To: BUDGET AND FINANCE COMMISSION

From: JOE HOEFGEN, CITY MANAGER


RECOMMENDATION

Receive and file the Fiscal Year 2019-2020 City Manager’s Proposed Budget and the Fiscal Year 2019-2024 City Manager’s Proposed Five-Year Capital Improvement Program.

EXECUTIVE SUMMARY

The City Charter requires that the annual budget be adopted by June 30, 2019. A City Council Public Hearing for the budget and the Five-Year Capital Improvement Program is scheduled for June 4, 2019, and budget adoption is tentatively scheduled for June 18, 2019.

BACKGROUND

The City’s Mission Statement is as follows: “The City of Redondo Beach is committed to providing the finest services to enhance the quality of life for those who live, work, visit and play in our community.”

The Proposed Budget describes how the City carries out its mission within a work program for the coming year and the associated resources required for achieving the City Council’s goals. It is designed to be consistent with the City Council’s Strategic Plan as well as the City’s adopted Financial Principles. The budget emphasizes core services that are basic to the City’s mission.

The City Manager’s budget message describes the projected financial outlook for the upcoming fiscal year, the budget development process, and a summary of the budget’s proposed revenues and expenditures. Decision packages are recommended as additions or reductions to the base budget that are not contractually obligated or the result of annual personnel allocation updates. The departmental sections discuss core service activities, key projects and assignments, and customer service and referral work measures. Financial Summary (mini-financial) reports spotlight important business units. The Capital Improvement Program (CIP) identifies capital investment required to meet
our general plan and other policy goals and to ensure good stewardship of our existing infrastructure. The CIP identifies the projects, their estimated costs, and the financing methods needed to implement the City’s capital investment goals and the maintenance of new or existing infrastructure.

In summary:

- The total annual budget including all funds is $134.2 million,
- The total General Fund budget is $95.1 million,
- Recommended is a total of $63.8 million in capital improvements,
- Funding is included for the payroll of 439 full-time employees (before decision packages),
- The General Fund’s contingency reserve is $7.9 million,
- And the General Fund’s unallocated balance is zero (if all decision packages were approved),
- The CalPERS Reserve Fund would be $5,7901,814 following the $781,493 transfer to the General Fund to fund one-time costs as recommended as part of the decision packages.
- With ongoing revenue exceeding ongoing expenditures (with adoption of all decision packages), the Proposed FY 2019-20 Budget is structurally balanced.

General Fund revenues are projected to increase by $1.1 million, or 1.2%, in Fiscal Year 2019-2020. Property taxes constitute the largest single source of General Fund revenue and show a 5.5% gain reflecting an incremental improvement in property values. The next largest source of General Fund revenue, sales tax, is projected to decline by 1.4%, reflecting retail losses in Redondo Beach. Transient occupancy tax (TOT) is expected to decrease 1.1% in Fiscal Year 2019-2020 with lower occupancy of hotels within the City. Utility users’ tax (UUT) is projected to decrease 2.8% reflecting lower remittances related to cable television.

The ever-present strain on the City’s finances that remains significant and unfortunately continues to grow is pension obligations. This issue is a common recurrence in municipal budgets across California. In Fiscal Year 2019-2020, the City’s pension obligation to CalPERS will total $18.7 million, which represents a $2.1 million increase over the current year pension costs.

It is under these conditions that the proposed budget for Fiscal Year 2019-2020 was developed. A total of 48 decision packages and 89 capital improvement projects are recommended.
The following provides details of the components of the revised estimated ending fund balances as shown in the Fiscal Year 2019-2020 Proposed Budget that are likely to arise in consideration of the Proposed Budget.

**What amounts are included in the beginning fund balances and available to pay for Fiscal Year 2019-2020 expenditures?**

The General Fund beginning fund balance for Fiscal Year 2019-2020 includes the following:

- **$653,649**  
  June 30, 2018 unassigned/unallocated fund balance

- **1,456,722**  
  Fund balance assignment for encumbrances (open purchase orders as of June 30, 2018 for contracted goods or services not yet received) – (approved November 2018)

- **441,715**  
  Fund balance assignment for carryovers (unspent Fiscal Year 2017-2018 funds to be used for Fiscal Year 2018-2019 departmental, donation, grant and capital improvement project expenditures) – (approved November 2018)

- **50,000**  
  Fund balance assignment for library collection (unspent Fiscal Year 2017-2018 funds to be used for Fiscal Year 2018-2019 library material expenditures) – (approved November 2018)

- **73,795**  

- **11,670**  
  Fund balance assignment for FY 2018-2019 (FY 2017-2018 ending fund balance which became part of the FY 2018-2019 adopted budget)

- **94,317,713**  
  Fiscal Year 2018-2019 estimated revenues (as adjusted at midyear and including transfers in)

- **(96,215,279)**  
  Fiscal Year 2018-2019 Council-approved appropriations (including Fiscal Year 2017-2018 year-end appropriations, midyear decision packages, budget modifications subsequent to midyear, and transfers out)

- **$789,985**  
  General Fund beginning fund balance for Fiscal Year 2018-2019 (following midyear budget actions)
Separate and apart from the General Fund beginning fund balance is the 8.33% minimum one-month contingency reserve of $7,924,791. The beginning fund balances of the other funds are calculated similarly with capital assets excluded from those of the Harbor Tidelands, Harbor Uplands, Solid Waste, and Vehicle Replacement Funds.

**In the Fiscal Year 2019-2020 Proposed Budget, what items adjust the beginning fund balances to their estimated ending fund balances?**

Proposed are the following items which adjust the beginning fund balance to the estimated ending fund balance.

\[
\begin{align*}
\text{General Fund beginning fund balance (see above)} & \quad $789,985 \\
\text{Fiscal Year 2019-2020 proposed revenues} & \quad 94,584,778 \\
\text{Fiscal Year 2019-2020 proposed appropriations} & \quad (95,135,541) \\
\text{Fiscal Year 2019-2020 proposed transfers in} & \quad 1,998,608 \\
\text{Fiscal Year 2019-2020 proposed transfers out} & \quad (2,646,294) \\
\text{General Fund estimated ending fund balance (before consideration of the Fiscal Year 2019-2020 decision packages)} & \quad $408,464
\end{align*}
\]

The estimated ending fund balances of the other funds are calculated similarly. The adjustments to the beginning fund balances for all funds are detailed in the “Revenues”, “Expenditures”, and “Department Details” sections of the proposed budget document.
What is the resulting impact of funding the recommended Decision Packages to the estimated ending fund balances?

Recommended adjustments to the estimated fund balances are to be considered by the City Council through supplemental requests called Decision Packages. Decision Packages can be related to policy, operational or financial matters. Those impacting the General Fund are categorized below.

$ (408,464) General Fund estimated ending fund balance (before consideration of the Fiscal Year 2019-2020 decision packages)

(62,755) Decision Packages that would be needed to comply with County-State-Federal mandates or fund unavoidable costs to maintain basic services

326,100 Decision Packages that would sustain or improve revenue to the City

923,626 Decision Packages that would reduce departmental expenditures to align with available City funding sources

(85,000) Decision Packages that would be needed to protect the health and safety of the public, employees, or environment

(16,000) Decision Packages that would improve organizational efficiency, economy or effectiveness

(677,507) Decision Packages (with one-time requests) that would not impact future fiscal years (including a $781,493 transfer from the CalPERS Reserve Fund)

$ 0 General Fund estimated ending balance (after consideration of the Fiscal Year 2019-2020 decision packages)

As can be seen in the decision packages, the Budget and Finance Commission’s recommendation to closely examine vacant positions has been taken into account with the proposed elimination of six vacant positions (Decision Packages #13, #14, #15, #17, #18, and #24) and the deauthorization and reassignment of one filled position (Decision Package #22). Supplemental information will be provided in Budget Response Reports as needed.
COORDINATION

All departments participated in the preparation of the Fiscal Year 2019-2020 City Manager’s Proposed Budget and the 2019-2024 City Manager’s Proposed Five-Year Capital Improvement Program.

FISCAL IMPACT

The City Manager’s Fiscal Year 2019-2020 Proposed Budget is balanced and when including capital project funding totals $134.2 million. The City Council’s adopted budget will create the financial plan for all City operations.

Submitted by:
Joe Hoefgen, City Manager

mruhland

Attachment:

• Fiscal Year 2019-2020 City Manager’s Proposed Budget (distributed May 16)
• Fiscal Year 2019-2020 City Manager’s Proposed Five-Year Capital Improvement Program (distributed May 16)
• Fiscal Year 2019-2020 Budget Response Report Listing
CITY OF REDONDO BEACH
BUDGET RESPONSE REPORTS
FY 2019-20 PROPOSED BUDGET

The following is a list of questions raised regarding the FY 2019-20 Proposed Budget. The corresponding answer to each of these question (the “Budget Response Report”) follows in the sequence reflected.

<table>
<thead>
<tr>
<th>Question</th>
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<tbody>
<tr>
<td>▪ What corrections/adjustments need to be made to the FY 2019-20 Proposed Budget document for inclusion in the Adopted Budget?</td>
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<td>▪ What are the City’s internal service fund and overhead allocations, and what policies and procedures govern them? What are the reasons for the changes in the FY 2019-20 allocations included in the proposed budget from those in the FY 2018-19 adopted budget? And what is the opinion of the outside audit firm regarding the internal service funds?</td>
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<td>▪ What impact to CalPERS rate increases have on the City’s budget? What are the projected increases in FY 2020-21? And how can the City fund the future increases?</td>
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<td>▪ What was the cultural and entertainment rental activity at the RBPAC in FY 2018-19 and how much has the Business Plan approved in 2007 affected the Center’s fiscal impact and facility booking percentages?</td>
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<td>▪ What is the status of Transit Funding for FY 2019-20?</td>
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<td>▪ What was the feedback received from the City’s commissions on the Proposed Budget and its process?</td>
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<td>▪ What is the status of sworn officer staffing in the Police Department?</td>
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<td>▪ What City vehicles and equipment are scheduled for replacement by the Public Works Department in the 2019-20 Fiscal Year, and what factors are used to determine the possibility of purchasing a zero-emission or low-emission vehicle?</td>
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<td>▪ What would be the process to implement a local transactions and use tax (AKA add-on sales tax)? And how much additional revenue could be generated for the General Fund?</td>
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<td>▪ What equipment is scheduled for replacement as recommended in the Information Technology – Equipment Replacement Decision Package?</td>
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What grades were assigned to City beaches in the 2018-19 Heal the Bay Report Card and how did the Redondo Beach Pier perform?

What is the process for considering proposed special events and what special events are included in the proposed budget for FY 2019-20?

What have been the historical internal service fund and overhead allocations to the Harbor Enterprise?

What is the process for increasing Street Landscaping and Lighting assessments in accordance with Proposition 218?

What are possible funding options for a Riviera Village parking garage?

How can the storefront improvement program be expanded to include businesses in the Riviera Village and along PCH?

What improvements are planned for Wilderness Park?

What remains for the completion of the Veterans’ Memorial?

What are the City’s General Fund probable, best and worst case financial scenarios for FY 2019-20 to FY 2021-22?

What is the status of the lease agreement for the 1922 Artesia Blvd facility occupied by the Community Services and Police Departments?

What are the projected Quimby fee collections and what is their planned use?