



MEMORANDUM

CITY OF ROLLING HILLS ESTATES

DATE: JUNE 27, 2017

TO: MAYOR AND CITY COUNCIL

FROM: DOUGLAS R. PRICHARD, CITY MANAGER
GREG GRAMMER, ASSISTANT CITY MANAGER
MICHAEL C. WHITEHEAD, ADMINISTRATIVE SERVICES DIRECTOR

SUBJECT: PROPOSED FY2017-18 BUDGET

This memorandum will serve to transmit the adopted budget for Fiscal Year 2017-18 at the June 27 City Council Meeting. Also, the budget document incorporates direction and decisions from Budget Study Session held June 6. Additionally, this document includes projected year-end budget numbers for FY 2016-17.

OPERATING REVENUES

Total General Fund operating revenues and expenditures for FY2016-17 are projected to be \$8,559,539 and \$7,214,550 respectively, with an estimated net positive operating result for FY2016-17 of \$1,350,190 (16%). This is lower than the projected 23% surplus estimated when the budget was adopted in June of 2016, which is primarily due to deferred building permit revenues. Total General Fund operating revenues for FY2017-18 are proposed at \$9,458,789. Total General Fund operating expenditures are proposed at \$7,666,495, and the net estimated year end operating result will be \$1,792,294 or 19%.

General Fund unassigned fund balance is projected to be \$1,806,582 at June 30, 2017, and \$1,915,876 at June 30, 2018, while several other designated reserves have been adjusted to reflect budget priorities.

Major revenue assumptions come from conservative estimates based on actual revenues received in FY2016-17. Sales tax continues to be stable as projected by MuniServices, however the "triple flip," a complex, decade-old mechanism affecting state and local finances in California, has ended. Since FY2016-17, all of sales tax revenue is now reported only in the Sales Tax (01-3120) account. The former fiscal years of splitting the revenue between the Sales Tax Account and the Property Tax in lieu of Sales Tax account (01-3308) has been eliminated. Sales tax should see some improvement

late in FY2016-17 and early FY2017-18 as tenants are occupying the spaces currently under remodel at the Peninsula Shopping Center, and new restaurants have opened in the commercial district.

Property tax revenue continues to increase annually based on assessed value calculations provided by the Assessor's office and MuniServices. Building Permit revenues are expected to remain at historically high levels for the next few years based on actual and anticipated developments projects. Specifically, building permit fees, which will totaled \$2,813,754 in FY2015-16 and are expected to total approximately \$2,600,000 for FY2016-17. Further, planning fees are anticipated to total \$400,000, new construction tax (\$500/residential dwelling unit) will generate approximately \$25,000 in FY2017-18, which includes the construction of new units in approved residential projects along Deep Valley Drive and homes at Chandler Ranch.

Investment interest rates remain at all-time lows (below 1% return) in LAIF and Certificates of Deposit. However, competitive grants and special fund revenues continue to remain strong, and three new special funding sources will begin in FY2017-18. These include the State's Road Maintenance and Rehabilitation Account (RMRA), the three-year State's General Fund loan repayment to the Highway Users Tax Account, and the Los Angeles County Traffic Improvement Plan (LACTIP) or known as Measure M. The three accounts are estimated to bring in additional revenue of \$230,627 in FY2017-18 and \$325,912 in FY2018-19 that can be used for local street maintenance.

General Fund revenue now includes concession payments received from the operation of the Peter Weber Equestrian Center by the City's concessionaire. The Equestrian Fund's negative fund balance was eliminated in FY2016-17, and as such, Fund 50, Equestrian Fund, has been closed.

Quimby Fees have a beginning Fund Balance of \$238,490 in FY2017-18 allowing for citywide park improvements. The City has \$720,000 remaining in the Special Chandler Contribution which has been identified as the source of funds for several proposed capital projects as well as the backfill source of revenue for any shortfall between grant revenues and the actual cost of the PWEC improvement project completed in FY2015-16.

OPERATING EXPENDITURES

Expenditure assumptions include maintaining existing service levels in most major expenditure categories.

Public Safety shows a substantial increase in FY2017-18 as a result of a number of factors. Sheriff's costs are set to go up by 3.8% due to contracted salary increases for deputies and an additional 0.5% due to increases to the Liability Trust Fund Surcharge from 9.5% to 10% total surcharge.

The City's regional cost percentage is 28%, with Rancho Palos Verdes' share at 68% and Rolling Hills' share at 4%.

The line item for watering of our parks and parkways continues to be reduced due to elimination of turf watering in the City's medians in response to the Governor's executive order.

Funds in the amount of \$300,000 have been included in the FY2017-18 Budget to begin the process of updating the City's General Plan as specified revenues continue to be received from development projects subject to the surcharge levied for that purpose. Additionally, the budget includes \$30,000 for a public facility impact fee update report.

Funding for tree trimming projects are estimated to remain at \$131,000 in FY2017-18 since the new State Prevailing Wages was adopted for various categories of tree workers.

PERSONNEL

The FY2016-17 Budget reflects the additional contribution to the PERS Unfunded Accrued Liability (UAL) in the amount of \$1,814,634, which eliminated the amortization base for the City's share of the Pre-2013 Pool UAL, resulting in long-term interest savings of approximately \$1,900,000.

PERS FY2017-18 contributions for Tier I employees (those hired prior to July 1, 2011) will be 9.599%. Contribution rates Tier II employees (those hired after July 2011) will be 7.850%. Contribution rate for Tier III employees (new to PERS after PEPR) 6.908%.

In keeping with Council direction following the recent salary administration study, FY2017-18 proposes a salary increase of 2.7% for employees receiving a standard performance evaluation (consistent with the change in CPI from April 2016 to April 2017). An additional 2.7% merit salary increase pool is proposed for employees exceeding standard performance which will be awarded at the City Manager's discretion.

Starting in FY2018-19 the City will start to see increase in PERS contributions attributable to the City's current Unfunded Actuarial Liability and the PERS Board's action to reduce the anticipated return on investment. These increases will ramp up over five years as a way to ease into the thirty year amortization period. Council had previously taken action to pay down the Pre-2013 Pool UAL in a lump sum and may want to consider similar action or partial payments to reduce the current UAL.

CAPITAL PROJECTS

The FY 2016-17 Budget includes funds for the capital purchase of a new vehicle for the City Manager and a new pickup truck for the Maintenance Supervisor. The FY 2017-18 Budget reflects an Assigned Equipment Reserve of \$110,000 for the capital purchase of a new tractor.

The Peter Weber Equestrian Center Project has been completed and the remaining grant reimbursement payments should be forthcoming in FY 2016-17 from the State Proposition 84 Grant and the Los Angeles County Proposition "A" Grant. When received, this will allow for computation of the funding shortfall to be reimbursed from the Chandler Special Equestrian Contribution.

The upgrading and replacement of the City's I.T. equipment and software will continue for next fiscal year. Major projects include purchase of a database for the Planning Department, public and staff WiFi at selected parks, security cameras, iPads for Commissioners, and replacement schedule for staff's desktops. The City's PEG fees will be utilized to upgrade and add additional equipment to the audio, visual, and broadcast systems located in the Council Chambers and server room.

Competitive grants, Quimby Fees and the balance of the Chandler Special Equestrian Contribution will allow for park, recreational and equestrian improvements over the next several years as identified in the Capital Projects Budget.

The Special Chandler Equestrian Contribution, which can only be used for equestrian related projects, is proposed to provide installation of equestrian crossings (\$150,000) and a trails survey (\$20,000) in addition to the previously mentioned Peter Weber Equestrian Center improvement project shortfall.

The Public Works Capital Improvements includes approximately \$1,000,000 for Street Resurfacing work (doubling typical annual efforts during this time of exceptional revenues to make headway on long-term streets improvements) and \$500,000 in Storm Drain repairs. An additional \$250,000 has been assigned to Capital Projects reserves, which can be used for streets, storm drains or any other capital project.

Curb, gutter and sidewalk repair, utilizing a combination of CDBG and General Funds, is proposed in the amount of \$50,000.

FUND BALANCES

Various fund balances have been revised to reflect our best understanding of future obligations. The Fund Balance Policy calls for \$1.2 million be allocated towards an Emergency Reserve, with the balance of Unassigned Fund Balance allocated towards a Contingency Reserve. Total Unassigned Fund Balance should represent at least 25% of operating expenditures. Any amount above the required 25% combined Emergency and Contingency Reserve is available for any use designated by Council. The FY2016-17 budget utilized these excess fund balance to pay off the Pre-2013 UAL and dramatically increased expenditures for street and storm drain capital projects. FY2017-18 proposes to maintain the enhanced expenditures for public works projects.

The Assigned Reserves have been adjusted to reflect the increase in capital projects for the past two-years and the timing of receiving Building Permit revenue. The new roofs on the City Hall and Council Chambers, and City Hall office upgrades are on temporary hold as estimated storm drain repair costs are developed. The Advance to Other Funds designated reserve is now zero as the quarterly payments from the Peter Weber Equestrian Center's concessionaire exceeded projected estimates. Also, the remaining CLEEP Grant reserve was used to partially fund the ALPR camera purchase for the Sheriff's Department.

FISCAL FUTURE

With Building Permit fees expected to remain strong through the next several budget cycles, the City is in a strong fiscal position. Even so, the large development projects we continue to see will provide a revenue stream of limited duration. Building Permits and Planning related fees, although recurring revenues, will continue to fluctuate with the local economy. The other recurring revenue that is subject to fluctuation is sales tax. Taking these fluctuations into account in our financial planning will help the City to maintain a solid financial position.

As for long term capital asset maintenance, we have been to this point and expect in the foreseeable future to continue to keep pace with and, in fact, exceed the recommendations of our Pavement Management System (PMS) planning document, which will be updated next fiscal year.

We will also continue to undertake repairs to the most severely damages curbs, gutters and sidewalks as identified by the survey conducted in FY2013-14. Storm drain cleaning and inspection has begun

in will continue for the next few years with substantial capital investment identified for the highest priority drains.

Over the years we have maintained our capital infrastructure through a combination of grant funds and utilization of operating revenue in excess of expenditures. During this period of unprecedented revenues, we will be able to continue the “pay as you go” method of capital asset management. Two new long-term funding sources eligible for capital projects include the State’s RMRA and the County’s Measure M. These two new revenue sources will annually cover approximately half of the recommend annual costs of the PMS. Additional restricted funds eligible for this purpose include HUTA, TDA, CDBG, Prop C, and Measure R. In the event these sources, when combined with General Fund revenues, do not meet our capital budgeting goals, it may be necessary to identify a new funding source at some point in the future.

SUMMARY

Key revenues are at historic highs, while operating expenditures remain well within revenue projections. This will allow the opportunity for increased capital investment, replenishment of critical reserves and recognition of outstanding employee performance during this, and the next several, budget cycles.

