



CITY OF
ROLLING HILLS ESTATES

CITY MANAGER'S CORNER

July 27, 2014

This memorandum serves to transmit the City's [adopted budget for Fiscal Year 2014-15](#). The budget document incorporates direction and decisions from the Budget Study Session held June 10. This document also includes projected year-end budget numbers for FY2013-14.

OPERATING REVENUES

Total General Fund operating revenues and expenditures for FY2013-14 are projected to be \$6,675,533 and \$6,269,275 respectively, with an estimated net positive operating result for FY2013-14 of \$329,180 (5%). This matches the projected 5% surplus estimated when the budget was adopted in June of 2013. Total General Fund operating revenues and expenditures for FY2014-15 are proposed at \$7,050,307 and \$6,480,502 respectively leading to an estimated year-end net positive operating result of \$469,805 or 7%.

General Fund undesignated, unreserved balance is projected to be \$1,233,165 at June 30, 2014, and \$1,211,713 at June 30, 2015.

Major revenue assumptions come from conservative estimates based on actual revenues received in FY2013-14. Sales tax continues to be flat as projected by MuniServices. Property tax is expected to increase by 5.05% based on calculations provided by the Assessor's office and MuniServices. Building Permit revenues are expected to continue their recent upward trend based on actual projects in the pipeline over the next two years. Specifically, building permit fees, which will total approximately \$1,000,000 in FY2013-14, are expected to total \$1,200,000 in FY2014-15. Further, planning fees are anticipated to total \$300,000. New construction tax (\$500/residential dwelling unit) will generate approximately \$12,500, which includes the construction of new units in approved residential projects along Deep Valley Drive.

It appears that the State will continue to fund the COPS Grant of \$100,000 for FY2014-15, which will continue to fund our CORE Deputies. Investment interest rates remain at all-time lows (below 1% return) in LAIF and CDs. However, grants and special fund revenues to City remain strong.

The FY2013-14 and FY2014-15 budgets include revenue received from the operation of the stables by the City's concessionaire. This revenue will be used to pay down the Equestrian Fund's negative fund balance over the next several years. When completely paid down, the Equestrian Fund will be eliminated. Progress toward paying down the negative balance in the Equestrian Fund can be charted on the Fund Balance Exhibit G in the line Advance to Other Funds.

OPERATING EXPENDITURES

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

Sheriff's costs are set to increase by 3.0% due to overall unit cost increases within the department. The City's regional cost percentage is 28%, with Rancho Palos Verdes' share at 68% and Rolling Hills' share at 4%. FY2014-15 will be the first year in which the highly complex regional cost sharing formula is eliminated in favor of the set percentages mentioned here.

The line item for watering of our parks and parkways is substantially overspent for the current fiscal year as the water savings technology which was installed at Ernie Howlett and Highridge parks has helped to monitor usage, but has not resulted in expected savings. Water throughout the City has been cut back due to the drought.

The City Attorney's budget reflects an increase in the overall amount in order to reflect actual costs of providing service. The City Attorney's workload has routinely exceeded the monthly retainer. Additionally, we have budgeted \$30,000 to update the City's personnel ordinances, rules, job descriptions and handbook which are all substantially out of date.

PERSONNEL

The FY2014-15 budget reflects continued reductions in staff levels achieved over the past several years. All told, the City's full-time staff level has decreased from 32 in 2006 to 19 currently, resulting in on-going annual savings of over \$1,000,000.

Similar to Council approved action in FY2012-13 and FY2013-14, the FY2014-15 budget as presented includes a 2.0% cost of living adjustment for staff.

We continue to operate Code Enforcement efforts through utilization of a part-time Zoning and Code Administrator.

With the retirement of our Human Resources Analyst expected in December of 2014, we plan to refocus the position to become an Assistant to the City Manager with an emphasis in Human Resources. This will allow some of the extra burden that has fallen on the Assistant City Manager to be borne by this position, while retaining the needed focus on the complex Human Resources function. We expect administrative support for the Community Services Director, which was previously handled by the Human Resources Analyst, to be picked up by the Records Clerk.

CAPITAL PROJECTS

On the capital side, we have again proposed a fairly aggressive capital projects budget for FY2014-15. The Peter Weber Equestrian Center Improvement Project will finally be constructed through utilization of grant funds, and the spending ahead of future Quimby Funds. Three rail fencing is also programmed at \$20,000.

The streets capital project includes \$90,000 for modifications to the Palos Verdes Drive North Bike Lane Project, and \$328,700 for the Silver Spur Pedestrian Path Project. Other improvements include a curb, gutter and sidewalk project utilizing CDBG funds in the amount of approximately \$40,000.

We have also programmed \$25,000 for a storm drain survey and \$50,000 for any immediate repairs identified.

Of the \$350,000 reserve for contingencies associated with construction of the PVDN Bike Path Project, \$124,323 in General Funds and \$77,000 in Measure R funds were utilized in FY2013-14. We also anticipate a \$400,000 General Fund contribution and \$100,000 in a Highway-Through-Cities Grant for the next street resurfacing project as identified in the 2011 Pavement Management System (PMS) Report which is programmed for FY2014-15. By funding this resurfacing project, we will achieve the major maintenance recommendations for years 1-3 as outlined in the 2011 PMS report and hopefully improve our overall Pavement Condition Index when our next PMS report is completed in FY2014-15.

The land at the corner of PVDN and PVDE donated for park purposes as a condition of the Butcher Development remains undeveloped, but a plan should be in place for final design and construction in FY2014-15, which is reflected by the \$100,000 identified for the project.

FUND BALANCES

Various fund balances have been revised to reflect our best understanding of future obligations. The Undesignated, Unreserved Fund Balance is projected to remain above \$1,200,000, which is consistent with the current fund balance policy. The Fund 02 Capital Projects Designation has been decreased by \$27,375, and the Future Operating Expenditures reserve has been increased to \$300,000 as we rebuild that line item which was reduced to account for the Advance to Other Funds (Equestrian Fund negative balance) line item as required by our auditors. The Advance to Other Funds designated reserve is projected to decrease to \$237,671 with the quarterly payments from the Peter Weber Equestrian Center's concessionaire. Also, the CLEEP Grant reserve will be depleted due to equipment purchases for the Sheriff's Department.

FISCAL FUTURE

With Building Permit fees continuing to show signs of improvement both this year and likely into the next several budget cycles, it may seem that the worst of the recent economic times is behind us. Even so, the large development projects we may see coming on the horizon will provide a revenue stream of limited duration. Building Permits and Planning related fees, although a recurring revenue, fluctuate dramatically with the local economy. The other recurring revenue that is subject to fluctuation is sales tax. With the struggles at The Promenade continuing, sales tax remains stagnant even though the overall state and regional economy has substantially recovered. Renovations at the Peninsula Shopping Center, which will provide short term revenue on the Building Permit side, may also help to provide longer term improvement in the sales tax picture. Taking these fluctuations into account will help the City to maintain a solid financial position.

As for long term capital asset maintenance, the proposed budget for FY2014-15 includes completion of the first three years of the maintenance program recommended by our most recent Pavement Management Survey, undertaking repairs to the most severely damaged curbs, gutters and sidewalks as identified by the survey conducted in FY2013-14, and beginning the assessment of the condition of our storm drains through a video survey. Over the years we have maintained our capital infrastructure through a combination of grant funds and utilization of operating revenue in excess of expenditures. However, a long term plan to address the maintenance needs of these major assets will likely require a new funding source. Discussion of a methodology for any change in the way we fund street maintenance and other capital assets should come after the next Pavement Management Survey is undertaken in FY2014-15. At that time, it may be appropriate to create an Infrastructure Maintenance Finance Committee made up of interested members of the community to assist in identifying a long term funding plan.

SUMMARY

Certain key revenues have seen increases since the worst of the recent economic downturn, and are even showing signs of dramatic upturns over the next several budget cycles. The City's fiscal position has been maintained recently through a combination of cost cutting measures and reliance on previously established reserves, although each of the last three budgets have had positive net operating results without the need to dip into reserves further. There continue to be a number of long-term projects and programs that are in need of identified funding sources. These include such projects as the General Plan Update, street and parks maintenance and other capital infrastructure maintenance as well as on-going program needs and maintenance of the City's competitive position in marketplace for well qualified employees. Given the City's historic reliance on sales tax, property tax and planning and building permit fees, all of which are highly subject to the ups and downs of the economy, we will need to continue to budget conservatively by prudently maintaining appropriate reserves while funneling as much as is available into needed infrastructure maintenance and essential programs.