



City of Rolling Hills

INCORPORATED JANUARY 24, 1957

Agenda Item No.: 11.A
Mtg. Date: 05/23/2022

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: ROBERT SAMARIO, FINANCE DIRECTOR

THRU: ELAINE JENG P.E., CITY MANAGER

SUBJECT: CITY COUNCIL FISCAL YEAR 2022-23 BUDGET WORKSHOP

DATE: May 23, 2022

BACKGROUND:

On May 9, 2022, staff presented the proposed fiscal year 2022-23 revenue and expenditure budgets for all funds to the Budget Committee, with the focus of the presentation being on the General Fund. The recommended budget for the General Fund included \$4,407,456 in expenditures, including \$1,269,000 in transfers to other funds, of which \$1,096,000 was a transfer to the Capital Improvement Fund primarily for the City Hall Improvements Capital Project. With estimated revenues of \$2,399,289, the recommended budget presented to the Budget Committee would have resulted in an operating deficit of \$738,667 and an overall deficit of \$2,008,167.

The Budget Committee directed staff to break down the recommended budget between on-time and ongoing components, and make whatever adjustments are needed to eliminate the ongoing deficit. This will allow Council to determine which one-time costs, such as capital, can be appropriately funded from the use of reserves.

DISCUSSION:

REVENUE PROJECTIONS FOR FISCAL YEARS 2021/22 AND 2022-2023

The development of the fiscal year 2022/23 projected revenues began with a projection of current year revenues. With only nine months of revenues recorded, the year-end revenue totals were projected based on several factors, including prior year results, current year trends, and other pertinent data.

By far, the largest General Fund revenue is derived from property taxes. The current year adopted budget of \$1,249,800 assumed a 4% growth. Staff expects actual revenues at year end will be \$1,281,715 representing a growth of 4.8%. For fiscal year 2022/23, staff recommends again using a growth rate assumption of 4%, which would translate into a projected revenue of \$1,333,000. The 4% growth rate consists of a CPI factor of 2%, which is

the maximum increase allowed under Proposition 13, plus another 2% growth based on re-assessments for resales and home improvements.

A related revenue is Property Transfer Tax. Whenever a real estate property is sold in the City of Rolling Hills, a transfer tax is levied at \$1.10 for every \$1,000 in the sale price. The tax is split 50/50 between the City of Rolling Hills and Los Angeles County. In fiscal year 2020/21, revenues totaled \$96,433. This fiscal year revenues are expected to reach \$117,986. For fiscal year 2022/23, staff recommends an assumed growth of 2% as a conservative approach given the recent spike in mortgage rates will likely result in fewer home sales.

The second largest General Fund revenue is from Building & Other Permits. These revenues have experienced a dramatic decline as a result of the pandemic, dropping to \$183,378 in fiscal year 2020/21. Before the pandemic, building-related permit revenues exceeded \$700,000. With the pandemic seemingly waning, revenues have experienced a moderate rebound. Based on revenues received through March 31, 2022, staff estimates revenues at year end at \$472,969. Accordingly, staff proposes estimated revenues for fiscal year 2022/23 of \$475,000, recognizing that if the current trend continues, revenue could be higher.

Motor Vehicle In-Lieu (MVIL) tax revenues are fairly flat from the prior year. Projected fiscal year 2021/22 revenues of \$246,694 are 4.2% higher than last year. Staff recommends assuming a 2% growth and total revenues for next fiscal year \$252,000. The unknown is to what degree higher interest rates, which affect rates offered on car loans, will affect new car sales. Otherwise, MVIL taxes trend downward absent new car sales as the tax rate is applied on a depreciating scale.

In total, staff recommends total General Fund budgeted revenues of \$2,619,971, which includes one-time revenues for the ARPA grant of \$220,682. As such, ongoing revenues of \$2,399,289 are \$274,989 higher than fiscal year 2021/22 adopted revenues, buoyed primarily by the increase in property taxes and building permit revenues.

GENERAL FUND EXPENDITURE PROJECTION FOR FISCAL YEAR 2022-2023

The revised recommended budget, as shown in the attached schedule, totals \$4,369,997 which is made up of \$2,983,131 in on-going costs and \$1,386,266 in one-time costs. The ongoing costs in many cases have been trimmed to what essential costs and services.

The one-time costs include a \$1,096,000 transfer to the Capital Improvement Fund primarily for the City Hall Improvements Capital Project. The balance of \$285,200 in one-time costs were identified within the various expenditure accounts, including the following:

- Project Management - \$45,000
- Grant Writer - \$17,000
- Agenda system Granicus enhancements - \$19,400

- Information Technology enhancements - \$8,800
- Records Management - \$45,000
- Special Project Study & Consulting (General Plan update) - \$150,000

The following highlights the proposed expenditures:

- Block Captain Program, fire fuel abatement in the Preserve, Emergency Information System (EIS) support, Alert Southbay subscription
- 3.5% Cost of Living Adjustment to salaries
- Increased City Attorney fee based on BBK's activities of the last two fiscal years
- Fees for the November 2022 Municipal Election
- Increased Finance Department fee for grants management, reimbursement support, restricted funds management, benefits/pension activities for city personnel, and technology implementation.
- Contracted code enforcement services.
- Anticipated subsidy to absorb the cost increase to residents' refuse fees.
- Capital Improvement Cost for the City Hall ADA design, and construction.

OVERALL GENERAL FUND BALANCING

Based strictly on ongoing revenues and ongoing costs, the General Fund deficit is now down to \$480,984. The one-time costs of \$1,386,266 would be offset by one-time ARPA revenues of \$220,682, leaving a one-time deficit of \$1,165,584. On a combined basis, including all revenues and expenditures, the General Fund budget would require the use of reserves of \$1,646,568 to balance.

OPTIONS FOR BALANCING THE GENERAL FUND

Staff have developed several options for addressing the projected operating deficit \$480,984, which are included in the attached schedule of balancing options. The balancing options provide a number of cost reductions and revenue enhancements that in total range from approximately \$535,000 to \$610,000. With respect to one-time costs of \$1,386,266, Council can choose which, if any, can be funded from reserves. From a policy perspective, the use of reserves (a one-time source) can appropriately be used to fund one-time costs, such as capital. Given General Fund reserve balances are currently in excess of 150% of the operating budget, Council has some latitude in the use of reserves for any one-time cost deemed to be a high priority.

OTHER FUNDS FOR FISCAL YEAR 2022-2023

Majority of the restricted funds such as Proposition C, Measure R, Measure M, and Measure A are expected to roll the revenue to future years to save up for eligible projects. The following summarizes the anticipated activities of the other restricted funds for next fiscal year:

- Measure W's expenditure plan for FY 2022-2023 was previously approved by the City Council in March 2022 and submitted to the Los Angeles County for approval. It is anticipated that \$80,000 of Measure W would be spent on eligible storm water compliance measures.
- The City of Beverly Hills expressed interest in \$45,200 of Prop A exchange.
- The Coronavirus State and Local Fiscal Recovery funds (American Rescue Plan Act -

ARPA) is expected to provide half of the overall allocation.

- The Capital Projects fund includes \$96,000 for Pacific Architecture Engineers' design fee recently approved by the City Council for the development of layout Option 3 and \$1M for construction of the City Hall ADA Improvement project.
- The Refuse fund anticipates absorbing the expected refuse rate increase for residents.
- The newly established Fund 16 Cal OES captures the grants awarded to the city in the last two years with transfers from the Utility Fund (Southern California Edison Rule 20 credits) for grant match.

FISCAL IMPACT:

The fiscal impact will be determined when the Fiscal Year 2022/23 Budget has been adopted.

RECOMMENDATION:

Review the proposed Fiscal Year 2022/23 budget and provide staff with comments. With the Council's direction, staff will bring the Fiscal Year 2022/23 Budget and the three-year CIP to the City Council Meeting for adoption on June 13, 2022.

ATTACHMENTS:

[CL_AGN_220523_FY2023_Revenue Budget Recommendations.pdf](#)

[CL_AGN_220523_FY2023_Recommended Budget_General Fund Exp.pdf](#)

[CL_AGN_220523_FY2023 Summary of Sources and Uses of Funds_General Fund.pdf](#)

[CL_AGN_220523_Twelve Year History_ Rev Exp and Reserves.pdf](#)

[CL_AGN_FY22-23_OptionsToCloseBudgetDeficit_v2.pdf](#)

[CL_AGN_220523_FY2023 Recommended Budget - Other Funds.pdf](#)

[CL_AGN_220523_CC_BlueFolderItem_11A_01_Redacted.pdf](#)