

ADOPTION OF 2005-2006 BUDGET

RECOMMENDATION:

It is recommended that the City Council:

1. Hear public testimony regarding the 2005-2006 Budget;
2. Review the Items from the Budget Workshop below;
3. Declare funds in the Loma Improvement Fund in the amount of \$99,877 plus any interest earned in 2005-06 as surplus and direct that the funds be credited to the assessment or returned if paid in full;
4. Consider placing a measure on the November 2005 ballot to increase the Transient Occupancy Tax (TOT);
5. Consider placing a measure on the November 2005 ballot to increase the Business License Tax;
6. Consider increasing development fees for Sewer Connection, Park Recreation In Lieu and Fire Flow;
7. Approve contracts listed below for services budgeted in the 2005-06 Budget;
8. Adopt Resolution 05- , approving the 2005-2006 Budget

BACKGROUND:

A budget workshop was held in the Council Chambers on June 1, 2005.

ANALYSIS:

BUDGET OVERVIEW

Points about the budget from the Workshop:

- The General Fund budget as presented is balanced, as shown below, using operating transfers, which occur every year, and the planned transfer of \$600,000 from the Retirement Stabilization Fund.
- The Retirement Stabilization Fund was set up in anticipation of the large increases in retirement costs (\$1.2m for 2005-06), which occurred primarily due to CalPERS investment losses in past years.
-

GENERAL FUND

Revenue	\$18,965,910	
Transfers In	2,549,605	\$21,515,515
Appropriations	20,843,015	
Transfer Out	700,000	
Appropriation from prior designations*	(27,500)	\$21,515,515

*\$25,000 from American Express donation
\$ 2,500 from 24 Hour Fitness donation

REVENUE

Four sources of revenue make up 64% of General Fund Revenue – Secured Property Taxes, Sales Tax, Utility User Tax (UUT) and Transient Occupancy Tax (TOT). Changes in these four sources of revenue are as follows:

	Amount	% Change
Secured Property Tax	\$5,800,000	+8%
Sales Tax	\$2,100,000	-16%
UUT	\$2,800,000	+3%
TOT	\$1,500,000	Same as 04-05
Total	\$12,200,000	64% of General Fund

The City is fortunate that, while the sales tax is declining due to the loss of the BMW dealership, property values continue to appreciate and UUT and TOT receipts are stable.

ITEMS FROM WORKSHOP ON JUNE 1, 2005

Loma Improvement Fund

Staff researched the balance available in the Loma Improvement Fund and finds that the project is complete and all claims are paid, therefore, pursuant to Section 10427 of the Municipal Improvement Act of 1913, the City Council may declare the fund surplus. Surplus funds may be 1) transferred to the General Fund if under \$1,000 or 5% of improvement fund expenditures, whichever is less 2) credited to the assessment 3) used for maintenance of the improvement. Staff recommends that the City Council direct, pursuant to Section 10427.1 of the Municipal Improvement Act of 1913, that funds be credited to the assessment or returned to the payee if paid in cash.

Work Plan Items

In response to questions from the City Council, it was suggested that the issue of City Facility Improvements be added as a work plan item, with consideration of workshops and a citizen's committee to look at building needs and methods of financing. Parking that would serve Pier Avenue should be included.

In addition, it was decided that the Pier Avenue Street Improvement Project should go to the Public Works Commission for focus meetings, with a plan to come back to the City Council. A consensus of the City Council, businesses and property owners is needed for development of the project.

FEE INCREASES

It is important to keep our fees and charges current in order to continue providing the same level of services that we offer currently and, in particular, to continue the work we have begun on the street improvement program.

User Fees

The City hired the firm of Maximus to update the City's user fee study. The study is in the final draft stage and will be presented to the City Council when complete. In the meantime, a conservative increase of \$300,000 has been added to the budget for the increase in user fees.

Transient Occupancy Tax

Staff recommends that the City Council consider placing a measure on the ballot of November 2005 that would provide authority for the City Council to increase the tax rate by 2%, up to a total of 12%. A 4/5 vote of the City Council is required to place it on the ballot. Staff will return with appropriate ordinances or resolutions if so directed.

The current rate of 10% has been in effect since 1990. The tax is imposed on persons staying in hotels in the city for periods of 30 days or less. The revenue projected for 2005-06 is \$1,450,000; therefore each 1% increase would generate \$145,000 or a total of \$290,000 if the rate were increased by 2%. An updated survey of nearby cities is attached as page 7.

It should be noted that it is not the hotel that pays the tax, but the occupant of the hotel room. If the rate is changed by 2%, the increase in cost to someone staying in a room that costs \$75.00 per night would be an additional \$1.50.

Business License Increases

Staff recommends that the City Council consider placing a measure on the ballot of November 2005 that would increase the business license tax. A 4/5 vote of the City Council is required to place it on the ballot. Staff will return with appropriate ordinances or resolutions if so directed.

The business license tax rates were last changed by the City Council in 1985 and 1986 and approved by the voters in 1989. Amounts are adjusted by the CPI annually.

The proposed changes include increases in the amount paid by contractors, increasing the rate for residential property rental and adding the category for rental of commercial property based on square footage, changing restaurants without beer, wine or alcohol to the gross receipts method of calculation; increasing the flat fee for restaurants with beer/wine/alcohol by 50%; increasing the gross receipts rate and consolidating them into single rate. The overall increase to revenue would be \$324,460. A listing of business categories is attached on page 8-10, showing the impact of the changes. The following is a break down of the proposed changes:

Category	Present Rate	Proposed Rate
Contractors	\$206	\$301

This proposed rate is based on the average of Manhattan Beach, Redondo Beach and Torrance. No change is proposed for the category of "Sub-Contractor. This change is estimated to increase revenue by \$37,475. A copy of the three other cities rates is attached as page 11.

Category	Present Rate	Proposed Rate
Rental Property	\$27 per unit	\$39 per unit

This proposed rate increase is consistent with the proposal to increase the gross receipts rate. This change is estimated to increase revenue by \$40,612.

Category	Present Rate	Proposed Rate
Commercial Property	None	Gross floor area over 5000sq ft at Rate of \$100 per 5000sq ft.

This is a new category. Based on this proposed rate it is estimated to generate \$10,000 in additional revenue. The city previously required a business license and the calculation method is the same.

Category	Present Rate	Proposed Rate
Restaurants without Alcohol	Rates vary	\$100 min \$2.00per \$1000 over \$10,000

This change in calculation would generate an additional \$31,146 over the amount paid on the several rates now charged to restaurants.

Category	Present Rate	Proposed Rate
Restaurants with Beer/Wine/Alcohol	Flat rates vary	Increase flat rate by 50%

This increase in rates would generate additional revenue of \$34,393. This proposed rate increase is consistent with the proposal to increase the gross receipts rate.

Gross Receipts Rate Change

There are a number of gross receipt rates in the present ordinance. The proposal is to have one rate for all businesses on the gross receipts method of calculation. It is proposed that the rate be set at minimum of \$100 for the first \$10,000 and the \$2.00 per \$1000 for the amounts over \$10,000. In addition the cap for businesses in A-1 is increased from \$1100 to \$2200. This impacts 8 auto sales businesses. The overall impact of changing the rate for these businesses is an increase in revenue of \$170,834 per year.

Fire Flow Fee

The Fire Flow Fee was established in 1988 at a rate of \$.50 per square foot of additional floor space. If the Consumer Price Index (CPI) is applied from 1989 forward to 2005, the rate would be \$.83. Staff recommends that the fee be changed to \$.80 per square foot, which will result in increased revenue of \$52,776.

Funds in the Fire Protection Fund are almost exhausted, with a fund balance projected at 6/30/06 of \$9,647.

Staff will return with appropriate ordinances or resolutions if so directed.

Sewer Connection Fee

The schedule attached on page 12 shows the current schedule of fees. The fees were last increased in 1996. The schedule also shows the effect of applying the CPI from 1996 forward.

Staff will return with appropriate ordinances or resolutions if so directed.

Park Recreation In Lieu Fee

The current fee, set in 1991, is \$5,198. If the CPI from 1991 forward is applied, the new fee would be \$7,434. resulting in additional revenue of \$27,890, based on our 2005-06 revenue estimate.

Staff will return with appropriate ordinances or resolutions if so directed.

Capital Improvement Projects

The 2005-06 Budget includes \$5,549,000 in capital improvement projects. The projects by category are as follows:

Street and Safety Improvements	\$3,200,000
Storm Drain Improvements	\$ 874,000
Park Improvements	\$ 275,000

Public Building/Grounds Improvements	\$1,200,000
Total	\$5,549,000

As mentioned earlier, in order to continue our current level of capital improvements, it is necessary to ensure that our fees and charges are kept current.

A cautionary note: Almost 60% of the above amounts are based on estimates of the Capital Improvement Fund fund balance that will be available as of 7/1/2005. Typically when we have moved funds to the Capital Improvement Fund, amounts were actual balances rather than estimates. There is no problem moving forward as we recommend as long as it is recognized that actual amounts may differ and as long as the funds are appropriated conservatively.

Contracts for Services

The following contracts are for services budgeted in various departments. Rather than submitting them individually on future agendas, we are submitting them en masse. The contracts are on file in the Finance Department for your review.

<u>Contractor Name</u>	<u>Service Provided</u>	<u>Term/Amount</u>
<u>City Attorney</u>		
Jenkins & Hogin, LLP	City Attorney	Amendment to increase general billing charges from \$140.00 to \$165.00 per hour (18 % increase) and litigation and specialized services from \$195.00 to \$225.00 (15% increase) per hour

City Prosecutor

Kenneth A. Meersand, Attorney at Law	City Prosecutor	Increase monthly retainer to from \$9,480 per month to \$9,760 per month and excess hours rate from \$118.50 to \$122.00. 3% increase.
--------------------------------------	-----------------	----------------------------------------------------------------------------------------------------------------------------------------

Community Development

E. Tseng & Associates	AB939 Compliance Reporting and Diversion Planning/Implementation Services	7/1/05 – 6/30/08; not to exceed the sum of \$15,000 per year.
-----------------------	---------------------------------------------------------------------------	---------------------------------------------------------------

Fire Department

American La France of Los Angeles	Apparatus Preventative Maintenance Program	Exercise option to extend contract one year from 6/1/05 – 6/1/06. No increase. \$28,000
-----------------------------------	--------------------------------------------	-----------------------------------------------------------------------------------------

Information Systems

Prosum Technology Consulting Group	Systems and Network Support	7/1/05 to 6/30/06 20% increase to annual hours \$17,250
------------------------------------	-----------------------------	---------------------------------------------------------------

Public Works

John L. Hunter & Associates	Beverage Container Recycling Program	7/1/05 – 6/30/06 3% decrease \$5,200
John L. Hunter & Associates	Used Oil Recycling Program	7/1/05 – 6/30/06 .5% decrease \$5,374
Enfact, Inc.	Stormwater Management Program (same consultant, new company name)	7/1/05 – 6/30/06 No increase \$54,000

Police Department

All City Management
Services

School Crossing Guard
Services – one year
extension of existing contract

7/1/05 – 6/30/06
No increase
\$63,761

South Bay Center for Dispute
Resolution

Community based
professional dispute
resolution for residents and
businesses.

Exercise option to extend
contract one year from
7/1/05 – 6/30/06
No increase
\$8,000

Budget Summary

The Budget Summary, which incorporates the above revisions, is attached to the budget resolution at the end of this packet.

Respectfully submitted,

Viki Copeland
Finance Director

Stephen R. Burrell
City Manager