



Legislation Details (With Text)

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On agenda: 3/12/2019 **Final action:**
Title: MIDYEAR BUDGET REVIEW 2018-19
(Continued from meeting of February 26, 2019)
(Finance Director Viki Copeland)

Sponsors:

Indexes:

Code sections:

Attachments: 1. 1. Revenue Detail Report, 2. 2. Additional Appropriations Report, 3. 3. Budget Transfers Report, 4. 4. Midyear Budget Summary Report, 5. 5. City Council Travel Summary 2018-19

| Date | Ver. | Action By | Action | Result |
|-----------|------|--------------|--------|--------|
| 3/12/2019 | 1 | City Council | | |
| 2/26/2019 | 1 | City Council | | |

Honorable Mayor and Members of the Hermosa Beach City Council Regular Meeting of ~~February 26, 2019~~ March 12, 2019

MIDYEAR BUDGET REVIEW 2018-19 ***(Continued from meeting of February 26, 2019)*** (Finance Director Viki Copeland)

Recommended Action:

Staff recommends that the City Council:

1. Approve the revisions to estimated revenue, appropriations, budget transfers and fund balances as shown herein and in the attached Revenue Detail Report, Additional Appropriations Report, Budget Transfers Report, and Budget Summary Report;
2. From the General Fund, approve the addition of \$120,134 to the assigned fund balance for Contingencies in order to meet the City's target of 16% for this goal; add \$21,731 to the Compensated Absences assignment to meet the City's goal amount of 25% of the current liability; add \$21,575 to the retirement rate stabilization assignment;
3. Transfer the remaining funds available in the General Fund of \$427,335 to the Insurance Fund; and
4. Receive and file the attached information about City Council travel.

Executive Summary:

With the change in the General Fund balance forward from 2017-18 for re-appropriations and prepaid expenses in the amount of \$853,959, a revenue increase of 2% or \$647,415, requests for additional

appropriations of \$498,315 and additional funds to the Contingency Rainy Day Fund, Compensated Absences and the Retirement Rate Stabilization, \$427,335 is available for transfer to the Insurance Fund to move the balance closer to our goal of \$3,000,000. After this transfer, the Insurance Fund balance is under goal by \$75,550.

Background:

The City has conducted a Midyear Budget Review annually since fiscal year 1981-82. The review is a good tool to ensure that assumptions and estimates originally used to prepare the budget ten months earlier remain realistic. All revisions would be recorded as of January 31, 2019 so total midyear revisions will reflect in the 2018-19 Budget amount used for preparation of the 2019-20 Budget. The City Council Conference/Travel Summary was requested by City Council in 2014-15 and continues to be provided.

Analysis:

OVERVIEW

The 2018-19 Budget estimated an increase in General Fund revenue of less than 1%. The Midyear Budget Review estimates an additional increase in revenue of 2%. After all recommended revisions, funds are available to adjust the City's Contingency (Rainy Day Fund) to the goal of 16% of appropriations for operations, set aside 25% of the compensated absences current liability which is consistent with the City's goal, set aside \$21,575 of CalPERS prepayment savings towards retirement rate stabilization, and to transfer the remaining \$427,335 to the Insurance Fund from the General Fund to replenish funds used for recent settlements and bring the balance closer to our goal of \$3,000,000 in the Insurance Fund.

REVENUE

(Note: Refer to the attached Midyear Revenue Detail Report for individual revenue accounts.)

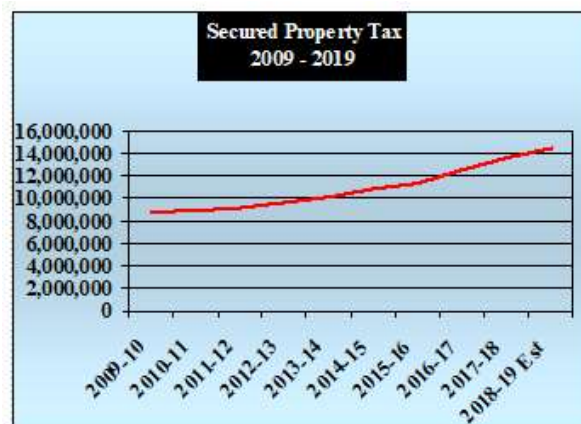
Revenue is estimated to increase 2% over the 2018-19 Budget and 4% over 2017-18 actual revenue. The following chart shows revenue by category and the following graphs show trends for the largest tax revenue sources.

| 2018-19 Midyear Revenue by Category | | | | |
|-------------------------------------|---------------------------|-----------------------------|------------------------|--------------|
| General Fund | 2018-19 Revised Budget | 2018-19 Midyear Revision | Increase (Decrease) | % Change |
| Property Taxes | 18,029,133 | 18,324,915 | 295,782 | 1.64% |
| Sales Taxes | 3,034,000 | 3,156,000 | 122,000 | 4.02% |
| Utility User's Tax | 2,250,177 | 2,250,177 | 0 | 0.00% |
| Transient Occupancy Tax | 3,260,078 | 3,296,000 | 35,922 | 1.10% |
| Other Taxes | 2,049,225 | 2,023,428 | (25,797) | -1.26% |
| Licenses and Permits | 1,143,059 | 1,112,839 | (30,220) | -2.64% |
| Fines & Forfeitures | 2,126,838 | 2,126,838 | 0 | 0.00% |
| Use of Money & Property | 942,213 | 999,077 | 56,864 | 6.04% |
| Intergovernmental/State | 131,609 | 131,950 | 341 | 0.26% |
| Current Service Charges | 6,886,026 | 7,047,786 | 161,760 | 2.35% |
| Other Revenue | 111,670 | 142,433 | 30,763 | 27.55% |
| Total | 39,964,028 | 40,611,443 | 647,415 | 1.62% |

TAXES

Property Tax

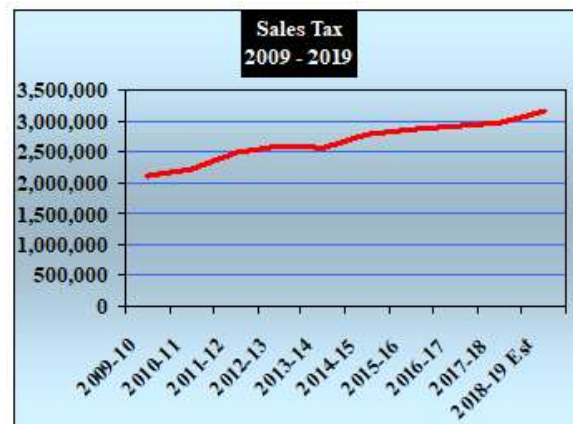
The estimate for secured property tax revenue is increased by almost 2% to reflect growth of 6.5% over 2017-18 actual revenue; the original budget assumed growth of 5% over the 2017-18 Budget. The new estimate is \$14,471,432. Growth for the prior four years was 8%, 8%, 7%, and 7% respectively.



Sales Tax

Sales tax revenue for the first quarter is essentially flat, with a change of less than 1%. The estimate for the year is increased by 4% to \$3,156,000 which is consistent with 2017-18 actual revenue.

As shown in the charts on the next page, the category with the highest sales tax overall is Eating/Drinking Places which increased slightly by 0.26%. The categories with the highest dollar increase are Total Manufacturing & Wholesale and Building Materials. Service stations are up due to fuel prices.



The following charts compare sales tax on major accounts for the first quarter of this year to the first quarter of last year for the top ten business classes and by geographic area.

Typically, there would be two quarters to compare at this point in the year, however the California Department of Tax and Fee Administration (CDTFA), who collects the sales tax, implemented a new revenue system, changed the sales tax allocation methodology and created a new payment calendar at the end of last year. There will be more information at the time of 2019-20 budget submission.

Sales Tax Comparison of First Quarter of 2017-18 to 2018-19

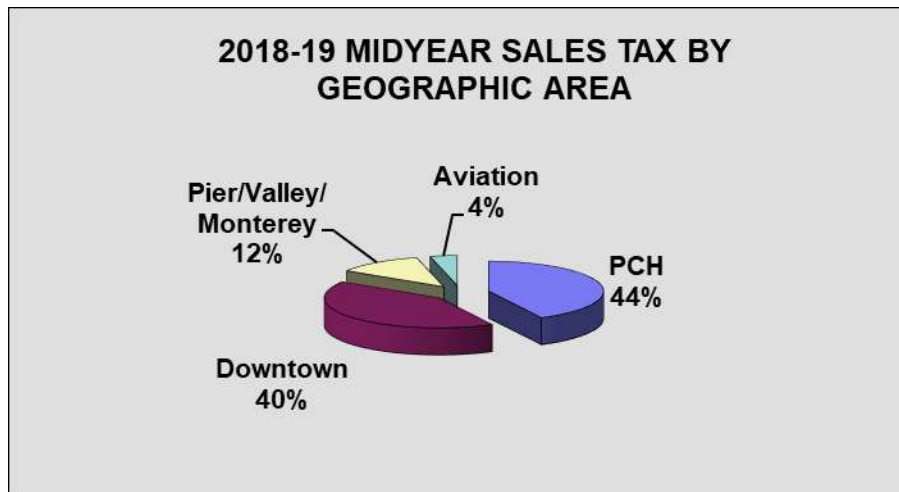
| RANK / BUSINESS CLASS | 2018-19 Sales Tax | INC/(DEC) | % Change Previous Year | % OF TOTAL |
|--|----------------------|------------------|---------------------------|---------------|
| Retail Group | | | | |
| Eating/Drinking Places | \$289,342 | \$763 | 0.26% | 35.63% |
| Building Materials | \$62,552 | \$3,355 | 5.67% | 7.70% |
| Other Retail Stores | \$58,049 | (\$2,615) | -4.31% | 7.15% |
| Food Stores | \$44,564 | \$204 | 0.46% | 5.49% |
| Auto Dealers & Supplies | \$36,702 | \$3,248 | 9.71% | 4.52% |
| Service Stations | # | # | 14.13% | # |
| Apparel Stores | \$20,763 | (\$816) | -3.78% | 2.56% |
| All Other Retail | \$19,176 | \$1 | 0.01% | 2.36% |
| Drug Stores | # | # | -3.11% | # |
| Furniture/Appliance | \$17,967 | (\$11,699) | -39.44% | 2.21% |
| Total Retail Group | # | # | -0.63% | 74.15% |
| County/State Pool | \$95,219 | (\$6,028) | -5.95% | 11.73% |
| Total Manufacturing & Wholesale | \$90,859 | \$8,236 | 9.97% | 11.19% |
| Total Business, Service, Repair | \$23,272 | (\$2,431) | -9.46% | 2.87% |
| Total Non-Store/Part Time Retailers/Adjustments | \$492 | \$86 | 21.18% | 0.06% |

* Threshold for inclusion, \$300 per quarter

* Service station and drugstore amounts are not listed because there are too few in the category.

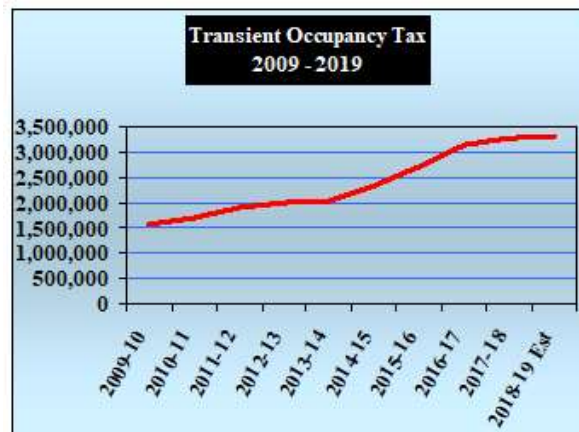
Sales Tax Comparison by Geographic Area

| LOCATION | Revenue 2017-18 | % of Total | % Change | Revenue 2018-19 | % OF Total |
|----------------------|--------------------|---------------|-------------|--------------------|---------------|
| PCH | \$ 234,713 | 41% | 4% | \$ 243,037 | 44% |
| Downtown | 245,571 | 43% | -3% | 238,286 | 40% |
| Pier/Valley/Monterey | 72,842 | 12% | -4% | 69,825 | 12% |
| Aviation | 22,340 | 4% | -2% | 21,786 | 4% |



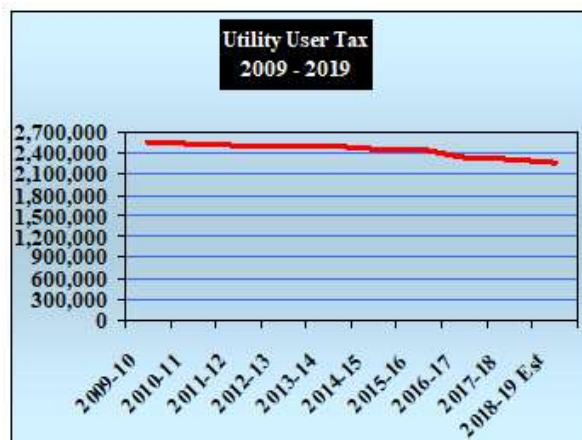
Transient Occupancy Tax

Transient Occupancy Tax (TOT) receipts for the first half are in line with prior year so the revenue estimate is increasing to the 2017-18 level of \$3,296,000. Occupancy is 81.4% for the first half of 2018-19 vs. 82.1% for the first half of 2017-18.



Utility User Tax

The estimate for Utility User Tax (UUT) revenue is unchanged from the original budget at \$2,250,177.



Other Tax

This category declines slightly due to decreases in franchise fees for cable TV and ½ cent sales tax estimates from the state.

Licenses and Permits

This category is down 2.6% due to a change in estimated revenue for taxi franchise fees. Legislation effective January 1, 2019 requires taxis to obtain permits only where they are “substantially located”. There are currently no taxis that are substantially located in Hermosa Beach. The final taxi franchise fees were paid in 2017-18. The only revenue collected in 2018-19 was related to a replacement taxi.

Fines and Forfeitures

The estimate for this category remains the same. Personnel vacancies in Community Services caused declines in revenue in previous years, but this is expected to resolve by year-end due to hiring of part time staff.

Use of Money and Property

Interest income is revised up overall due to the rise in interest rates. Some adjustments are being made between funds according to the actual cash balances for each fund.

Intergovernmental/State

Estimated reimbursements from the state were increased for amounts received for mandated costs and decreased for Standards & Training for Corrections (STC) due to state allocation revisions.

Current Service Charges

User fees or service charges are up 2% primarily due to ambulance transport, special event security, contract recreation classes, and other recreation programs.

Other Revenue

The increase in this category is primarily due to funds received in the general miscellaneous, reimbursement/refund and contribution (donations) accounts. No revenue is assumed in the original budget for these revenue sources. Appropriations have already been added where a donation is intended to be spent.

ADDITIONAL APPROPRIATIONS

Additional appropriations are shown on the attached spreadsheet, Additional Appropriations Report. While overall appropriations in the General Fund will increase, the County Fire District division costs will be reduced by \$236,387 due to Los Angeles County Fire's billing for six months of fire facility conversion costs instead of the twelve months budgeted. \$236,387 will be reserved as assigned fund balance for future fire facility payments.

RESULT OF CHANGES

As a result of changes to estimated revenue, appropriation revisions, and changes in funds reserved budget for budget reappropriations, prepaid expenses and the Verizon PEG grant, a balance of \$591,775 is available in the General Fund.

It is recommended that those funds be used in the following manner:

- Assign additional funds of \$120,134 from the balance available in the General Fund to bring the Contingency up to the goal amount of 16% of General Fund operating appropriations.
- Add an additional \$22,731 to the assigned fund balance to bring the Compensated Absences up to the goal amount of 25% of the current liability.
- Increase the assigned fund balance for retirement rate stabilization by \$21,575 due to CalPERS prepayment savings.
- Transfer the resulting remaining fund balance of \$427,335 to the Insurance Fund.

FINANCIAL POLICIES

The City Council's adopted fund balance policies are:

General Fund - Any funds remaining unspent at year-end in the General Fund transfer equally to the Contingency Balance, Insurance Fund, Equipment Replacement Fund, the Capital Improvement Fund, and Capital Facility Reserve. The City Council may change these transfers annually as necessary. **For 2017-18 per City Council, funds in the amount of \$1,577,889 were transferred to the Insurance Fund to replenish funds depleted by settlements.**

Contingency Balance - The goal is to maintain an amount equal to 16% of the General Fund operating appropriations to be used in the event of economic uncertainties or unforeseen emergencies.

Compensated Absences Balance - The goal is to maintain 25% of the funding needed for accrued liabilities for employee vacation, sick, and compensatory time.

Retirement Rate Stabilization Balance - Created in the 2004-05 Budget for use during times of rate volatility. The 2018-19 Budget approved that the existing balance of \$1 million be used for the creation of a retirement trust which should be set up by the end of 2018-19.

Insurance Fund - The goal is to maintain \$3,000,000 in net position for claims above recorded claims liabilities or catastrophic losses.

Equipment Replacement Fund - The goal is to maintain net position equal to the accumulated amount calculated on the equipment replacement schedule for all equipment, based on replacement cost and useful life.

Progress on Funding Goals

| Fund Name | Goal | Estimated Fund Balance 12/31/2018 | Recommended Midyear Change | Estimated Fund Balance 6/30/2019 After Midyear Change | Over/(Under) Goal Amount |
|------------------------------|--|--------------------------------------|-------------------------------|---|-----------------------------|
| Compensated Absences Balance | \$267,712 25% of Current Liability | \$244,981 | \$22,731 ¹ | \$267,712 | \$0 |
| Contingency Balance | \$6,252,584 16% of Operating Budget | \$6,132,450 | \$120,134 ¹ | \$6,252,584 | \$0 |
| Insurance Fund | \$3,000,000 | \$2,497,115 | \$427,335 ¹ | \$2,924,450 | (\$75,550) |
| Equipment Replacement Fund | \$2,415,191.00 | \$2,330,756 | \$0 | \$2,330,756 | (\$84,435) |

¹ From General Fund available fund balance.

Adding funds to the Compensated Absences and Contingency Balance are mentioned previously. As

is shown in the Over/(Under) Goal Amount column, the Compensated Absences Balance and Contingency Balance Fund goals are at the goal amount after the recommended changes. With the transfer of \$427,335 from the General Fund, the balance in the Insurance Fund is only under the \$3,000,000 goal by \$75,550. Claims liabilities will be adjusted in the Insurance Fund at year end based on the pending actuarial reports. Fund balances will be evaluated again with the 2019-20 Budget and a recommendation made for the year-end transfer of unspent funds in the General Fund.

UPCOMING/ONGOING CHALLENGES

With approval of the Midyear changes by the City Council, staff will move forward with preparation of the 2019-20 Budget.

- Actuarial reports for liability and worker's compensation will be received in the next few months. Bringing the Insurance Fund back to the City's goal amount is a priority; it is very close as mentioned above, with the transfer included in this report.
- The Fiscal Health and Five-Year Capital Improvement Plan will be updated on an ongoing basis.
- Funding capital needs such as storm water and public facilities upgrades continue to be a challenge.
- Memorandums of Understanding with all staff groups expire June 30, 2019. Negotiations will begin shortly.

As always, staff will remain conservative in its approach to the budget process for next year.

2019-20 BUDGET WORKSHOP

The Capital Improvement Plan Study Session is planned for April 24, 2019. The Budget Study Session is scheduled for May 22 at 6:00pm, with adoption planned for June 11, 2019.

General Plan Consistency:

PLAN Hermosa, the City's long-range planning document, was adopted by the City Council in August 2017, and envisions a future where "Hermosa Beach is the small town others aspire to be; a place where our beach culture, strong sense of community, and commitment to sustainability intersect." One of the guiding principles to achieve the vision is to make decisions and take actions that help contribute to the City's economic and fiscal stability.

A focus of the Governance chapter in the General Plan is to ensure that decision-making and leadership is conducted in an ethical, transparent, and innovative manner that reflects community values. Goal 1 of the Governance chapter speaks to maintaining a high degree of transparency and integrity in the decision-making process.

Other relevant General Plan policies are listed below:

Infrastructure

- 1.2 Priority investments. Use City Council established priorities and the Capital Improvement Program (CIP) to identify and allocate funding for projects identified in the infrastructure plan.
- 1.9 Preventative street maintenance projects. Include street slurry projects and other preventive projects in the CIP each year, with sufficient funding.

Public Safety

- 5.2 High level of response. Achieve optimal utilization of allocated public safety resources and provide desired levels of response, staffing, and protection within the community.

Attachments:

1. Revenue Detail Report
2. Additional Appropriations Report
3. Budget Transfers Report
4. Budget Summary Report
5. City Council Travel Summary

Respectfully Submitted by: Viki Copeland, Finance Director

Approved: Suja Lowenthal, City Manager