

January 24, 2007

Honorable Mayor and Members of
The Hermosa Beach City Council

City Council Meeting of
February 13, 2007

MIDYEAR BUDGET REVIEW 2006-07

RECOMMENDATION:

It is recommended that the City Council:

1. Approve the revisions to estimated revenue, appropriations, budget transfers and fund balances as shown below and in the attached Revenue Worksheet and Budget Summary.
2. Approve personnel changes as discussed herein under "Personnel Changes".
3. Approve the recommendations discussed herein under "Recommendations on Policies/Goals."

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 results of the Midyear Review are positive, with a net increase of revenue over additional appropriations and transfers of \$136,219.

REVENUE

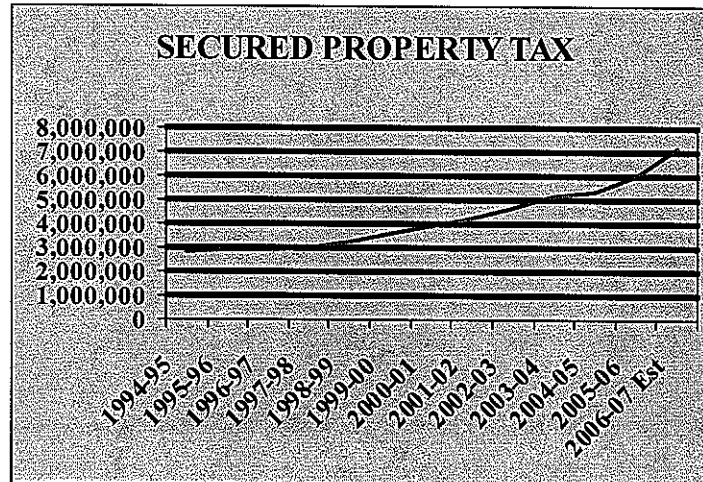
(See Revenue Worksheet)

The overall change in revenue in the General Fund is \$402,034 or 1.63%. The most significant changes by category are addressed below.

Taxes

The majority of the revenue increase is in the Tax category.

The secured property tax estimate is being adjusted down by 4%, however the new estimated amount is still 19% higher than revenue received in 2005-06 since we do not have the reduction in the property tax) this year as we have for the past two years to help balance the state budget (ERAF III shift, \$326,429.



The sales tax estimate has been revised up 3% over our original estimate based on higher receipts for last year, however the estimate is down from last year by 5% due to the loss of Albertson's and loss of revenue during Aloha Sharkeez' closure due to fire. Based on the sales tax revision, it is estimated that \$142,626 of the last quarter will not be received until January 2008 due to the State's swap of sales tax funds for property tax ("triple flip"). Since this amount will be unavailable for appropriation until next year, the amount is designated in the General Fund.

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 following chart 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 to show what the trends are by category and geographic area.

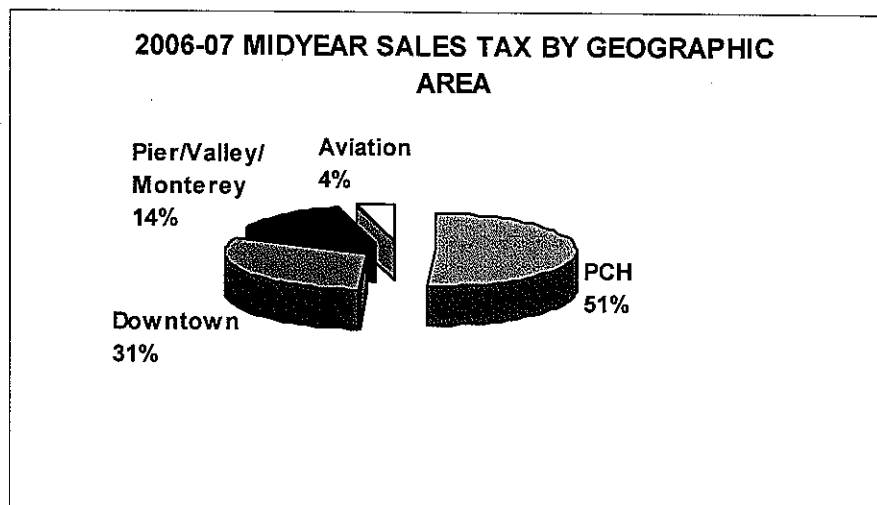
**SALES TAX
Comparison of First Half of 2005-06 to 2006-07
Top Ten Categories**

RANK/BUSINESS CLASS*	Sales Tax 2006-07	Inc./ (Dec.)	% of Change Prev. Yr.	Percent of Total
1. EATING/DRINKING PLACES	398,735	\$26,385	7.09%	34.89%
2. AUTO DEALERS AND SUPPLIES	146,007	(\$4,791)	-3.29%	12.77%
3. OTHER RETAIL STORES	148,741	(\$586)	-0.39%	13.01%
4. BUILDING MATERIALS	111,580	\$4,210	3.92%	9.76%
5. FOOD STORES	109,390	\$8,944	8.90%	9.57%
6. SERVICE STATIONS	*	*	18.70%	*
7. BUSINESS, SERVICE, REPAIR	58,680	(\$976)	-1.64%	5.13%
8. DRUG STORES	*	*	46.08%	*
9. FURNITURE/APPLIANCE	31,592	\$4,808	17.95%	2.76%
10. APPAREL STORES	21,252	(\$5,351)	-20.11%	1.86%

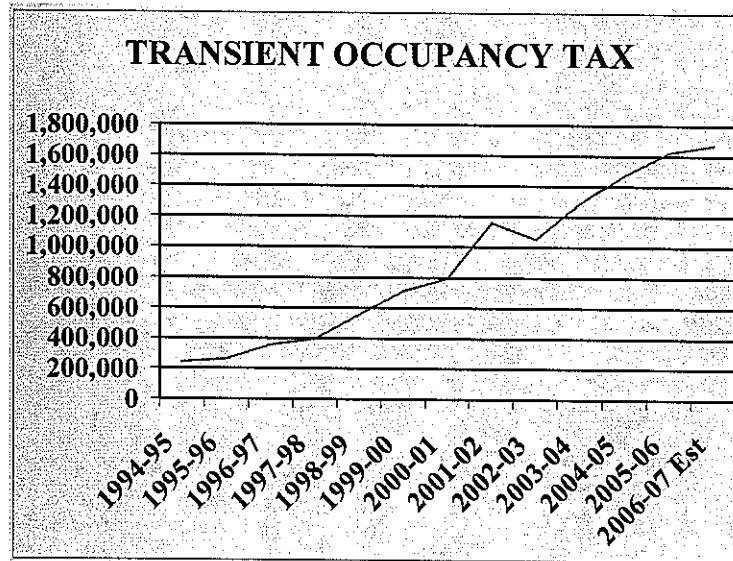
* Drug store and service station amounts are not listed because there are too few in the category

Sales Tax Comparison by Geographic Area

LOCATION	Revenue 2005-06	% of Total	% Chg	Revenue 2006-07	% of Total
PCH	506,302	51%	3%	521,624	51%
Downtown	305,177	31%	5%	319,698	31%
Pier/Valley/Monterey	129,334	13%	8%	139,956	14%
Aviation	48,031	5%	-3%	46,823	4%



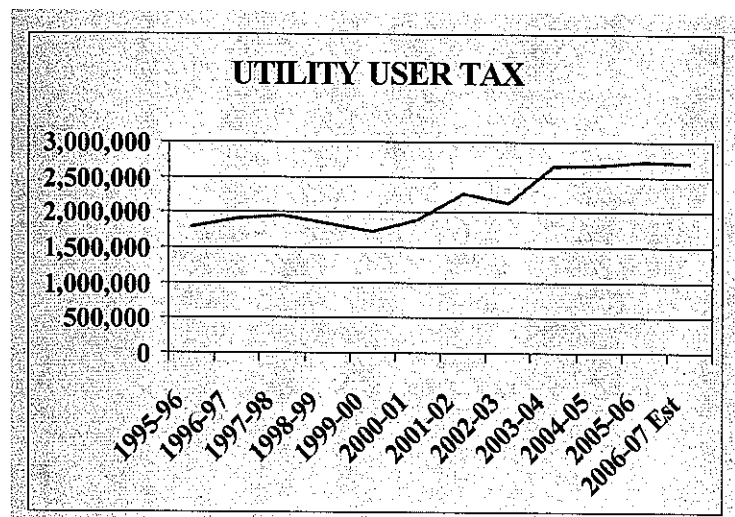
Transient Occupancy Tax (TOT) is being adjusted up by approximately 8% based on the first half and higher than anticipated receipts last year. Overall occupancy for the first quarter is 85%.



Utility User Tax (UUT) revenue is being revised to the 2005-06 level. Receipts are up 7% for the first half, but as reported at year end, there are a number of issues and concerns with utility user taxation as it relates to new technologies and the taxation of these services.

The UUT is our second highest source of revenue now and provides funding primarily for public safety and sewer operation/maintenance so any uncertainty with respect to this revenue source is cause for concern.

Staff will be working with our consulting attorney for this issue, Don Maynor, and the City Attorney to recommend options to address some of these issues.



Fines and Forfeitures

The estimate for Parking Court Fines is being revised down by 4% due to fewer citations being issued in the first half of the year.

Current Service Charges

With the User Fee Study implemented in 2005-06, most service charges are at the higher rate for all of 2006-07.

Plan check activity, primarily for residential condos, is down for the first half compared to last year so the estimate is being revised accordingly even though the fee itself was higher.

The fee for Ambulance Transport was increased significantly last year and the billing function was contracted out to a company with expertise in this field so the estimate is being revised, based on the first half receipts, which were higher by \$129,000.

ADDITIONAL APPROPRIATIONS

The following additional appropriations are requested:

GENERAL FUND (001)

Community Resources

Contract Recreation Classes/Programs	(\$17,500)	Adjust Instructor payment budget for classes cancelled due to the renovation at the Community Center.
Finance Cashier Accrual Cash In	(\$7,516)	Revised retirement calculation based on new retirement date. Compensated Absences transfer will be adjusted.
Fire Accrual Cash	\$70,715	Unplanned employee retirement and termination costs. Compensated Absences transfer will be adjusted.
Police Accrual Cash In	\$46,686	Unplanned employee retirement costs. Compensated Absences transfer will be adjusted.
Building Improvements	\$18,850	Reconfiguration of Police offices for Supervisors and Administration
Public Works Parks Division Overtime	\$1,000	Centennial events held on Saturdays have increased the overtime costs for this division
Contract Services/Private	\$7,000	Unanticipated emergency repairs are needed for the fencing between the tennis courts and the basketball courts at Clark Field. Fence is collapsing inward.
Parks Division Equipment less than \$1,000	\$908	Replace broken saw and stolen park equipment
Traffic Safety/Street Maintenance Division Overtime	\$1,500	Increased call out costs for division.
Contract Services/Private	\$10,000	Unanticipated traffic studies for 16 th street.

TOTAL GENERAL FUND **\$131,643**

DOWNTOWN ENHANCEMENT FUND (109)

Public Works

Downtown Enhancement Division

Contract Services/Private

\$9,800 Porter services for October through January were not budgeted.

Public Works

Downtown Enhancement Division

Contract Services/Private

\$7,200 Additional street sweeping and steam cleaning services required due to increase of trash in the downtown area.

Public Works

Lot A

Contract Services/Private

\$1,000 Increased cost for lot cleaning since the City assumed the responsibility of cleaning the lot from the lot operator.

Maintenance Materials

\$2,000 Establish account to provide parts and materials to repair planter boxes, walls, fencing, etc.

Public Works

North Pier Parking Structure

Contract Services/Private

\$16,841 Unanticipated elevator repair was not budgeted.
\$12,659 Earthquake insurance increase was more than budgeted.

Public Works

County Share Parking Structure Revenue

Contract Services/Government

(\$16,410) Adjust for revised net income at midyear.

TOTAL DOWNTOWN ENHANCEMENT FUND**\$33,090****STATE GAS TAX FUND (115)**

Public Works

CIP 106

Beach Drive Undergrounding District--Street Improvements

Contract Services/Private

(\$53,059) Funding unavailable in the State Gas Tax Fund. Project will be appropriated in the Capital Improvement Fund.

CIP 115

Strand Bikeway Light Fixture Replacement

Contract Services/Private

\$22,356 TDA allocation for 06-07 was not budgeted and the balance available from 05-06 could not be appropriated until the funding extension was received in December 06.

TOTAL STATE GAS TAX FUND**(\$30,703)****PARKS/REC FACILITY TAX FUND (125)**

Public Works

CIP 626

ADA Compliance/Community Center

Contract Services/Private

\$26,500 Additional repair work needed to complete the office renovation.

TOTAL PARKS/RECREATION FACILITY TAX FUND**\$26,500**

**4% UTILITY USER TAX RAILROAD RIGHTOF WAY
FUND**

Public Works

CIP 835

Clark Field Improvements

Contract Services/Private

(\$2,536) Estimated funding unavailable. Project will be appropriated in the Capital Improvement Fund.

**TOTAL 4% UTILITY USER TAX
RAILROAD
RIGHT OF WAY FUND**

(\$2,536)

BUILDING IMPROVEMENT FUND (127)

Public Works

CIP 835

Clark Field Improvements

Contract Services/Private

(\$409) Estimated funding unavailable. Project will be appropriated in the Capital Improvement Fund.

**TOTAL BUILDING IMPROVEMENT
FUND (127)**

(\$409)

**BAYVIEW DRIVE DISTRICT
ADMINISTRATIVE EXPENSE FUND (135)**

Finance

Administrative Charges

Contract Services/Private

\$52 Final estimates received after budget preparation.

**TOTAL BAYVIEW DRIVE DISTRICT
ADMINISTRATIVE EXPENSE FUND**

\$52

**LOWER PIER ADMINISTRATIVE
EXPENSE FUND (136)**

Administrative Charges

Contract Services/Private

\$62 Final estimates received after budget preparation.

**TOTAL LOWER PIER ADMINISTRATIVE
EXPENSE FUND**

\$62

**LOMA DISTRICT ADMINISTRATIVE
EXPENSE FUND (138)**

Administrative Charges

Contract Services/Private

\$122 Final estimates received after budget preparation.

**TOTAL LOMA DISTRICT
ADMINISTRATIVE EXPENSE FUND**

\$122

**BEACH DRIVE ASSESSMENT DISTRICT
ADMINISTRATIVE EXPENSE FUND (139)**

Administrative Charges

Contract Services/Private \$104 Final estimates received after budget preparation.

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

\$104

**COMMUNITY DEVELOPMENT BLOCK
GRANT FUND (140)**

Public Works

CIP 644

Community Center Upgrades

Contract Services/Private (\$4,614) Adjust project to amount available.

**TOTAL COMMUNITY DEVELOPMENT
BLOCK GRANT FUND**

(\$4,614)

GRANTS FUND (150)

Fire

County of Los Angeles Measure B Funds

Equipment more than \$5,000 (\$25,073) Adjust budget for final approved grant amount.

Public Works

CIP 119

Street Improvements/Hermosa Avenue 26th
to 35th/Longfellow

Contract Services/Private (\$707,000) Reduce to amount approved for design.
Construction will not be started in 2006-07.

TOTAL GRANTS FUND

(\$732,073)

OFFICE OF TRAFFIC SAFETY GRANT FUND (151)

Police

Ticket Writer/Traffic Management Grant

Contract Services/Private (\$6,700) Disallowed costs for outside contractor paid in
2005-06 but not included in initial grant.

**TOTAL OFFICE OF TRAFFIC SAFETY
GRANT FUND**

(\$6,700)

ASSET SEIZURE/FORFEITURE FUND (170)

Police Department

Special Investigations

Contract Services/Private \$950 Costs for the City's share of an LA Impact
lawsuit were not anticipated.

6,700 Disallowed costs for outside contractor paid in
2005-06 but not included in initial grant.

**TOTAL ASSET SEIZURE/FORFEITURE
FUND**

\$7,650

CAPITAL IMPROVEMENT FUND (301)

Public Works

CIP 106

Beach Drive Undergrounding District—

Street Improvements

Contract Services/Private

\$53,059 Funding unavailable in State Gas Tax Fund.

CIP 535

Clark Field Improvements

Contract Services/Private

\$2,945 Funding unavailable in the 4% Utility Users Tax Railroad Right of Way Fund and the Building Improvement Fund.

TOTAL CAPITAL IMPROVEMENT FUND

\$56,004

EQUIPMENT REPLACEMENT FUND (715)

Public Works

Equipment Service Division

Overtime

\$1,500 Increase in number of service requests and both mechanics are now participating in the Standby program.

TOTAL EQUIPMENT REPLACEMENT FUND

\$1,500

PERSONNEL CHANGES

Two personnel changes are recommended:

Police Department

\$25,730 Add one Administrative Assistant. The Police Department is in the process of reviewing and developing new, contemporary and consistent policies and procedures for its employees. The administrative assistant will serve as lead for this process. In addition, as a need previously identified by Interim Chief Barr and echoed by Chief Savelli, this assistant will provide additional administrative support to the department and serve to provide redundancy to existing support personnel. The addition of this position now will ensure existing operations will not be diminished by the significant workload associated with the process for developing new standards and procedures.

Public Works

\$0 Eliminate second budgeted Public Works Inspector (position is vacant) and replace with a new GIS Analyst position (previously a part time GIS Intern). Two recruitments for Inspector failed to fill the position. Since 90% of our construction activity occurs in a 4-month period, staff believes that the GIS Analyst position is of greater value to the city overall. There is sufficient funding in the General Fund to cover the change through June 30, 2007. (On an annual basis, additional costs to the General Fund will be \$28,910 since the Inspector position is partially funded by the Sewer Fund and the new position is fully funded by the General Fund).

TRANSFER TO LIGHTING FUND

The Lighting Fund has a deficit of \$97,512 since the supplemental assessment was not approved. It is recommended that this amount be transferred from the General Fund to the Lighting Fund to cover this deficit.

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 25% 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 the 2004-05 Budget for use during times of rising retirement costs, which recently have resulted primarily from reduced investment earnings.

Recommendations on Policies/Goals

- With the appropriations listed above for unexpected employee retirements, the Accrued Compensation Fund is under funded by \$185,708. Since the balance in the Contingency Fund is above the goal by \$115,997, it is recommended that this amount plus \$69,711 from unallocated funds in the General Fund be transferred into the Accrued Compensation Fund to bring the balance to the goal amount. The remaining \$66,508 in unallocated funds in the General Fund will be appropriated to Prospective Expenditures.
- As is shown in the Over/(Under) Goal Amount column on the next page, the Insurance Fund and Equipment Replacement Fund (ERF) are somewhat under funded according to our policy. These two funds and the Contingency Fund are the funds that made the loan to the Downtown Enhancement Fund (DEC) to purchase the property adjacent to City Hall. It is recommended that an additional loan payment of \$179,197 be made from the DEC to the Contingency, Insurance and ERF, which boosts the balance in each fund. The estimated balance left in the DEC after this payment would be \$64,551.
- For 2006-07, the standard policy of transferring funds remaining at year-end 2007 will be followed, which allocates 1/4 each to the Capital Improvement Fund, the Insurance Fund, the ERF and the Contingency Fund.

Progress on Funding Goals				
Fund Name	Goal	Estimated Fund Balance 6/30/07	Over/(Under) Goal Amount	Balance After Midyear Recommendation
Compensated Absences Fund	\$307,965 25.00%	\$122,257	(\$185,708)	\$307,965 25.00%
Contingency Fund*	\$3,770,358 15.00%	\$3,886,639 15.46%	\$115,997 .46%	\$3,770,358 15.00%
Insurance Fund*	\$3,000,000	\$790,673	(\$2,209,327)	\$850,406
Equipment Replacement Fund*	\$1,774,578	\$1,439,131	(\$335,447)	\$1,498,864
Retirement Stabilization Fund		\$934,028		\$934,028

*Balances shown are cash balances and do not include funds to be received over time from the payback of loans made to purchase the storage property adjacent to City Hall.

THE CHALLENGE FOR NEXT YEAR

For next year, as with the current year, there will be several factors, negative and positive, affecting preparation of the 2007-08 budget:

- To date, there is no replacement revenue for the closure of South Bay BMW site other than sales from the new Lotus dealership; the Albertson's site is still vacant and Aloha Sharkeez may not be back in operation for as much as one year. If property tax revenue and transient occupancy tax revenue remain strong, this will help offset the loss of sales tax. As expressed earlier, UUT revenue volatility is a concern.
- Retirement rates for all employees are lower for 2007-08 due to improved CalPERS investment returns and rate-smoothing policies implemented by CalPERS. Costs are projected to increase by only 3% overall.
- Three-year labor contracts exist for all employee groups.

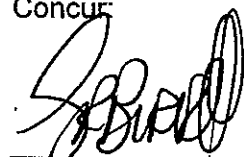
2007-08 budget preparations begin immediately after the midyear revisions are approved.

Respectfully submitted,



 Viki Copeland
 Finance Director

Concur:



 Stephen R. Burrell
 City Manager