

# 2019-20 Budget Workshop



**May 22, 2019**



# Agenda

- **Opening Comments, City Manager**
- **Overview of the Budget**
  - **Overview of the Budget**
  - **How the Budget is Balanced**
  - **Revenue Summary**
  - **Appropriations Summary, including Personnel Changes**
  - **Highlights**
  - **Capital Improvement Plan**
  - **Five Year Forecast**
  - **Councilmembers Questions/Comments**





# Opening Comments City Manager





# **Overview of 2019-20 Preliminary Budget**



# 2019-20 Budget Snapshot

	<u>General Fund</u>	<u>Overall Budget</u>
Operating Budget	\$39,197,229	\$45,760,366
Capital Outlay	\$426,472	\$885,919
Capital Improvements- PY	\$398,559	\$12,653,963
Capital Improvements- CY	<u>\$0</u>	<u>\$7,464,782</u>
<b>Total Appropriations</b>	<b>\$40,022,260</b>	<b>\$66,765,030</b>

The General Fund represents **60%** of the overall budget.





# 2019-20 General Fund

## How the Budget is Balanced

<b>Revenue</b>	<b>\$42,087,801</b>	<b>Appropriations</b>	<b>\$40,022,260</b>
		<b>Recurring Transfers Out:</b>	
<b>Transfers In</b>	<b><u>\$606,283</u></b>	Storm Water Fund Operations	\$700,000
		Debt Service Oil	\$789,863
		Lighting Fund	\$175,932
<b>Total Revenue</b>	<b>\$42,490,723</b>	<b>Classifications of Fund Balance:</b>	
		Funding carried over from 18-19 CIPs	(\$398,559)
		Contingencies (16% of Operating Budget)	\$18,973
		Unspecified Contingencies	\$550,769
		Reserve Funds for Fire Facility Payment	(\$277,559)
		18-19 Reserve Funds for Capital Improvements (Transferred to Capital Improvement Fund)	\$200,000
		Reserve Funds for PERS Trust Contribution	\$829,060
		Change in Fund Balance Commitments	<u>\$79,984</u>
		<b>Total Appropriations</b>	<b>\$42,490,723</b>





# General Fund Revenue Overview

## Top Four Tax

### Revenue Sources

### Amount

### % Change

### % of Total

Secured Property Tax	\$15.1m	+ 4.5%	37%
Transient Occupancy Tax (TOT)	\$3.3m	0%	6%
Sales Tax	\$3.2m	0%	6%
Utility Users Tax (UUT)	\$2.3m	0%	4%

### Top Four Total

**\$23.9m**

**53%**



# General Fund

## Revenue Overview (Continued)

<u>Revenue Sources</u>	<u>Amount</u>	<u>% Change</u>	<u>% of Total</u>
Other Taxes	\$6.1m	%	18%
Licenses/Permits	\$1.2m	9%	3%
Fines/Forfeitures	\$2.1m	<1%	5%
Use/Money and Property	\$1.1m	13%	3%
Intergovt/State	\$0.2m	12%	<1%
Service Charges	\$7.4m	5%	18%
Other Revenue	<u>\$0.1m</u>	-13%	<u>0%</u>
	\$18.1m		47%
<b>Total General Fund Revenue</b>	<b>\$42.1m</b>	<b>+3.6%</b>	

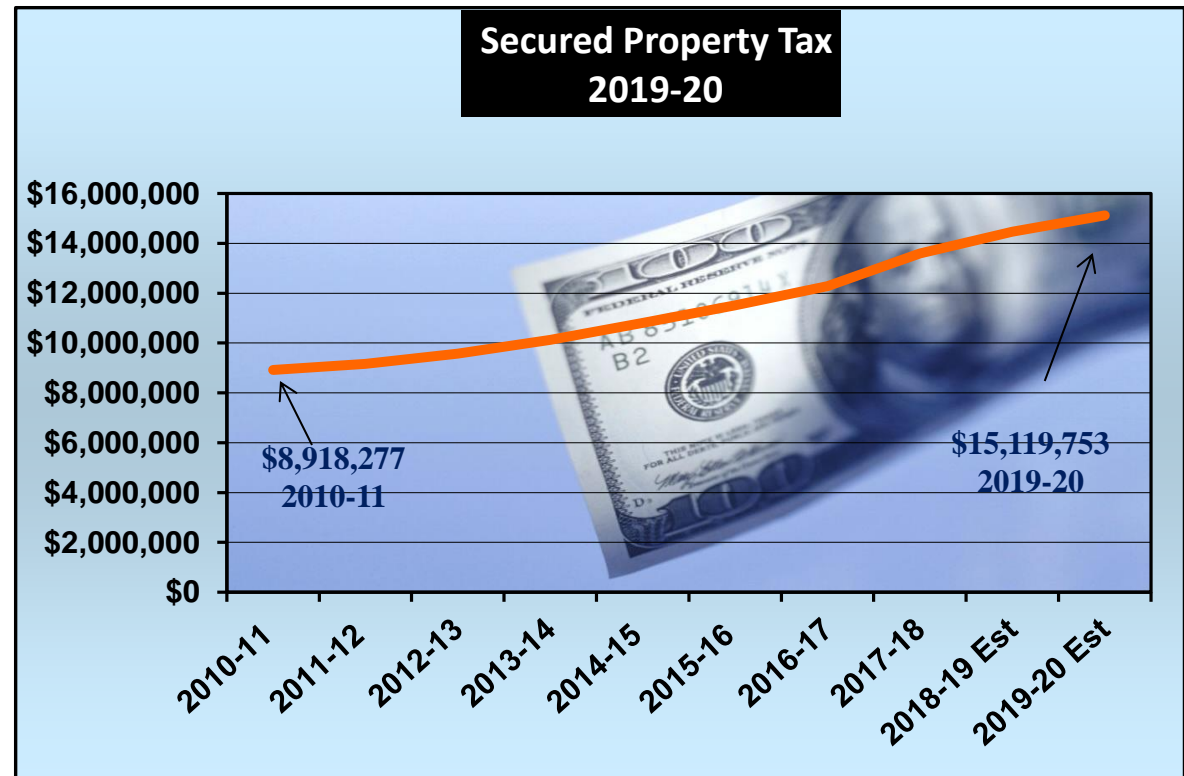




# General Fund Revenue Overview

FY	Amount
2010-11	\$8,918,277
2011-12	\$9,159,137
2012-13	\$9,568,603
2013-14	\$10,128,092
2014-15	\$10,809,315
2015-16	\$11,510,006
2016-17	\$12,282,442
2017-18	\$13,587,043
2018-19	\$14,471,432
2019-20	\$15,119,753

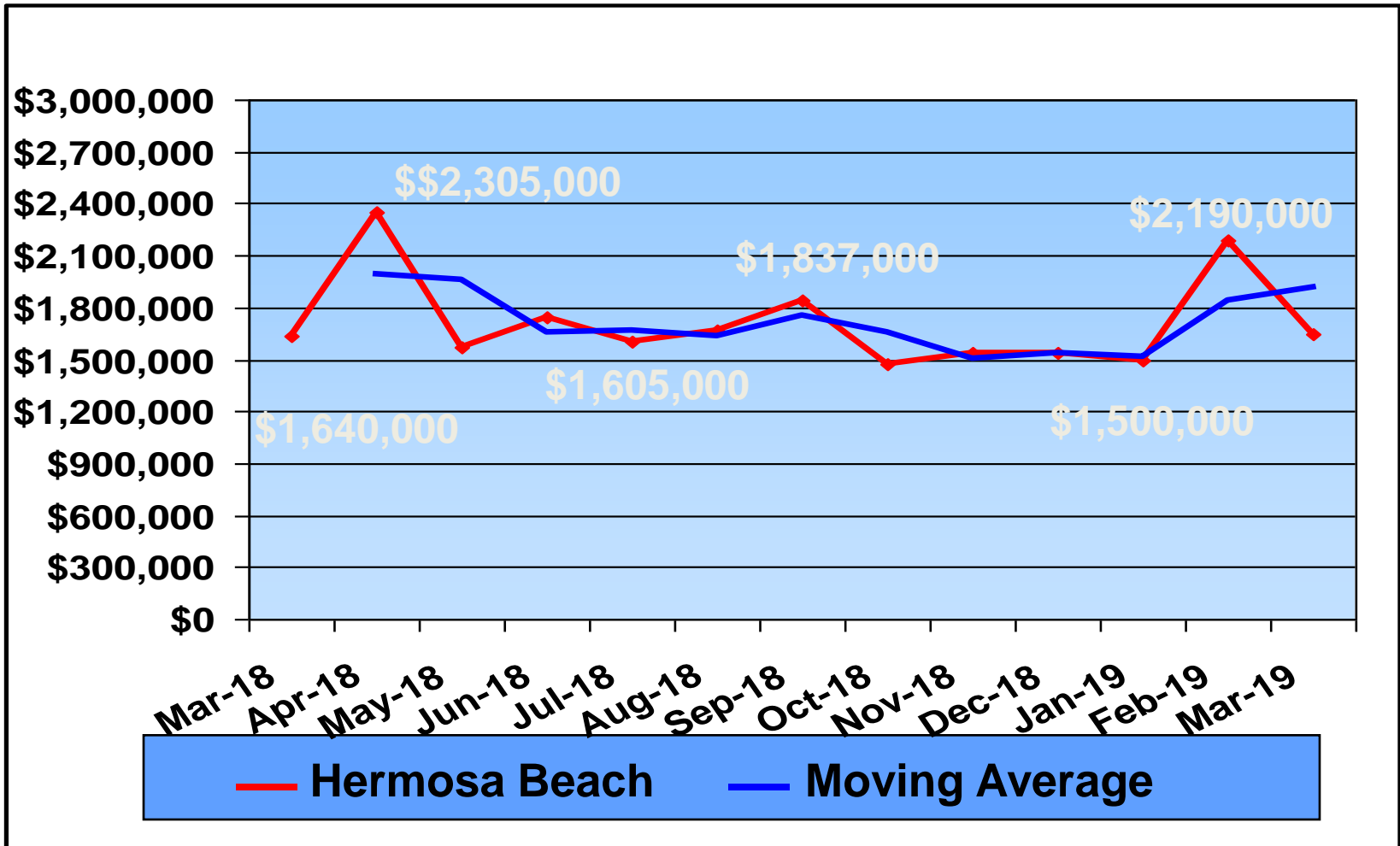
## Secured Property Tax





# General Fund Revenue Overview

## Hermosa Beach Median Home Prices

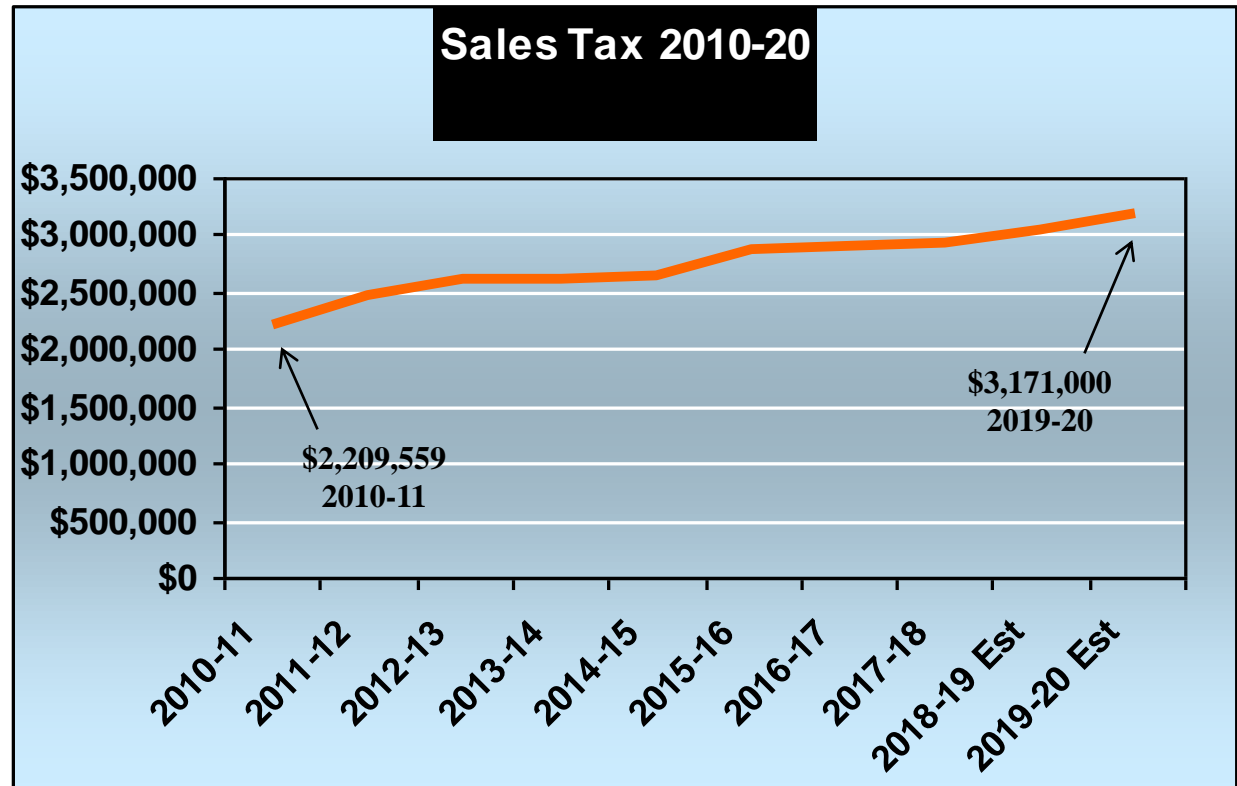




# General Fund Revenue Overview

## Sales Tax

FY	Amount
2010-11	\$2,209,559
2011-12	\$2,474,651
2012-13	\$2,598,751
2013-14	\$2,600,000
2014-15	\$2,653,361
2015-16	\$2,865,697
2016-17	\$2,900,000
2017-18	\$2,925,000
2018-19	\$3,034,000
2019-20	\$3,171,000



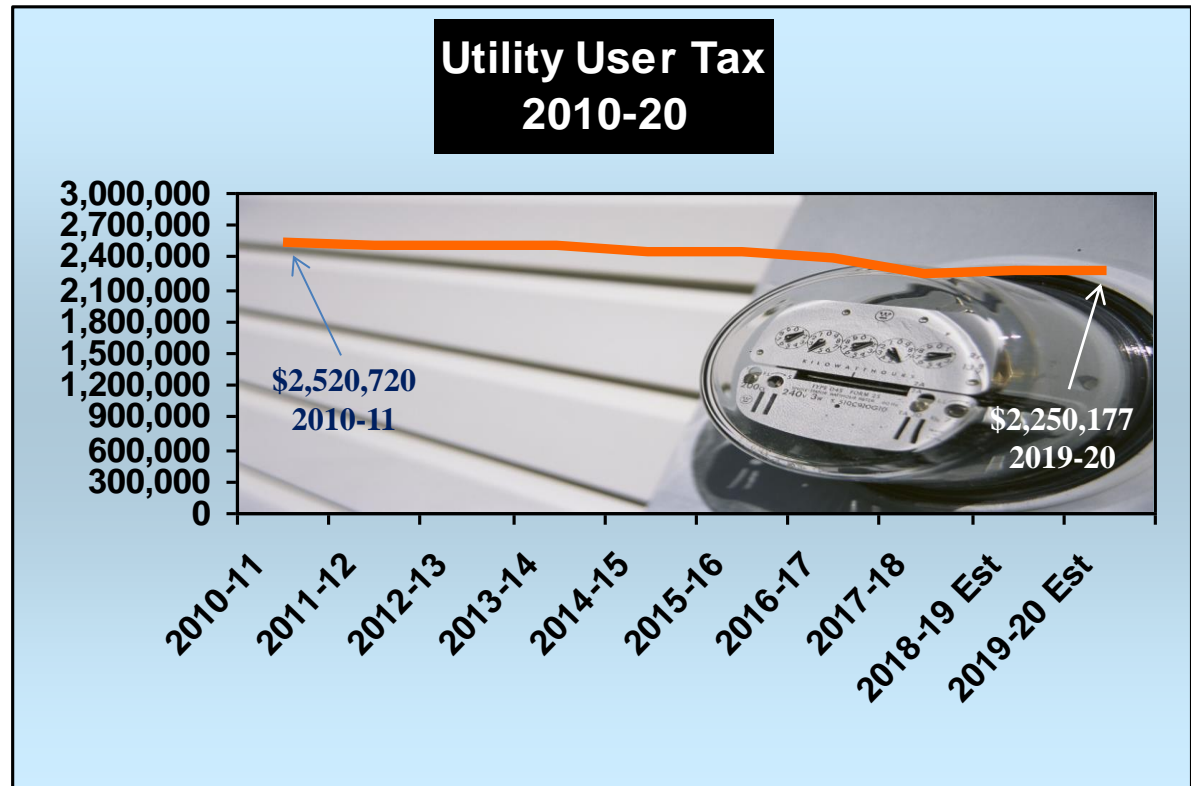




# General Fund Revenue Overview

FY	Amount
2010-11	\$2,520,720
2011-12	\$2,495,895
2012-13	\$2,503,265
2013-14	\$2,500,000
2014-15	\$2,443,000
2015-16	\$2,455,484
2016-17	\$2,375,579
2017-18	\$2,229,906
2018-19	\$2,250,177
2019-20	\$2,250,177

## Utility Users Tax

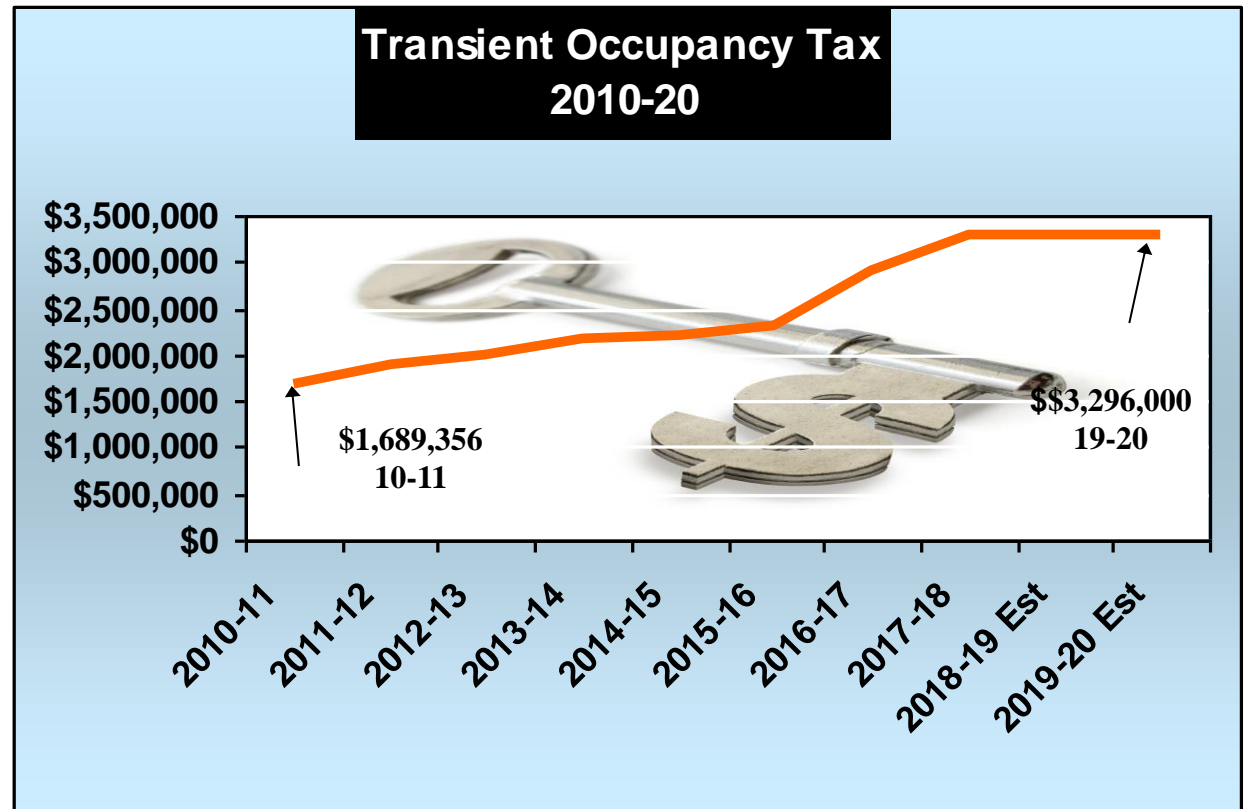




# General Fund Revenue Overview

FY	Amount
2010-11	\$1,689,356
2011-12	\$1,884,020
2012-13	\$1,996,173
2013-14	\$2,154,315
2014-15	\$2,204,420
2015-16	\$2,295,470
2016-17	\$2,920,369
2017-18	\$3,295,207
2018-19	\$3,296,000
2019-20	\$3,296,000

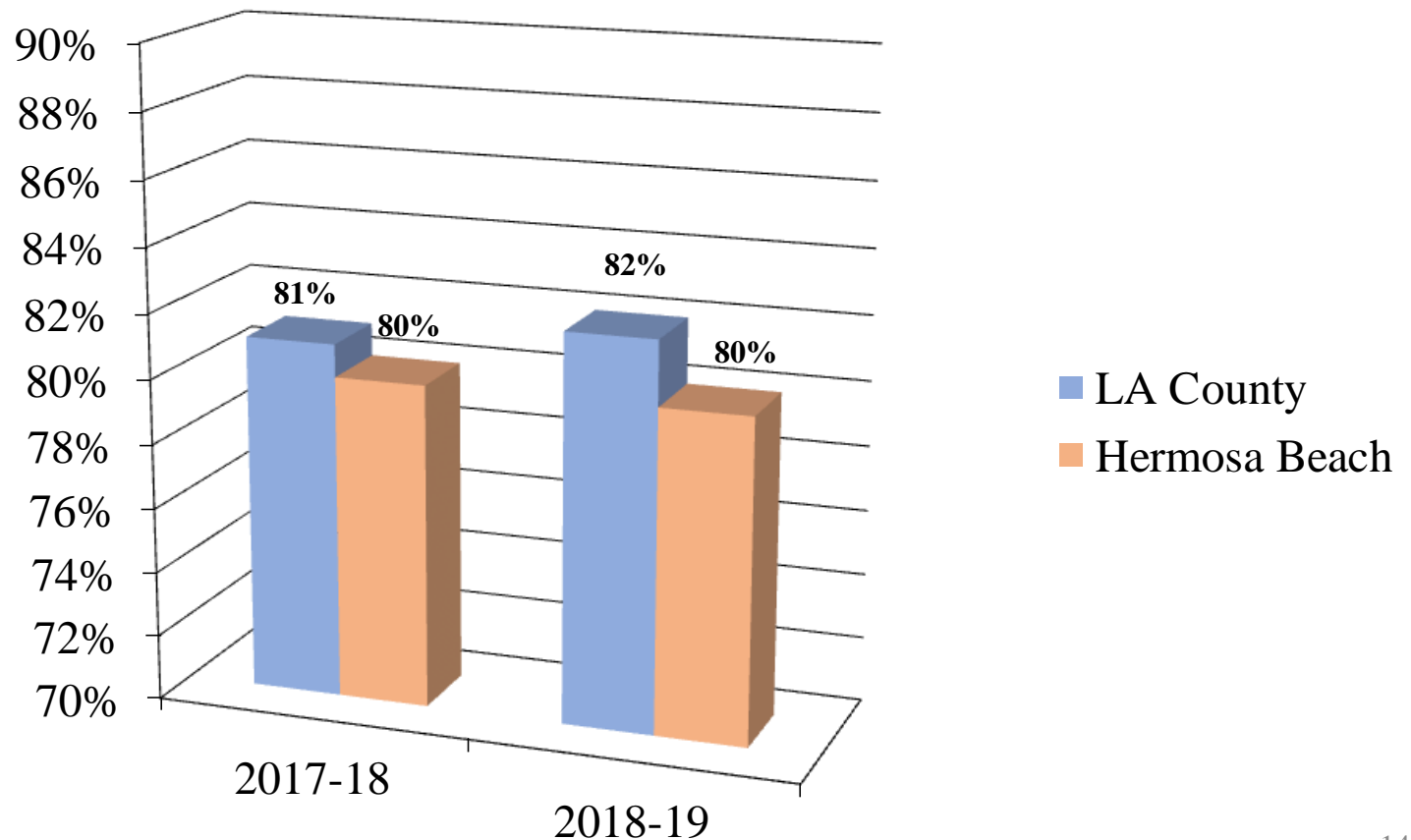
## Transient Occupancy Tax





# General Fund Revenue Overview

## Hotel Occupancy Rates







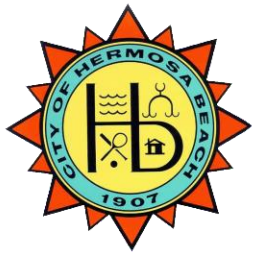
# General Fund Appropriations

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## Expenditures

## % of Total

Full Time Salaries	33%
Part Time Salaries	1%
Retirement	12%
Benefits	6%
Retiree Health (OPEB)	2%
Medicare	<u>&lt;1%</u>
<b>Salaries and Benefits Subtotal</b>	<b>54%</b>



# General Fund Appropriations (Continued)

<b><u>Expenditures</u></b>	<b><u>% of Total</u></b>
Contract Services- Private	12%
Contract Services- Government	17%
Supplies, Maintenance, Utilities	4%
Equipment Purchases	1%
Equip Replacement/Building Maintenance/Insurance Charges	10%
Building Improvements	1%
Capital Improvement (Prior Year Carryforward)	<u>1%</u>
	<b>46%</b>
<b>Total General Fund Appropriations</b>	<b>100%</b>



# General Fund Appropriations (Continued)

<b><u>Expenditures</u></b>	<b><u>% Change</u></b>
Salaries	<1%
New Positions	3%
Retirement	-16%
Benefits	14%
Retiree Health Benefits (OPEB)	-62%
<b>Salaries and Benefits</b>	<b>-4%</b>





# Appropriations Assumptions

- The only salary increases included are step increases for employees with < than 5 years service and position changes (upcoming slides).
- Employee benefits (Effective January 1)
  - +9% increase on health
  - +5% dental
  - +0% Vision/EAP
  - +1% Life, LTD
- Other Post Employment Benefits (OPEB) costs have decreased due to:
  - The transfer of fire services (previous actuarial calculations and payments included Fire employees)
  - Limits placed on benefits for new hires through the 2017-19 MOU's and Fire personnel who transitioned to the county in 2017.



# Personnel Changes

## New Full Time/Permanent:

- Assistant City Manager- New Position (**City Manager's Office**)
- Assistant Engineer- Funded through the sale of surplus Proposition A funds (**Public Works**)
- Assistant Engineer- Funded with Sewer and non-General Fund CIP accounts. (**Public Works**)
- Police Service Officer (PSO)- New position Property/Evidence (**Police Department**)

## Eliminate Full Time/Permanent :

- Secretary (**Human Resources/General Appropriations**)- Duties to be distributed to positions within the Human Resources and City Manager's Departments.



# Personnel Changes

## Changes/Reclassifications Full Time/Permanent:

- Environmental Programs Manager- Eliminate one Environmental Analyst position and replace with Environmental Programs Manager. **(City Manager's Office)**
- Reclassify Recreation Coordinator to Senior Recreation Supervisor **(Community Resources)**
- Reclassify Youth Coordinator to Recreation Coordinator **(Community Resources)**
- Reclassify Office Assistant to Recreation Coordinator **(Community Resources)**
- Reclassify Management Analyst to Administrative Assistant **(Public Works)**



# Personnel Changes

## Changes/Reclassifications Full Time/Permanent:

- Reclassify Office Assistant to Senior Office Assistant (**Public Works**)
- Reclassify two Maintenance I to Maintenance II (**Public Works**)

## New Part Time/Temporary:

- Add Public Works Intern (**Public Works**)

## Other Personnel Changes:

- Convert the elected City Clerk position to an appointed position (assuming that the November ballot measure passes). (**City Clerk**)





# General Fund Appropriations

<b><u>Expenditures</u></b>	<b><u>% Change</u></b>
Contract Services	
Private	-1%
Capital Improvement Projects (CIP)	-45%
Government	14%
Materials/Supplies/Other	1%
Equipment Furniture	72%
Buildings/Improvements	<u>100%</u>
<b>Total Appropriations</b>	<b><u>-.7%<sup>1</sup></u></b>

<sup>1</sup> Excluding Capital Improvements, the increase in total appropriations is -.2%.



# Budget Highlights

- **Presentation of a Capital Improvement Plan for 2019-20 and Five Year Capital Improvement Program to identify the City's longer term infrastructure needs.**
  - **A total of \$20.1 million is funded of which \$7.5 is new funding.**
- **Funds of design and Phase I construction for the new City Yard are appropriated as a part of the 2019-20 Capital Improvement Plan.**
  - **\$953,000 is reserved in the Capital Improvement Fund for the remaining construction and project contingency.**
- **Election costs are expected to increase from approximately \$60,000 to \$203,000 due to fewer agencies participating in the November 2019 election. The City will be transitioned to the even-numbered statewide election in 2022 and costs are anticipated to decrease to previous levels.**



# Budget Highlights

- **Payments to L.A. County Fire for fire facility renovation and equipment conversions.**
  - \$363,672 is budgeted for facility payment numbers 7-18. Payments started January 2019 and costs are spread over 5 years. **(General Fund)**
  - \$218,006 remains on reserve in the General Fund for future year's facility payments. **(General Fund)**
  - \$43,062 is budgeted for fire equipment conversion payment numbers 19-30. Payments started in January 2018 and costs are spread over 5 years. **(Fire Protection Fund)**
- **Four Police Department vehicles are recommended for replacement, two of which will be replaced with hybrid or electric vehicles. **(Equipment Replacement Fund)****



# Budget Highlights

- **\$789,863 is transferred from the General Fund for debt service related to the oil settlement (2015 Lease Revenue Bonds).  
(General Fund/Lease Revenue Bond Fund)**
- **\$150,000 is budgeted for the preparation of a Request for Proposal (RFP) for the Solid Waste Management Franchise. Reimbursement of this expense will be recovered in the contract with the winning bidder. (General Fund)**
- **RFP's have been issued for the annual financial audit and information technology services. Providers will be recommended to Council prior to budget adoption if possible.**
  - **If needed, additional funds will be transferred from Prospective Expenditures for the audit (General Fund) and appropriated from the Equipment Replacement Fund for IT services.**





# Budget Highlights

- **\$86,020 remains from funds set aside in 2017-18 for required radio upgrades as part of the South Bay Regional Public Communication Authority upgrade for dispatching. Project completion is anticipated in 2019-20. (Equipment Replacement Fund)**
- **Two new undersea cables are anticipated to be operational in 2019-20.**
  - **One-time payments of \$264,000 and \$253,000 will be received in the RTI Fund and \$192,000 and \$184,000 will be received in the RTI Tidelands Fund for cables 2 and 3, respectively.**
  - **Quarterly payments of \$22,500 (\$90,000 annually) will be received for the first cable. (RTI Fund)**



# Budget Highlights

- \$50,000 for transportation planning and traffic engineering services related to school projects are budgeted. **(General Fund)**
- A new account for City Attorney Litigation services was set up at midyear in the General Fund. The account has been moved to the **Insurance Fund** since any settlements are typically paid from that Fund.
- 100 new smart meters will be purchased to replace yellow posted meters. The exact locations for installation have not been determined; however the installation would focus on Hermosa Avenue and adjoining streets. Commercial areas already have smart meters in place. **(Equipment Replacement Fund)**



# Budget Highlights

- **Updating of the Zoning Ordinance, as part of the General Plan implementation will continue to be funded, along with new funding for the following:**

- **Update of the Local California Environmental Quality Act (CEQA) Implementation Guides**
- **Monitoring and reporting services for the Regional Housing Needs Assessment (RHNA) in preparation for the 2021 Housing Element updates.**

**Both are funded by General Plan Maintenance Fees. (General Fund)**

- **Purchase of new Christmas decorations using a previous donation of \$50,000 from the Chamber of Commerce. (General Fund)**



# Budget Highlights

- Update of the Emergency Operations Plan, which must be updated every three years, will be developed in coordination with the Continuity of Operations Plan. Operational supplies are funded **(General Fund)**, along with a capital improvement project to make the Emergency Operations Center more functional. **(Capital Improvement Fund)**
- The following technology upgrades are budgeted:
  - Public Records Request Software, City Clerk's Office **(General Fund)**
  - Procurement Management Software, City Manager's Office **(General Fund)**
  - Applicant Tracking, Human Resources **General Fund)**
  - Budget Builder Software, Finance Department **(General Fund)**
  - Stationary Automatic Plate Reader, Police Department **(Asset Seizure/Forfeiture Fund)**



# Budget Highlights

- All drinking fountains on the Greenbelt will be replaced. The fountains are over fifteen years old. **(Gas Tax Fund)**
- Solar powered speed sign and a message board/speed trailer and drone for the Police Department. **(Supplemental Law Enforcement Services Fund and General Fund, respectively)**
- \$829,000 in retirement savings are set aside in the 2019-20 Budget to be placed in a retirement trust. Side fund accounts were created when the California Public Employees Retirement System (CalPERS) pooled small cities in 2003 and the City's unfunded pension liabilities were put into separate accounts, to be paid over 15 years. The second side fund paid off in 2018-19, which caused the City's retirement rates to go down in 2019-20, thereby creating a savings. **(General Fund)**





# Budget Highlights

## Unspent 2018-19 General Funds:

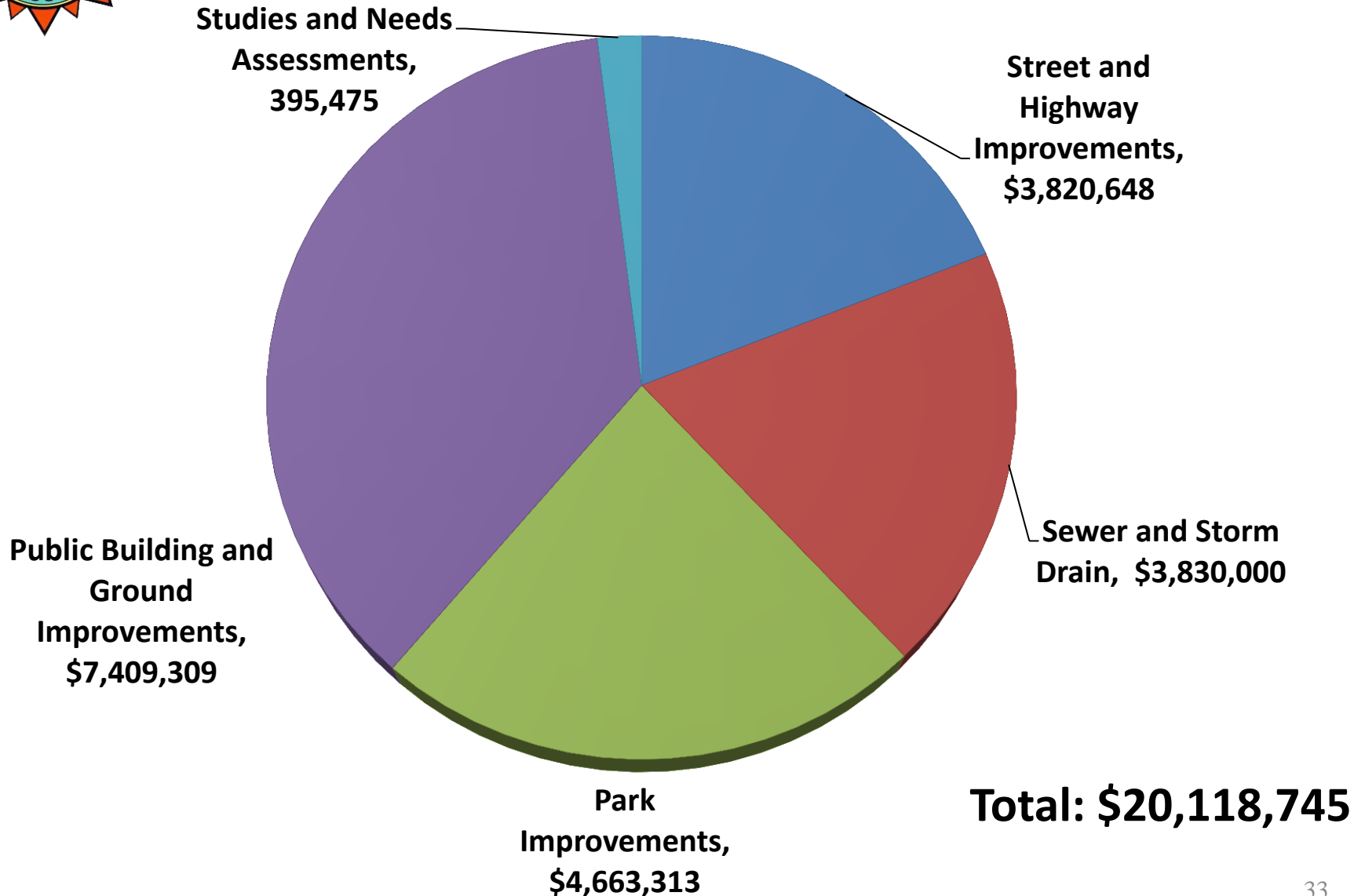
- The estimated amount is \$1.7 million.
- At 6/30/2019, the fund balance in the Insurance Fund is estimated at the \$3 million goal, prior to the recording of year end claim liabilities.
  - If the balance is lower than the \$3 million goal, it is recommended that funds left unspent in the General Fund at 6/30/19 be transferred to the Insurance Fund up to the goal amount.
  - If funds are still available after reaching the Insurance Fund goal, it is recommended that the remaining funds be split between the Capital Improvement Fund and the newly created Reserve for Capital Facilities.



# Capital Improvement Program



# Capital Improvement Program





# Capital Improvement Program

- **Updates from CIP Study Session**
  - **Hermosa Ave Greenwich Village Street Realignment Assessment was converted to a study.**
  - **Placed on Hold:**
    - **Citywide Parks Master Plan**
    - **Greenbelt Accessible Path Assessment**
    - **Clark Stadium Bleachers**
    - **Library Community Project Phase II Assessment- Friends of the Library relocation was added as part of the scope of this project. The only action at this time will be to continue to look at funding options.**





# Capital Improvement Program

- **Updates from CIP Study Session**
  - **Additional Requests:**
    - Look at Hermosa Avenue center median planter landscaping and if possible incorporate in downtown enhancements.
    - Look at crosswalk improvements in front of the Clark Building.







# Capital Improvement Program

- **Street & Highway Improvements- \$3,820,648**
  - **Bus Stop Improvements (New)**
  - **PCH Mobility Improvement Project**
  - **PCH Traffic Improvements**
  - **Hermosa Avenue Green Street**
  - **8<sup>th</sup> Street Improvements**
  - **Street Improvements- Various Locations**
  - **Strand Bikeway and Walkway Improvements a 35<sup>th</sup> Street**
  - **Annual Street Improvements**





# Capital Improvement Program

- **Sewer/Storm Drain Improvements- \$3,830,000**
  - Sewer Improvements- Various Locations
  - Storm Drain Improvements- Various Locations
  - **16<sup>th</sup> Street Storm Drain Trash Capture Box (New)**
  - Annual Sewer Improvements
  - Annual Storm Drain Improvements





# Capital Improvement Program

- **Park Improvements- \$4,663,313**
  - **Herondo Drain Stormwater/Urban Run-off Diversion Project (previously named Stormwater/Urban Run-off Diversion Project on Greenbelt)**
  - ***Clark Stadium Bleachers (On hold)***
  - **Fort Lots-Of-Fun Improvements**





# Capital Improvement Program

- **Public Buildings and Ground Improvements- \$7,409,309**
  - **Downtown Lighting Improvements (New)**
  - **Downtown Strategic Plan Implementation**
  - **New Corporate Yard Facilities**
  - **Municipal Pier Structural Assessment and Repairs**
  - **City Park Restrooms and Renovation**
  - **City Chamber Audiovisual Improvements**
  - **Parking Lot D (previously named Electric Vehicle and Bicycle Transportation Infrastructure Expansion)**
  - **Emergency Operations Center Renovations**



# Capital Improvement Program

- **Public Buildings and Ground Improvements- Continued**
  - **Clark Building Renovations**
  - **14<sup>th</sup> Street Beach Restroom Construction**
  - **Parking Lot A Improvements (New)**
  - **Police Station Basement Restroom Improvements (New)**
  - **ADA Improvements (New)**





# Capital Improvement Program

- **Studies- \$335,475**
- **Stakeholder- Public Works:**
  - Hermosa Ave Greenwich Village Street Realignment Assessment (New)
  - *Greenbelt Accessible Path Assessment (On hold)*
  - Parking Structure (Lot C) Structural Assessment (New)
- **Stakeholder- Community Resources:**
  - *Citywide Park Master Plan (On hold)*
  - *Library Community Project Phase II Assessment (On hold)*
  - Community Center Theater Needs Assessment





# Five Year Forecast



# Five Year Forecast

- The Five Year Forecast focuses on the General Fund since the majority of the City's operating expenses are paid from this fund.
- Revenue Assumptions:

Revenue	Change
Secured Property Tax	4.5%
Sales Tax	2%
Utility User Tax	0%
Transient Occupancy Tax	0%
Property Tax In Lieu of VLF	4.5%
Licenses and Permits	0%
Fines and Forfeitures	0%
Service Charges	0%



# Five Year Forecast

- **Expenditure Assumptions:**
  - Salaries include a 2% increase for illustrative purposes years 2020-21 through 2024-25
  - Medical benefits include a projected 9% increase; however annual rate increases have historically been lower. City's contribution uses the caps implemented in the 2017-19 Memorandum of Understandings.
  - Contract Services- 3% annual cost of living adjustment except as follows:
    - McCormick Ambulance- Increase is according to the annual per transport costs in the contract
    - L.A. County Fire- Assume 4% annual increase
    - South Bay Regional Public Communications Authority- \$78,837 per year for years one through four and a 5% increase thereafter.



# Five Year Forecast

## ■ Expenditure Assumptions:

- Election costs- \$60,000 added to 2022-23 and 2024-25. Election costs are assumed to return to previous levels once the City is on the even year election cycle.
- No retirement stabilization funds were used.
- The City's goal of setting aside 16% of operating expenditures for Contingencies is included for each year.
- Ongoing transfers to-
  - Lighting/Landscaping Fund- At 2019-20 level of \$175,932 for operating costs not covered by assessment.
  - Storm Drain Fund- \$700,000 from UUT revenue for ongoing needs.
  - Lease Revenue Bond Fund- \$789,863 for annual debt service payments.

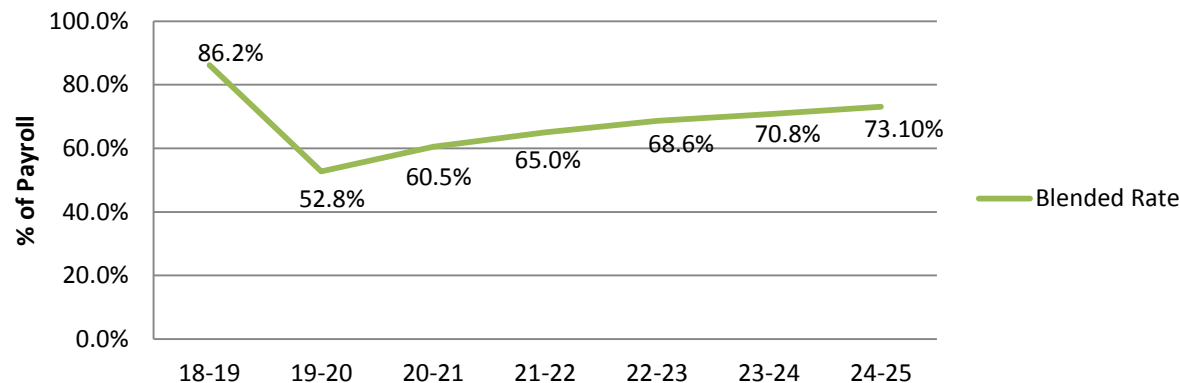


# Five Year Forecast

## ■ Expenditure Assumptions:

- **Retirement-** The City of Hermosa Beach is fortunate to have decreasing contribution rates in the short-term due to the payoff of side funds, which were created in 2003 when the City's plans were "pooled" with other cities.

**CalPERS Employer Contribution Rates- Police**

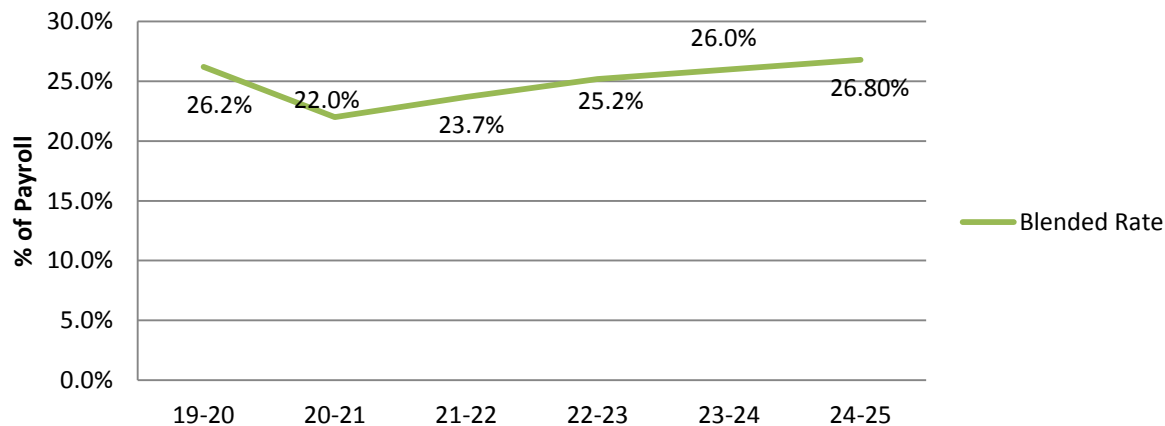




# Five Year Forecast

- **Expenditure Assumptions:**
  - **Retirement (Continued)**

**CalPERS Employer Contribution Rates- Misc**



- **As depicted in the previous two charts, the payoff of the side funds creates a temporary decline in the City's contribution rates, which creates an opportunity for the City to utilize the savings to stabilize rates by placing the funds in a retirement trust.**



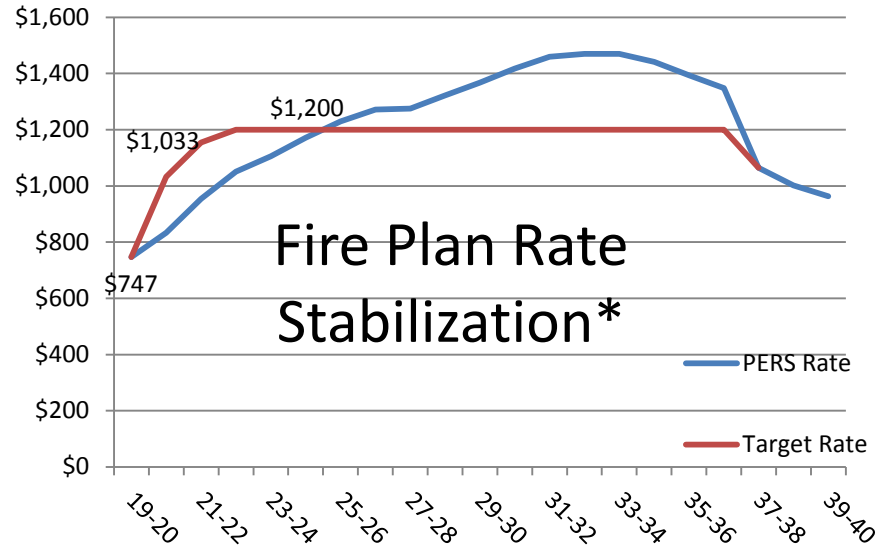


# Five Year Forecast

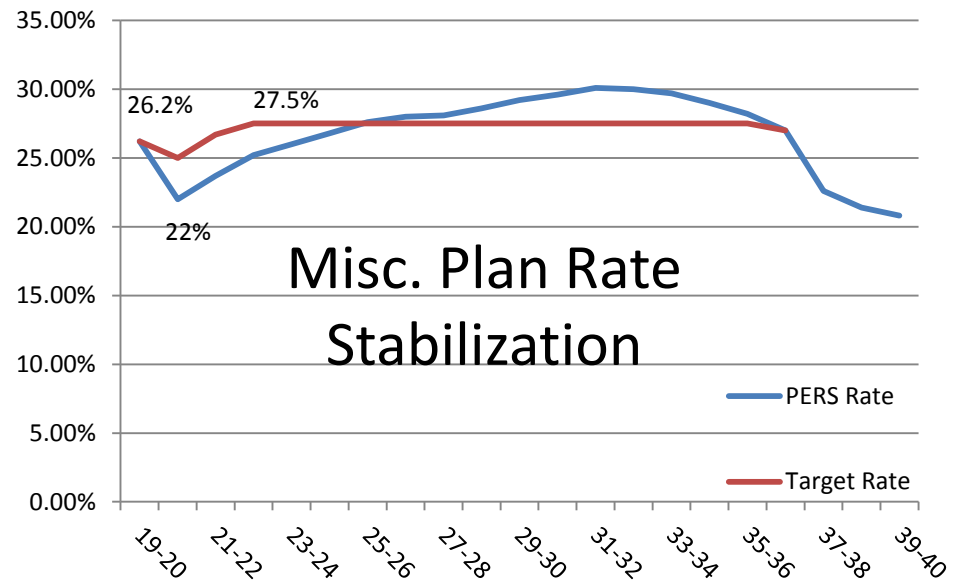
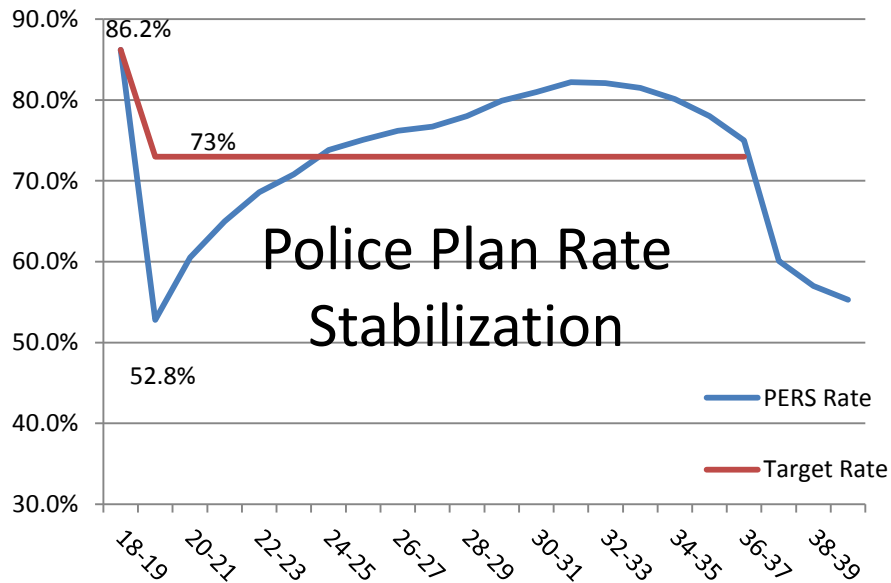
- **Expenditure Assumptions:**
  - **Retirement (Continued)**
  - **Benefits of the trust are:**
    - **Ability to earn a higher rate of return on this type of trust than on other City funds.**
    - **Flexibility to leave funds in trust to use for retirement contributions in the case of an economic downturn or large rate increase.**
  - **The City will accomplish rate stabilization by continuing to fund its retirement at a higher “target” rate. When contribution rates are below the target rate, funds will be placed in the trust. When the contributions rise above the target rate, funds could be withdrawn from the trust to assist in making payments, thereby stabilizing the amount required for retirement.**



# Five Year Forecast

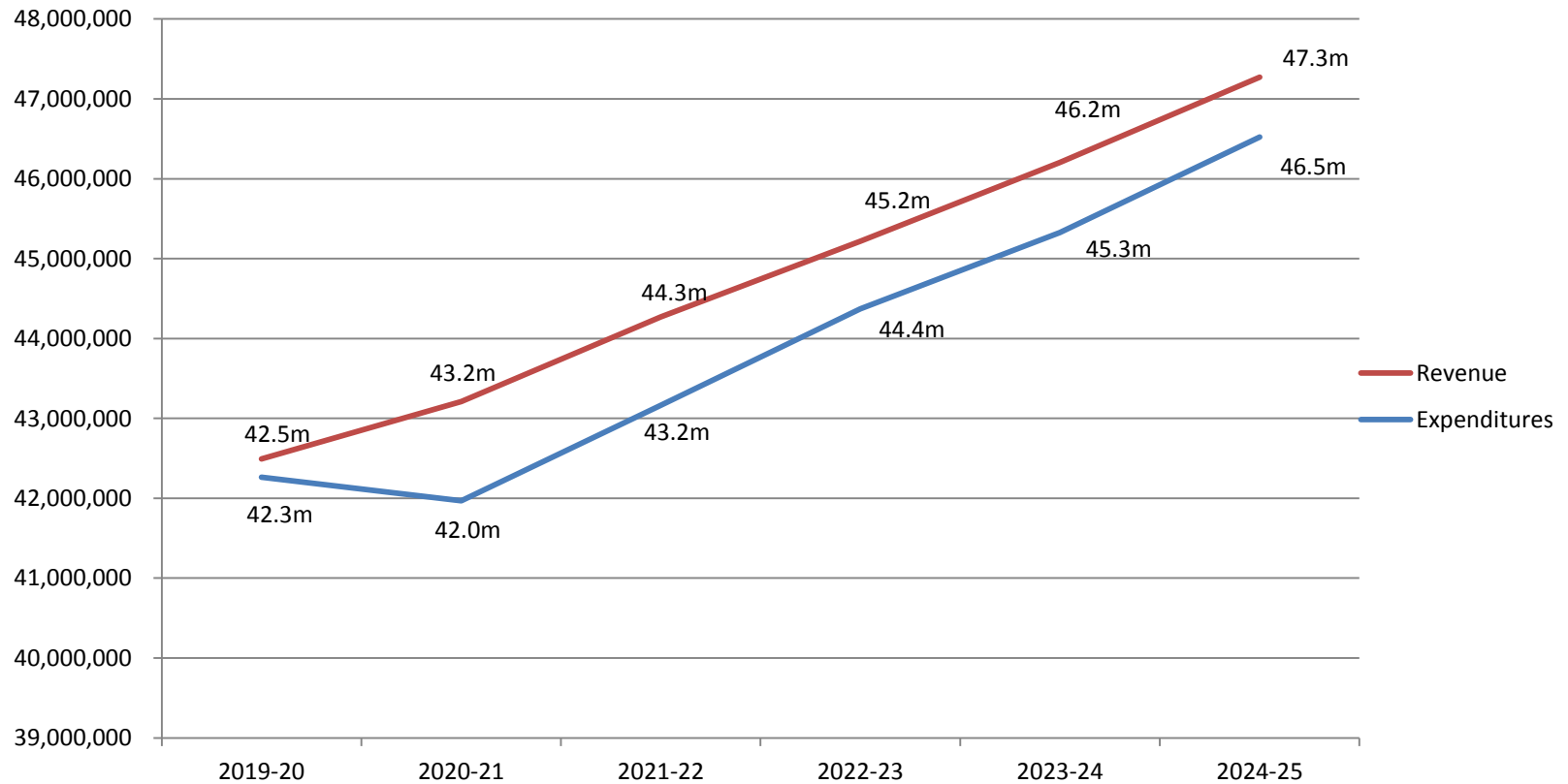


\*Fire's plan is no longer based on a percentage of payroll due to the transition LA County Fire. The Plan was converted to a level dollar plan as required by CalPERS in 2018-19.





## Scenario 1



Scenario 1. Scenario 1 depicts the baseline revenue and expenditure assumptions, which result in average revenue growth of 2.2% and expenditure growth of 1.9%.



# Financial Strategies

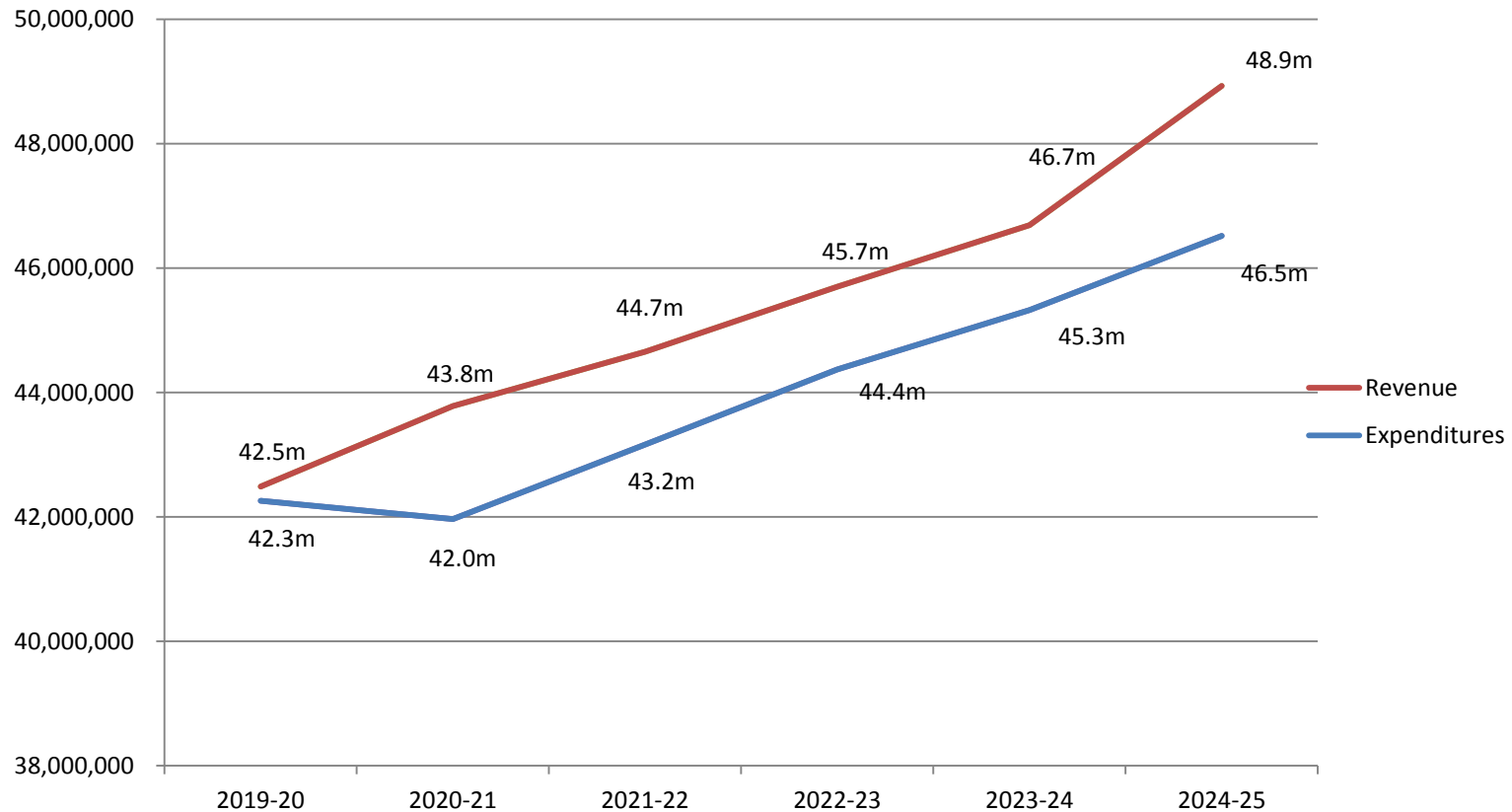
## ■ Review of Potential New Developments

REVENUE FROM FUTURE DEVELOPMENTS					
Potential Developments	1 year 2020-21	2 years 2021-22	3 years 2022-23	4 years 2023-24	5 years 2024-25
Skechers			\$100,000	\$100,000	\$100,000
Undersea Cable - RTI					
Annual Payment - 4th Cable *	\$253,000	\$69,000	\$69,000	\$69,000	\$69,000
H <sub>2</sub> O Hotel					
TOT	\$274,955	\$274,955	\$274,955	\$274,955	\$274,955
Property Tax	\$42,630	\$42,630	\$42,630	\$42,630	\$42,630
Pier/Strand Hotel					
TOT/Sales Tax					\$1,067,625
Property Tax					\$101,500
Total	\$570,585	\$386,585	\$486,585	\$486,585	\$1,655,710

\* The fourth cable will also provide \$184,000 in RTI Tidelands Funds.



## Scenario 2



Scenario 2 builds on Scenario 1 and illustrates the possible impact of the future development assumptions mentioned on the previous slide. With the future development assumptions, the average revenue growth of 2.9% and expenditure growth of 1.9% produces a trend of revenue outpacing expenditures for the five years of the forecast.



# Revenue Strategies Study Session

- **The City Council is scheduled to review revenue opportunities in early 2019-20. Consultants will be present to discuss district (City) sales tax, erosion of the utility user tax, among other topics.**
- **Some of the other potential revenue opportunities that will be presented for discussion consideration are as follows:**
  - **Short Term Vacation Rentals**
  - **Parking- Permits, Off-street Parking Requirements, Meters, Other Mobility Initiatives/Technology Disruptors, and Parking Fines**
  - **Transient Occupancy Tax**
  - **Electric Charging Station Fees**
  - **Community Resources- Special Event Fees and Waivers, Facility Rental Fees, Film Permit Review, Appeal Fees, and Recreational Equipment on the Beach Application Fees**





# City Council Questions/Comments