



CITY OF MANHATTAN BEACH CITY HALL

1400 Highland Avenue, Manhattan Beach, CA 90266

WEBSITE: www.manhattanbeach.gov • **PHONE:** (310) 802-5000

TO: Honorable Mayor and Members of the City Council

FROM: Steve Charelian, Finance Director

MEETING: City Council Regular Meeting, February 21, 2023

SUBJECT: Agenda Item No. 15 – Fiscal Year 2022-2023 Mid-Year Budget Report, Including Funding Appropriations and Staffing Adjustments; Proposed Implementation of Voter Approved Measure A Increasing Transient Occupancy Tax to 14%; and Fiscal Year 2023-2024 Budget Development Calendar.

DATE: February 17, 2023

SUPPLEMENTAL ATTACHMENTS

- Complete Staff Report
*Due to some technical issues, the complete staff report is not included in the packet. This includes a copy of the complete staff report.
- Replacement of Attachment No. 2 – Revised Five Year Forecast
- PowerPoint Presentation



CITY OF MANHATTAN BEACH

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STAFF REPORT

Agenda Date: 2/21/2023

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Steve S. Charelian, Finance Director
Libby Bretthauer, Financial Services Manager
Julie Bondarchuk, Financial Controller
Marcelo Serrano, Budget and Financial Analyst

SUBJECT:

Fiscal Year 2022-2023 Mid-Year Budget Report, Including Funding Appropriations and Staffing Adjustments; Proposed Implementation of Voter Approved Measure A Increasing Transient Occupancy Tax to 14%; and Fiscal Year 2023-2024 Budget Development Calendar (Finance Director Charelian).

(Estimated Time: 45 Min.)

A) RECEIVE REPORT

B) APPROPRIATE FUNDS

C) APPROVE STAFFING ADJUSTMENTS

D) AUTHORIZE STAFF TO DRAFT ORDINANCE IMPLEMENTING VOTER APPROVED MEASURE A THAT APPROVED AN INCREASE IN THE TRANSIENT OCCUPANCY TAX TO 14%

RECOMMENDATION:

Staff recommends that the City Council: 1) receive the Mid-Year Budget Report for Fiscal Year (FY) 2022-2023 and FY 2023-2024 budget development calendar; 2) appropriate \$723,722 from the General Fund and approve other FY 2022-2023 budget change requests; 3) approve FY 2022-2023 staffing adjustments identified in the staff report; and 4) authorize staff to draft an ordinance implementing voter approved Measure A (2019) to increase the Transient Occupancy Tax from 12% to 14%.

FISCAL IMPLICATIONS:

Every January, City staff analyzes year-to-date activity and prepares mid-year projections for revenues and expenditures to evaluate potential budget variances and forecast year-end results. This report focuses on these mid-year projections and explains budget variances to provide a current representation of the City's fiscal position.

Current trends indicate the City's General Fund operating budget will result in Fiscal Year (FY) 2022-2023 revenues exceeding expenditures by nearly \$2.0 million as a result of several revenue streams trending higher than the adopted budget, which included conservative estimates due to uncertain economic conditions at the time of budget adoption. Overall, General Fund Expenditures are trending slightly under budget due to savings in salaries and benefits from vacancies. However, Public Safety Sworn Overtime, Contract Services, Legal Services, and Utility costs are currently trending greater than budget.

Projected year-end transfers to other funds, including the Stormwater Fund, Street Lighting Fund, Capital Improvement Program (CIP) Funds and Pension Stabilization Fund, are expected to total approximately \$8.2 million.

Taking into account year-end projections and these anticipated transfers, the unreserved General Fund balance is projected to be \$10.6 million at fiscal year-end. However, if the budget adjustments are approved by City Council as proposed, the year-end projected surplus will be reduced to \$1.25 million, resulting in an unreserved General Fund balance of \$9.9 million.

Due to ongoing CIP projects and pandemic-related revenue reductions in previous years, there continue to be limited resources in the CIP Fund unreserved balance projected to allocate to new projects. Other Funds are trending as expected.

If City Council approves the implementation of Measure A increasing the Transient Occupancy Tax rate to 14% effective July 1, 2023, additional revenues of \$1.25 million are anticipated in FY 2023-2024.

BACKGROUND:

The City Council adopted the Fiscal Year 2022-2023 Budget on June 7, 2022, with a General Fund operating budget surplus of \$1,394,076.

Revenues	\$86,669,227
Expenditures	<u>85,275,151</u>
Adopted Surplus/(Deficit)	\$ 1,394,076

A Budget Update for FY 2022-2023 was presented and discussed during the November 15, 2022, City Council meeting. The City Council has the authority to approve additional appropriations throughout the fiscal year. To date, net adjustments approved by the City Council total \$667,715. Additionally, encumbrances carried forward from the prior year totaled \$430,296, resulting in budgeted revenues exceeding expenditures by \$296,065.

DISCUSSION:

The City Council and staff respond to the community's needs through the budget. The budget is both a spending plan for the City's available financial resources and the legal authority for City departments to spend these budgeted appropriations on goods and services that align with public priorities and meet the needs of Manhattan Beach residents.

In the current fiscal year, General Fund revenues are estimated to come in over the adjusted

budget by \$1,578,072 (1.8%). Expenditures are projected to be \$103,593 (0.1%) 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 \$1,977,730.

Adopted General Fund Surplus/(Deficit)	\$1,394,076
Net Budget Adjustments to date	(1,098,011)
Revenues over Budget	1,578,072
Operating Expenditures under Budget	<u>103,593</u>
Projected General Fund Surplus	\$1,977,730

General Fund Revenues

The following are highlights of several key revenue areas. Table 2 on the General Fund Summary Attachment summarizes key General Fund Revenues this fiscal year, including a comparison to prior year actuals. Projections for revenues in FY 2022-2023 exceed the budget in most groupings. Generally, the largest contributors to the City's revenue are Property Tax, Sales & Use Tax, Service Charges and Transient Occupancy Tax.

Property Tax is the strong foundation of the City's General Fund revenues. The City's Property Tax revenues are projected to total nearly \$40.9 million, which is \$151,830 (0.4%) above the amount currently budgeted. A combination of high demand for single-family homes, low inventory, high home prices, and shortages of building materials all contributed to the increase in taxable property values. It is important to note that funds we receive this is due to the prior year activity.

Although significantly lesser in amount, Real Estate Transfer Tax is a key indicator of real estate activity. The City's revenue is derived from a charge of fifty-five cents per \$500 of sales price during the transfer of a property that is split evenly between the City and the County of Los Angeles. Based on transfer tax collections from all properties (residential and commercial) to date, revenues are expected to be under the budget by \$225,000 (22.0%), yielding \$800,000 for the year.

Sales & Use Tax is projected \$500,000 (5.0%) higher than budget, for a total of \$10.5 million, likely tied to inflationary pressures on the costs of goods sold as well as strong local economic activity returning after the pandemic, especially in Downtown and the recently revitalized Manhattan Village Mall. In addition to the stabilization in the general consumer goods category, all eatery categories and service stations have continued to increase taxable sales.

Transient Occupancy Tax (TOT) receipts, which are trending over budget by \$600,000 (11.2%), are estimated to bring in about \$6.0 million to the General Fund. Additionally, by policy, the City Council automatically allocates a percentage of the TOT to the CIP Fund, which is expected to total \$850,000 for the current fiscal year. Although TOT receipts have proven to be highly sensitive to swings in the pandemic, occupancy rates seem to have returned to typical trends. The year-end projection also takes into account the recent electrical fire at the Westdrift Hotel and its impact on occupancy.

The General Fund also receives TOT taxes from short-term vacation rentals in the coastal zone, which are projected to total \$120,000 this fiscal year. Staff is closely monitoring the activity of approximately 50 operators to ensure compliance with City regulations.

Business license tax, which is generally calculated upon a business's prior year gross receipts, has remained level or had slight increases year over year, due to the fact that about 80 businesses pay the maximum gross receipts business license tax where changes in their gross receipts are unlikely to impact the total license tax paid. These businesses contribute about 35% of the total business license revenue collected. Business License tax revenues in FY 2022-2023 are conservatively estimated to exceed budget by \$550,000 (13.9%) but are expected to be under FY 2021-2022, which included some previous year receipts after the City Council granted an extension of the due date in 2021 as part of the City's business-friendly pandemic measures.

Revenues from all Building Permits and Plan Check fees are trending lower than budget by \$200,000 (10.0%) corresponding with a lower volume of permits and plan checks issued in the first half of FY 2022-2023. The number of demolition permits issued is slightly lower compared to the same period last year which itself was lower than the preceding year. The pullback in construction activity corresponds with the lower sales activity evident in Real Estate Transfer Tax revenues.

Revenue from other Service Charges (not including Plan Checks) is projected to come in about \$215,150 (3.6%) over budget, mostly due to Parks and Recreation programming. Parks and Recreation programs have generally come back to full operations, which has increased both revenues and expenditures accordingly. Notably, Tennis Operations, which includes increasingly popular pickleball offerings, have performed better than expected requiring additional classes to be added and yielding a large portion of the Service Charge category revenues.

The Use of Money and Property category, which is projected to be slightly over budget by \$50,784 or 1.5%, includes Rents and Leases charged to tenants of City-owned properties. Additionally, Interest Earnings is expected to be over budget by \$150,000 (22.2%) due to rising interest rates.

Operating Service Transfers include reimbursements to the General Fund, per the Cost Allocation Plan adopted in February 2020, from other Special Revenue and Enterprise Funds for Administrative Service Charges. In addition, Engineering staff time allocated to capital projects and grants is also included in this reimbursement to the General Fund.

Lastly, in the Miscellaneous category, the decrease from budget of \$503,100 (30.9%) is mostly attributable to Workers Compensation Salary Continuation revenues. Although it impacts General Fund revenues, this actually represents lower costs in the Insurance Fund for employees out on Injury-On-Duty leave. Workers Compensation costs are volatile and difficult to predict due to a small population base.

General Fund Expenditures

The following are highlights of several key expenditure areas. Table 3 on the General Fund

Summary Attachment summarizes key General Fund Expenditures this fiscal year, including a comparison to prior year actuals. Projections for expenditures in FY 2022-2023 are \$103,593 (0.1%) below the budgeted amount.

Salaries and Wages for FY 2022-2023 are projected to be around \$518,900 (1.4%) below budget. Although Salaries & Allowances are trending under budget due to a higher than usual number of full-time staff vacancies, increased costs associated with Overtime for Sworn Employees resulted in this category being only 1.4% under budget. As of January, the City has approximately 30 unfilled positions budgeted in the General Fund. When budgeted positions remain unfilled, additional budgetary savings will result. However, sometimes the savings is mitigated by the use of overtime, part-time or contract services to fill in for critical operations.

In the Benefits category, expenditures are projected to be below the budgeted amount by roughly \$567,784 (4.1%), primarily attributed to medical insurance cost increases being less than anticipated as well as the higher number of vacancies.

Contract & Professional Services expenditures are projected to be \$1,028,937 (7.9%) above budgeted costs. Primary drivers of this overage are Contract Services (\$525,856) and legal services (\$438,500). As mentioned previously, Tennis Operations offerings have been increasingly popular and the demand for these have increased costs to provide services, but also generated corresponding revenues. Other contract services costs trending over budget include temporary staffing augmentation services for Planning and Plan Check Services, but these costs are offset by budgetary savings from staffing vacancies in these divisions.

Materials & Services are \$128,663 (2.5%) lower than the budgeted amount. Savings in this category largely result from unexpended budget in Training and Conferences. Staffing availability and workloads are also weighed when determining whether staff can attend budgeted training throughout the year.

The Utilities category is trending over budget by \$85,335 (7.9%) primarily due to the rate increases imposed by Southern California Edison as well as higher costs for natural gas bills. When the budget is calculated, a CPI increase was applied to utility costs, but recent increases have exceeded expectations.

Although trending in line with budget, the last notable category is Internal Service Charges, which is \$187,330 (1.9%) above budget. Increases in this category can be largely attributed to growth in the Fleet Maintenance Allocation due to fuel price increases.

General Fund Transfers to Other Funds

Over the next five years, General Fund subsidies to the Stormwater Fund, Street Lighting Fund, Capital Improvement Program Fund and Pension Stabilization Fund are projected between \$3.8 million and \$8.1 million per fiscal year. In FY 2022-2023, transfers out are projected to total \$8.2 million.

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. An estimated subsidy of \$256,970 will be

required in FY 2022-2023. Street lighting costs are also on the rise due to utility cost increases imposed by Southern California Edison.

The General Fund's subsidy to the *Stormwater Fund* is estimated at \$1,589,830 in FY 2022-2023. Stormwater assessments will remain unchanged until a Proposition 218 vote is passed, forcing the General Fund to continue supporting these ancillary services.

Budgeted transfers to *Capital Improvement Program (CIP) Funds* include:

- \$4.0 million to the CIP Fund for various projects
- \$1.6 million to the CIP Fund as part of the Pension Liability Policy

Lastly, a transfer to the *Pension Rate Stabilization Trust Fund* is budgeted at \$1.1 million in accordance with the City's Pension Policy (Pension Obligation Bond budgetary savings allocated 60% to fund future pension costs). The balance of the Trust Fund before the transfer is about \$2.7 million. These funds are available to fund any pension-related payments to CalPERS at the City Council's discretion.

FY 2022-2023 Budget Adjustments

The following mid-year budget adjustments have been identified by staff as time-sensitive priorities:

1) Tree Grates for Downtown

New Appropriation Request: \$200,000

Proposed Fund: General Fund

This project is to purchase 210 new cast iron tree grates for the Downtown Streetscape district for tree wells that do not have grates. Public Works Staff will install these materials, which will protect trees by limiting weed growth, prevent soil compaction, and increase moisture retention in the soil. The grates will also improve safety and access for pedestrians.

2) Long-Term Outdoor Dining

New Appropriation Request: \$150,000

Proposed Fund: General Fund

This is a comprehensive, long-term effort to evaluate long-term outdoor dining and business uses on public right-of-way and on private property. Funds will be utilized to support design and engineering services, fiscal impact analyses, parking analyses, broad community engagement, and environmental review to support the work plan item.

3) Crosswalk Improvements Along Ardmore Ave and Valley Drive Near Live Oak Park

Appropriation Change Request: Reallocate \$200,000 from the Ocean Drive

Crosswalk Improvements Project

Proposed Fund: Measure R Fund

This project will improve four crosswalks near Live Oak Park and Joslyn Center to

provide better visibility of pedestrians to motorists. Design of the project is complete. To cover a shortfall in construction funding, a reallocation of \$200,000 from the Ocean Drive Crosswalk Improvements Project is proposed. The design cost increased due to the additional design work for an ADA path in Veteran's Parkway, ADA curb extensions, ADA parking stall redesign, and additional public outreach. The construction cost has also increased due to inflation and construction material price increases.

4) Design of Peck Avenue Storm Drain Improvement Project

Appropriation Change Request: Reallocate \$100,000 from the TMDL Trash Capture Project

Proposed Fund: Measure W Fund

This request will allow the start of a hydrology and hydraulics study and engineering design for the Peck Avenue Storm Project. As envisioned in the Storm Drain Master Plan, this project involves the design and construction of storm drain piping and additional catch basins with inserts to improve water quality. The project would also mitigate flooding conditions for several properties, divert stormwater away from the pump station at 23rd Street and Peck Avenue, and improve maintenance capabilities. It also includes improvements to vegetation and biodiversity along Peck Avenue. As a higher priority project, a reallocation of \$100,000 from the TMDL Trash Capture Project is recommended.

FY 2022-2023 Staffing Adjustments

With evolving conditions and assessment of priorities, the City continues to explore opportunities for reorganization, aligning positions and staffing to the current needs of the organization. Although the City has been recruiting more quickly and efficiently than ever, the number of vacancies have remained higher than anticipated due to market conditions and carryforward effects of resignations and separations that have occurred over previous years. Currently, the City has 34 open positions in various stages of recruitment.

Taking position adjustments for approval throughout the year at the quarterly or mid-year budget reports provide staff an opportunity to be nimble in addressing staffing and position changes in a more agile and responsive way. Additionally, position vacancies that arise throughout the year provide an opportunity for departments to reevaluate the needs of the vacant positions, fill positions at the appropriate level, and take incremental steps towards reorganization.

Some of the following requested position classification changes can be accommodated in the current fiscal year budget by utilizing existing personnel budgetary savings resulting from other position vacancies. While salary savings can be utilized in the existing fiscal year, the ongoing costs associated with these positions (as identified below) will be budgeted in Fiscal Year 2023-2024. Staffing changes requiring a budget adjustment are also identified below.

Human Resources reviewed the position classification changes and confirmed the

requested positions and classification levels reflect the level of responsibilities and duties needed.

Police Department (Approved on February 7, 2023)

Staff has identified the need to create a Crime Impact Group and a year-round full-time bike patrol. The Crime Impact Group will support the investigative efforts of the Detective Bureau through conducting surveillance, following leads, identifying suspects, composing warrants, and making arrests as appropriate. The bike patrol will provide high visibility patrol in both residential and commercial areas, while also patrolling areas difficult to patrol in vehicles, such as the bike path or high-density traffic locations and small streets/alleys. Further, the bike patrol will devote time to direct engagement with businesses in all parts of the City to strengthen partnerships and reduce crime.

a) Add Seven (7) Police Officers

Annual Cost: \$1,152,823

Fund: General Fund

Seven new police officer positions were approved on February 7, 2023, with three positions assigned to the Crime Impact Group and four officers allotted to the bike patrol. The Police Officer cost is based on hiring lateral Police Officers. Should some of the positions be hired at the trainee level, the immediate costs would be approximately \$30,000 lower per position. Staff estimates that the total cost of these positions for the remainder of the fiscal year will be \$288,206.

b) Add One (1) Police Support Supervisor

Annual Cost: \$140,944

Fund: General Fund

The civilian supervisor would provide continuity and career expertise in the areas of police support services including parking enforcement, animal control, and traffic control, and focus on oversight of community quality of life concerns including in parks, downtown and the north business district, as well as for special events. Staff estimates that the total cost of this position for the remainder of the fiscal year will be \$35,236.

c) Add One (1) Background Investigator

Annual Cost: \$111,300

Fund: General Fund

A full-time civilian Background Investigator ensures that Police Officer and support staff hiring has devoted resources to move candidates quickly and efficiently through the background investigation process to expedite and streamline hiring. Staff estimates that the cost of this position for the remainder of the fiscal year will be \$27,825.

d) Add One (1) Administrative Assistant (Detectives)

Annual Cost: \$89,820

Fund: General Fund

This position will provide clerical/technical and administrative support to the detectives, freeing up their time to focus on investigative work. This position will support the existing detective bureau as well as the Crime Impact Group, including providing timely case updates to victims, aiding the Crime Analyst in aggregating data, and completing other administrative duties such as the composition and distribution of crime bulletins. Staff estimates that the cost of this position for the remainder of the fiscal year will be \$22,455.

At this time, there are both trainee and lateral candidates in the background process, as well as trainees in the academy or scheduled to start an upcoming academy. The City continues to attract applicants for both lateral and trainee recruitments, putting us within two positions of the previous authorized staffing levels. With the seven additional Police Officers approved by the City Council on February 7, the City now has 72 sworn officers.

The total cost of these positions for the remainder of the fiscal year is \$373,722. The full annual cost of approximately \$1.5 million will be budgeted in subsequent fiscal years. A preliminary review of the City's financial forecasts indicates that funding for these new public safety positions can most likely be accommodated through existing and identified potential revenue sources (including available capacity under voter-approved 2019 Measure "A" hotel bed tax rates) as detailed below in the section "Additional Funding Source for Public Safety Positions".

Fire Department

The department has identified the need for increased analytical and administrative support in order to continue to meet objectives and allow the department to expand its management support. The Fire Department had been the only operational City department without at least one full-time dedicated analyst-level position for many years. The Fire Department secured a full-time Administrative Analyst last fiscal year, but it was determined that operations required a higher level of support. The Fire Department recommends this position be upgraded to a Management Analyst so that it can be filled at the appropriate level to provide needed support for contract and procurement management, budgeting, grant application and management, and other key duties in the department.

a) Upgrade One (1) Administrative Analyst to Management Analyst

Annual Cost: \$4,990

Fund: General Fund

The full-time Management Analyst will absorb the duties of the Administrative Analyst. This position will support the department in development, processing and tracking of contracts, purchasing and budget preparation. The partial cost of this change in FY 2022-2023 can be absorbed within the department's current year budget. The full annual cost will be budgeted in subsequent fiscal years.

Information Technology

As the City departments increase use and reliance on technology, the IT Department must also update the job classifications to ensure alignment with the demands of the position. The proposed upgrades bring the job specifications up-to-date to reflect the duties and skills needed to fulfill today's job requirements.

a) Upgrade One (1) Network Administrator to Technology Systems Engineer

Annual Cost: \$3,190

Fund: Information Technology Fund

The City's Network Administrator job classification is dated and does not reflect the current responsibilities, knowledge requirements, and skill set required to support modern technologies. The previously created Technology Systems Engineer job classification aligns with industry standards and better serves the IT Department's needs than the Network Administrator position specification. In addition, the proposed upgrade to Technology Systems Engineer ensures that the City can attract and recruit a qualified professional to serve the organization's IT needs. The upgrade of the Network Administrator to Technology Systems Engineer will update the count from one to two positions. However, the total number of IT personnel will not be impacted. The partial cost of this upgrade in FY 2022-2023 can be absorbed within the department's current year budget. The full annual cost will be budgeted in subsequent fiscal years.

b) Upgrade One (1) GIS Analyst to GIS Administrator

Annual Cost: \$3,984

Fund: Information Technology Fund

Over the last 5+ years, the City's Geographic Information System (GIS) has evolved beyond mapping. Today's GIS is integrated with enterprise solutions and has become critical for functioning systems such as the Enterprise Permitting and Licensing platform. The skills and expertise required to maintain, upgrade, enhance, and integrate the GIS is significantly above what was required when the GIS Analyst position was created. The upgrade of the GIS Analyst to GIS Administrator reflects the current skills and expertise required to ensure a robust, stable, and agile GIS environment functioning in a complex application integration setting. This upgrade will not change the overall department headcount. The partial cost of this upgrade in FY 2022-2023 can be absorbed within the department's current year budget. The full annual cost will be budgeted in subsequent fiscal years.

To recap, the Police Department staffing changes requiring a mid-year adjustment result in a General Fund impact of \$373,722 in FY 2022-2023. The position upgrades in the Fire and Information Technology Departments do not require a budget adjustment this fiscal year. The full annual cost of all positions will be budgeted in FY 2023-2024 and subsequent fiscal years.

FEMA Reimbursement for COVID-19 Pandemic

Since January 2020, the City has submitted ten project applications to FEMA that are

currently under review. No reimbursements from FEMA have been received. Finance has been meeting with FEMA regularly in hopes of expediting our projects; however, there are many challenges in getting a project finalized. In addition to a cumbersome reimbursement process, the FEMA project manager assigned to assist the City has changed at least four times in 2022 alone. Moreover, FEMA still has not finalized whether certain types of expenditures are eligible for reimbursement. Over the course of two years, some of the line items that FEMA has initially asked the City to submit have been deemed ineligible for reimbursement. FEMA has not provided a realistic timeline of when the City can expect to receive any reimbursement.

Finance staff continues to diligently work with FEMA on providing them with requested information to expedite our projects. Currently, of the City's 10 project applications submitted to FEMA, five are pending final review, four are pending ineligibility review, and one is in project review.

In review for Reimbursement: \$798,163

Ineligible for Reimbursement: \$392,075

Proposed Implementation of Voter Approved Measure A Increasing Transient Occupancy Tax to 14%:

As part of the Manhattan Beach Special Municipal Elections held on March 5, 2019, residents voted on Measure A, which authorized City Council to increase the City's Transient Occupancy Tax (TOT) rate by up to 4% to fund essential City services including police patrols and crime prevention; fire and paramedic emergency response; and other general City services.

As authorized by the voters' in Measure A, City Council approved a 2% TOT increase and scheduled the implementation to take effect on May 1, 2020. However, in response to the Covid-19 pandemic, City Council deferred the escalation of the City's TOT rate from 10% to 12% until July 1, 2020. Based on the voter-authorized parameters written into Measure A, City Council has the option to raise the TOT rate up to 14% after May 1, 2022.

Staff periodically monitors the TOT rates amongst various comparable cities in the greater Los Angeles area and current rates range from 12% to 15%. Similar to its coastal neighbors of El Segundo and Redondo Beach, the City's current TOT rate is set at 12%. Many other area cities have higher TOT rates including Hermosa Beach (14%), Santa Monica (14%), Beverly Hills (14%), Culver City (14%) and Malibu (15%).

Raising the City's TOT rate to 14% would allow the City to substantially offset the cost of the public safety enhancements and align the City's TOT rate with other nearby cities. Staff estimates that this increase could generate an additional \$1.25 million annually in General Fund revenues to help offset the increased costs associated with adding public safety positions.

Five Year Forecast

If the TOT is increased by 2% to 14% increasing revenues by \$1.25 million, existing resources will be used to accommodate the remaining \$850,000 of the \$2.1 million in recent public safety (Fire and Police) staffing investments. Including these investments, staff's

financial forecasting model indicates ongoing revenues will continue to exceed ongoing expenditures resulting in annual structural surpluses. However, ongoing subsidies to the Stormwater and Street Lighting Funds continue to offset surpluses and impact General Fund balance by at least \$2.0 million per year. Over the next five years, transfers to the Stormwater Fund are estimated to total \$10.0 million and transfers to the Street Lighting Fund are estimated to total \$1.3 million. These funds both receive revenue from assessments to property owners, which have not increased since 1996. Without a successful Prop 218 vote, the funds will continue to require subsidies from the General Fund to cover ongoing operations and capital expenses.

As part of the budget process, staff is currently refining the attached forecasting model and growth factor projections for both revenues and expenditures to estimate long-term fiscal sustainability. Additionally, fund transfers/subsidies and the allocation of budgetary savings derived from the issuance of Pension Obligation Bonds (POB) are re-evaluated annually. Per the City Pension Policy, the current distribution of estimated annual savings from the issuance of POBs are 40% to the CIP Fund and 60% for future Unfunded Actuarial Liability. Based on this comprehensive review, additional recommendations may be presented to the City Council with the Proposed Budget in May.

Funding Source - Next Steps:

Staff has informed area hotels in connection with this staff report that the Council is considering increasing the TOT to 14% as authorized by the voters' adoption of Measure A in 2019. Typically, other cities that recently had a voter approved TOT increase had an effective date of the increase within 2-3 months. If authorized by the Council, Staff will return with a draft ordinance for Council consideration at the next Council meeting.

FY 2022-2023 Mid-Year Budget Summary

The spending plan for FY 2022-2023 was developed during a period of uncertainty and concern about the severity and duration of the COVID-19 pandemic. Revenues were conservatively estimated and expenditures were reduced where possible while still maintaining current service levels. With over half of the year completed, General Fund revenues seem to have rebounded to pre-pandemic levels, but staff is closely monitoring for signs of a potential slowdown in the economy. Expenditure savings is mostly attributed to Salaries and Employee Benefits trending lower due to a high number of staffing vacancies. Irrespective of budget, revenues are expected to exceed expenditures at year-end.

The projected General Fund surplus of nearly \$2.0 million, as well as the existing Unreserved General Fund balance, provide an opportunity to allocate funds to City Council priorities, including capital projects. After transfers out totaling about \$8.2 million to the Stormwater Fund, Street Lighting Fund, CIP Fund, and Pension Rate Stabilization Fund, the Unreserved General Fund balance is projected at \$10.6 million after FY 2022-2023.

With the proposed General Fund budget appropriations for the Downtown Tree Grates (\$200,000), Long-Term Outdoor Dining (\$150,000), and Police Department Staffing (\$373,722), the new projected General Fund surplus at the end of FY 2022-2023 will be \$1.25 million and the unreserved General Fund balance is estimated at \$9.9 million.

Funding essential operations and capital priorities will be further discussed during the FY 2023-2024 budget process.

FY 2023-2024 Budget Development Calendar

After reviewing requests from each Department and input from the Budget Priorities Community Meeting on February 16, 2023, a Proposed Budget for FY 2023-2024 will be prepared and presented to City Council on May 2. Following this initial presentation, one or more City Council Budget Study Sessions will be held on May 9 and 23 (tentative dates) with an additional opportunity to discuss the budget at the City Council meeting on May 16. The public hearing and budget adoption is scheduled for June 6, 2023, before the new fiscal year begins on July 1. The FY 2023-2024 budget timeline is attached.

PUBLIC OUTREACH:

On Thursday, February 16, 2023, the City held a Budget Priorities Community meeting via Zoom to answer questions from the public and collect community feedback regarding the City's Budget. Feedback received during the meeting, as well as through an online "digital comment card," will be presented to City Council at a future meeting date.

Future opportunities for public input include May 2, 2023, when the FY 2023-2024 Proposed Budget is presented to the City Council, and during subsequent City Council Budget Study Session(s) tentatively scheduled for May 9 and 23, as well as at the City Council meeting on May 16. Questions and comments may also be submitted anytime via email to Budget@manhattanbeach.gov <<mailto:Budget@manhattanbeach.gov>>.

Upon approval by the City Council, staff will continue outreach to local hotels and short-term rental operators notifying them of the increase in the TOT rate to 14%.

ENVIRONMENTAL REVIEW:

The recommended action has been determined to be exempt from CEQA pursuant to State CEQA Guidelines Section 15061(b)(3), the common sense exemption (formerly the "general rule") that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question can have a significant effect on the environment, the activity is not subject to CEQA, as is the case with this item.

LEGAL REVIEW:

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

ATTACHMENTS:

1. Fiscal Year 2022-2023 General Fund Summary
2. Revised Five Year Forecast
3. Fiscal Year 2023-2024 Budget Timeline

FIVE YEAR FORECAST
REVISED WITH FY 2023-2024
YEAR-END PROJECTIONS

Includes Police Staffing (7 Sworn Officers & 3 Civilian) Approved by City Council on Feb. 7, 2023
 Includes Fire Staffing Approved by City Council on Oct. 18, 2022
 Includes Proposed Measure A TOT Increase to 14% Effective July 1, 2023

GENERAL FUND
ATTACHMENT #2
REPLACEMENT

	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025	FY 2025-2026	FY 2026-2027
GENERAL FUND	Actual	Actual	Actual	Actual	Projection	Forecast	Forecast	Forecast	Forecast
BEGINNING FUND BALANCE	24,614,168	25,378,484	25,167,211	30,693,696	38,150,421	32,072,886	30,769,455	29,031,457	27,360,952
Revenues									
Core Revenues	75,101,678	72,069,886	72,971,392	86,782,277	88,258,333	91,992,047	94,720,441	97,591,305	100,556,541
Non-core Revenues (One-time & Grants) ¹	2,469,974	1,130,958	90,117,898	2,952,594	251,313	-	-	-	-
Total Revenues & Other Inflows (A)	\$77,571,653	\$73,200,844	\$163,089,289	\$89,734,871	\$88,509,646	\$91,992,047	\$94,720,441	\$97,591,305	\$100,556,541
Expenditures									
Core Expenditures ²	71,705,496	72,681,676	71,016,720	78,307,655	86,221,468	89,355,348	91,978,625	94,379,226	97,261,451
Non-core Expenditures (One-time & Capital) ³	2,521,419	276,909	85,592,473	152,076	310,448	-	-	-	-
Total Expenditures & Other Outflows (B)	74,226,915	72,958,584	156,609,193	78,459,731	86,531,916	89,355,348	91,978,625	94,379,226	97,261,451
Annual Structural (Core) Surplus/(Deficit)	3,396,182	(611,790)	1,954,671	8,474,622	2,036,865	2,636,698	2,741,816	3,212,079	3,295,090
Annual Surplus/(Deficit) Before Transfers	3,344,738	242,260	6,480,097	11,275,140	1,977,730	2,636,698	2,741,816	3,212,079	3,295,090
Fund Equity Transfers Total⁴ (C)	(2,580,422)	(453,533)	(953,611)	(3,818,416)	(8,055,264)	(3,940,129)	(4,479,814)	(4,882,584)	(5,656,847)
Street Lighting & Landscape Fund	(144,634)	(169,012)	(325,242)	(99,760)	(256,970)	(259,488)	(265,814)	(272,328)	(279,036)
Prop A Fund	(15,480)	-	-	-	-	-	-	-	-
CIP Fund (Pension Liability Policy)	-	-	-	(492,596)	(1,596,585)	(994,920)	(1,194,471)	(1,298,757)	(1,391,131)
CIP Fund (One-time)	(560,100)	-	-	(175,000)	(4,000,000)	-	-	-	-
Stormwater Fund	(1,273,783)	(298,337)	(1,317,480)	(2,183,688)	(1,445,940)	(1,571,364)	(1,601,267)	(1,732,059)	(2,263,788)
Parking Fund	-	-	71,020	-	-	-	-	-	-
County Parking Lots Fund	263,873	263,816	489,165	532,628	382,271	378,023	373,444	368,696	363,803
Information Technology Fund	(600,299)	-	-	-	-	-	-	-	-
Refuse Fund (Closeout)	-	-	378,926	-	-	-	-	-	-
Fire Station 2 Construction Fund	-	-	-	(1,400,000)	-	-	-	-	-
PARS Trust Fund (Pension Liability Policy)	(250,000)	(250,000)	(250,000)	-	(1,138,040)	(1,492,380)	(1,791,707)	(1,948,136)	(2,086,696)
Annual Incr./(Decr.) in Fund Balance (=A-B+C)	764,316	(211,273)	5,526,486	7,456,724	(6,077,534)	(1,303,431)	(1,737,998)	(1,670,505)	(2,361,757)
ENDING FUND BALANCE	\$25,378,484	\$25,167,211	\$30,693,696	\$38,150,421	\$32,072,886	\$30,769,455	\$29,031,457	\$27,360,952	\$24,999,195
Financial Policy Designation	\$ 14,937,974	\$ 15,004,887	\$ 14,624,838	\$ 15,539,658	\$ 17,306,383	\$ 17,871,070	\$ 18,395,725	\$ 18,875,845	\$ 19,452,290
Reserve for Economic Uncertainty	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
Unreserved Fund Balance	\$ 6,440,510	\$ 6,162,324	\$ 12,068,858	\$ 18,610,763	\$ 10,766,503	\$ 8,898,385	\$ 6,635,732	\$ 4,485,107	\$ 1,546,905

¹ Includes loan repayment from prior Assistant City Manager in FY 2018-2019, Pension Obligation Bond proceeds in FY 2020-2021, and American Rescue Plan Act (ARPA) Funds in FY 2020-2021 and 2021-2022.

² FY 2020-2021 includes repayment of CalPERS Unfunded Actuarial Liabilities (UAL) after issuance of Pension Obligation Bonds.

³ FY 2018-2019 includes one-time expenditures for Public Safety and Public Works radios (\$1,189,793), Permitting Software Solution (\$380,240) and \$1.0 million payment to MBUSD (first budgeted in FY 2017-18).

⁴ Fund Equity Transfers include reallocation of savings resulting from Pension Obligation Bonds. In FY 2023, the approved allocation is 80% to the CIP Fund and 20% to the Pension Stabilization Trust Fund. In subsequent years, the allocation returns to the baseline of 40% to the CIP Fund and 60% to the Pension Stabilization Trust Fund.

⁵ Unreserved Fund Balance includes Reserve for Encumbrances and ARPA funds received in FY 2020-2021 and 2021-2022.

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MID-YEAR BUDGET REPORT FISCAL YEAR 2022-2023

FEBRUARY 21, 2023



FY2022-2023 PROJECTION

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GENERAL FUND ADOPTED BUDGET

REVENUES	\$86,669,227
EXPENDITURES	85,275,151
SURPLUS	\$1,394,076

GENERAL FUND PROJECTION

NET BUDGET ADJUSTMENTS (to date)	(\$1,098,011)
REVENUES OVER BUDGET	1,578,072
OPERATING EXPENDITURES UNDER BUDGET	103,593
PROJECTED SURPLUS	\$1,977,730



GENERAL FUND REVENUES

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Projected General Fund Revenues are expected to end the year \$1.6 million (1.8%) higher than the Adjusted Budget

Major Revenue Sources	Compared to Budget	
Property Tax	\$151,830	0.4% Higher
Sales & Use Tax	\$500,000	5.0% Higher
Transient Occupancy Tax	\$600,000	11.2% Higher
Business License Tax	\$550,000	13.9% Higher
Real Estate Transfer Tax	(\$225,000)	22.0% Lower
Building Plan Check Fees	(\$200,000)	10.0% Lower
Service Charges	\$215,150	3.6% Higher



PENDING FEMA REIMBURSEMENTS

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Ten reimbursement applications submitted to FEMA since January 2020

- Finance staff continues to diligently work with FEMA
- Finance has been meeting with FEMA regularly

Status of 10 Project Applications submitted to FEMA:

- Pending Final Review: 5
- Pending Ineligibility Review: 4
- Project Review: 1

Total Reimbursements Submitted: \$1,190,238

Ineligible for Reimbursement: \$ 392,075

In review for Reimbursement: \$ 798,163



GENERAL FUND EXPENDITURES

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Projected General Fund Expenditures are expected to end the year \$103,593 (0.1%) lower than the Adjusted Budget

Major Expenditures	Compared to Budget	
Salaries & Wages	\$518,900	1.4% Lower
Employee Benefits	\$567,784	4.1% Lower
Contract & Professional Services	(\$1,028,937)	7.9% Higher
Materials & Services	\$128,663	2.5% Lower
Utilities	(\$85,335)	7.9% Higher



PROPOSED MID-YEAR ADJUSTMENTS

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Proposed Budget Adjustments

[PW] Downtown Tree Grates (General Fund)	\$200,000
[CD] Long-Term Outdoor Dining (General Fund)	150,000
[PW] Crosswalk Improvements near Live Oak Park (Meas. R Reallocation)	-
[PW] Peck Ave. Storm Drain Improvement Project (Meas. W Reallocation)	-
TOTAL	\$350,000



PROPOSED MID-YEAR ADJUSTMENTS

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Proposed Staffing Adjustments	FY 2022-23	Annual Cost
[PD] Add Seven Police Officers	\$288,206	\$1,152,823
[PD] Add Police Support Supervisor	35,236	140,944
[PD] Add Background Investigator	27,825	111,300
[PD] Add Administrative Assistant	22,455	89,820
[FD] Upgrade Admin. Analyst to Management Analyst	-	4,990
[IT] Upgrade Network Admin. to Tech. Systems Engineer	-	3,190
[IT] Upgrade GIS Analyst to GIS Administrator	-	3,984
Total	\$373,722	\$1,507,051



REVISED PROJECTED SURPLUS

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GENERAL FUND PROJECTION

REVENUES	\$88,509,646
EXPENDITURES	86,531,916
SURPLUS	\$1,977,730

PROPOSED BUDGET ADJUSTMENTS

Staffing Adjustments	\$373,722
Downtown Tree Grates	200,000
Long-Term Outdoor Dining	150,000
REVISED PROJECTED SURPLUS	\$1,254,008



MEASURE A

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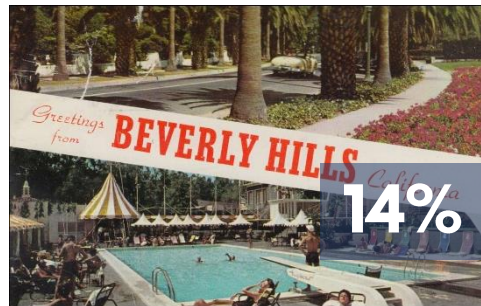
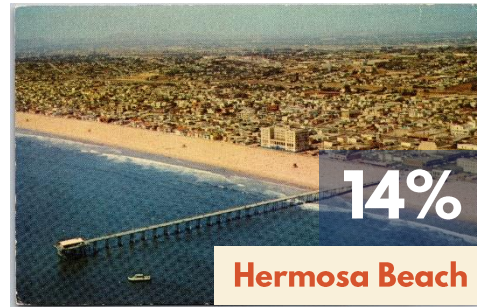
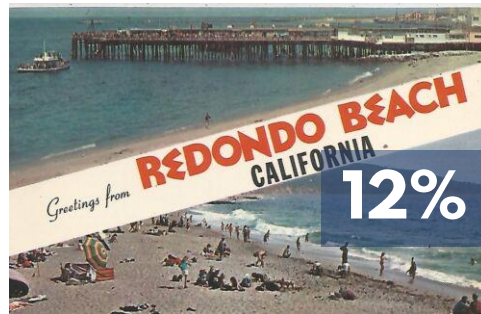
- Authorized City Council to increase the City's Transient Occupancy Tax (TOT) rate by up to 14%
 - Approved as part of Elections held in March 2019
 - Authorized by Ordinance 19-0011
 - Revenues are utilized to fund:
 - Police patrols and crime prevention
 - Fire and paramedic emergency response
 - Other general City services
- An increase to 12% was scheduled to be implemented on May 1, 2020
 - Implementation was delayed until July 1, 2020, due to the COVID-19 pandemic



MEASURE A

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Comparable rates in the Los Angeles area range from 12% to 16%



Raising the City's TOT rate to 14% would partially offset the cost of the public safety enhancements and align the City's TOT rate with other nearby cities



MEASURE A

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- A notice of the City Council's consideration of an increase of the TOT to 14% has been provided by email and phone to:
 - 12 area hotels
 - 50 licensed short-term rental operators in the Coastal Zone
- If authorized, Staff will return with a draft ordinance for consideration at an upcoming City Council meeting
 - Staff will conduct additional outreach
- Other cities have initiated TOT increases within 2-3 months of approval



FIVE YEAR FORECAST

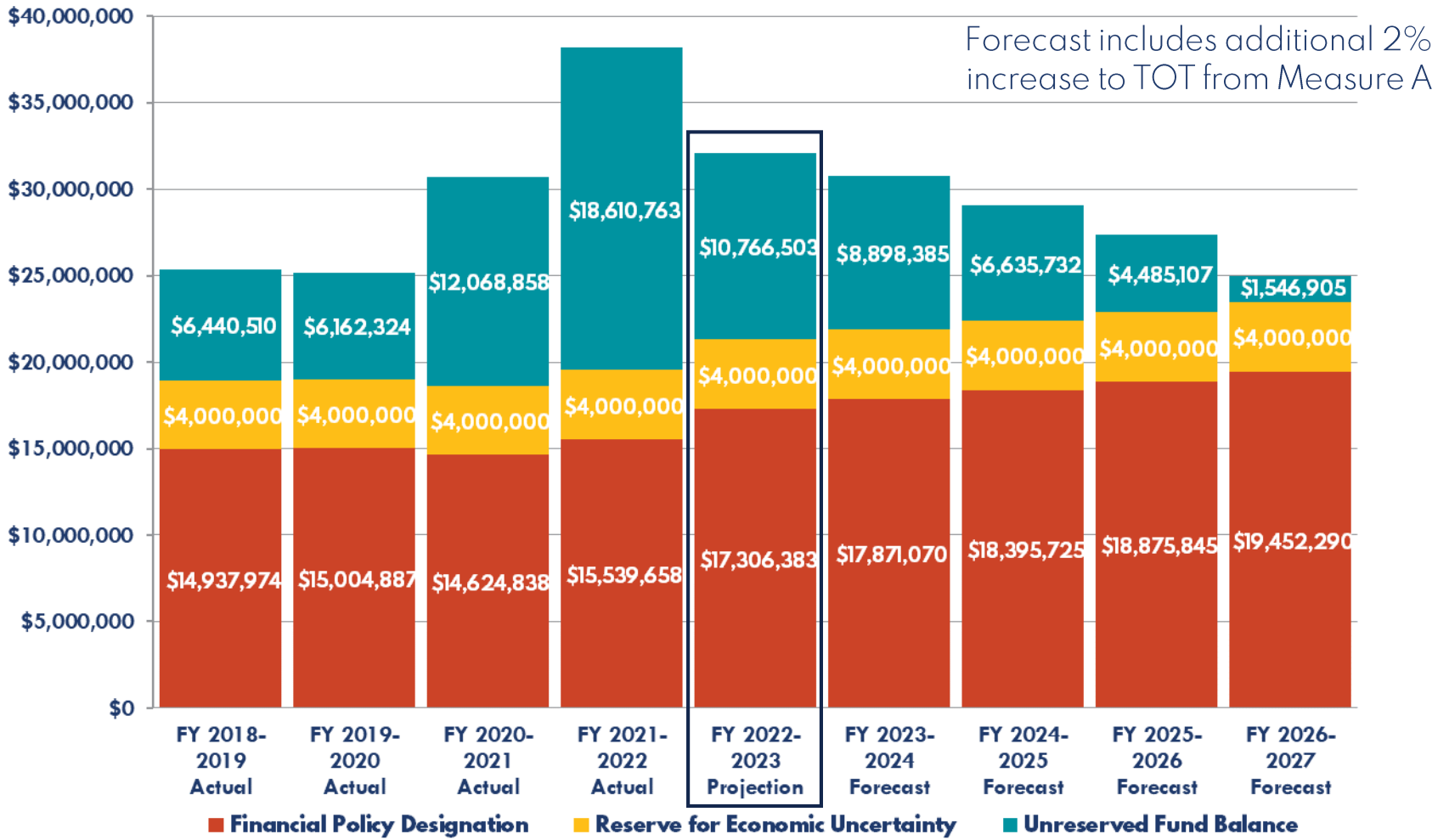
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- Five Year Forecast revised projections indicate continued annual structural surpluses
 - Ongoing revenues are projected to exceed expenditures
 - Staff refines growth factors and updates revenue projections during the budget process
- Increasing TOT to 14% is anticipated to increase General Fund revenue by \$1.25 million
- Existing revenue sources will be used for remaining \$850,000 of the \$2.1 million in recent Fire and Police staffing investments



FIVE YEAR FORECAST (PRELIMINARY)

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BUDGET OUTREACH

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Budget Priorities Community Meeting held on February 16 via Zoom

- Attendees were provided with:
 - FY 2022-2023 Budget Video
 - FY 2022-2023 Budget Overview
 - Opportunities to discuss questions and comments with staff
 - FY 2023-2024 Budget Timeline and additional opportunities for public input

Online Budget Survey available at:

www.manhattanbeach.gov/budget

- Approximately 70 responses received in first week
- Survey will be open through end of February



FY 2022-2023 BUDGET TIMELINE

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RECOMMENDATIONS

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Staff recommends that the City Council:

1. Receive the Mid-Year Budget Report for FY 2022-2023 and FY 2023-2024 budget development calendar;
2. Appropriate \$723,722 from the General Fund and approve other FY 2022-2023 budget change requests;
3. Approve FY 2022-2023 staffing adjustments identified in the staff report;
4. Authorize staff to draft an Ordinance implementing voter approved Measure A to increase the Transient Occupancy Tax from 12% to 14%.



QUESTIONS

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