7,615,976</u>	<u>18,168,301</u>	<u>12,310,915</u>	<u>549,607</u>	<u>45,053,282</u>	<u>83,991,099</u>

CITY OF SANTA MONICA, CALIFORNIA
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the fiscal year ended June 30, 2018

	Business-Type Activities - Enterprise Funds						Total nonmajor enterprise funds
	Community Broadband	Airport	Pier	Stormwater Management	Cemetery	Parking Authority	
Operating revenues							
Charges for services	\$ 2,200,733	13,394,856	8,228,045	1,462,683	2,043,185	-	27,329,502
Total operating revenues	<u>2,200,733</u>	<u>13,394,856</u>	<u>8,228,045</u>	<u>1,462,683</u>	<u>2,043,185</u>	<u>-</u>	<u>27,329,502</u>
Operating expenses							
Personnel services	915,839	1,752,102	2,691,078	-	771,066	1,000	6,131,085
Administrative indirect	223,254	744,201	515,633	-	302,014	-	1,785,102
Contractual services	607,553	761,534	1,383,317	-	369,624	-	3,122,028
Repairs and maintenance	30,413	519,969	639,121	-	32,494	-	1,221,997
Materials and supplies	131,553	6,885,698	669,595	-	344,488	199,426	8,230,760
Utilities	4,169	611,083	190,446	-	77,259	-	882,957
Casualty property and liability costs	2,832	287,120	296,756	-	63,004	-	649,712
Depreciation and amortization	10,417	263,007	591,357	301,816	44,631	15,827	1,227,055
Other	-	838,951	736,311	35,456	48,657	-	1,659,375
Total operating expenses	<u>1,926,030</u>	<u>12,663,665</u>	<u>7,713,614</u>	<u>337,272</u>	<u>2,053,237</u>	<u>216,253</u>	<u>24,910,071</u>
Operating income (loss)	<u>274,703</u>	<u>731,191</u>	<u>514,431</u>	<u>1,125,411</u>	<u>(10,052)</u>	<u>(216,253)</u>	<u>2,419,431</u>
Nonoperating revenues (expenses)							
Investment income (loss)	-	62,959	25,243	20,695	(225)	697,450	806,122
Interest expense	-	(69,367)	-	(22,216)	-	-	(91,583)
Other nonoperating revenues	-	1,109,682	225,573	2,205,742	126,522	-	3,667,519
Total nonoperating revenues (expenses) net	<u>-</u>	<u>1,103,274</u>	<u>250,816</u>	<u>2,204,221</u>	<u>126,297</u>	<u>697,450</u>	<u>4,382,058</u>
Income before transfers and special item	274,703	1,834,465	765,247	3,329,632	116,245	481,197	6,801,489
Transfers in (note 11)	-	-	406,350	252,297	392,089	-	1,050,736
Transfers out (note 11)	-	(264,704)	(92,687)	(1,779,518)	-	(9,000,000)	(11,136,909)
Change in net position	274,703	1,569,761	1,078,910	1,802,411	508,334	(8,518,803)	(3,284,684)
Net position at beginning of year, as restated (note 18)	18,315	6,046,215	17,089,391	10,508,504	41,273	53,572,085	87,275,783
Net position at end of year	<u>\$ 293,018</u>	<u>7,615,976</u>	<u>18,168,301</u>	<u>12,310,915</u>	<u>549,607</u>	<u>45,053,282</u>	<u>83,991,099</u>

CITY OF SANTA MONICA, CALIFORNIA

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

For the fiscal year ended June 30, 2018

	Business-Type Activities - Enterprise Funds						
	Community Broadband	Airport	Pier	Stormwater Management	Cemetery	Parking Authority	Total nonmajor enterprise funds
Cash flows from operating activities:							
Cash received from customers	\$ 2,173,162	13,626,684	8,208,497	1,412,261	2,012,823	—	27,433,427
Cash payments for materials and services	(1,037,163)	(10,415,019)	(4,153,245)	(35,486)	(1,283,400)	(147,107)	(17,071,420)
Cash payments to employees for services	(749,421)	(1,730,837)	(2,589,868)	—	(705,028)	(1,000)	(5,776,154)
Other revenue received	—	1,109,682	225,573	2,205,742	126,522	—	3,667,519
Net cash provided by (used in) operating activities	<u>386,578</u>	<u>2,590,510</u>	<u>1,690,957</u>	<u>3,582,517</u>	<u>150,917</u>	<u>(148,107)</u>	<u>8,253,372</u>
Cash flows from noncapital financing activities:							
Repayment of advances from other funds	(344,280)	(1,000,000)	—	(56,560)	(239,904)	—	(1,640,744)
Repayment of promissory note	—	—	—	—	—	9,000,000	9,000,000
Transfers in	—	—	406,350	252,297	392,089	—	1,050,736
Transfers out	—	(264,704)	(92,687)	(1,779,518)	—	(9,000,000)	(11,136,909)
Net cash provided by (used in) noncapital financing activities	<u>(344,280)</u>	<u>(1,264,704)</u>	<u>313,663</u>	<u>(1,583,781)</u>	<u>152,185</u>	<u>-</u>	<u>(2,726,917)</u>
Cash flows from capital and related financing activities:							
Acquisition and construction of capital assets	—	(379,429)	(605,052)	(2,787,984)	—	—	(3,772,465)
Reduction in long-term obligations	—	—	—	(299,361)	—	—	(299,361)
Interest paid on long-term obligations	—	(69,367)	—	(24,810)	—	—	(94,177)
Net cash used in capital and related financing activities	<u>—</u>	<u>(448,796)</u>	<u>(605,052)</u>	<u>(3,112,155)</u>	<u>—</u>	<u>—</u>	<u>(4,166,003)</u>
Cash flows from investing activities:							
Investment income (loss)	—	42,735	18,423	13,681	(487)	29,142	103,494
Net cash provided by (used in) investing activities	<u>—</u>	<u>42,735</u>	<u>18,423</u>	<u>13,681</u>	<u>(487)</u>	<u>29,142</u>	<u>103,494</u>
Net increase (decrease) in cash and cash equivalents	42,298	919,745	1,417,991	(1,099,738)	302,615	(118,965)	1,463,946
Cash and cash equivalents at beginning of year, as restated (note 18)	—	13,339,223	5,086,040	4,988,038	5	2,598,354	26,011,660
Cash and cash equivalents at end of year	<u>\$ 42,298</u>	<u>14,258,968</u>	<u>6,504,031</u>	<u>3,888,300</u>	<u>302,620</u>	<u>2,479,389</u>	<u>27,475,606</u>
Cash and investments	\$ 42,298	12,944,255	6,221,717	—	302,620	2,479,389	21,990,279
Restricted cash and investments	—	1,314,713	282,314	3,888,300	—	—	5,485,327
Total cash and cash equivalents	<u>\$ 42,298</u>	<u>14,258,968</u>	<u>6,504,031</u>	<u>3,888,300</u>	<u>302,620</u>	<u>2,479,389</u>	<u>27,475,606</u>

(Continued)

CITY OF SANTA MONICA, CALIFORNIA

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

For the fiscal year ended June 30, 2018

	Business-Type Activities - Enterprise Funds						
	Community Broadband	Airport	Pier	Stormwater Management	Cemetery	Parking Authority	Total nonmajor enterprise funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 274,703	731,191	514,431	1,125,411	(10,052)	(216,253)	2,419,431
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Add depreciation	10,417	263,007	591,357	301,816	44,631	15,827	1,227,055
Other revenue received	—	1,109,682	225,573	2,205,742	126,522	—	3,667,519
Changes in assets and liabilities and deferred outflows and inflows of resources:							
(Increase) decrease in accounts receivable	(27,571)	232,101	(19,548)	(50,422)	(30,362)	—	104,198
Increase in prepaids	(24,513)	—	—	—	—	—	(24,513)
Increase (decrease) in accounts payable	(12,876)	142,691	221,322	(30)	(45,860)	52,319	357,566
Decrease in unearned revenue	—	(330,650)	—	—	—	—	(330,650)
Increase (decrease) in accrued liabilities	(15,433)	(2,567)	2,865	—	(3,187)	—	(18,322)
Increase in contracts payable	—	90,846	56,612	—	—	—	147,458
Increase in deposits payable from restricted assets	—	330,377	—	—	—	—	330,377
Increase (decrease) in compensated absences payable	3,303	11,328	6,282	—	(8,334)	—	12,579
Net OPEB liability and related changes in deferred outflows and inflows of resources	—	(881)	(1,705)	—	(840)	—	(3,426)
Net pension liability and related changes in deferred outflows and inflows of resources	178,548	13,385	93,768	—	78,399	—	364,100
Total adjustments	111,875	1,859,319	1,176,526	2,457,106	160,969	68,146	5,833,941
Net cash provided by (used in) operating activities	<u>\$ 386,578</u>	<u>2,590,510</u>	<u>1,690,957</u>	<u>3,582,517</u>	<u>150,917</u>	<u>(148,107)</u>	<u>8,253,372</u>
Schedule of non-cash capital and related financing activities:							
Capital assets acquired through accounts payable	\$ -	279	336,769	146,736	—	—	483,784

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CITY OF SANTA MONICA, CALIFORNIA

Internal Service Fund Financial Statements

Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments of the City or to other governments, on a cost-reimbursement basis.

Vehicle Management Fund – To account for user charges from other funds and expenses related to the replacement, maintenance and the fueling of various City vehicles, including specialized mechanical equipment.

Information Technology Replacement and Services Fund – To account for user charges from other funds and expenses related to replacement of computer equipment.

Self-Insurance, General Liability and Auto Fund – To account for user charges from other funds and expenses related to the administration and payment of general liability and auto claims.

Self-Insurance, Bus Fund – To account for user charges from the Big Blue Bus Fund and expenses related to the administration and payment of municipal bus lines liability claims.

Self-Insurance, Risk Management Administration Fund – To account for user charges from other funds and expenses related to the administration of the risk management division.

Self-Insurance, Workers' Compensation Fund – To account for user charges from other funds and expenses related to the administration and payment of workers' compensation claims.

CITY OF SANTA MONICA, CALIFORNIA
Combining Statement of Net Position
Internal Service Funds
June 30, 2018

	<u>Vehicle Management</u>	<u>Information Technology Replacement and Services</u>	<u>Self - Insurance General Liability / Auto</u>	<u>Self - Insurance Bus</u>	<u>Self - Insurance Risk Management Admin</u>	<u>Self - Insurance Workers' Compensation</u>	<u>Total internal service funds</u>
Assets							
Current assets:							
Cash and investments	\$ 27,677,356	5,252,679	6,345,999	4,552,538	1,744,594	46,163,467	91,736,633
Receivables:							
Accounts	203,201	-	3,881,469	-	22,070	34	4,106,774
Interest	81,186	19,429	41,999	12,535	-	152,708	307,857
Inventory	23,957	-	-	-	-	-	23,957
Prepays	-	-	-	-	10,074	-	10,074
Total current assets	<u>27,985,700</u>	<u>5,272,108</u>	<u>10,269,467</u>	<u>4,565,073</u>	<u>1,776,738</u>	<u>46,316,209</u>	<u>96,185,295</u>
Noncurrent assets:							
Capital assets:							
Construction in progress	54,225	-	-	-	-	-	54,225
Machinery and equipment	37,025,288	1,517,857	2,849	7,386	919	10,065	38,564,364
Less: accumulated depreciation	<u>(24,028,809)</u>	<u>(1,173,202)</u>	<u>(2,849)</u>	<u>(7,386)</u>	<u>(919)</u>	<u>(10,065)</u>	<u>(25,223,230)</u>
Net capital assets	<u>13,050,704</u>	<u>344,655</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,395,359</u>
Total assets	<u>41,036,404</u>	<u>5,616,763</u>	<u>10,269,467</u>	<u>4,565,073</u>	<u>1,776,738</u>	<u>46,316,209</u>	<u>109,580,654</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows from pensions	1,286,467	-	-	-	755,103	-	2,041,570
Deferred outflows from OPEB	34,165	-	-	-	17,349	-	51,514
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,320,632</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>772,452</u>	<u>-</u>	<u>2,093,084</u>
Liabilities							
Current liabilities:							
Accounts payable	967,125	363,019	160,263	36,069	11,154	359,251	1,896,881
Accrued liabilities	59,596	-	-	-	69,904	-	129,500
Compensated absences due within one year	109,645	-	-	-	78,589	-	188,234
Claims payable due within one year	-	-	3,868,093	2,914,162	-	9,990,088	16,772,343
Total current liabilities	<u>1,136,366</u>	<u>363,019</u>	<u>4,028,356</u>	<u>2,950,231</u>	<u>159,647</u>	<u>10,349,339</u>	<u>18,986,958</u>
Long-term liabilities:							
Compensated absences due in more than one year	62,271	-	-	-	48,037	-	110,308
Claims payable due in more than one year	-	-	4,475,328	3,324,056	-	36,486,144	44,285,528
Net OPEB liability	299,566	-	-	-	152,326	-	451,892
Net pension liability	3,931,141	-	-	-	2,063,571	-	5,994,712
Total long-term liabilities	<u>4,292,978</u>	<u>-</u>	<u>4,475,328</u>	<u>3,324,056</u>	<u>2,263,934</u>	<u>36,486,144</u>	<u>50,842,440</u>
Total liabilities	<u>5,429,344</u>	<u>363,019</u>	<u>8,503,684</u>	<u>6,274,287</u>	<u>2,423,581</u>	<u>46,835,483</u>	<u>69,829,398</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows from pensions	322,867	-	-	-	182,314	-	505,181
Deferred inflows from OPEB	15,984	-	-	-	8,116	-	24,100
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>338,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,430</u>	<u>-</u>	<u>529,281</u>
Net position							
Investment in capital assets	13,050,704	344,655	-	-	-	-	13,395,359
Unrestricted	23,538,137	4,909,089	1,765,783	(1,709,214)	(64,821)	(519,274)	27,919,700
Total net position	<u>\$ 36,588,841</u>	<u>5,253,744</u>	<u>1,765,783</u>	<u>(1,709,214)</u>	<u>(64,821)</u>	<u>(519,274)</u>	<u>41,315,059</u>

CITY OF SANTA MONICA, CALIFORNIA
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Funds
For the fiscal year ended June 30, 2018

	Vehicle Management	Information Technology Replacement and Services	Self - Insurance General Liability / Auto	Self - Insurance Bus	Self - Insurance Risk Management Admin	Self - Insurance Workers' Compensation	Total internal service funds
Operating revenues							
Charges for services	\$ 12,474,531	2,599,066	3,000,000	3,800,000	2,950,000	20,600,000	45,423,597
Total operating revenues	<u>12,474,531</u>	<u>2,599,066</u>	<u>3,000,000</u>	<u>3,800,000</u>	<u>2,950,000</u>	<u>20,600,000</u>	<u>45,423,597</u>
Operating expenses							
Personnel services	3,670,300	-	-	-	1,932,221	-	5,602,521
Administrative indirect	925,022	-	-	-	339,836	-	1,264,858
Contractual services	73,358	-	25,953	2,630	90,156	817,248	1,009,345
Repairs and maintenance	1,949,024	-	68,562	68,562	886	137,125	2,224,159
Materials and supplies	2,158,008	3,079,413	-	-	49,068	747	5,287,236
Utilities	64,123	-	-	-	1,358	-	65,481
Casualty property and liability costs	138,618	-	-	-	10,109	-	148,727
Claims expense net of claims reserve adjustment	-	-	2,629,525	648,026	-	12,807,878	16,085,429
Insurance and bonds	-	-	919,380	900,669	2,439,123	801,450	5,060,622
Miscellaneous fees and costs	317,358	-	724,557	182,428	120,825	455,405	1,800,573
Depreciation and amortization	2,783,864	105,634	-	-	-	-	2,889,498
Total operating expenses	<u>12,079,675</u>	<u>3,185,047</u>	<u>4,367,977</u>	<u>1,802,315</u>	<u>4,983,582</u>	<u>15,019,853</u>	<u>41,438,449</u>
Operating income (loss)	<u>394,856</u>	<u>(585,981)</u>	<u>(1,367,977)</u>	<u>1,997,685</u>	<u>(2,033,582)</u>	<u>5,580,147</u>	<u>3,985,148</u>
Nonoperating revenues							
Investment income	128,329	21,779	48,394	20,739	-	165,188	384,429
Gain on disposal of capital assets	8,489	-	-	-	-	-	8,489
Other nonoperating revenues	156,508	28	232	1,111	41	51,019	208,939
Total nonoperating revenues	<u>293,326</u>	<u>21,807</u>	<u>48,626</u>	<u>21,850</u>	<u>41</u>	<u>216,207</u>	<u>601,857</u>
Income (loss) before transfers	688,182	(564,174)	(1,319,351)	2,019,535	(2,033,541)	5,796,354	4,587,005
Transfers in (note 11)	-	-	-	-	2,421,864	-	2,421,864
Transfers out (note 11)	-	-	(500,343)	(339,061)	-	(1,743,742)	(2,583,146)
Change in net position	688,182	(564,174)	(1,819,694)	1,680,474	388,323	4,052,612	4,425,723
Net position at beginning of year, as restated (note 18)	35,900,659	5,817,918	3,585,477	(3,389,688)	(453,144)	(4,571,886)	36,889,336
Net position at end of year (note 10)	<u>\$ 36,588,841</u>	<u>5,253,744</u>	<u>1,765,783</u>	<u>(1,709,214)</u>	<u>(64,821)</u>	<u>(519,274)</u>	<u>41,315,059</u>

CITY OF SANTA MONICA, CALIFORNIA

Combining Statement of Cash Flows

Internal Service Funds

For the fiscal year ended June 30, 2018

	Vehicle Management	Information Technology Replacement and Services	Self-Insurance General Liability / Auto	Self-Insurance Bus	Self-Insurance Risk Management Administration	Self-Insurance Workers' Compensation	Total internal service funds
Cash flows from operating activities:							
Cash received from customers	\$ 12,304,461	2,599,066	3,000,000	3,800,000	2,953,591	20,600,000	45,257,118
Cash payments for materials and services	(5,318,976)	(2,763,331)	(1,667,920)	(1,174,537)	(3,045,700)	(1,890,064)	(15,860,528)
Cash payments to employees for services	(3,541,262)	—	—	—	(1,840,579)	—	(5,381,841)
Cash payments for claims and related expenses	—	—	(7,803,152)	(1,547,102)	—	(9,660,755)	(19,011,009)
Other revenue received	156,508	28	232	1,111	41	51,019	208,939
Net cash provided by (used in) operating activities	<u>3,600,731</u>	<u>(164,237)</u>	<u>(6,470,840)</u>	<u>1,079,472</u>	<u>(1,932,647)</u>	<u>9,100,200</u>	<u>5,212,679</u>
Cash flows from noncapital financing activities:							
Transfers in	—	—	—	—	2,421,864	—	2,421,864
Transfers out	—	—	(500,343)	(339,061)	—	(1,743,742)	(2,583,146)
Net cash used in noncapital financing activities	<u>—</u>	<u>—</u>	<u>(500,343)</u>	<u>(339,061)</u>	<u>2,421,864</u>	<u>(1,743,742)</u>	<u>(161,282)</u>
Cash flows from capital and related financing activities:							
Acquisition and construction of capital assets	(3,630,355)	—	—	—	—	—	(3,630,355)
Proceeds from sale of capital assets	104,762	—	—	—	—	—	104,762
Net cash used in capital and related financing activities	<u>(3,525,593)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,525,593)</u>
Cash flows from investing activities – investment income							
Net increase (decrease) in cash and cash equivalents	113,176	20,614	47,006	20,054	—	120,602	321,452
Cash and cash equivalents at beginning of year, as restated (note 18)	188,314	(143,623)	(6,924,177)	760,465	489,217	7,477,060	1,847,256
Cash and cash equivalents at end of year	27,489,042	5,396,302	13,270,176	3,792,073	1,255,377	38,686,407	89,889,377
Cash and cash equivalents at end of year	<u>\$ 27,677,356</u>	<u>5,252,679</u>	<u>6,345,999</u>	<u>4,552,538</u>	<u>1,744,594</u>	<u>46,163,467</u>	<u>91,736,633</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating income (loss):							
Operating income (loss)	\$ 394,856	(585,981)	(1,367,977)	1,997,685	(2,033,582)	5,580,147	3,985,148
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Add depreciation	2,783,864	105,634	—	—	—	—	2,889,498
Other revenue received	156,508	28	232	1,111	41	51,019	208,939
Changes in assets and liabilities and deferred outflows and inflows of resources:							
(Increase) decrease in accounts receivable	(170,070)	—	(3,881,469)	—	3,591	(34)	(4,047,982)
Increase in prepaids	—	—	—	—	(198)	—	(198)
Decrease in inventory	18,332	—	—	—	—	—	18,332
Increase (decrease) in accounts payable	288,203	316,082	70,532	(20,248)	5,859	321,911	982,339
Decrease in accrued liabilities	(34,638)	—	—	—	(3,613)	—	(38,251)
Increase (decrease) in compensated absences payable	(9,361)	—	—	—	7,201	—	(2,160)
Increase (decrease) in claims payable	—	—	(1,292,158)	(899,076)	—	3,147,157	955,923
Net OPEB liability and related changes in deferred outflows and inflows of resources	(3,747)	—	—	—	(1,903)	—	(5,650)
Net pension liability and related changes in deferred outflows and inflows of resources	176,784	—	—	—	89,957	—	266,741
Total adjustments	<u>3,205,875</u>	<u>421,744</u>	<u>(5,102,863)</u>	<u>(918,213)</u>	<u>100,935</u>	<u>3,520,053</u>	<u>1,227,531</u>
Net cash provided by (used in) operating activities	<u>\$ 3,600,731</u>	<u>(164,237)</u>	<u>(6,470,840)</u>	<u>1,079,472</u>	<u>(1,932,647)</u>	<u>9,100,200</u>	<u>5,212,679</u>
Schedule of non-cash capital and related financing activities:							
Capital assets acquired through accounts payable	\$ 336,699	—	—	—	—	—	336,699
Gain on disposal of capital assets	8,489	—	—	—	—	—	8,489

CITY OF SANTA MONICA, CALIFORNIA

Fiduciary Fund Financial Statements

Agency Funds are custodial in nature and used to receive and disburse funds for an entity/individual, which is not part of the City.

General Trust Fund - To account for funds given to the City for restricted purposes whereby the City is only acting as a pass-through agent.

Street Light Fund - To account for all receipts and disbursements associated with 1911 Act Street Light Assessment Bonds.

CITY OF SANTA MONICA, CALIFORNIA

Combining Statement of Fiduciary Net Position

Agency Funds

June 30, 2018

	<u>General Trust</u>	<u>Street Light</u>	<u>Total Agency Funds</u>
Assets			
Restricted cash and investments	\$ 3,948,425	4,997	3,953,422
Accounts receivable	56,856	—	56,856
Total assets	<u>\$ 4,005,281</u>	<u>4,997</u>	<u>4,010,278</u>
Liabilities			
Accounts payable and accrued liabilities	<u>\$ 4,005,281</u>	<u>4,997</u>	<u>4,010,278</u>
Total liabilities	<u>\$ 4,005,281</u>	<u>4,997</u>	<u>4,010,278</u>

CITY OF SANTA MONICA, CALIFORNIA

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

For the fiscal year ended June 30, 2018

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>
Fiduciary Funds				
Agency Funds:				
General Trust				
Assets:				
Restricted cash and investments	\$ 4,291,992	76,657,363	77,000,930	3,948,425
Accounts receivable	72,598	239,449	255,191	56,856
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 4,364,590</u>	<u>76,896,812</u>	<u>77,256,121</u>	<u>4,005,281</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 4,364,590	73,252,126	73,611,435	4,005,281
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 4,364,590</u>	<u>73,252,126</u>	<u>73,611,435</u>	<u>4,005,281</u>
Street Light				
Assets:				
Restricted cash and investments	\$ 7,992	7,345	10,340	4,997
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 7,992</u>	<u>7,345</u>	<u>10,340</u>	<u>4,997</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 7,992	14,406	17,401	4,997
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 7,992</u>	<u>14,406</u>	<u>17,401</u>	<u>4,997</u>
Total Fiduciary Funds				
Total Agency Funds				
Assets:				
Restricted cash and investments	\$ 4,299,984	76,664,708	77,011,270	3,953,422
Accounts receivable	72,598	239,449	255,191	56,856
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 4,372,582</u>	<u>76,904,157</u>	<u>77,266,461</u>	<u>4,010,278</u>
Liabilities:				
Accounts payable and accrued liabilities	\$ 4,372,582	73,266,532	73,628,836	4,010,278
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 4,372,582</u>	<u>73,266,532</u>	<u>73,628,836</u>	<u>4,010,278</u>

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City of Santa Monica, California
Year Ended June 30, 2018

STATISTICAL SECTION

CITY OF SANTA MONICA, CALIFORNIA

For the fiscal year ended June 30, 2018

STATISTICAL SECTION (unaudited)

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CITY OF SANTA MONICA, CALIFORNIA

For the fiscal year ended June 30, 2018

STATISTICAL SECTION (unaudited), *continued*

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TABLE 1

CITY OF SANTA MONICA, CALIFORNIA

Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	2017-18	2016-17	2015-16	2014-15 ⁽¹⁾	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Governmental activities										
Net investment in capital assets	\$ 720,769,829	731,842,870	728,041,792	705,144,194	698,223,620	702,392,065	708,564,360	565,402,905	561,308,717	579,367,093
Restricted	209,428,190	198,720,012	196,524,874	178,624,757	136,510,661	126,827,943	171,964,389	198,990,741	190,302,568	187,103,831
Unrestricted	54,400,893	44,676,618	19,956,676	24,292,525	376,983,696	372,285,005	379,302,789	248,977,209	238,856,963	242,542,375
Total governmental activities net position	984,598,912	975,239,500	944,523,342	908,061,476	1,211,717,977	1,201,505,013	1,259,831,538	1,013,370,855	990,468,248	1,009,013,299
Business-type activities										
Net investment in capital assets	437,613,109	445,314,626	440,369,455	447,257,495	472,808,694	450,345,204	448,028,200	442,305,322	426,367,876	418,157,537
Restricted	23,409,084	18,835,497	12,797,570	15,102,480	11,665,453	13,739,411	16,024,235	13,527,238	10,855,611	1,661,758
Unrestricted	136,350,263	127,841,169	130,752,666	50,488,321	115,636,742	126,804,668	104,588,473	102,753,866	107,670,491	112,067,386
Total business-type activities net position	597,372,456	591,991,292	583,919,691	512,848,296	600,110,889	590,889,283	568,640,908	558,586,426	544,893,978	531,886,681
Primary government										
Net investment in capital assets	1,158,382,938	1,177,157,496	1,168,411,247	1,152,401,689	1,171,032,314	1,152,737,269	1,156,592,560	1,007,708,227	987,676,593	997,524,630
Restricted	232,837,274	217,555,509	209,322,444	193,727,237	148,176,114	140,567,354	187,988,624	212,517,979	201,158,179	188,765,589
Unrestricted	190,751,156	172,517,787	150,709,342	74,780,846	492,620,438	499,089,673	483,891,262	351,731,075	346,527,454	354,609,761
Total primary government net position	\$ 1,581,971,368	1,567,230,792	1,528,443,033	1,420,909,772	1,811,828,866	1,792,394,296	1,828,472,446	1,571,957,281	1,535,362,226	1,540,899,980

(1) reduction in 2014-15 unrestricted net position due primarily to the implementation of GASB 6

TABLE 2

CITY OF SANTA MONICA, CALIFORNIA

Changes in Net Position
Last Ten Fiscal Years

	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Expenses										
Governmental activities:										
General government	\$ 94,164,749	69,476,662	56,728,329	74,025,357	73,188,788	56,319,178	65,640,271	61,586,151	61,396,079	46,670,826
Public safety	152,313,163	133,497,286	128,149,081	112,278,370	113,899,354	103,594,567	108,205,471	99,949,848	97,744,567	100,709,990
General services	85,543,024	84,190,176	84,178,175	71,906,263	69,637,595	64,654,131	55,341,929	43,762,251	74,233,708	161,224,085
Cultural and recreation services	73,826,217	57,709,552	58,427,336	53,694,823	54,339,022	94,635,112	62,145,219	57,163,928	40,891,483	44,031,895
Library	14,802,469	12,945,988	14,338,093	12,678,896	13,286,929	16,179,779	11,899,948	11,803,735	11,324,327	11,422,789
Housing and community development	58,442,889	54,613,906	59,633,639	53,831,747	53,652,994	54,539,141	181,970,013	89,321,590	110,251,868	115,827,555
Interest on long-term debt	4,375,324	2,490,698	2,668,433	3,521,630	3,915,313	3,898,325	6,585,618	10,461,700	7,075,187	7,252,197
Total governmental activities	483,467,835	414,924,268	404,123,086	381,937,086	381,919,995	393,820,233	491,788,469	374,049,203	402,917,219	487,139,337
Business-type activities:										
Water	25,659,062	23,583,279	23,259,781	21,356,497	24,750,234	20,244,099	19,665,696	16,430,207	16,419,201	15,958,328
Resource recovery and recycling	26,293,628	25,512,992	25,419,861	23,819,237	24,115,496	22,743,427	25,065,338	21,338,133	20,293,510	19,219,079
Community broadband	1,926,149	1,907,535	—	—	—	—	—	—	—	—
Pier	7,880,131	7,597,438	6,935,901	6,909,632	6,310,236	6,145,567	5,803,944	5,299,875	5,122,011	5,200,065
Wastewater	18,802,613	17,855,472	16,485,444	17,335,625	20,479,514	16,853,861	18,186,844	16,546,844	16,844,271	19,603,411
Civic auditorium ⁽¹⁾	—	—	—	—	—	4,691,051	3,239,999	3,638,257	3,663,427	3,933,159
Airport	12,912,869	8,595,011	5,335,556	5,293,714	5,440,949	5,188,707	5,270,688	5,970,916	4,640,782	5,737,927
Storm water management	359,488	347,197	2,447,698	2,172,116	651,361	406,721	411,985	422,048	424,122	721,728
Cemetery	2,071,650	2,340,685	2,184,834	2,154,147	2,077,486	1,852,839	1,812,098	2,431,791	2,633,893	1,956,609
Big Blue Bus	95,349,727	93,652,844	90,560,535	83,106,447	79,215,680	79,238,668	79,835,156	75,219,425	70,899,277	70,855,809
Special aviation	—	—	—	—	—	—	—	—	—	28,904
Parking authority	216,253	16,178	17,742	403,822	369,367	295,651	315,736	474,629	554,117	1,598,765
Total business-type activities	191,471,570	181,408,631	172,647,352	162,551,237	163,410,323	157,660,591	159,607,484	147,772,125	141,494,611	144,813,784
Total primary governmental activities expenses	\$ 674,939,405	596,332,899	576,770,438	544,488,323	545,330,318	551,480,824	651,395,953	521,821,328	544,411,830	631,953,121
Program revenues										
Governmental activities:										
Charges for services:										
General government	\$ 19,860,025	18,447,588	19,279,411	56,875,636	55,834,348	51,075,759	48,239,920	42,771,812	34,681,601	19,198,345
Public safety	24,701,782	22,452,698	24,285,947	22,601,990	22,736,167	21,329,504	22,033,156	21,456,284	22,759,704	17,064,322
General services	43,938,775	44,701,036	49,336,541	2,144,800	2,236,781	2,463,402	2,429,537	2,004,958	3,067,408	20,291,439
Cultural and recreation services	25,508,247	20,835,717	22,466,168	21,359,942	20,448,165	17,921,711	16,083,451	13,523,507	14,219,229	10,608,948
Library	390,306	388,273	487,809	601,618	614,715	486,204	465,891	488,279	468,385	410,908
Housing and community development	26,517,764	29,898,563	42,858,129	26,957,697	19,276,227	28,217,736	16,712,921	14,304,279	16,224,777	12,416,654
Operating grants and contributions	28,012,480	27,933,580	24,647,506	26,332,256	27,773,525	25,798,880	26,739,187	29,111,918	27,556,715	30,164,300
Capital grants and contributions	5,378,290	9,756,158	12,616,479	5,381,978	12,583,594	5,082,847	3,369,221	3,997,076	6,506,765	20,379,864
Total governmental activities program revenues	174,307,669	174,413,613	195,977,990	162,255,917	161,503,522	152,376,043	136,073,284	127,658,113	125,484,584	130,534,780

(continues next page)

TABLE 2

CITY OF SANTA MONICA, CALIFORNIA

Changes in Net Position
Last Ten Fiscal Years

	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
<i>(continues from previous page)</i>										
Business-type activities:										
Charges for services:										
Water	25,946,122	24,280,023	22,311,686	22,664,712	22,902,640	22,254,867	19,897,464	17,507,315	15,771,081	15,774,047
Resource recovery and recycling	26,393,055	25,953,777	26,831,010	24,425,879	23,271,775	23,526,423	22,253,758	21,870,554	21,514,219	21,631,313
Community broadband	2,200,733	1,924,777	—	—	—	—	—	—	—	—
Pier	8,453,618	8,202,073	7,443,351	6,813,625	5,953,173	4,589,503	6,004,005	4,729,725	3,777,219	3,518,145
Wastewater	19,802,308	20,221,930	19,316,170	20,162,516	21,033,699	21,126,054	20,007,219	17,820,805	15,198,022	13,751,588
Civic auditorium ⁽¹⁾	—	—	—	—	—	1,468,300	1,667,172	2,603,146	2,620,897	2,975,749
Airport	14,132,521	13,149,493	8,679,711	5,897,240	5,396,797	4,185,172	3,891,716	3,748,674	3,768,426	3,989,851
Storm water management	1,462,683	1,869,476	1,500,877	1,458,352	1,395,628	1,439,522	1,419,980	1,167,073	1,613,426	1,885,142
Cemetery	2,043,185	1,713,212	1,501,371	1,604,607	1,325,778	1,315,119	1,133,990	856,141	952,972	1,009,595
Big Blue Bus	25,552,378	19,202,854	19,895,338	16,664,916	17,060,923	16,869,809	16,614,711	16,370,290	14,160,133	14,391,300
Parking authority	—	—	—	—	—	—	161,504	152,200	152,200	149,200
Operating grants and contributions	44,278,243	48,313,010	48,652,428	47,098,487	40,691,095	38,229,718	38,424,357	36,001,870	38,843,722	34,203,607
Capital grants and contributions	17,959,046	23,062,625	23,924,743	10,333,281	28,431,734	21,489,216	25,609,158	32,046,978	29,299,894	53,209,039
Business-type activities program revenues	188,223,892	187,893,250	180,056,685	157,123,615	167,463,242	156,493,703	157,085,034	154,874,771	147,672,211	166,488,576
Total primary government program revenues	362,531,561	362,306,863	376,034,675	319,379,532	328,966,764	308,869,746	293,158,318	282,532,884	273,156,795	297,023,356
Net (expense):										
Governmental activities	(309,160,166)	(240,510,655)	(208,145,096)	(219,681,169)	(220,416,473)	(241,444,190)	(355,715,185)	(246,391,090)	(277,432,635)	(356,604,557)
Business-type activities	(3,247,678)	6,484,619	7,409,333	(5,427,622)	4,052,919	(1,166,888)	(2,522,450)	7,102,646	6,177,600	21,674,792
Total primary government net expense	(312,407,844)	(234,026,036)	(200,735,763)	(225,108,791)	(216,363,554)	(242,611,078)	(358,237,635)	(239,288,444)	(271,255,035)	(334,929,765)
General revenues and other changes in net position										
Governmental activities:										
Taxes:										
Business	31,575,297	30,711,579	30,799,020	31,468,959	30,847,105	28,467,477	27,382,495	26,531,627	27,582,398	28,821,688
Property	56,954,925	56,423,891	50,452,377	52,771,401	47,729,105	43,477,118	59,161,313	108,995,358	110,188,615	107,255,345
Transient occupancy ⁽²⁾	60,631,025	55,532,325	51,021,050	—	—	—	—	—	—	—
Sales and use	68,479,438	54,505,239	54,802,839	51,089,716	49,210,039	47,880,634	45,831,961	31,689,531	26,636,653	28,296,696
Utility users ⁽²⁾	29,288,341	29,437,753	30,772,815	—	—	—	—	—	—	—
Real property transfer ⁽²⁾	8,169,163	10,951,756	7,850,960	—	—	—	—	—	—	—
Parking facility ⁽²⁾	11,557,811	11,231,324	10,718,156	—	—	—	—	—	—	—
Other	3,285,670	3,256,799	3,111,764	101,677,478	95,604,341	91,384,006	84,935,499	80,376,978	75,397,844	76,146,388
Settlement income	—	—	—	—	—	9,608,247	3,750,000	—	—	89,910,872
Other revenues	11,168,233	11,724,228	15,572,745	11,518,022	18,092,058	19,917,250	120,208,757	12,173,094	9,043,114	9,128,899
Investment earnings	4,360,799	3,105,772	7,049,816	4,084,621	6,613,322	1,431,317	5,791,811	7,995,401	10,062,739	16,198,386
Special Item	43,678,729	(1,103,146)	(11,893,876)	—	—	—	—	—	—	—
Extraordinary gain (loss)	—	—	(12,620,539)	(5,106,828)	(19,149,679)	(48,185,126)	261,255,080	—	—	—
Transfers	1,381,459	5,449,293	6,969,835	2,341,674	1,683,146	(10,863,258)	(6,141,048)	1,531,708	(23,779)	(5,832,017)
Total governmental activities	330,530,890	271,226,813	244,606,962	249,845,043	230,629,437	183,117,665	602,175,868	269,293,697	258,887,584	349,926,257

(continues next page)

TABLE 2

CITY OF SANTA MONICA, CALIFORNIA

Changes in Net Position
Last Ten Fiscal Years

(continues from previous page)

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
Business-type activities:										
Other revenues	4,580,112	4,312,287	3,723,521	6,230,537	5,207,445	12,540,746	5,310,643	6,767,730	3,912,725	4,162,283
Investment earnings	1,573,331	1,620,842	3,489,865	1,408,083	1,644,388	11,259	1,125,241	1,353,780	2,893,193	4,227,595
Special Item	6,408,992	1,103,146	10,617,561	—	—	—	—	—	—	—
Extraordinary gain (loss)	—	—	4,837,753	—	—	—	—	—	—	—
Transfers	(1,381,459)	(5,449,293)	(6,969,835)	(2,341,674)	(1,683,146)	10,863,258	6,141,048	(1,531,708)	23,779	5,832,017
Total business-type activities	<u>11,180,976</u>	<u>1,586,982</u>	<u>15,698,865</u>	<u>5,296,946</u>	<u>5,168,687</u>	<u>23,415,263</u>	<u>12,576,932</u>	<u>6,589,802</u>	<u>6,829,697</u>	<u>14,221,895</u>
Total primary government	<u>341,711,866</u>	<u>272,813,795</u>	<u>260,305,827</u>	<u>255,141,989</u>	<u>235,798,124</u>	<u>206,532,928</u>	<u>614,752,800</u>	<u>275,883,499</u>	<u>265,717,281</u>	<u>364,148,152</u>
Changes in net position										
Governmental activities	21,370,724	30,716,158	36,461,866	30,163,874	10,212,964	(58,326,525)	246,460,683	22,902,607	(18,545,051)	(6,678,300)
Business-type activities	7,933,298	8,071,601	23,108,198	(130,676)	9,221,606	22,248,375	10,054,482	13,692,448	13,007,297	35,896,687
Total primary government	<u>\$ 29,304,022</u>	<u>38,787,759</u>	<u>59,570,064</u>	<u>30,033,198</u>	<u>19,434,570</u>	<u>(36,078,150)</u>	<u>256,515,165</u>	<u>36,595,055</u>	<u>(5,537,754)</u>	<u>29,218,387</u>

(1) Civic auditorium merged with General services in FY 13-14.

(2) Included in "Other" in prior fiscal years.

TABLE 3

CITY OF SANTA MONICA, CALIFORNIA
 Fund Balance of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
General Fund										
Reserved	\$ —	—	—	—	—	—	—	—	36,257,776	41,432,273
Unreserved	—	—	—	—	—	—	—	—	179,212,920	155,521,957
* Nondspendable	12,853,565	15,419,253	21,062,205	23,725,864	22,257,819	22,179,119	22,181,490	26,249,121	—	—
* Restricted	97,740,458	1,976,576	18,330,042	17,951,299	12,371,619	23,808,940	43,056,449	503,645	—	—
* Committed	2,478,476	4,760,409	31,365	520,574	519,937	519,506	640,000	710,000	—	—
* Assigned	256,273,855	256,059,633	280,303,334	218,630,183	212,669,876	220,409,168	233,153,471	159,430,759	—	—
* Unassigned	66,464,774	68,082,651	67,347,773	114,196,108	118,192,052	117,324,362	117,225,871	108,382,191	—	—
Total General Fund	<u>435,811,128</u>	<u>346,298,522</u>	<u>387,074,719</u>	<u>375,024,028</u>	<u>366,011,303</u>	<u>384,241,095</u>	<u>416,257,281</u>	<u>295,275,716</u>	<u>215,470,696</u>	<u>196,954,230</u>
All other governmental funds										
Reserved	—	—	—	—	—	—	—	—	138,504,430	134,770,865
Unreserved, reported in:										
Special revenue funds	—	—	—	—	—	—	—	—	37,657,180	42,902,430
Capital project funds	—	—	—	—	—	—	—	—	50,427,715	66,021,140
* Nondspendable	12,752,261	12,149,082	11,618,768	11,463,849	30,932,430	31,524,610	23,331,591	10,788,188	—	—
* Restricted	192,169,730	184,752,868	167,750,111	144,902,038	128,610,718	124,852,862	123,658,262	170,449,269	—	—
* Committed	59,897,829	44,021,082	26,876,316	17,877,709	4,404,491	4,372,829	872,830	51,975	—	—
* Assigned	—	414,544	927,562	9,649,617	18,033,673	15,057,474	32,550,023	125,697,278	—	—
* Unassigned	(2,111,163)	(4,785,448)	(7,279,890)	(814,287)	(966,157)	(1,148,932)	(187,396)	(16,868,340)	—	—
Total all other governmental funds	<u>\$ 262,708,657</u>	<u>236,552,128</u>	<u>199,892,867</u>	<u>183,078,926</u>	<u>181,015,155</u>	<u>174,658,843</u>	<u>180,225,310</u>	<u>290,118,370</u>	<u>226,589,325</u>	<u>243,694,435</u>

* Fund Balance descriptions changed due to GASB Statement No. 54 implementation effective July 1, 2010.

TABLE 4

CITY OF SANTA MONICA, CALIFORNIA
 Changes in Fund Balance of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Revenues										
Property taxes	\$ 56,954,925	56,423,891	50,452,377	55,044,307	50,113,693	44,392,416	40,226,124	36,048,260	37,419,658	36,763,026
Incremental property taxes ⁽¹⁾	—	—	—	—	—	—	19,794,851	73,735,955	73,526,738	71,289,749
Sales & use taxes	68,479,438	54,505,239	54,802,839	51,089,716	49,210,039	47,880,634	45,831,961	31,689,531	26,636,653	28,296,696
Transient occupancy taxes ⁽³⁾	60,631,025	55,532,325	51,021,050	—	—	—	—	—	—	—
Utility user taxes ⁽³⁾	29,288,341	29,437,753	30,772,815	—	—	—	—	—	—	—
Business license taxes ⁽³⁾	31,050,087	30,118,555	29,893,341	—	—	—	—	—	—	—
Other taxes	23,537,854	26,032,957	22,586,559	132,075,022	126,836,936	118,983,521	111,350,245	107,289,588	104,012,543	105,639,635
License and permits	41,950,905	43,134,856	41,367,924	39,490,688	36,967,493	33,777,567	30,608,592	27,564,660	20,658,582	20,398,191
Intergovernmental	37,496,608	39,612,637	39,612,770	31,013,327	33,068,906	26,420,260	28,277,049	30,887,064	30,132,263	36,408,496
Charges for services	66,615,431	63,821,708	61,667,576	56,381,352	55,976,703	50,767,945	52,613,331	45,248,472	46,975,370	39,238,389
Fines and forfeitures	16,362,857	15,461,662	15,904,736	16,287,290	16,253,546	15,303,990	15,651,820	15,952,957	17,492,928	14,113,906
Investment earnings	3,406,372	2,835,151	6,721,207	4,002,879	6,697,552	1,519,576	4,989,972	9,376,656	9,218,863	15,455,332
Rental income	9,596,580	9,047,246	11,683,408	10,602,671	10,311,967	9,843,633	9,619,254	8,541,702	7,026,380	5,467,946
Settlement income	14,085,000	6,103,175	2,433,175	2,433,175	2,433,175	52,287,404	33,277,271	—	40,196,472	4,429,738
Other	15,896,665	18,757,976	34,384,558	21,058,609	19,309,109	25,518,965	119,494,012	10,306,512	10,833,352	28,651,201
Total revenue	475,352,088	450,825,131	453,304,335	419,479,036	407,179,119	426,695,911	511,734,482	396,641,357	424,129,802	406,152,305
Expenditures										
Current										
General government	89,671,970	70,164,311	61,354,272	74,741,301	68,308,134	62,250,475	63,819,021	61,134,533	58,843,432	45,242,680
Public safety	144,607,883	136,266,910	132,629,455	117,186,887	111,737,328	104,466,191	106,215,553	99,416,830	99,142,700	96,985,086
General services	87,758,312	83,912,385	88,130,346	71,370,399	57,755,687	58,014,505	77,196,770	34,401,503	97,766,993	70,963,814
Cultural and recreation services	71,348,237	56,868,240	54,742,936	50,430,614	50,386,583	64,104,725	60,322,014	58,557,389	38,707,842	53,045,810
Library	12,967,345	12,476,127	12,667,433	12,025,143	17,158,001	14,880,934	11,323,906	10,594,925	10,067,865	10,099,063
Housing and community development	56,248,372	53,807,030	67,085,802	53,711,340	72,037,131	107,699,039	197,257,796	139,291,179	108,277,261	113,730,249
Other	—	—	—	—	—	—	—	—	—	—
Debt service										
Principal	9,039,900	6,255,000	8,788,463	6,075,000	5,920,000	3,365,000	13,180,714	9,241,980	7,530,000	8,375,000
Interest	3,596,620	3,014,688	3,392,287	3,785,591	3,966,495	3,942,925	12,312,625	10,059,522	10,079,799	8,386,518
Bond issuance costs	938,932	—	535,048	—	—	—	441,993	440,308	219,405	—
Total expenditures	476,177,571	422,764,691	429,326,042	389,326,275	387,269,359	418,723,794	542,070,392	423,138,169	430,635,297	406,828,220
<i>(continues next page)</i>										
<i>(continues from previous page)</i>										
Excess (deficiency) of revenues over (under) expenditures	(825,483)	28,060,440	23,978,293	30,152,761	19,909,760	7,972,117	(30,335,910)	(26,496,812)	(6,505,495)	(675,915)
Other financing sources (uses)										
Transfers in	41,609,095	48,828,408	24,241,261	19,778,209	26,210,910	21,906,283	98,800,641	108,200,623	53,644,396	91,332,304

TABLE 4

CITY OF SANTA MONICA, CALIFORNIA
 Changes in Fund Balance of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
Transfers out	(40,405,415)	(43,585,095)	(17,271,426)	(17,289,889)	(24,648,414)	(32,010,088)	(105,257,875)	(106,957,815)	(53,948,675)	(91,633,368)
Line of credit proceeds	—	—	—	—	—	—	—	26,528,395	7,986,281	15,485,324
Long-term debt issued	—	—	—	—	—	—	32,178,250	—	—	—
Refunding bonds issued	—	—	26,360,000	—	—	—	19,950,000	41,050,000	9,155,000	—
Bonds issued	102,785,000	—	—	—	—	—	—	—	—	—
Premium on bonds issued	12,247,767	—	2,020,710	—	—	—	4,339,840	409,674	558,699	—
Payments to refunded bond escrow agent	—	—	(27,826,666)	—	—	—	(22,289,654)	(1,900,000)	(9,478,850)	—
Proceeds from loans payable	—	—	—	—	—	—	—	102,500,000	—	—
Total other financing sources (uses)	<u>116,236,447</u>	<u>5,243,313</u>	<u>7,523,879</u>	<u>2,488,320</u>	<u>1,562,496</u>	<u>(10,103,805)</u>	<u>27,721,202</u>	<u>169,830,877</u>	<u>7,916,851</u>	<u>15,184,260</u>
Special item	—	(37,420,689)	(4,462,166)	—	—	(21,254,908)	—	—	—	—
Extraordinary gain (loss)	—	—	324,615	(21,564,585)	(33,345,736)	(14,196,057)	13,703,213	—	—	—
Net change in fund balance	<u><u>\$115,410,964</u></u>	<u><u>(4,116,936)</u></u>	<u><u>27,364,621</u></u>	<u><u>11,076,496</u></u>	<u><u>(11,873,480)</u></u>	<u><u>(37,582,653)</u></u>	<u><u>11,088,505</u></u>	<u><u>143,334,065</u></u>	<u><u>1,411,356</u></u>	<u><u>14,508,345</u></u>
Debt service as a percentage of noncapital expenditures⁽²⁾	2.91%	2.33%	3.16%	2.65%	2.76%	2.07%	5.23%	5.34%	4.25%	4.54%

(1) Incremental property tax was received by the redevelopment agency which was dissolved in FY 2011-12

(2) Calculation includes only the principal and interest components of debt service expenditures when calculating this ratio for all years.

(3) Included in "Other taxes" in prior fiscal years.

TABLE 5**CITY OF SANTA MONICA, CALIFORNIA**General Fund Tax Revenues by Source⁽¹⁾

Last Ten Fiscal Years

(In Thousands)

Source	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Sales taxes	\$ 68,480	54,505	54,803	51,090	49,210	47,881	45,832	31,690	26,637	28,297
Utility user's tax	29,288	29,438	30,773	32,066	32,817	31,450	31,296	31,625	31,620	31,579
Transient occupancy tax	60,631	55,532	51,021	47,629	44,396	40,997	36,143	32,747	29,804	31,265
Property taxes (2)	56,955	56,424	50,452	55,044	50,114	44,392	40,226	36,048	37,420	37,763
Business license taxes	31,575	30,712	30,799	30,354	29,783	27,518	26,325	25,480	26,553	27,216
Parking facility tax	11,558	11,231	10,718	11,072	10,598	9,954	9,394	8,786	7,848	7,980
Documentary Transfer Tax	8,169	10,952	7,851	7,903	6,273	6,027	5,192	3,954	3,432	2,653
Vehicle license fees	49	42	38	38	39	48	46	492	273	263
Condominium taxes	9	38	73	45	14	18	37	21	19	35
Total	\$ 266,714	248,874	236,528	235,241	223,244	208,285	194,491	170,843	163,606	167,051

(1) Does not include Highway Users Taxes, which are recorded in the Gas Tax Fund, Unit Dwelling Taxes, which are recorded in the Parks and Recreation Facilities Fund, or TORCA Conversion Taxes, which are recorded in the TORCA Fund.

(2) Includes ad valorem property taxes for purposes of paying debt service on general obligation bonds. Does not include tax increment received by redevelopment area.

Source: City of Santa Monica Finance Department

TABLE 6

CITY OF SANTA MONICA, CALIFORNIA
 Assessed Value and Actual Value of Taxable Property
 Last Ten Fiscal Years
 (In Thousands)

Fiscal year	Land	Improvements	Personal property	Public utilities	Secured gross	Exemptions⁽¹⁾	Secured net	Net unsecured	Net assessed valuations	Total Direct Tax Rate⁽²⁾
2017-18	\$ 20,799,168	\$ 14,235,956	\$ 124,391	\$ -	\$ 35,159,515	\$ 1,656,924	\$ 33,502,591	\$ 925,241	\$ 34,427,832	1.00%
2016-17	19,308,450	13,550,065	48,643	-	32,907,158	653,548	32,253,610	906,371	33,159,981	1.00%
2015-16	17,890,583	12,932,934	472,362	-	31,295,879	1,042,924	30,252,955	902,502	31,155,457	1.00%
2014-15	16,867,678	12,433,379	437,194	742	29,738,993	1,609,033	28,129,960	916,381	29,046,341	1.00%
2013-14	16,046,789	11,701,427	402,171	742	28,151,130	1,573,052	26,578,078	936,031	27,514,109	1.00%
2012-13	14,828,199	10,846,677	370,673	742	26,046,292	1,222,722	24,823,570	942,035	25,765,605	1.00%
2011-12	14,235,295	10,349,621	228,784	742	24,814,442	1,073,027	23,741,415	902,707	24,644,122	1.00%
2010-11	13,795,191	10,070,986	230,387	742	24,097,305	1,095,461	23,001,845	880,331	23,882,176	1.00%
2009-10	13,972,767	9,978,675	234,194	742	24,186,379	1,134,967	23,051,412	969,009	24,020,421	1.00%
2008-09	13,460,087	9,640,425	228,271	742	23,329,524	904,661	22,424,864	987,849	23,412,713	1.00%

(1) Includes Homeowner Exemption. City is reimbursed by State for taxes lost because of these exemptions.

(2) Excludes Direct and Overlapping Rates. See Table 7 for Direct and Overlapping Rates.

Source: Los Angeles County Auditor-Controller

TABLE 7**CITY OF SANTA MONICA, CALIFORNIA**

Direct and Overlapping Property Tax Rates*

Last Ten Fiscal Years

Fiscal year	City General Fund	County General Fund	School districts	Miscellaneous special districts	Total
2017-18	\$ 0.01	\$ 1.00	\$ 0.14	—	\$ 1.15
2016-17	0.01	1.00	0.13	—	1.14
2015-16	0.01	1.00	0.13	—	1.14
2014-15	0.01	1.00	0.13	—	1.14
2013-14	0.01	1.00	0.13	—	1.14
2012-13	0.01	1.00	0.13	—	1.14
2011-12	0.01	1.00	0.13	—	1.14
2010-11	0.01	1.00	0.13	—	1.14
2009-10	0.01	1.00	0.13	—	1.14
2008-09	0.01	1.00	0.13	0.01	1.15

* Property tax rate is per \$100 of assessed value. Since 1978-79, the maximum allowable rate is levied by the County, property taxes are collected by the County, and the County allocates the City's share in accordance with distribution formulas established by law. Effective 1981-82, Proposition 13 allowed jurisdictions to impose rates over the \$1.00 base rate only for bonded debt approved by the voters prior to 1978. However, in 1986, the State Constitution was amended to allow rates over the \$1.00 base rate for voter approved general obligation bonds.

City General Fund is allocated approximately \$.14 of each \$1.00 of the County General Fund amount.

Source: Los Angeles County Auditor-Controller

TABLE 8**CITY OF SANTA MONICA, CALIFORNIA**Principal Property Taxpayers
Current Fiscal Year and Nine Years Ago

Taxpayer	2017-18			2008-09		
	Taxable assessed value	Rank	Percentage of total City taxable assessed value	Taxable assessed value	Rank	Percentage of total City taxable assessed value
Douglas Emmett	\$ 547,074,326	1	1.59 %	\$ 266,103,783	4	1.13 %
California Colorado Center LLC	522,173,133	2	1.52	637,500,000	1	2.71
Water Garden Company	506,872,745	3	1.47	449,059,983	2	1.91
SC Enterprises SMBP LLC	384,995,726	4	1.12	310,080,000	3	1.32
Macerich SMP LP	341,156,838	5	0.99	—		—
Lantana Media Campus LLC	331,344,168	6	0.96	—		—
Office Block Investment LLC	294,257,185	7	0.85	—		—
Prudential Insurance	195,768,536	8	0.57	—		—
Hart Arboretum LLC	177,989,582	9	0.52	—		—
Equity Office Properties Trust	159,974,319	10	0.46	141,279,382	8	0.60
Sisters of Charity/St. John's Hospital	—		—	228,710,571	5	0.97
CREP 2700 Holdings LLC	—		—	222,360,000	6	0.95
Maguire Properties Lantana North	—		—	160,398,262	7	0.68
Ocean Avenue LLC	—		—	140,165,769	9	0.60
New Santa Monica Beach Hotel	—		—	135,785,427	10	0.58
Total principal property taxpayers assessed value	<u>\$ 3,461,606,558</u>		<u>10.05 %</u>	<u>\$ 2,691,443,177</u>		<u>11.45 %</u>
Total City net taxable assessed value	<u>\$ 34,427,831,562</u>		<u>100.00 %</u>	<u>\$ 23,488,853,129</u>		<u>100.00 %</u>

Source: City of Santa Monica Finance Department; HdI, Coren and Cone; Los Angeles County Auditor-Controller

TABLE 9**CITY OF SANTA MONICA, CALIFORNIA**Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal year	Total secured tax levy	Current secured tax collections	Percent of levy collected	Delinquent secured tax collections ⁽¹⁾	Total tax collections	Total secured tax collections as percent of total tax levy	Outstanding delinquent taxes ⁽²⁾	Outstanding delinquent taxes as percent of total secured tax levy
2017-18	\$ 30,578,295	\$ 30,099,534	98.4 %	\$ 479,245	\$ 30,578,779	100.0 %	\$ 379,776	1.2 %
2016-17	30,859,806	30,545,235	99.0	489,991	31,035,226	100.6	375,288	1.2
2015-16	25,198,360	27,662,256	109.8	512,080	28,174,336	111.8	358,568	1.4
2014-15	26,567,114	26,190,114	98.6	600,642	26,790,756	100.8	438,248	1.6
2013-14	25,173,273	24,689,372	98.1	570,037	25,259,409	100.3	512,940	2.0
2012-13	23,446,717	23,428,590	99.9	713,956	24,142,546	103.0	585,417	2.5
2011-12	23,211,627	22,641,826	97.5	645,927	23,287,753	100.3	661,315	2.8
2010-11	22,293,648	21,759,685	97.6	937,340	22,697,025	101.8	669,232	3.0
2009-10	22,585,685	21,724,105	96.2	1,262,484	22,986,589	101.8	690,928	3.1
2008-09	22,439,401	21,195,066	94.5	1,237,357	22,432,423	100.0	662,983	3.0

(1) Exclusive of penalties and collections related to tax overrides for debt service on general obligation bonds.

(2) Reflects City of Santa Monica proportionate share of county-wide outstanding delinquencies. The Los Angeles County property tax system does not provide City of Santa Monica specific statistics related to delinquencies. Should the County change their system to include specific city data, the table will be updated to adjust delinquent taxes by year.

Source: County of Los Angeles

TABLE 10

CITY OF SANTA MONICA, CALIFORNIA
 Taxable Transactions by Type of Business⁽¹⁾
 Last Ten Calendar Years
 (In Thousands)

Business	Calendar Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Apparel stores	\$ 352,381	403,869	395,773	403,129	413,794	403,566	381,960	307,409	278,980	316,993
General merchandise	79,931	89,604	99,658	102,419	107,483	114,375	111,962	66,521	28,349	50,545
Food stores	87,300	89,972	99,055	98,709	92,794	86,213	84,007	80,779	82,841	87,586
Eating & drinking places	693,760	685,037	653,626	594,556	490,165	541,432	503,540	456,846	431,011	457,549
Building materials	114,207	111,257	115,150	115,313	104,249	90,255	92,249	88,913	88,971	119,095
Auto dealers & auto suppliers	765,905	770,640	750,069	738,361	699,105	640,142	632,304	600,140	609,517	647,526
Service stations	90,471	87,195	108,224	120,557	131,887	137,246	134,962	151,952	106,193	146,276
Other retail stores	694,591	679,227	694,454	623,367	623,225	643,207	638,691	527,688	518,096	620,078
Retail stores total	2,878,546	2,916,801	2,916,009	2,796,411	2,662,702	2,656,436	2,579,675	2,280,248	2,143,958	2,445,648
All other outlets	361,340	323,144	371,143	355,662	392,160	289,380	284,577	276,099	270,337	317,818
Total all outlets	\$ 3,239,886	3,239,945	3,287,152	3,152,073	3,054,862	2,945,816	2,864,252	2,556,347	2,414,295	2,763,466

(1) Amounts have been revised to reflect prior year adjustments; Amounts do not include allocations from State or County Pools.

TABLE 11

CITY OF SANTA MONICA, CALIFORNIA
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal year	Governmental activities					Business-type activities		Total primary government	Percentage of net assessed valuation ⁽¹⁾	Per capita
	General obligation bonds	Tax allocation bonds*	Lease revenue bonds	Term loans payable ⁽²⁾	Line of credit ⁽²⁾	Wastewater bonds	Term loans payable			
2017-18	\$ 6,012,945	—	\$ 171,078,364	400,000	—	\$ 9,304,636	\$ 661,765	\$ 187,457,710	0.54%	2,028
2016-17	7,281,181	—	64,474,634	400,000	—	9,404,529	921,636	82,481,980	0.25%	879
2015-16	8,554,417	—	69,944,367	400,000	—	9,504,426	1,213,411	89,616,621	0.29%	957
2014-15	9,857,652	—	77,431,209	400,000	—	9,604,321	1,497,792	98,790,974	0.34%	1,059
2013-14	11,205,890	—	82,503,548	400,000	—	9,704,216	1,774,966	105,588,620	0.38%	1,145
2012-13	12,518,284	—	87,039,302	400,000	—	17,763,125	2,045,117	119,765,828	0.46%	1,316
2011-12	12,650,793	—	90,574,837	400,000	—	19,319,815	2,308,422	125,253,867	0.51%	1,388
2010-11	15,044,398	103,546,185	61,882,893	101,468,020	50,000,000	20,727,517	2,565,054	355,234,067	1.49%	3,939
2009-10	16,793,432	66,727,384	65,049,340	400,000	23,471,605	22,107,109	2,837,400	197,386,270	0.82%	2,129
2008-09	18,507,466	69,348,470	67,835,516	400,000	15,485,324	23,431,702	3,103,408	198,111,886	0.85%	2,142

Note: Details regarding the City's outstanding debt can be found in the Note 9 fo the Financial Statements.
All bonds amounts are updated to reflect net of related premiums, discounts, and adjustments.
(1) Net assessed property valuations have been used because personal income is not available. See Table 6 for net assessed valuations.
(2) Redevelopment debt was transferred to the Successor Agency on February 1, 2012.

TABLE 12

CITY OF SANTA MONICA, CALIFORNIA

Ratios of General Bonded Debt
Last Ten Fiscal Years

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
General bonded debt outstanding										
General obligation bonds	\$ 6,012,945	7,281,181	8,554,417	9,857,652	11,205,890	12,518,284	12,650,793	15,044,398	16,793,432	18,507,466
Less: Amounts Available in Debt Service Fund ⁽⁴⁾	1,120,000	1,130,000	1,135,000	1,165,000	1,210,000	1,225,000	—	—	—	—
Tax allocation bonds ⁽³⁾	—	—	—	—	—	—	—	103,546,185	66,727,384	69,348,470
Total	<u>\$ 4,892,945</u>	<u>6,151,181</u>	<u>7,419,417</u>	<u>8,692,652</u>	<u>9,995,890</u>	<u>11,293,284</u>	<u>12,650,793</u>	<u>118,590,583</u>	<u>83,520,816</u>	<u>87,855,936</u>
Assessed value (in thousands) ⁽¹⁾	\$ 34,427,832	33,159,981	31,155,457	29,046,341	27,514,109	25,765,605	24,644,122	23,882,176	24,096,850	23,488,853
Percentage of assessed										
Property value	0.01%	0.02%	0.02%	0.03%	0.04%	0.04%	0.05%	0.50%	0.35%	0.37%
Population ⁽²⁾	92,416	93,834	93,640	93,283	92,185	91,040	90,223	90,174	92,703	92,494
Per capita	\$ 53	66	79	93	108	124	140	1,315	901	950

(1) See Table 6 for Assessed Value Data

(2) See Table 16 for Population Data

(3) Redevelopment debt was transferred to the Successor Agency on February 1, 2012.

(4) This is the amount restricted for debt service principal payments.

All bonds amounts are net of related premiums, discounts, and adjustments.

TABLE 13

CITY OF SANTA MONICA, CALIFORNIA
 Direct and Overlapping Governmental Activities Debt
 As of June 30, 2018

	Debt Outstanding	Estimated Percentage Applicable ⁽¹⁾	Estimated share of Overlapping Debt
Overlapping debt:			
Los Angeles County General Fund Obligations	\$ 1,921,992,404	2.416%	\$ 46,435,336
Los Angeles County Superintendent of Schools Certificates of Participation	6,500,306	2.416%	157,047
Metropolitan Water District	60,600,000	1.257%	761,742
Santa Monica Community College District	639,140,630	65.870%	421,001,933
Los Angeles Unified School District	10,604,150,000	0.0002%	21,208
Santa Monica-Malibu Unified School District	362,490,614	65.923%	238,964,687
Los Angeles County Regional Park and Open Space Assessment District	26,575,000	2.416%	642,052
Santa Monica Community College District Certificates of Participation	11,720,000	65.870%	7,719,964
Los Angeles Unified School District Certificates of Participation	195,975,000	0.0002%	392
Los Angeles Community College District	4,165,830,000	0.0100%	416,583
Santa Monica-Malibu Unified School District Certificates of Participation	6,371,501	65.923%	4,200,285
Overlapping Tax Increment Debt (Successor Agency):	81,400,000	100.000%	81,400,000
Subtotal, overlapping debt			<u>801,721,229</u>
City direct governmental debt			
City of Santa Monica General Obligation Bonds Main Library Improvements (2012)			6,012,945
City of Santa Monica Public Safety Lease Revenue Bonds (2011)			3,204,454
City of Santa Monica Civic Parking Structure Lease Revenue Bonds (2015)			26,038,925
City of Santa Monica Parking Structure 6 Lease Revenue Bonds (2011)			27,030,773
City of Santa Monica City Services Building Lease Revenue Bonds (2017)			400,000
City of Santa Monica Fire Station 1 Lease Revenue Bonds (2018)			77,100,151
State Dept of Housing and Community Development			<u>37,704,060</u>
Subtotal, direct debt ⁽²⁾			<u>177,491,308</u>
Total direct and overlapping governmental debt ⁽³⁾			<u>\$ 979,212,537</u>

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

(2) Net of issuance discounts and premiums.

(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bond and non-bonded capital lease obligations.

Source for overlapping debt information: California Municipal Statistics, Inc.

TABLE 14

CITY OF SANTA MONICA, CALIFORNIA
 Computation of Legal Debt Margin
 Last Ten Fiscal Years

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
Total net debt applicable to limit	\$ 156,788,174	62,271,351	67,444,525	74,876,302	80,994,650	87,000,048	91,804,168	151,252,964	133,493,200	141,302,416
Debt limit	3,608,475,600	3,381,352,900	3,219,838,100	3,065,537,400	2,908,716,082	2,720,223,142	2,594,319,674	2,531,305,352	2,545,129,908	2,449,428,970
Legal debt margin	3,451,687,426	3,319,081,549	3,152,393,575	2,990,661,098	2,827,721,432	2,633,223,094	2,502,515,506	2,380,052,388	2,411,636,708	2,308,126,554
Total net debt applicable to the limit as a percentage of debt limit	4.34%	1.84%	2.09%	2.44%	2.78%	3.20%	3.54%	5.98%	5.25%	5.77%

Net assessed value	34,427,832,000
Add: exempt property	<u>1,656,924,000</u>
Total gross assessed value	<u>\$ 36,084,756,000</u>
 Debt limit - 10% of total assessed value ⁽¹⁾	 3,608,475,600
 Amount of debt applicable to debt limit:	
Total bonded debt	161,070,000
Less:	
Assets in debt service funds available for payment of bonds	<u>4,281,826</u>
 Total amount of debt applicable to debt limit	 <u>156,788,174</u>
 Legal debt margin	 <u>\$ 3,451,687,426</u>

(1) Per Section 607 of the City Charter, bonded indebtedness of the City may not exceed 10% of total assessed valuation of property within the City, exclusive of any indebtedness incurred for the purpose of water supply or sewers or storm drains.

Source: City of Santa Monica Finance Department

TABLE 15

CITY OF SANTA MONICA, CALIFORNIA
Wastewater Enterprise Revenue Bonds Coverage
Last Ten Fiscal Years

Fiscal year	Gross revenues	Direct operating expense ⁽¹⁾	Net revenue available for debt service	Debt service requirement			Coverage ⁽²⁾
				Principal	Interest	Total	
2017-18	\$ 19,791,873	\$ 9,313,707	\$ 10,478,165	\$ —	\$ 266,550	\$ 266,550	39.31
2016-17	20,069,691	8,779,235	11,290,456	—	266,550	266,550	42.36
2015-16	19,680,491	9,573,340	10,107,151	—	266,550	266,550	37.92
2014-15	20,166,164	10,535,135	9,631,029	—	266,550	266,550	36.13
2013-14	22,556,413	12,823,959	9,732,454	1,785,000	575,698	2,360,698	4.12
2012-13	22,490,999	9,853,573	12,637,426	1,700,000	674,700	2,374,700	5.32
2011-12	21,307,472	10,993,468	10,314,004	1,650,000	846,141	2,496,141	4.13
2010-11	19,117,006	9,547,632	9,569,374	1,600,000	972,738	2,572,738	3.72
2009-10	17,036,277	9,449,739	7,586,538	1,545,000	1,026,812	2,571,812	2.95
2008-09	15,978,030	8,305,013	7,673,017	1,500,000	1,071,812	2,571,812	2.98

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(1) Excludes depreciation expense, write-off of disposed assets, and capital-related expenditures.

(2) Bond covenant requires a coverage ratio of 1.20

The Hyperion Project, Wastewater Enterprise Revenue Bonds were issued November 26, 1991 at an interest rate of 6.25% with ratings of A1 from Moody's Investors Service, Inc. and A+ from Standard & Poor's Corporation. Debt service began in FY 1992-93. These bonds were refunded by the issuance of insured Wastewater Enterprise Revenue Bonds, 1993 Refunding Series on December 22, 1993 with an interest rate of 5.3084% with ratings of Aaa and AAA by Moody's Investors Services, Inc. and Standard & Poor's Corporation, respectively. The Refunding Bonds were insured by AMBAC Indemnity.

On October 13, 2005 the City issued \$20,305,000 of Wastewater Enterprise Refunding Revenue Bonds bearing interest from 3.00% to 5.00% to defease \$21,535,000 of the outstanding 1993 Wastewater Enterprise Revenue Bonds, 1993 Refunding Series with ratings from Moody's Investor Services, Inc. of A1, Standard & Poor's Corporation of AA and Fitch Ratings of AAA. The Refunding Bonds are insured by Financial Guaranty Insurance Company.

On April 16, 2010 Moody's upgraded the underlying rating on the Refunding bond to Aa2 and on November 17, 2008 Standard & Poor's Corporation upgraded the underlying rating to AAA.

On May 30, 2012 the City issued \$8,955,000 Wastewater Refunding Revenue Bonds Series 2012A at interest from 2.00% to 4.00% to defease On December 16, 2013 Moody's upgraded the underlying rating of the 2005 bonds to Aa1 from Aa2.

On June 1, 2014, the City redeemed remaining balance \$7,810,000 of Wastewater Enterprise Refunding Revenue Bonds 2005.

Source: City of Santa Monica Finance Department

TABLE 16

CITY OF SANTA MONICA, CALIFORNIA
 Demographic and Economic Statistics
 Last Ten Calendar Years

Calendar year	Population ⁽¹⁾	Personal income ⁽²⁾ (millions)	Per capita personal income ⁽³⁾	Unemployment rate ⁽⁴⁾
2018	92,416	\$ *	\$ *	4.8 %
2017	93,834	760,829	57,160	3.4
2016	93,640	727,377	54,526	3.6
2015	93,283	673,074	50,751	6.3
2014	92,185	635,892	48,425	7.1
2013	91,040	604,832	46,337	8.4
2012	90,223	575,044	44,423	8.4
2011	90,174	561,142	43,688	10.5
2010	92,703	565,365	42,784	10.3
2009	92,494	551,271	42,818	9.5

* No data is available for 2018 as of publication date of CAFR

Note: Data shown is the Metropolitan Statistical Area of Los Angeles-Long Beach-Santa Ana, CA. Data by City is not available.

Source: (1) California Department of Finance
 (2) and (3) Bureau of Economic Analysis
 (4) State of California, Employment Development Department, Labor Market Information Division

TABLE 17**CITY OF SANTA MONICA, CALIFORNIA**Principal Employers
Current Year and Nine Years Ago

Employers	2017-18			2008-09		
	Number of employees	Rank	Percentage of total City employment	Number of employees	Rank	Percentage of total City employment
UCLA Medical Center, Santa Monica	2,344	1	2.62 %	1,767	3	2.23 %
City of Santa Monica	2,170	2	2.42	1,949	2	2.46
Santa Monica College	1,800	3/4	2.01	2,143	1	2.70
Providence Saint John's Health Center	1,800	3/4	2.01	1,682	4	2.12
Santa Monica-Malibu Unified School District	1,734	5	1.94	1,643	5	2.07
Activision Publishing (Includes Beachhead Studios, Treyarch Corp)	1,231	6	1.37	781	8	0.98
Lion's Gate Entertainment Corp (Includes Artisan Home Entertainment Inc, Artisan Releasing LLC)	943	7	1.05	—	—	—
RAND Corporation	891	8	0.99	898	6	1.13
Hulu	882	9	0.98	—	—	—
Cornerstone On Demand Inc	700	10	0.78	—	—	—
Universal Music Group	—	—	—	518	10	0.65
ET Whitehall, Inc. (Casa del Mar, Shutters on the Beach)	—	—	—	654	9	0.82
MTV Networks	—	—	—	878	7	1.11
Total jobs provided by principal employers	<u>14,495</u>			<u>12,913</u>		
Average total jobs in Santa Monica	89,607			79,376		
Principal employers as percent of total jobs	16.18%			16.27%		

Source: City of Santa Monica Economic Development Division, Housing and Economic Development Department

TABLE 18

CITY OF SANTA MONICA, CALIFORNIA
 Full-Time Equivalent City Government Employees by Function/Program
 Last Ten Fiscal Years

Function/Program	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
General government	277.6	269.7	281.5	265.7	232.9	230.7	238.6	221.7	222.7	217.0
Public safety										
Police										
Sworn	224.0	224.0	221.0	221.0	216.0	216.0	209.0	216.0	216.0	216.0
Non-sworn	201.4	202.4	202.4	197.4	217.4	220.4	225.4	221.4	227.4	223.4
Fire										
Sworn	120.0	120.0	114.0	114.0	108.0	108.0	108.0	105.0	109.0	106.0
Non-sworn	17.0	16.0	15.8	15.8	21.0	21.0	21.0	22.0	19.0	11.0
General services	281.0	281.6	257.3	257.3	256.1	184.3	184.3	261.9	261.3	260.1
Cultural and recreation services	152.7	152.7	153.0	153.7	151.9	231.1	231.1	151.9	152.8	148.5
Library	113.5	112.5	111.0	111.0	114.8	106.1	106.1	107.1	107.3	107.3
Housing and community development	163.2	161.5	159.5	149.8	138.8	144.4	144.4	146.4	148.4	158.4
Beach recreation	52.6	50.5	50.3	48.9	49.9	46.6	46.6	46.6	47.6	46.5
Water	46.0	46.0	46.0	46.0	46.0	46.0	46.0	47.0	47.0	47.0
Resource Recovery & Recycling	92.3	90.7	89.7	87.7	86.7	75.2	84.2	84.2	84.0	84.0
Pier	21.9	20.3	19.3	17.8	17.8	17.2	15.8	16.2	16.2	16.2
Wastewater	22.0	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.2
Civic Auditorium	—	—	—	—	—	11.0	30.3	34.4	34.4	34.4
Airport	27.9	37.9	12.9	12.4	12.5	12.2	4.0	12.2	12.2	12.2
Cemetery	8.0	8.1	7.1	7.1	7.1	12.1	12.1	12.1	11.1	10.1
Big Blue Bus	464.0	462.9	464.5	436.0	435.5	419.0	419.0	413.7	418.7	417.7
Vehicle management	29.3	29.0	29.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0
Self insurance - workers' compensation	13.0	13.0	13.0	12.0	12.0	14.0	14.0	12.0	12.0	12.0
Community Broadband	4.0	4.0	—	—	—	—	—	—	—	—
Total all funds	<u>2,331.4</u>	<u>2,325.0</u>	<u>2,269.5</u>	<u>2,203.8</u>	<u>2,174.6</u>	<u>2,165.5</u>	<u>2,190.1</u>	<u>2,182.0</u>	<u>2,197.3</u>	<u>2,178.0</u>

Note: Includes permanent and temporary employees (2,080 hours = 1 full-time position).

Source: City of Santa Monica Budget

TABLE 19

CITY OF SANTA MONICA, CALIFORNIA
Operating Indicators by Function/Program
Last Ten Fiscal Years

Function / program	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
General government:										
Electronic requests for government information	12,465,631	13,811,858	12,558,833	13,410,283	12,420,770	12,175,143	16,000,000	16,000,000	15,900,000	15,700,000
Hours of live public meeting coverage	210	220	275	319	284	330	300	300	300	216
Public safety:										
Number of emergency response incidents	17,199	16,384	15,963	14,629	13,637	13,540	12,842	12,000	12,005	11,690
Number of inspections	8,795	10,592	10,202	8,119	9,031	8,706	9,549	8,549	7,235	8,918
Calls to Police Department for service	134,192	129,524	130,016	133,516	128,323	120,320	105,642	104,097	109,045	107,604
Police reports issued	16,298	14,467	14,358	13,984	13,983	13,708	13,086	13,377	13,995	14,373
Number of crimes recorded	10,008	8,988	8,774	8,500	8,744	8,986	8,579	8,581	8,793	9,561
General services:										
Number of square feet of sidewalks repaired	126,959 ^(1a)	99,907 ⁽¹⁾	14,001	10,359	6,025	3,279	40,000	40,000	33,670	190,000
Number of graffiti removals performed	45,729	43,535	38,311	37,940	37,948	34,289	20,000	20,000	19,500	18,481
Feet of sewer mains cleaned	1,988,287	1,988,287	1,985,816	2,200,810	1,933,560	2,328,874	2,316,757	1,751,717	1,768,024	1,532,184
Cultural and recreation services:										
Number of cars parked in beach lots	2,553,233	2,829,771 ⁽²⁾	2,580,752	2,580,225	2,568,733	2,163,186	1,500,000	1,500,000	1,798,000	1,450,000
Senior services meals served	104,472	64,406	52,917	48,253	43,020	64,711	56,232	52,440	49,786	42,459
Number of low income persons receiving primary health care	4,711	4,458	4,137	3,089	3,519	3,568	4,164	4,453	3,942	4,344
Number of youth regularly attending homework assistance programs	597	641	745	624	583	469	466	458	423	558
Library:										
Library visitors	1,221,015	1,257,746	1,184,130	1,262,708	1,265,286	1,373,663	1,500,000	1,500,000	1,500,000	1,300,000
Materials used	1,707,798	1,882,878	1,888,473	1,998,869	2,021,936	2,225,571	2,100,000	2,100,000	2,100,000	1,900,000
Public access computer sessions	175,485	173,702	164,318	182,655	215,907	271,680	300,000	300,000	300,000	290,000
Housing and community development:										
Building and Safety plan checks completed	4,412	4,749 ⁽³⁾	2,823	3,080	2,366	1,998	1,500	1,500	1,712	1,798
Building inspections performed	24,009	24,080	23,858	20,690	20,732	21,576	16,000	16,000	13,608	18,103
Transportation Managements plan checks completed	323 ⁽⁴⁾	640	632	748	839	465	500	500	444	750
Resident parking passes sold	53,118	51,325	48,962	56,356	51,674	76,000	73,000	70,000	60,000	39,000
Number of traffic signs installed, replaced, repaired, or removed	3,024	2,858	1,659	2,079	2,417	2,859	5,600	5,600	4,600	5,600
Number of parking meters installed, replaced, repaired, or removed	18,605	14,843	13,844	5,875	5,874	6,100	23,000	23,000	49,000	45,257
Water:										
Number of direct customer accounts	18,061	17,976	17,842	17,798	17,760	17,705	17,902	17,823	17,709	17,356
Water sold to direct customers in whole acre feet	11,718	11,552	11,242	12,323	13,344	15,147	11,996	11,779	12,629	12,879
Airport:										
Number of tenant aircraft	278	310	309	325	274	420	420	420	420	420
Noise ordinance violations issued	130	148	162	118	153	160	142	148	154	210
Big Blue Bus:										
Revenue Miles	5,024,447	4,969,546	4,862,782	4,734,209	4,870,655	5,019,965	5,278,856	5,267,809	5,352,321	5,316,228
Farebox revenue (in millions)	11.72	11.80	12.84	13.36	13.68	14.09	11.86	11.74	11.63	11.51
Total passenger trips (in millions)	13.2	13.3	16.5	18.7	18.8	19.3	22.0	22.0	22.0	22.0
Number of customer relations phone calls	30,730	37,187	38,705	56,995	64,525	69,075	73,586	73,447	69,738	71,868
Total number of charters	0	0	0	0	3	3	90	349	202	224

(1) This count was adjusted to include permanent, temporary, and hot-patch repairs.

(1a) There was an increase of 2200 SF of alternative sidewalk pavers replaced compared to the prior fiscal year.

(2) Excludes Beach House summer reservations and private event parking.

(3) Includes plan check projects at the public counter (OTC reviews) that were left out last fiscal year.

(4) Division no longer reviewing single family residences.

Sources: Various City departments

TABLE 20

CITY OF SANTA MONICA, CALIFORNIA

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function / program	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Public safety:										
Number of police vehicles	243	235 ⁽¹⁾	232	220	223	241	239	215	215	244
Number of fire vehicles	67	67	71	68	64	56	52	54	57	58
Number of fire stations	5 ⁽⁶⁾	4	4	4	4	5	5	5	5	5
Number of police substations including Public Safety Facility	3	3	3	3	3	4	4	4	4	4
General services:										
Square footage of asphalt paved streets	30,170,740	30,170,740	30,170,740	30,403,785	30,403,785	30,403,785	30,403,785	30,385,115	30,585,115	30,385,115
Square footage of concrete paved streets	1,177,981	1,177,981	1,177,981	1,128,034	1,128,034	1,106,834	1,106,834	1,125,504	1,125,504	1,125,504
Square footage of sidewalks	8,451,871	8,451,871	8,451,871	8,403,428	8,403,428	8,386,998	8,386,998	8,386,998	8,386,998	8,386,998
Square footage of curbs and gutters	1,938,420	1,938,420 ⁽²⁾	1,938,420	1,930,214	1,930,214	1,927,564	1,917,714	1,883,714	1,834,166	1,776,089
Cultural and recreation services:										
Number of beach parking lots	16	16 ⁽³⁾	16	16	17	17	17	17	17	16
Number of parks	31	30	29	29	29	29	27	27	26	26
Number of swim centers	2	2	2	2	2	2	2	2	2	2
Library:										
Number of facilities: main and branches	5	5	5	5	5	4	4	4	4	4
Housing and community development:										
Downtown structure visitors	5,339,806	5,753,204 ⁽⁴⁾	6,722,688	6,405,636	6,455,602	6,790,058	6,659,246	5,958,593	4,078,062	3,928,900
Water:										
Number of feet of new water main installed	0	2,269 ⁽⁵⁾	2,495	10,465	9,510	9,510	12,384	—	—	—
Water main system (in miles)	205	205	205	205	205	205	205	205	205	205
Reclaimed water main system (in miles)	5	5	5	5	5	4	4	4	4	4
Wastewater:										
City sewage flow in million gallons/day	13.8	14.2	13.9	13.9	12.2	11.4	11.4	11.3	10.6	13.3
Sewer main system (in miles)	151	151	151	151	151	151	151	152	152	152
Stormwater:										
Daily gallons treated for recycling by SMURRF	180,699	159,740	160,059	170,000	108,000	123,000	122,890	330,000	275,000	275,000
Storm drain system (in miles)	59	59	59	59	59	59	59	58	58	58
Airport:										
Aircraft operations (departures and arrivals)	74,130	83,471	89,217	84,633	85,052	102,109	105,026	106,521	112,212	117,250
Big Blue Bus:										
Number of buses	199	200	200	188	201	192	200	214	199	197

(1) Includes police patrol boat, Mobile Command Center, and SUVs (to eventually replace old Crown Victorias)

(2) Per Engineers, curbs and gutters are in linear feet. Thus, use approximate factor of 2 to convert from linear feet to square feet.

(3) 1650 Appian is residential parking only and has been removed from count.

(4) 2017 Downtown Community Plan (DCP) Downtown perimeter: Wilshire Blvd (north), Lincoln Blvd (east), I-10 Freeway (south), Ocean Avenue (west)

- includes Parking Structures 1-8, Main Library Parking Structure, Ken Edwards Center

- excludes Parking Structure 9, Civic Center Parking Lot, Civic Center Parking Structure

(5) Per Engineers, this total is lower compared to prior years because no water main CIP was started this year.

(6) Per Fire, there were 4 permanent and 1 temporary station @ Station #4 for FY17/18

Sources: Various City departments.

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