

Honorable Mayor and Members of the City Council:

It is with great pleasure that I present to you this two-year budget for fiscal years 2006/07 and 2007/08. The City continues to be in sound financial condition. A General Fund budget of \$62,174,408 for FY 2006/07 and a proposed budget of \$63,565,590 for FY 2007/08 were approved on June 20, 2006. This budget reaffirms council's policy position to keep the general fund balance in the \$20 million range or no lower than 30% of the general fund budget. This budget also concurs with Council's priorities which include enhanced public safety and code enforcement, youth and senior citizen welfare, continued economic development and quality parks and recreation services.

In this two year budget, staff will discuss the city's fiscal health for the first fiscal year 2006/07. The proposed numbers for fiscal year 2007/08 will be reviewed in more detail prior to the next budget year. While the cost of living and the cost of providing services continues to rise, the current revenues being generated in the City of Carson are not growing at a sufficient pace to cover the costs. For this reason, the city has once again been faced with another year of challenges as it relates to the general fund budget.

The general fund budget for FY 2006/07 projects revenues to reach \$60,577,059. This represents a measly 1.9% increase from the adopted budget of \$59,434,140 in FY 2005/06. The revenue increases in business license (14%), other fines and forfeitures (52%) and interest on investments (35%) were outpaced by the revenue decreases in building construction permits (18%), traffic fines (22%) and motor vehicle license fees (19%).

On the other hand, the general fund budget projects expenditures at \$62,174,408. This represents a 3.5% increase from the adopted budget of \$60,100,000 in FY 2005/06. The two major contributors to the increase are: 1) the 4.9% increase in sheriff's contract costs and 2) the City's staff costs which remain high due to the implementation of the 3% at 60 CalPERS retirement benefit, previously negotiated COLA's for full-time and part-time employees and other benefits negotiated for part-time employees.

In summary, a budget based on estimated revenues of \$60,577,059 and anticipated expenditures of \$62,174,408 will cause the general fund balance to be reduced by \$1,597,349 at the end of the 2006/07 fiscal year. This will result in a general fund balance of \$24,026,226, or 38.6% of the annual operating expenditures, at June 30, 2007.

For comparison purposes, provided below are the FY 2005/06 thru FY 2007/08 general fund revenue and expenditure data:

GENERAL FUND	FY 2005/06 ADOPTED	FY 2005/06 ESTIMATED	FY 2006/07 ADOPTED	FY 2007/08 PROPOSED
Revenues/Transfers	\$59,434,140	\$58,805,697	\$60,577,059	\$61,278,550
Expenditures/Transfers	60,100,000	60,079,359	62,174,408	63,565,590
FUND BALANCE INC/(DEC)	(\$ 665,860)	(\$1,273,662)	(\$1,597,349)	(\$2,287,040)

ECONOMIC GROWTH

The US economy grew at a solid pace in 2005 beating surging energy prices, a tighter monetary policy and rising mortgage rates. Gross domestic product for the first three quarters of 2005 was stable at 3.6% above its year-earlier level due primarily to the 3.7% increase in consumer spending. Private business investment was the second largest contributor to the economic growth. As the States' economic fate is closely tied to the nation, California's economy likewise strengthened in 2005. Personal income, a key determinant of state revenues, was up 6.2% from a year earlier in the first three quarters of 2005, slightly slower than its 6.6% growth in 2004 as a whole. Unemployment rate dropped from an average of 6.3% in the first 11 months of 2004 to 5.4% in the same period in 2005. The number of unemployed persons fell below 1 million for the first time in nearly 4 years. Although home sales slowed in California in 2005, commercial real estate markets generally improved. A major risk for the state's economy is a sharp slowdown in residential construction, and because the recent job gains were due to construction and related industries, any major drop in construction will have an effect on employment and personal income. Overall, the state's economy is fundamentally sound. This is good news for Carson as our economy is closely tied to the state's economy.

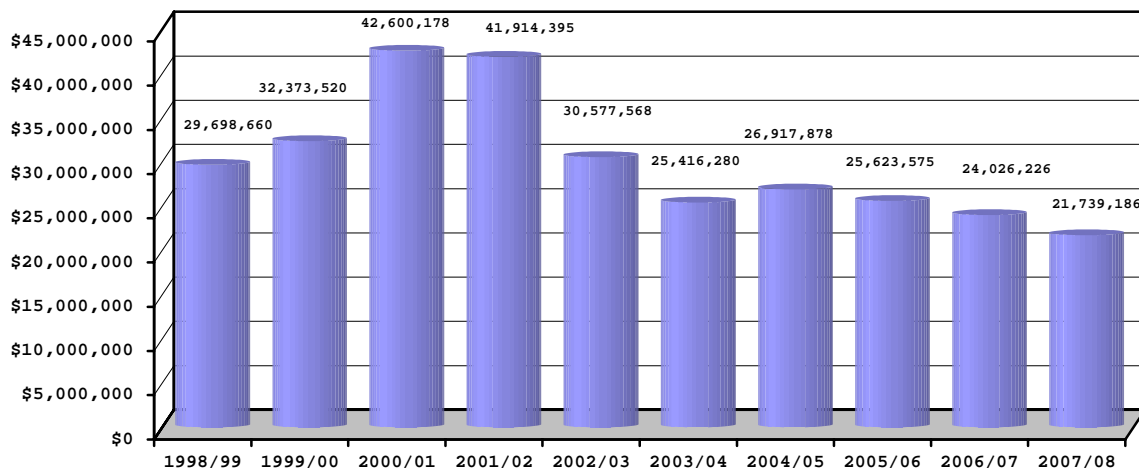
While it is good to remain optimistic about the state economy, it is a fact that local economies will remain affected, at least for the short term by the State's fiscal condition until a more permanent solution to its structural budget deficit is put in place.

The major highlight of the state budget passed by the legislature is the funding of Proposition 42. The budget had more good news for cities and counties with the inclusion of an early payback of Prop 42 transportation funds for 2003-04 and 2004-05. In addition, it was the first time in five years that the State budget did not include an ERAF shift to take money from redevelopment agencies.

This development plus the passing of Prop 1A last year has given the cities confidence that there is greater stability and predictability in local government financing. Cities, counties, special districts and redevelopment agencies' revenues are now protected from state whims and so we can afford to remain optimistic about the future.

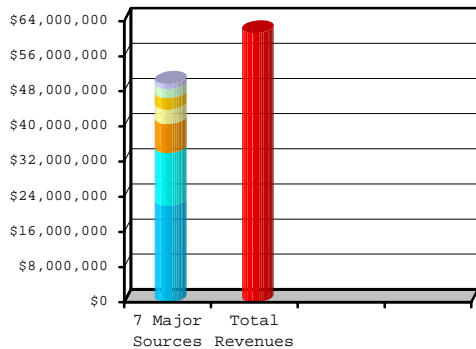
The historical ten-year data for the General Fund is shown on the following chart.

HISTORICAL GENERAL FUND BALANCE



FINANCIAL OUTLOOK

The financial condition of the City of Carson remains stable in the face of current budget challenges. The City anticipates these challenges to last a couple more years, therefore, a continuance of lean budgets. As the City continues to find ways to increase revenues, very tight controls on expenditures will have to be maintained. Below is a brief discussion of the seven major revenue sources of the City.

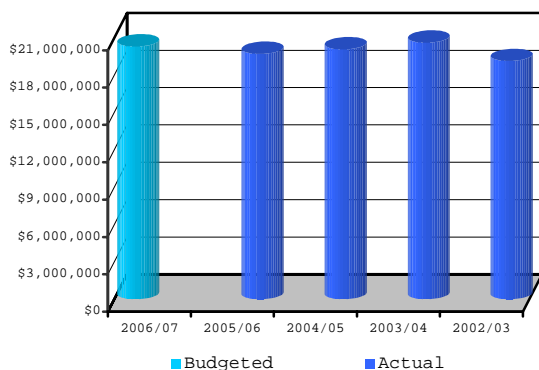


Sales and Use Tax	\$ 20,300,000
No/Low Property Tax	\$ 13,115,000
Franchise Tax	\$ 8,138,450
Building Construction Permits	\$ 2,650,000
Business License	\$ 2,400,000
Recreation Fees	\$ 2,378,000
Transient Occupancy Tax	\$ 1,200,000
Total Revenues	\$ 60,577,059

In the paragraphs that follow, information will be provided for each of these seven major revenue sources, including charts showing actual performance for the past four years and the adopted budget for the FY 2006/07.

MAJOR REVENUE SOURCES

Carson's revenue projections for the budget year took into consideration the State budget passed by the Governor in June 2006. The City has retained the same seven major revenue sources from last fiscal year. Sales and use tax continue to top the list of revenue sources. On the left side is a chart that shows the list of top revenue sources in comparison to the total general fund revenue estimated for FY 2006/07. Last year, the top seven sources represented 81.2% or \$49.7 million of the \$61.2 million adopted general fund revenues of the City. For FY 2006/07, the seven major revenue sources make up 82.8% or \$50.2 million of the \$60.6 million adopted total general fund revenues. This supports the strength and stability of the City's revenue sources.

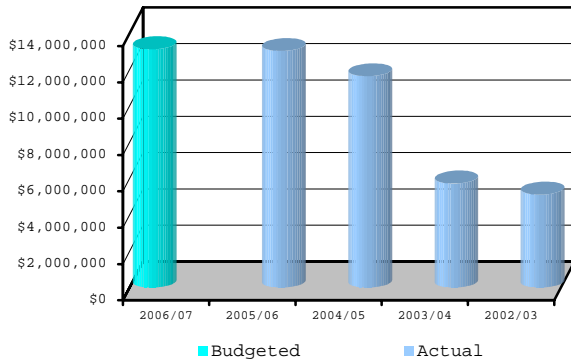


SALES AND USE TAX

Carson's sales taxes have been a consistent top performer as a revenue source for the past several years now. For FY 2006/07, Carson will receive only 3/4% of the 8.25% sales tax because of the triple flip that started in FY 2004/05. In the previous years, the City received 1% of the 8.25%. What the City stands to lose on sales tax, the state has agreed to replace dollar for dollar with property taxes. The top 10 sales tax producers include Carson Albertoni Hotel Co. Inc., Carson Hospitality Group Inc., Conoco Phillips Co., Comcast of Los Angeles, BRE/ESAP Portfolio Operating Lessee Inc., ExxonMobil Oil Corp., SOCAL Gas Co., SOCAL Edison Co., Thousand Oaks Inn, USA Waste of California.

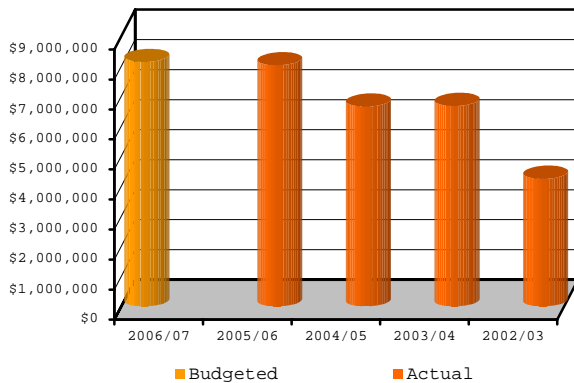
NO/LOW PROPERTY TAX

The property tax revenues this year will again reflect a much higher adopted budget than the previous years due to the effect of the triple flip that started in FY 2004/05. The state agreed to provide an equivalent amount of property tax in place of the .25% loss in sales tax revenues. In addition, the state will pay the Vehicle License Fee (VLF) "backfill" to cities in the form of property taxes. Therefore, the property tax revenues for FY 2006/07 are projected to reach \$13.1M, up slightly from the \$13.0M received in FY 2005/06.



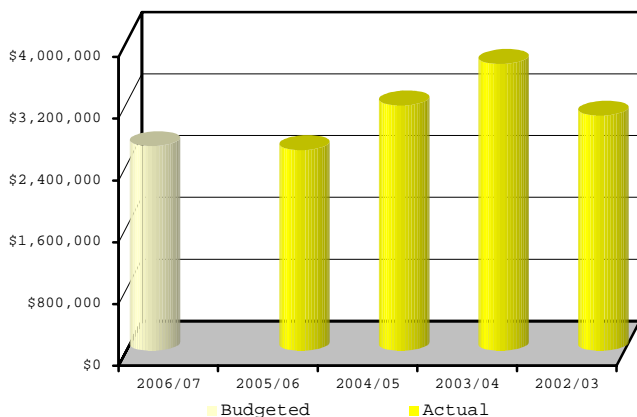
FRANCHISE TAX

Franchise taxes are paid for the privilege of using City property or to operate a franchise within the city limits. In 2005/06, the largest franchise taxes were paid to the City by the electric and gas utility companies, providing revenues of about \$1.5M and \$4.3M, respectively. The City projects gas franchise taxes for FY 2006/07 to increase due to the growth in the Municipal Lands Surcharge collections. Consequently, the City projects franchise tax revenues to reach \$8.14M for FY 2006/07 up from \$8.0M received in FY 2005/06.



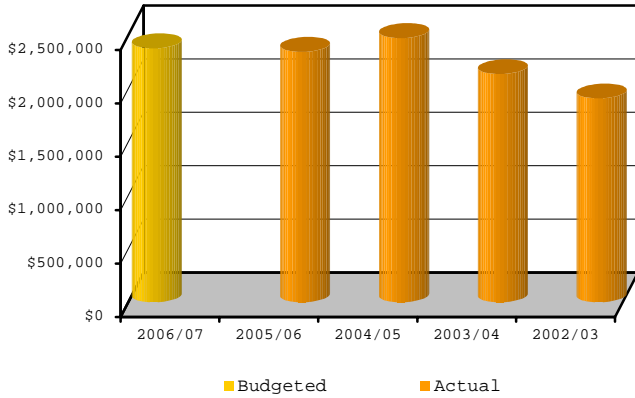
BUILDING CONSTRUCTION PERMITS

Building construction permit revenues dropped 16% in 2005/06 from FY 2004/05. The City of Carson expects this revenue source to level off for fiscal year 2006/07. The growth in residential construction in FY 2003/04, which caused the boost in permit revenues, has slowed down reflecting slower residential and non-residential market conditions. This being so, the City projects building permit revenues to be \$2.65M, almost equal to the \$2.6M received in FY 2005/06.



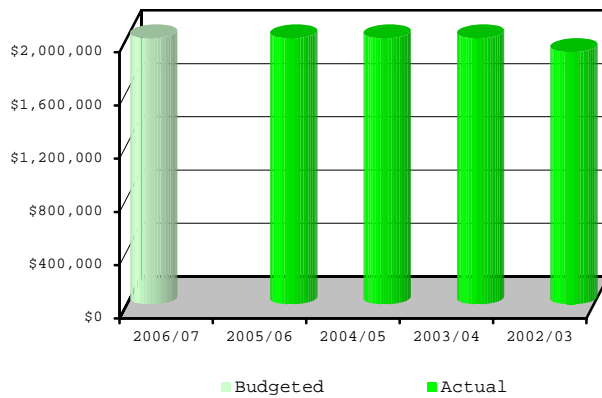
RECREATION PROGRAMS

Recreation programs, administered by the City, generate revenues through the collection of fees. These revenues have been relatively stable in the past even with the completion of the new Stevenson Gym, the new Dominguez Pool and the newly renovated Veterans Park in 2004. Recreation revenues are projected to level out for FY 2006/07 at \$2.4M from \$2.3M actual revenues in FY 2005/06.



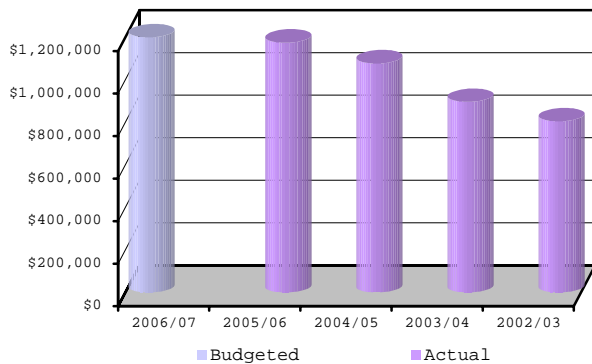
BUSINESS LICENSE

As shown on the chart to the left, business license fees continue to be a robust revenue source for the City. This revenue source is based on the number of employees of each business entity. With the implementation of the \$100 one-time application fee to out-of-city new businesses and the \$15 annual renewal processing fee approved by Council in August 2003, business license revenues are projected to increase to \$2.4M in FY 2006/07. This reflects an increase of 14% from the previous year's budget.



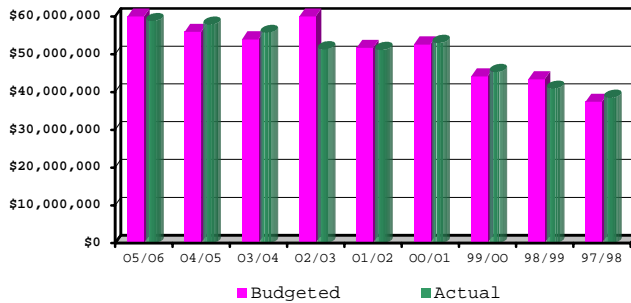
TRANSIENT OCCUPANCY TAX

The Carson Municipal Code authorizes the City to levy a tax for the privilege of occupying lodgings on a transient basis. This tax is charged to the lodger but is collected by the lodging operator and is transmitted to the City on a monthly basis. Currently, the transient occupancy tax (TOT) rate is 9%. The City was not successful in increasing the TOT rate to 12% during the March 2005 elections. However, the City is optimistic that improved tourism conditions will increase TOT revenues from \$1.1M in FY 2005/06 to \$1.2M in FY 2006/07.

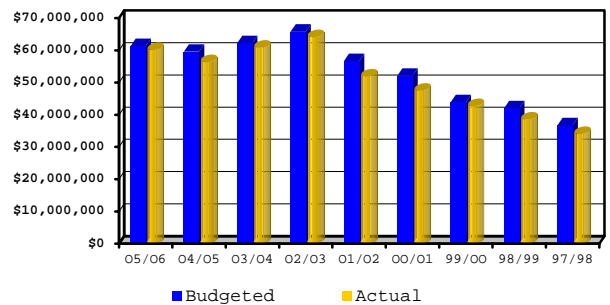


The City of Carson remains in sound financial condition in spite of continued budget challenges. General Fund balance is way above industry standard and the Council and staff vow to keep it no lower than \$20M or no lower than 30% of the general fund budget. With the strong, prudent fiscal management that has emerged over the last several years, Carson should be able to sustain the quality of life it has come to expect. The graph on the lower left shows the relationship of the actual general fund revenues and transfers to the amended revenue budget, while the graph on the lower right shows actual expenditures as compared to the amended expenditure budget.

**REVENUES
BUDGETED VS. ACTUAL**



**EXPENDITURES
BUDGETED VS. ACTUAL**



BUDGET HIGHLIGHTS

For this fiscal year, faced with the task of reducing the budget due to the rising employee benefits costs, the City had to:

- Unfund 24 full-time vacant positions
- Eliminate 2 full-time vacant positions
- Partially fund 11 full-time vacant positions
- Eliminate the Local Non-Profit Assistance Program (LNAP)
- Reduce travel budgets by 16%
- Reduce other operational accounts where possible

This budget, as presented, includes the use of \$1.6M of the City's \$25.6M fund balance, which will give the City a general fund balance of \$24M at June 30, 2007. As the above highlights disclose, it is the City's commitment to maintain the City's fiscal health, which will sustain the high level of service provided to our citizens.

CONCLUSION

Staff recognizes the need to involve citizens and businesses in the creation of a comprehensive fiscal plan. Accordingly, several budget workshops were held and attended by the public and businesses to give our community the chance to review, comment, and provide input on the budget.

As the City strives to maintain fiscal health, it is clear that the leadership of the City Council, combined with the City's dedicated staff, involved citizens and active businesses, will remain focused on the enrichment and growth of this culturally diverse community. This budget is intended as a tool that will sustain the community by funding the excellent public services and programs that provide the quality of life our residents have come to expect.

Respectfully submitted,

Jerome G. Groomes
City Manager