



## Legislation Details (With Text)

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**Title:** Fiscal Year 2019-20 Mid-Year Budget Report and Update on Fiscal Year 2020-21 Budget Development (Finance Director Charelian).  
RECEIVE REPORT

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Fiscal Year 2019-2020 General Fund Summary, 2. Fiscal Year 2019-2020 Statement of All Funds (December 31, 2019), 3. Fiscal Year 2019-2020 Budget Snapshot, 4. Budget Priorities Open Hall - Departmental Budget Priorities, 5. Open City Hall - Budget Priorities Survey Results Summary

Date	Ver.	Action By	Action	Result
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**TO:**  
Honorable Mayor and Members of the City Council

**THROUGH:**  
Bruce Moe, City Manager

**FROM:**  
Steve S. Charelian, Finance Director  
Henry Mitzner, City Controller  
Julie Bondarchuk, Senior Accountant  
Marcelo Serrano, Management Analyst

**SUBJECT:**  
Fiscal Year 2019-20 Mid-Year Budget Report and Update on Fiscal Year 2020-21 Budget Development (Finance Director Charelian).  
**RECEIVE REPORT**

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**RECOMMENDATION:**  
Staff recommends that the City Council receive the Mid-Year Budget Report for Fiscal Year 2019-20 and Update on Fiscal Year 2020-21 Budget Development.

**FISCAL IMPLICATIONS:**  
Current trends indicate the City's General Fund operating budget will finish Fiscal Year (FY) 2019-2020 with revenues exceeding expenditures by approximately \$4.1 million. Expenditures were lower largely due to vacant staffing positions in various stages of recruitment. Projected year-end transfers to other funds, including the Stormwater Fund, Street Lighting Fund, and Pension Stabilization Trust Fund, total approximately \$1.7 million. Taking into account year-end projections and these anticipated transfers, the unreserved General Fund balance is projected to be \$9.0 million at fiscal year-end. Due

to the anticipated amount of Capital Improvement Project (CIP) carryforwards, there will be no unreserved balance projected in the CIP Fund. Other Funds are trending as expected (Attachment 2).

### BACKGROUND:

The adopted budget represents the organization's spending plan, which takes into account all available resources that may be utilized to fund and achieve the City's priorities for the fiscal year. The Fiscal Year 2019-2020 Budget was adopted on June 4, 2019, with a General Fund operating budget surplus of \$1,060,949.

Revenues	\$76,085,386
Expenditures	<u>75,024,437</u>
<b>Adopted Surplus/(Deficit)</b>	<b>\$1,060,949</b>

The adopted budget represents the organization's spending plan which takes into account all available resources that may be utilized to fund and achieve the City's priorities for the fiscal year. Additional information about the adopted budget can be found on the Budget Snapshot (Attachment #3). There are budget amendments throughout the fiscal year. The following discussion is based on the General Fund budget as amended December 31, 2019.

### DISCUSSION:

Overall, the FY 2019-2020 General Fund budget-to-actuals through mid-year are performing better than expected. Revenues are estimated to exceed the adjusted budget by \$176,389 (0.2%). Expenditures (including all budget adjustments subsequent to adoption) are expected to total \$3,707,575 (4.9%) under the adjusted budget (the adjusted budget includes City Council-approved amendments during the current year as well as encumbrances carried forward from the prior year).

When comparing estimated year-end revenues and expenditures irrespective of the budget, revenues are expected to exceed expenditures by \$4,095,510.

<b>Adopted General Fund Surplus/(Deficit)</b>	<b>\$1,060,949</b>
Net Budget Adjustments to date	(849,402)
Revenues exceeding Budget	176,389
Operating Expenditures under Budget	<u>3,707,575</u>
<b>Projected General Fund Surplus</b>	<b>\$4,095,510</b>

General Fund revenues are generally stable, with limited growth potential after several years of economic expansion. Savings are predicted in several expenditure categories due to position vacancies and other savings realized through cost controls.

### General Fund Revenues

The following are highlights of several key revenue areas. Please see Table 2 on Attachment #1 for General Fund Revenues, including a comparison to prior year actuals.

#### Property Tax

Property tax is the General Fund's largest revenue source, accounting for approximately 44.4% of total revenue. At nearly \$34.0 million, Property Tax is anticipated to come in \$929,417 (2.8%) over budget and \$1.9 million (6.0%) ahead of last year. Net taxable assessed values have grown 6.1% from fiscal year 2019, reflecting the continued strength of the Manhattan Beach housing market. In

the prior year, net taxable assessed property values grew by 5.9%.

### Real Estate Transfer Tax

Real Estate Transfer Tax revenue is derived from a charge of fifty-five cents per \$500 of sales price, split evenly between the City and the County of Los Angeles. Per the latest available data for detached single-family home sales, Manhattan Beach had lower transaction volume in 2019, with a total of 214 sales. In 2019, the median price of a detached Single Family Residential Home within the City dipped just below \$2.4 million and detached Single Family Residential Home Sales totaled 214. In the prior calendar year, sales volume totaled 329, with the median sales price of slightly above \$2.4 million. (Source: HdL 2019-2020 Property Tax Data).

Based on transfer tax collections from all properties (residential and commercial), collections are expected to exceed the budget by \$20,000 (2.6%), yielding \$785,000 for the year.

### Sales Tax

Sales Tax, the City's second largest General Fund revenue source (12.0% of total revenue), is expected to remain flat at around \$9.2 million. Modest growth projections made in consultation with the City's sales tax consultants indicate Sales Tax for the current year should come in below the prior year but slightly higher than the budgeted projection. Continued increases in on-line sales/declining retail "Point of Sale" returns and relatively low fuel prices have contributed to the sluggish growth.

### Transient Occupancy Tax

Also known as the hotel bed tax, the City currently levies a 10% Transient Occupancy Tax (TOT) on hotel and motel rooms with 8.5% going to the General Fund. The remaining 1.5% goes directly to the Capital Improvements Fund to fund debt service on the Police & Fire Facility and future projects. This year, TOT revenues have returned to normal levels after having been negatively impacted by remodeling activity at the Residence Inn last fiscal year and the Westdrift (formerly Marriott) Hotel the year before. Additionally, in May 2020, the tax rate will increase to 12%, an increase which has been factored into this year's estimate. TOT revenues for the full year are expected to total approximately \$4.9 million, which is \$186,848 (3.9%) above budget, and \$579,862 (13.3%) above the prior year.

### Plan Check and Building Permit Fees

Taken together, Building Plan Check and Permit fees collected in FY 2019-2020 are anticipated to remain at budget, but will be lower than the prior year by \$254,113 (6.9%).

Plan check fee revenues are expected to come in at budget (\$1.8 million). In the first six months of the fiscal year, the volume of plan checks is lower than the same period a year ago, however the total valuation came in higher.

As with plan checks, building permit fee revenues are expected to come in at budget at nearly \$1.7 million. The number of building permits issued in the first six months of the fiscal year was slightly lower than the prior year and the total valuation of issued permits was significantly lower due to permitting more average scale developments as opposed to the larger-scale developments being permitted in the previous year, such as the Manhattan Village Mall.

### Business License Tax

Business license tax, which is generally calculated upon a business's gross receipts, has remained level or had slight increases year over year, likely due to the fact that around 92 businesses pay the

maximum gross receipts business license tax, and changes in their gross receipts are unlikely to impact their total license tax paid. Total business license tax in FY 2019-2020 is expected to reach nearly \$4.0 million.

### Interest Income

The City invests its idle cash in a number of instruments, including the state-run Local Agency Investment Fund, corporate debt, U.S. Treasury notes and Governmental Agency securities. During the last recession and associated economic problems, interest rates declined dramatically and remained at very low levels for several years. After lowering rates in the previous three meetings, the Federal Reserve recently made the decision to keep interest rates steady so yields are unlikely to improve in the near future. The portfolio was recently yielding 2.15% in December 2019, up from 2.13% one year prior. Global economic and financial developments, as well as low inflation, have weakened the case for additional rate increases in 2020. Interest income in the current fiscal year is therefore expected to exceed the budget at \$1.2 million.

### Other General Fund Revenues

In the Miscellaneous Revenue category is Workers' Compensation Salary Continuation, which is a reimbursement to the General Fund for wages paid to injured employees receiving benefits, with higher levels indicating increased workers' compensation claim activity. Based on recent workers' compensation claim activity in FY 2019-2020, reimbursement revenue is projected to come in slightly below budget at \$865,196.

### **General Fund Expenditures**

Midway through the year, the City has expended or encumbered \$40.7 million (53.4%) of the total adjusted budget allocation. After a thorough review by all departments, General Fund expenditures are expected to end the year \$3.7 million (4.9%) under budget. Table 3 on Attachment #1 breaks down General Fund Expenditures by category.

Salaries and Wages overall are expected to be under budget at the end of the fiscal year by \$963,399 million (2.8%). Within this category, despite a 4% vacancy factor included into the budgeted amount, regular salaries are projected to be under budget by \$1.2 million (8.7%) due to 26 open positions. Although the City has filled most key non-sworn positions, most recently the Community Development Director, Revenues Services Manager, and Human Resources Manager, other significant positions remain open and are in various stages of the recruitment process, including Information Technology Director, Senior Civil Engineer, Recreation Program Supervisor, Cultural Arts Manager, Maintenance Manager, and Planning Manager.

Sworn employee salaries (Police and Fire) are trending \$56,682 (0.4%) under budget for the full year also due to vacancies. However, Police Department sworn overtime is projected to end the year \$97,814 (6.2%) over budget. Fire Department overtime costs are currently trending \$2,556 (0.1%) under budget.

Employee Benefits are estimated at \$924,152 (5.1%) under budget for the full year. Within this category, Group Medical Insurance is estimated under budget by \$659,715 (15.2%) due to position vacancies and some of the City's Group Medical Insurance plans experiencing lower premium increases than projected.

Employer pension contributions for current year employee service are expected to be under budget for regular employees by \$164,054 (12.5%), however, sworn employees are expected to come in

\$61,929 (2.5%) over budget.

In addition to contributions for current year service, amortization payments on the City's unfunded pension liabilities are also included in the Employee Benefits category. In FY 2019-2020, the City's General Fund paid \$1.2 million for miscellaneous employees and \$3.3 million for Safety employees. It should be noted that these payments are essentially "interest only" on the City's unfunded liabilities and any significant reduction in the liability would require additional discretionary payments. Staff is currently developing recommendations for a long-term funding plan which will be presented to the Finance Subcommittee and to the full City Council.

Contract & Professional Services includes consultant services, audit services, computer contract services, and legal services. The overall savings of \$510,402 (4.8%) in this category is the result of budgeted items that will not be spent in the current fiscal year.

Materials & Services are expected to end the year under budget by \$238,809 (7.3%), and Utility costs are projected under budget by \$321,176 (25.8%). In both of these categories, cost increases assumed during budget development last year have not materialized, thus causing the lower trend in actual expenditures to date. Internal Service Charges are expected to end the year under budget by \$620,707 (7.9%) due to lowered revenue projections for Fleet Rental and Building Maintenance charges which affected the Fleet Rental and Building & Operations expenditure allocations. Property and Equipment purchases are projected to come in under the budgeted amount by roughly \$11,817 (3.8%).

Overall, General Fund expenditures are trending \$3,707,574 (4.9%) under budget.

### **General Fund Transfers to Other Funds**

Over the next five years, General Fund subsidies to the Stormwater Fund, Street Lighting Fund, and Pension Stabilization Trust Fund are projected between \$1 million and \$2 million per fiscal year.

The Street Lighting & Landscaping Fund currently has no fund balance and assessments are inadequate to fund operations or provide for future capital needs. As a result, the General Fund subsidizes this fund every year, estimated at \$152,001 in FY 2019-2020.

The General Fund's subsidy to the Stormwater Fund is budgeted at \$1,270,456 in FY 2019-2020. This fund is encountering higher operating costs due to legislative action to clean storm water runoff and limits which reduces funds for highly needed capital improvement projects. While these issues require a Proposition 218 vote, it is most appropriate that the General Fund no longer support these ancillary services.

Lastly, the FY 2019-2020 General Fund Adopted Budget includes transfers out to Pension Trust Fund (\$50,000) and Pension Rate Stabilization Trust Fund (\$250,000) for a total of \$300,000.

### **FY 2019-20 MID-YEAR BUDGET SUMMARY**

Overall, Mid-Year results are trending as expected. General Fund revenues are stable and reflective of the local economy. Revenues are expected to outpace budget by \$176,389 while expenditures are expected to come in \$3,707,574 under budget. This can be attributed to the increases in Property Tax and interest earnings as well as savings in Salaries and Wages, Employee Benefits, and Contract and Professional Services. Irrespective of budget, revenues are expected to exceed expenditures at year-end. Although the timing of the next recession is unknown, the City is preparing for more

challenging times with minimal growth in revenues compounded by significantly rising pension costs. Therefore, the City maintains a continual focus on streamlining costs while preserving the levels of service provided to the community.

The General Fund surplus as well as the existing General Fund unreserved balance (\$5.0 million) provide an opportunity to allocate funds to Council priorities, including CIP and pension obligations. Staff will provide those options during the FY 2020-2021 budget process.

## **PUBLIC OUTREACH:**

### *Budget Priorities Open House*

On January 28, 2020, the City held a Budget Priorities Open House to provide the community with an opportunity to learn about the budget process, meet with City representatives from various departments, comment on budget priorities for each department, and provide input on a future infrastructure projects. Departments identified operational topics to assist in guiding a discussion on budget priorities with the attendees. All identified departmental budget priorities and operations are can be found in Attachment #4.

Around 25-30 members from the community attended the event and a total of 19 comment cards specific to various departments were received. The majority of comment cards submitted were directed towards Parks & Recreation, followed by Community Development and Public Works. Many of the submitted comments were positive remarks about community programs and environmental sustainability efforts along with a few questions and suggestions regarding City operations. A few of the attendees that submitted comments requested a direct response to their questions, comments, or suggestions. These items were distributed to applicable subject matter experts within City staff who responded to each of the attendees. Additionally, 19 responses were received ranking various infrastructure projects that they would like the City to focus on should funding become available. The results were tallied, and the attendees indicated a preference for focusing on Fire Station #2, followed the Joslyn Community Center, and then Begg Pool.

### *Open City Hall Online Budget Survey*

In addition to the meeting, staff prepared and released an online Budget Priorities survey on the City's Open City Hall platform. The survey ran from January 7 through February 4, 2020 and had a total of 265 responses (117 registered responses).

A summary of the survey can be found in Attachment #5. A brief sample of the questions and the top responses are listed below. The survey requested the respondent to:

1. Allocate funds to various City services
  - 37.7% allocated to Police and Fire Services
  - 16.3% allocated to Parks & Recreation
  - 11% allocated to Street Maintenance and Facilities.
2. Prioritize services where they would add funds to should they become available:
  - Police - Patrol
  - Fire - Emergency Medical Services
  - Public Works - Street Maintenance & Facilities
  - Recreation Programs - Sports & Aquatics.

3. Rank infrastructure priorities to maintain and improve:
  - Outdoor Recreation Facilities & Parks
  - Water Infrastructure Maintenance & Replacements
4. Rank specific facility choices to prioritize should funding become available:
  - Begg Pool
  - Fire Station #2
  - Joslyn Community Center

The last question on the survey was left open for the respondents to leave a comment for the City. One hundred two respondents opted to leave comments, many indicating various other priorities not listed on the survey, including sidewalk maintenance, utility undergrounding, code enforcement, and budgeting transparency.

Future opportunities to provide input on the FY 2020-2021 Budget include May 5, 2020, when the Proposed Budget is presented to the City Council, and subsequent City Council Budget Study Session(s). The tentative date being held for a Budget Study Session is currently May 12. If needed, a follow up discussion may be held during the regularly scheduled City Council Meeting on May 19, 2020. The public hearing and formal budget adoption will occur on June 2, 2020.

Questions and Comments may also be submitted to [Budget@citymb.info](mailto:Budget@citymb.info).

#### **ENVIRONMENTAL REVIEW:**

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that there is no possibility that the activity may have a significant effect on the environment; therefore, pursuant to Section 15061(b)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

#### **LEGAL REVIEW:**

The City Attorney has reviewed this report and determined that no additional legal analysis is necessary.

#### **ATTACHMENTS:**

1. Fiscal Year 2019-2020 General Fund Summary
2. Fiscal Year 2019-2020 Statement of All Funds (December 31, 2019)
3. Fiscal Year 2019-2020 Budget Snapshot
4. Budget Priorities Open House - Departmental Budget Priorities
5. Open City Hall - Budget Priorities Survey Results Summary