

January 30,2003

Honorable Mayor and Members of
the Hermosa Beach City Council

City Council Meeting of
February 11, 2003

MIDYEAR BUDGET REVIEW 2002-03

RECOMMENDATION:

It is recommended that the City Council:

1. Approve the revisions to estimated revenue, appropriations, budget transfers and fund balances as shown in the attached Budget Summary and Revenue Worksheet.
2. Approve the attached amendment to the contract with AAE, Inc. for additional traffic engineering services in the amount of \$23,000 (an additional \$5,000).

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.

ANALYSIS:

Overview

The revenue changes recommended at midyear 2002-03 reflect a net decrease in the General Fund and a net increase in the Parking Fund. With the revisions recommended, the budget does remain in balance; however, some effects from the downturn in the economy are apparent and are discussed below.

Revenue (see Revenue Worksheet)

The net change in revenue in the General Fund is (\$52,474) or less than 1%. Though the overall change is small, there are some notable fluctuations. The Parking Fund transfer to the General Fund increases by \$87,377, which offsets the decrease in General Fund revenue.

Taxes

The tax category, overall, decreases by .67%. Secured Property Taxes increase 9% over 2001-02, based on the actual levy. Unsecured Taxes increase by only 1.5%. The assumption in the budget was 7%. Prior Year Collections (of property tax) is revised down because the County had a system problem last year and did not process some refunds until this year. Since the County cannot provide any projection of this revenue for the rest of the year, we are revising the budget based on history from the last five years. Supplemental Roll Property Tax is revised to last year's level. These taxes are difficult to project since they are generated by ownership changes and are processed sporadically by the County.

Sales tax for the first two quarters is down 7% over 01-02. For the same period, Los Angeles County is up 2.51% and the State is down .87%. The original budget assumed a 5% increase, after adjustments for loss

of the Porsche and Audi dealerships. Growth in the five years prior to last year averaged 12%. The first half decline reflects the dealership losses as well as an unanticipated decline in new car sales.

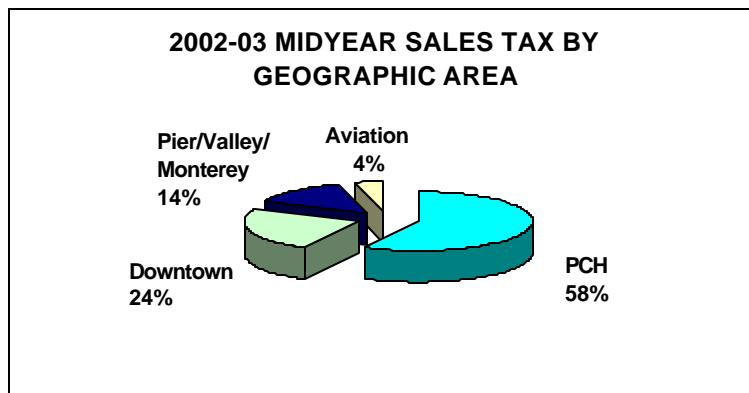
The chart below compares sales tax on major accounts for the first half of this year to the first half of last year by the top ten categories. One noticeable difference is the change in position of Eating/Drinking Places from Number 2 to Number 1.

**SALES TAX
Comparison of First Half of 2001/02 to 2002/03
Top Ten Categories**

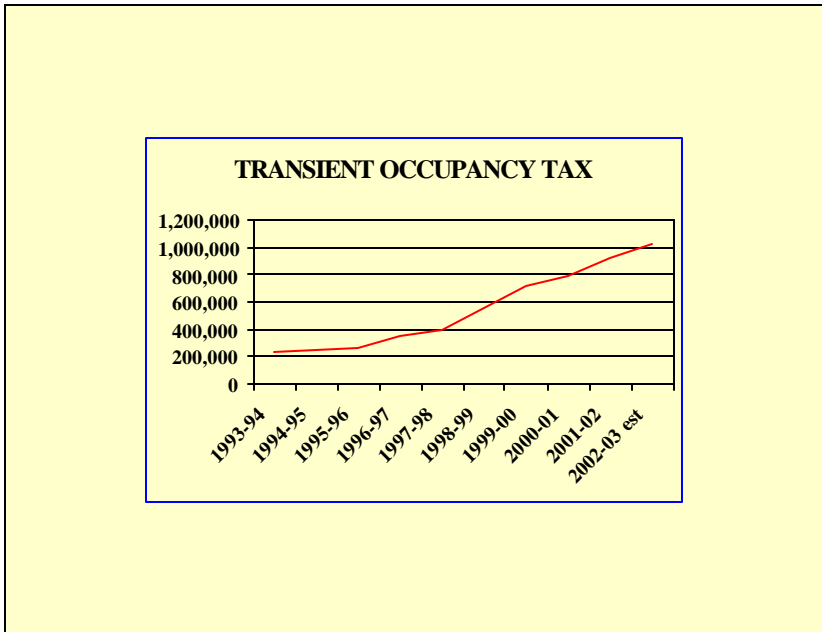
RANK/BUSINESS CLASS	Sales Tax 2002-03	Inc./ (Dec.)	% Of Change Prev. Yr.	Percent Of Total
1. EATING/DRINKING PLACES	\$309,016	\$8,329	2.77%	30.64%
2. AUTO DEALERS	291,174	(107,157)	-26.90	28.87
3. GROCERY STORES/LIQUOR STORES	107,634	5,533	5.42	10.67
4. AUTO LEASES	67,971	(4,612)	-6.35	6.74
5. LUMBER/BUILDING MATERIALS	59,617	622	1.05	5.91
6. SPORTING GOODS/BICYCLES	54,013	3,066	6.02	5.36
7. SERVICE STATIONS	37,622	3,245	9.44	3.73
8. SPECIALTY STORES	29,842	2,217	8.03	2.96
9. WHOLESALE TEXTILES/FURNISHINGS	26,178	841	3.32	2.60
10. HOUSEHOLD/HOME FURNISHINGS	25,382	3,383	15.38	2.52

Sales Tax Comparison by Geographic Area

LOCATION	Revenue 2001-02	% OF Total	Percent Change	Revenue 2002-03	% Of Total
PCH	686,364	62%	-14%	590,535	58%
Downtown	236,997	22%	4%	246,149	24%
Pier/Valley/Monterey	135,529	12%	7%	145,148	14%
Aviation	39,208	4%	2%	39,840	4%



Transient Occupancy Tax (TOT) is being adjusted down, primarily because of the late opening and somewhat slow start of the new Hampton Inn. The new estimate is still 12% over 2001-02. The chart below reflects the positive trend of TOT revenue, with the addition of the Holiday Inn Express and Phase II of the Beach House last year and the Hampton Inn this year in October.



The Utility User Tax estimate is being revised to approximately the 2001-02 level.

Use of Money and Property

Interest projections for all funds have been recalculated based on receipts for the first half. A rate of 4.25% was assumed in the original budget for LAIF (the State pool), where most of our funds are invested. The average rate for the first half was 2.47%. LAIF projects rates of 2.05% for the quarter ending March 2003 and 1.9% for the quarter ending June 2003.

Current Service Charges

This category is revised up 7%. The line item changes are based on activity for the first half and prior year revenue.

Parking Lot/Structure Revenue

The parking lot and parking structure rates were increased last year. The increases in estimates are based on revenue for the first half, which is up 19% and 16%, respectively.

Parking Fines

Parking fines were also increased last year. Actual revenue last year was higher than the 02/03 estimate therefore the estimate is being revised to the 2001-02 level.

Additional Appropriations

The following additional appropriations are requested:

GENERAL FUND (001)

City Treasurer Contract Services/Private	\$4,000	Bank service charges higher. Due to low earnings allowance rate, bank balance is kept to a minimum, which translates to higher fees paid. Funds earn higher rate if invested.
City Manager		
Prospective Expenditures Unclassified	\$7,231	Midyear revisions result in additional funds available – add to Prospective Expenditures.
Public Works Street Maintenance/Traffic Safety Contract Services/Private	\$5,000	Additional traffic engineering services due to increased routine service requests, and projects and meetings assigned to the Traffic Engineer. A partial list of the projects includes: <ul style="list-style-type: none">- Development of a proposed speed hump policy- Preparation of Traffic Impact Study guidelines- Taxi Zone Relocation – Hermosa Avenue & 11th Street- Review of grant opportunities – MTA Calls for projects, HES & OTS grants- Planning Commission meetings- Public Works Commission meetings- Sav-On Drugs development project- CMP Report
Building Maintenance Maintenance Materials	\$6,000	Additional repairs required for City Buildings and Police Dept air conditioning.
Parks Contract Services/Private	\$3,000	More replanting required than anticipated on the Greenbelt.
TOTAL GENERAL FUND	\$25,231	

**DOWNTOWN ENHANCEMENT FUND
(109)**

Public Works North Pier Parking Structure Contract Services/Private	\$2,000	Repairs required due to vandalism over and above anticipated maintenance costs to elevator and elevator lighting.
Maintenance Materials	\$2,000	Additional replacement of fire extinguishers, light fixtures and signs due to vandalism.
Public Works County Share of Revenue Contract Services/Government	\$44,750	Increase to Parking Structure net income after midyear revenue & appropriation changes.

TOTAL DOWNTOWN ENHANCEMENT FUND **\$48,750**

STATE GAS TAX FUND (115)

Public Works CIP 159 Street Improvements/Hillcrest & Rhodes Contract Services/Private	(\$13,297)	Funds unavailable due to lower balance forward and lower interest earnings. Change funding to Capital Improvement Fund.
--	------------	---

TOTAL STATE GAS TAX FUND **(\$13,297)**

PARKS/REC FACILITY TAX FUND (125)

Public Works CIP 507 Valley Park Improvements Contract Services/Private	(\$36,269)	Funds unavailable due to midyear revenue revisions. Change funding to 4% Utility Users Tax Fund.
--	------------	--

TOTAL PARKS/REC FACILITY TAX FUND **(\$36,269)**

4% UTILITY USERS TAX FUND (126)

Public Works CIP 507 Valley Park Improvements Contract Services/Private	\$36,269	Change appropriation from Parks/ Recreation Facility Tax Fund due to midyear revenue reduction in that fund.
--	----------	--

TOTAL 4% UTILITY USERS TAX FUND **\$36,269**

LOMA DISTRICT ADMIN EXP FUND

(138)

Finance Administration

Administrative Charges

Contract Services/Private \$36

Final levy budget had not been received when the FY 02-03 budget was prepared.

TOTAL LOMA DISTRICT ADMIN EXP FUND \$36

GRANTS FUND (150)

Police

Domestic Violence Advocacy Grant

Salaries (\$1,936)

Accrual Cash-in (\$58)

Part-Time Temporary (\$5,000)

Retirement (\$353)

Uniform Expense (\$48)

Employee Benefits (\$731)

The overall grant was reduced by the Beach Cities Health District.

Salaries and benefits reductions reflect amount approved by Beach Cities Health District.

Contract Services/Private \$2,565

Reflects approved amount for additional advocate training.

Maintenance Materials \$29

Reflects approved amount of supplies and printing services.

TOTAL GRANTS FUND (\$5,532)

TASKFORCE FOR REGIONAL AUTOTHEFT PREVENTION FUND (156)

Police

T.R.A.P. Taskforce

Salaries (\$16,494)

Retirement (\$5,465)

Employee Benefits (\$1,669)

Medicare Benefits (\$238)

Reflects reduction of program from an 8-month to a 5-month program.

TOTAL TASKFORCE FOR REGIONAL AUTOTHEFT PREVENTION FUND (\$23,866)

CAPITAL IMPROVEMENT FUND (301)

Public Works

CIP 159

Street Improvements/Hillcrest & Rhodes

Contract Services/Private \$13,927

Change appropriation from State Gas Tax Fund due to lower balance forward and lower interest earnings in that fund.

TOTAL CAPITAL IMPROVEMENT FUND \$13,927

INSURANCE FUND (705)

Auto/Property Bonds Contract Services/Private	\$7,550	Blanket Property insurance and auto physical damage insurance premiums exceeded estimates.
Workers' Compensation Contract Services/Private	\$51,550	Excess workers' compensation insurance premium exceeded estimate.
TOTAL INSURANCE FUND	\$59,100	

Transfers**TRANSFERS - IN**

General Fund (001)	\$87,705	Increase reflects midyear increase to Parking Fund revenue - \$87,377; increase to the cost for Administration of the three Special Assessment Districts - \$328.
TOTAL TRANSFERS-IN	\$87,705	

TRANSFERS-OUT

Parking Fund (110)	\$87,377	Midyear revenue increase to General Fund
Lower Pier Administrative Expense Fund (136)	\$45	Increased City Administration costs based on actual levy.
Myrtle District Administrative Expense Fund (137)	\$132	Increased City Administration costs based on actual levy.
Loma District Administrative Expense Fund (138)	\$151	Increased City Administration costs based on actual levy.
TOTAL TRANSFERS-OUT	\$87,705	

Conclusion

As we started the Midyear process, we faced the prospect of making General Fund reductions of almost \$400,000 this year to offset the loss of motor vehicle license fees contained in the Governor's Proposed Budget. As of this writing, the Governor announced that the votes were not there in the Legislature to end the payments to local government so it appears that we have a reprieve, for the time being at least. However, with a state deficit of \$26 - \$34 billion, we may have to deal with other reductions, likely in the 2003-04 budget. We will be mindful of that as we begin 03-04 budget preparations, which start immediately after the midyear revisions are approved.

Respectfully submitted,

Concur:

Viki Copeland
Finance Director

Stephen R. Burrell
City Manager