



Staff Report

File #: REPORT 18-0369, Version: 1

Honorable Mayor and Members of the Hermosa Beach City Council Regular Meeting of June 12, 2018

ADOPTION OF 2018-19 BUDGET (Finance Director Viki Copeland)

Recommended Action:

It is recommended that City Council:

1. Hear public testimony regarding the 2018-19 Budget
2. Approve revisions/corrections to the Preliminary Budget as shown on page 2;
3. Approve the change in funding for prior year Capital Improvement Program (CIP) funds from unrestricted to restricted funds according to the chart on page 33 of the 2018-19 preliminary budget. This change fits with our policy of using restricted funds before unrestricted funds when possible;
4. Approve recommendations from the Draft Financial Plan/5 Year Forecast shown on pages 2 and 3;
5. Approve new and revised financial policies from the Draft Financial Plan/5 Year Forecast as shown on pages 3 and 4;
6. Approve the reappropriation of the balance in Prospective Expenditures as of 6/30/2018 to the 2018-19 Budget;
7. Approve contracts for services contained herein; and
8. Adopt Resolution 18-xxxx, approving the 2018-19 Budget as presented in Exhibit A (attached to the resolution).

Background:

A budget workshop was held on June 6, 2018. John Bartel, Actuary and President of Bartel and Associates, presented a review of CalPERS actuarial issues, discussed options, including creation of a Section 115 Retirement Trust and answered City Council questions. A slide show overview of the operating budget, Capital Improvement Plan and Financial Plan/5 Year Forecast was presented. Councilmembers reviewed the budget and Financial Plan, commented and asked questions of the City Manager, Finance Director and department heads.

(Link to City Budget Page: <http://www.hermosabch.org/index.aspx?page=211>)

Analysis:

Revisions/Corrections to Preliminary Budget

The following changes to the Preliminary Budget are reflected in the budget summary included with the budget resolution attachment. Other formatting and grammatical corrections will be made in the Adopted Budget that do not affect the amounts in the budget summary.

General Fund

- Reduce Prospective Expenditures by \$49,529 to fund the annual 3-year Budget average increase and CPI increase in Dispatch Services for the Police Department / Community Services. Notification was received on 5/29/18.
- Reduce Prospective Expenditures by \$9,590 to fund an additional crossing guard at the intersection of Prospect and Aviation.
- Reduce Prospective Expenditures by \$12,294 to add an additional part-time employee as a “second” employee for nights and weekends at the Community Center for security purposes.
- Increase payment to CalPERS for Fire from \$466,772 to \$612,000, upon the advice of our actuary, in place of making a \$200,000 contribution to the retirement trust. The remaining \$54,772 will be added to Prospective Expenditures.

State Gas Tax Fund

- Reduce revenue in the State Gas Tax Fund and the transfer to General Fund by \$67,544 due to failure of the State Board of Equalization to enact a 4 cent increase anticipated in original revenue estimates. The reduction is offset by a transfer from Prospective Expenditures.

All of these changes will reduce the 2018-19 Prospective Expenditures balance to \$0. A request to reappropriate the remaining balance from 2017-18 is included under Recommended Actions.

Financial Plan / 5 Year Forecast

The Financial Plan/5 Year Forecast will be included in the Adopted Budget. The following recommendations are made in the Financial Plan/5 Year Forecast:

1. The City has a financial policy that funds remaining unspent in the General Fund at year-end transfer to the Contingency, Insurance Fund, Equipment Replacement Fund, and Capital Improvement Fund. The recommendation is to create a new Reserve for Capital Facilities. Funds not needed in the Contingency Fund, Insurance Fund, or Equipment Replacement Fund would transfer equally to the Capital Improvement Fund and Reserve for Capital Facilities Fund.
2. Use the savings from the payoff of our retirement side funds for Fire, Police, and

Miscellaneous employees retirement rate stabilization by depositing the funds in a Section 115 retirement trust as of 6/30/18.

3. Deposit funds set aside in the General Fund for Retirement Rate Stabilization to the retirement trust as of 6/30/18 to earn a greater return and stipulate that funds may only be used for retirement.

Recommendations regarding increasing restaurant encroachment fees and parking citation amounts and late fees will be brought back at a later date so staff has time for more consideration and research.

Financial Policies

Six new and revised policies were added to the Financial Policies as follows:

- *Fund Balance Policies* - Add a new reserve, Capital Facility Reserve, to the Contingency Reserve, Capital Improvement Fund, Equipment Fund, and Insurance Fund for year-end transfers of remaining unspent funds in the General Fund.
- *Budget Policies* -City Council adopted a target Pavement Conditional Index (PCI) of 81 from the Pavement Management Plan (PMP) in October 2017. The plan concludes that the average citywide street network Pavement Condition Index (PCI) for Hermosa Beach is 70 and the average PCI for neighborhood streets is 64. The PMP estimated a 10 year period to achieve the PCI level of 81. The plan will be used to guide selection of streets for improvement since they are prioritized in the plan. Public Works will calculate progress toward the PCI goal annually after completion of street projects.
- *Budget Policies* - The City supports consideration of collaboration with other agencies and use of alternatives for service delivery when practicable. Existing examples are shared dispatch services through the South Bay Regional Public Communication Authority and Fire services contracted with the County of Los Angeles.
- *Budget Policies* - The City supports exploration of private/public partnerships where opportunities exist.
- *Budget Policies* - Analysis of potential savings for prepayment of retirement contributions will be conducted on an annual basis to determine if prepayment would be beneficial.
- *Revenue Policies* - The City supports exploration of grant opportunities and will seek to apply for all grants that may practically be implemented and that align with the City's goals and strategies.

Contracts for Services

The following contracts, budgeted in various departments, are for outsourced services or services where particular expertise is required. Rather than submitting them individually on future agendas, we are submitting them en masse. Staff is providing comments regarding the satisfaction with the

current providers. The contracts are on file for review in the Finance Department.

DEPARTMENT/CONTRACTOR	SERVICE PROVIDED	TERM/AMOUNT
City Manager		
McGowan Consulting	Municipal Separate Sewer System (MS4) Permit Compliance Consultant. MS4 permit identifies conditions, requirements, and programs that municipalities must implement to protect regional water resources from adverse impacts associated with stormwater and urban runoff. Consultant was retained due to familiarity with City's stormwater system and is one of the most highly respected consultants in this field. Services provided have been very satisfactory.	7/1/2018-6/30/2019 - \$76,313/yr.
Finance Administration		
Prosum Technology Services	Ongoing network and information technology support. Firm selected by RFP for network design. Subsequently, house IT service outsourced to this firm. Contract pricing has remained the same since inception. Proposed contract is for 3 years with a CPI increase per year. Proposed contract also includes the addition of Network Operating Center (NOC) Services with 24/7/365 Network Monitoring (\$792/month) and Security Top Threat Detection (\$1,000/month). Services provided have been very satisfactory.	7/1/2018-6/30/2021 - \$156,465 for year 1
Police Department		
American Guard Services, Inc	Crossing Guard Services. American Guard provides trained personnel to perform crossing guard duties throughout the City at designated hours and locations during the academic school year. Contractor is responsible for providing personnel with training, equipment, and adequate supervision for successful performance of their crossing guard duties. The contractor entered into a one-year agreement with American Guard Services during the 18 fiscal year. An extension for the 19 fiscal year is a result of satisfactory performance by the contractor.	7/1/2018-6/30/19 \$115,084.80

Budget Resolution/Summary

The Budget Summary is attached to the budget resolution as "Exhibit A" at the end of this packet. Any changes made by City Council may be incorporated into the motion to approve the budget, with changes to be reflected in the Adopted Budget. The Budget Summary and resolution will be modified according to City Council direction.

Adopted Budget

The Adopted Budget will include all changes, revisions and corrections as previously mentioned. Both the Adopted Budget and the Budget in Brief document will be posted to the website and distributed to departments and City Council who want a printed copy. The Adopted Budget will also be submitted to the Government Finance Officers Association (GFOA) for the budget award program for the sixth time. The award is only good for a one year period.

Attachments:

1. Resolution 18-xxxx 2018-19 Budget Adoption, with Exhibit A - Budget Summary

Respectfully Submitted by: Viki Copeland, Finance Director

Approved: John Jalili, Interim City Manager