

January 28, 2005

Honorable Mayor and Members of
the Hermosa Beach City Council

City Council Meeting of
February 8, 2005

MIDYEAR BUDGET REVIEW 2004-05

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 a change to the year-end transfer of unspent funds to allocate amounts to the Capital Improvement Fund, the Insurance Fund and the Retirement Stabilization Fund.
3. Approve the transfer of funds currently in excess of goal amounts from the Compensated Absences Fund, \$328,730, and Equipment Replacement Fund, \$233,134 to the Contingency Fund in the amount of \$65,909 with the balance of \$495,955 to the Capital Improvement Fund.

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 discussed herein reflect increases in both the General Fund and Parking Fund. Significant line item changes are discussed below.

Revenue **(see Revenue Worksheet)**

The overall change in revenue in the General Fund is \$1,362,848 or 8%. The most significant changes are addressed below.

Taxes

The majority of the revenue increase is in the Tax category. The secured property tax levy is 10% higher than 2003-04 and 3% over our original estimate. This increase is consistent with the past five years' history, reflecting the increases in residential property values and the turnover rate.

The sales tax estimate has been revised up 7% based on activity of the first half and the fact that the BMW dealership stayed longer than originally anticipated. The new estimate is 11% below 2003-04.

As in the original budget, sales tax is split into two accounts now, 3108 Sales Tax and 3104 In Lieu Sales Tax. The In Lieu amount is the State's "Triple Flip" 25% reduction of local government sales tax, which will be repaid in January and May with property tax funds.

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.

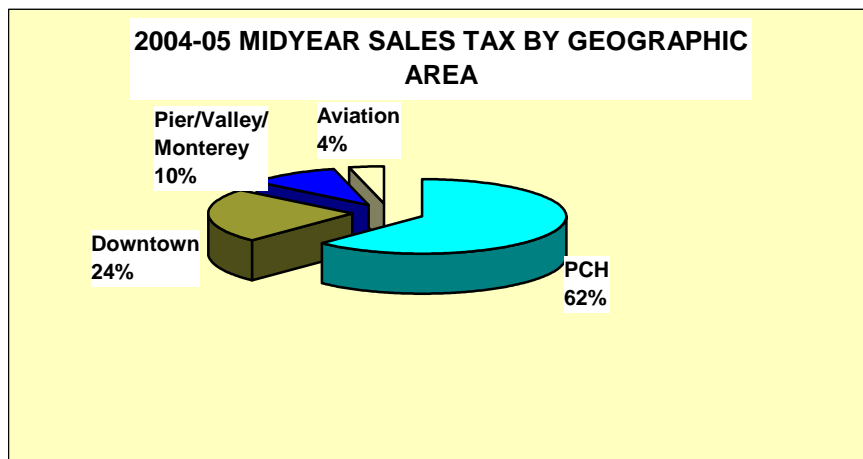
**SALES TAX
Comparison of First Half of 2003/04 to 2004/05
Top Ten Categories**

RANK/BUSINESS CLASS*	Sales Tax 2004-05	Inc./ (Dec.)	% of Change Prev. Yr.	Percent of Total
1. AUTO DEALERS	\$373,036	(\$32,866)	-8.10%	32.60%
2. EATING/DRINKING PLACES	319,324	(4,355)	-1.35	27.90
3. OTHER RETAIL STORES	139,699	22,684	19.39	12.21
4. BUILDING MATERIALS	97,432	14,114	16.94	8.51
5. FOOD STORES	92,406	(4,978)	-5.11	8.08
6. BUSINESS, SERVICE, REPAIR	49,897	11,760	30.84	4.36
7. FURNITURE/APPLIANCE	28,637	(3,071)	-9.69	2.50
8. PACKAGED LIQUOR	17,977	9,173	104.19	1.57
9. APPAREL STORES	15,829	1,557	10.91	1.38
10. NON-STORE/PART TIME RETAILERS	10,090	(2,612)	-20.56	0.88

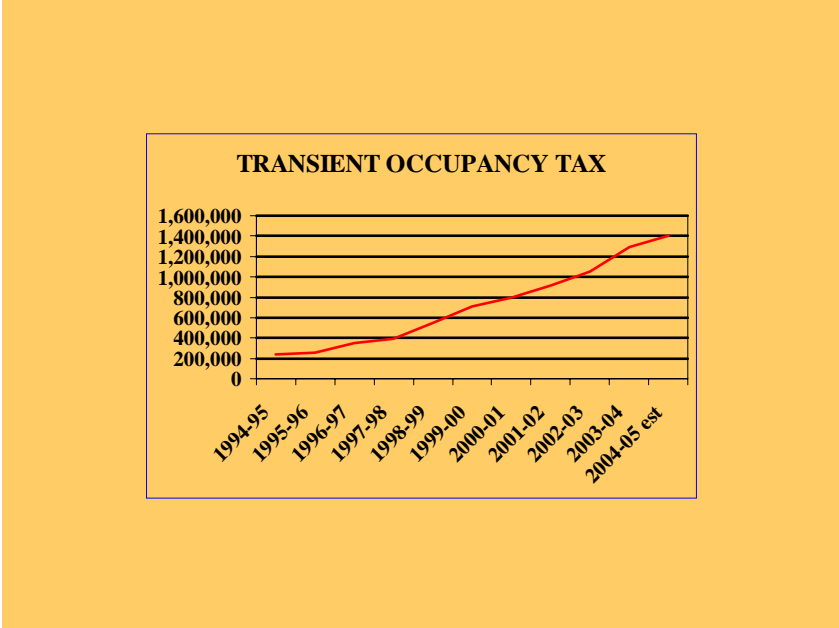
* Drug stores and service stations cannot be listed because there are too few in the category

Sales Tax Comparison by Geographic Area

LOCATION	Revenue 2003-04	% of Total	% Chg	Revenue 2004-05	% of Total
PCH	658,692	61%	4%	683,013	62%
Downtown	256,192	24%	2%	260,623	24%
Pier/Valley/Monterey	123,554	11%	-9%	111,990	10%
Aviation	39,315	4%	9%	42,779	4%

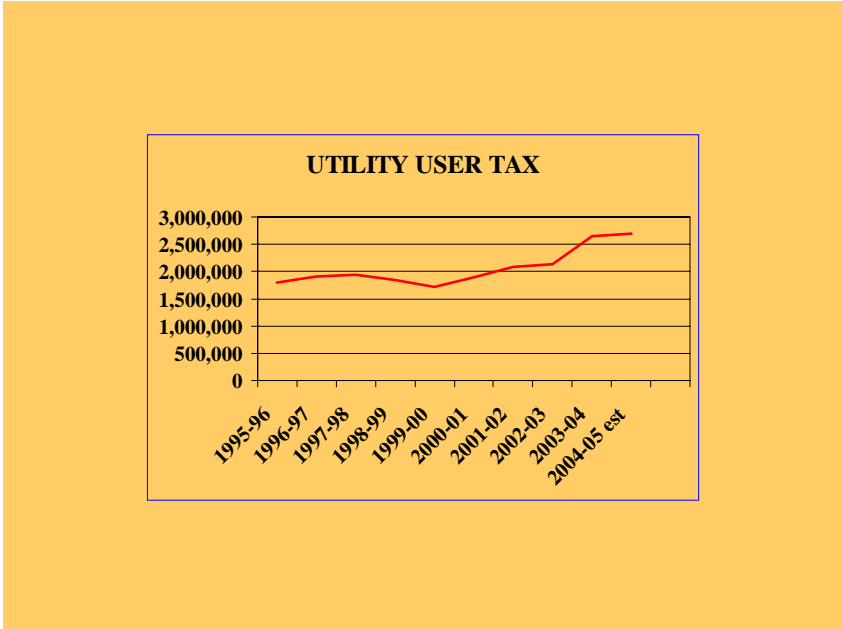


Transient Occupancy Tax (TOT) is being adjusted up by approximately 17%. The hotels are up for the first half by about that amount, with occupancy levels generally returning to pre-9/11 levels. As you can see below, the TOT revenue trend is very positive.



Utility User Tax (UUT) revenue grew 24% last year, with telecom specifically up 55%. The first half of this year is up 15%, with telecom again showing unforeseen growth of 46%. There are a number of issues and concerns with utility user taxation as it relates to new technologies and the taxation of these services. There are also a number of lawsuits pending relating to the utility user tax. Staff will be working with our consulting attorney for this issue, Don Maynor, and the City Attorney to recommend updates to our current ordinance to address some of these issues prior to presentation of the 2005-06 Budget.

Given that the UUT is now our second highest source of revenue, providing funding primarily for public safety and sewers operation and maintenance, it may be prudent to add funds to our Contingency Fund, recognizing that we have a windfall of utility user tax revenue which may be somewhat at risk.



Fines and Forfeitures

The estimate for Municipal Court Fines is increasing based on revenue for the first half. Revenue specifically from misdemeanor court cases is up 104%.

Intergovernmental/State

The decline in revenue in this category is in the In Lieu Motor Vehicle Account, or the so-called “car tax”, or “VLF” (vehicle license fees). The Governor reduced the vehicle license fee from 2% to .65% and eliminated the backfill to local government, “swapping” vehicle license fees for property tax. The property tax funds will be paid in January and May, and deposited to a new account 3122, Property Tax In Lieu of Vehicle License Fees. The funds must be accounted for separately now but eventually will be considered property tax funds.

Parking Fund

Estimated revenue from parking fines is being revised up 12% based on the first half. Parking fines were increased last year when the budget was adopted. Parking meter revenue is also up due to the addition of meters on Pier Avenue.

Additional Appropriations

The following additional appropriations are requested:

GENERAL FUND (001)

City Treasurer

Contract Services/Private

\$6,438

Addition of armored pickup for deposits at the Community Center and the addition of online banking and fraud protection services.
Comm Res Transport - \$2,870
Transport Increase - \$222
Online/Fraud Services - \$3,346

Police

Regular Salaries

(\$17,996)

Transfer salary savings from vacant position to pay for lockers that cannot be purchased from the COPS Fund because they are replacing existing lockers.

Travel Expense, POST

\$5,000

Department is conducting more training which will be reimbursed by the State. (The revenue account was also increased.)

Building Improvements

\$17,996

Appropriate funds from vacant position salary savings to purchase lockers that cannot be purchased from the COPS Fund because they are replacing existing lockers.

Public Works

Administration

Overtime

\$2,500

Increased overtime for Inspector

		due to work being done by utility companies in the City.
Building Maintenance Division Contract Services/Private	\$10,000	Unanticipated expenditures for mold removal and Community Center Theatre lobby painting.
Maintenance Materials	\$3,000	Unanticipated repairs at the Community Center and City Hall.
CIP 534 Park Improvements Contract Services/Private	\$10,000	Donation from Friends of the Park for repairs at Fort Lots-of-Fun (The revenue account was also increased in anticipation of receiving funds after item goes to the City Council).
TOTAL GENERAL FUND	\$36,938	
LIGHTING/LANDSCAPING DISTRICT FUND (105)		
Public Works Lighting/Landscaping/Medians Division Utilities	\$50,725	Utility costs will be higher since street lights will not be removed or turned off as assumed in the original budget. The increased amount also reflects the billing for south PCH street lights which were never billed.
TOTAL LIGHTING/LANDSCAPING DISTRICT FUND	\$50,725	
DOWNTOWN ENHANCEMENT FUND (109)		
Public Works North Pier Parking Structure Contract Services/Private	\$3,107	Earthquake insurance cost more than anticipated; unanticipated repairs required for office air conditioner at Parking Structure.
TOTAL DOWNTOWN ENHANCEMENT FUND	\$3,107	
STATE GAS TAX FUND (115)		
Public Works CIP 118 Light Fixture Replacement/Strand Bikeway Contract Services/Private	\$46,699	Transportation Development Act

(TDA) drawdown to be spent for replacement of deteriorated light fixtures and poles on the Strand Bikeway and pedestrian path.

TOTAL STATE GAS TAX FUND	\$46,699	
AB939 FUND (117)		
Community Development		
Source Reduction and Recycling Element		
Contract Services/Private	\$11,050	Additional services to be provided by consultants during fiscal year 04-05 due to compliance order.
TOTAL AB939 FUND	\$11,050	
PARKS/REC FACILITY TAX FUND (125)		
Public Works		
CIP 534		
Parks Improvements		
Contract Services/Private	\$40,000	Cost for repairs at Fort Lots-of-Fun Park.
TOTAL PARKS/REC FACILITY TAX FUND	\$40,000	
LOWER PIER ADMINISTRATIVE EXPENSE FUND (136)		
Finance		
Administrative Charges		
Contract Services/Private	\$44	Actual cost was not known when budget was prepared. Delinquency management increased.
TOTAL LOWER PIER ADMINISTRATIVE EXPENSE FUND	\$44	
MYRTLE DISTRICT ADMINISTRATIVE EXPENSE FUND (137)		
Finance		
Administrative Charges		
Contract Services/Private	\$39	Actual cost was unknown when budget was prepared. Delinquency management increased.
TOTAL MYRTLE DISTRICT ADMINISTRATIVE EXPENSE FUND	\$39	
BEACH DRIVE ASSESSMENT DISTRICT ADMINISTRATIVE EXPENSE FUND (139)		
Finance		
Administrative Charges		
Contract Services/Private	\$1,357	District was not yet approved so cost was unknown when budget was prepared.

**TOTAL BEACH DRIVE ASSESSMENT
DISTRICT ADMINISTRATIVE EXPENSE
FUND**

\$1,357

**SUPPLEMENTAL LAW ENFORCEMENT
SERVICES FUND (153)**

Police

C.O.P.S. Program

Building Improvements

(\$17,996) Lockers will not be purchased from this fund because they are replacing existing lockers.

**TOTAL SUPPLEMENTAL LAW
ENFORCEMENT SERVICES FUND (153)**

(\$17,996)

SEWER FUND (160)

Public Works

Sewers and Storm Drains Division

Contract Services/Private

\$20,000 Unanticipated sewer repairs and caterpillar rental due to the storms.

TOTAL SEWER FUND

\$20,000

EQUIPMENT REPLACEMENT FUND (715)

Public Works

Administration Division

Motors, Fuels and Lubes

\$300 Fuel cost increase higher than anticipated.

Building Maintenance Division

Auto Maintenance

\$500 Unanticipated repair to CNG Truck.

Lighting/Landscaping/Medians Division

Motors, Fuels and Lubes

\$1,200 Fuel cost increase higher than anticipated.

Parks Division

Motors, Fuel and Lubes

\$1,000 Fuel cost increase higher than anticipated.

Street Maintenance/Traffic Safety Division

Motors, Fuel and Lubes

\$1,500 Fuel cost increase higher than anticipated.

Information Systems

Equipment more than \$1,000

\$15,131 Total of WiFi pilot network should have been reappropriated from 03-04. All expense was in 04-05.

**TOTAL EQUIPMENT REPLACEMENT
FUND (715)**

19,631

Financial Policies

The City Council's adopted policies are:

General Fund - Any funds remaining unspent at year-end in the General Fund transfer equally to the Contingency Fund, Insurance Fund, Equipment Replacement Fund and the Capital Improvement Fund.

Compensated Absences Fund – Goal of fund balance equal to 50% funding for accrued liabilities for employee vacation, sick and compensatory time.

Contingency Fund – Goal of fund balance equal to 15% of the General Fund appropriations for economic uncertainties, unforeseen emergencies.

Insurance Fund – Goal of \$3,000,000 in retained earnings for claims reserves and catastrophic losses.

Equipment Replacement Fund – Goal of retained earnings equal to the accumulated amount calculated for all equipment, based on replacement cost and useful life of equipment.

Retirement Stabilization Fund – Created with 2004-05 Budget for use in offsetting rising retirement costs, which resulted primarily from reduced investment earnings.

Progress on Goals			
Fund Name	Goal	Estimated Fund Balance 6/30/05	Over/(Under) Goal Amount
Compensated Absences Fund	\$551,047 50.00%	\$879,777 159.66%	\$328,730 59.66%
Contingency Fund	\$2,699,753 15.0%	\$2,633,844 14.63%	(\$65,909) .37%
Insurance Fund	\$3,000,000	\$1,800,715	(\$1,199,285)
Equipment Replacement Fund	\$1,537,508	\$1,770,642	\$233,134
Retirement Stabilization Fund		\$876,785	

The Challenge for Next Year

The results of the Midyear Review are positive, with a net increase to the General Fund fund balance of \$1,444,586. For next year, as with the current year, there will be several factors affecting next year's budget that will make it a challenge to balance:

- Year two of the ERAF III shift will once again result in the transfer of \$1.3B in property tax from local government to the State. The impact to Hermosa Beach will be \$326,429.
- Closure of South Bay BMW in December will reduce sales tax from new car sales for the entire 2005-06 fiscal year.
- Retirement costs will increase by approximately 40%, or just over \$1 million.

- All labor contracts expire June 30, 2005.
- Dispatching costs with the South Bay Regional Communications Center (RCC) increase next year by approximately \$142,185.
- The balance in the Lighting and Landscaping District will be less than \$100,000 (which remains due to a transfer from the General Fund) by year-end. An increase in the assessment will be placed on the ballot per City Council direction.

Conclusion

We have reached our funding goals for the Compensated Absences Fund and the Equipment Replacement Fund. With City Council approval, we will transfer those balances, less the amount needed to reach the goal in the Contingency Fund, to the Capital Improvement Fund. The transfer amount is \$495,955.

It is also recommended that the year-end 2005 transfer be allocated 1/3 each to the Capital Improvement Fund, the Insurance Fund and the Retirement Stabilization Fund.

2005-06 budget preparations begin immediately after the midyear revisions are approved.

Respectfully submitted,

Concur:

Viki Copeland
Finance Director

Stephen R. Burrell
City Manager