

**CITY OF PALOS VERDES ESTATES
FISCAL HEALTH REPORT
FY 2003-2013**



**January 28, 2014
Lori Yamasaka, Acting Finance Director**



January 28, 2014

Mayor and Members of City Council:

The Fiscal Health Report, with results of operations for fiscal year 2012-13. Information that is used to create this report is derived from the City's Comprehensive Annual Financial Report (CAFR). The report provides a graphic representation of the City's fiscal condition as a complement to the financial audit. It assists with viewing the financial performance over time as a means to ensure future fiscal health.

The Fiscal Health Report is a monitoring system that computes a number of financial factors and compares the results over time. Monitoring systems can give early warnings of trends before they become major problems. The report is based on systems developed by the ICMA and GFOA, using selected factors for our City. The Finance Department has prepared this report since 1995.

How the System Works

The financial factors are calculated and trends established and graphed from 2003 through the fiscal year ended June 30, 2013 however, data is maintained from 1989 to the present. Unless otherwise noted, the data presented is for the general fund only. Expenditures for public safety (police and fire) are adjusted for inflation and represent constant dollar comparisons. Since the personnel costs related to these services are so large and influenced by inflation, adjustment to constant dollar comparison provides a clearer picture of the cost over time.

Factors and their trends are generally judged as favorable (green), stable (yellow) or unfavorable (red) and color-coded for easy reference. Due to the unprecedented fiscal conditions represented by the several previous years, staff had applied a tan color as a "watch" designation to what otherwise might be characterized as "stable". The "watch" designation indicated the rating could tip to either a favorable or unfavorable position, but that a clear trend was not discernible. Like the City Council and its approach to budgeting during this time period, the staff was especially cautious about the City's financial assumptions and took a very conservative approach to factor ratings.

Findings

The findings in the report can be divided into two sections with Factors 1 through 6 representing fiscal conditions and Factors 7 through 9 reflecting management performance. As highlighted in past reports, the City is in a period of stagnant revenues, slow increases in property values, the possible threat of negative state impacts and increasing pressure on the general fund caused by a variety of factors, including a drop in some special revenues, especially gas tax, policy decisions that shift costs to the general fund and potential changes on how CalPERS calculate rates. Performance of significance is highlighted for several factors below.

“Growth in Assessed Values” (AV) is rated as stable for FY 2013. AV increased 2.64% for this year and is flat for the year-to-year performance. It is likely AV changes will reflect a stable trend over the next several years and which was characterized in last year’s report as the “new normal” with increases between 2% and 4% due to CPI increase and additional moderate increase from resale values. Because the City operates with a comfortable margin between revenues and expenditures (see Factor 4B), the lack of property tax growth has been coupled with a very conservative approach to budgeting and expenditures, which has helped maintain this operating margin. Factors other than assessed values (#2 – 4 & 7) are all rated as “stable”.

Personnel costs are closely monitored, as they represent ~66% of the City’s general fund budget. For FY 2013, the City was in the second year of a three year agreement with both employee associations. The agreements resulted in modest salary increases of ~ 2.5% for 2013. Factors 5 and 6, “Personnel Costs as a Percentage of Total General Fund Expenditures” and “Benefit Costs as a Percentage of Personnel Costs” (pages 11 and 12) are once again classified as “watch” due to upcoming labor negotiation and PERS considering making changes to the discount rate and the mortality rate used in calculating benefit costs. Slight changes in either of these rates can have a large impact to the City.

The management factors (# 8 & 9) related to budgeting and operating position are rated as favorable. The City has a proven track record of realistic budgeting. Factor #7, “General Fund Balance”, reflects a “stable” rating due to the Council policy of maintaining the general fund balance at 50% of the next year’s total operating budget. The fund balance performance for 2013 (59%) is due to the fact that the FY 2012-13 budget did not provide for a use of funds (transfer) in excess of the 50% balance, which in the past has been directed to capital project financing. For the past several years, the Council has decided to wait for the presentation of the annual audit report, before considering policy options on the use of these funds.

I hope the Council finds the information in the report useful and that it provides some insight as to specific factors that reflect the City’s overall fiscal health. I look forward to discussing this report with you.







































Anton Dahlerbruch
City Manager

FISCAL HEALTH REPORT

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FACTOR SUMMARY SHEET

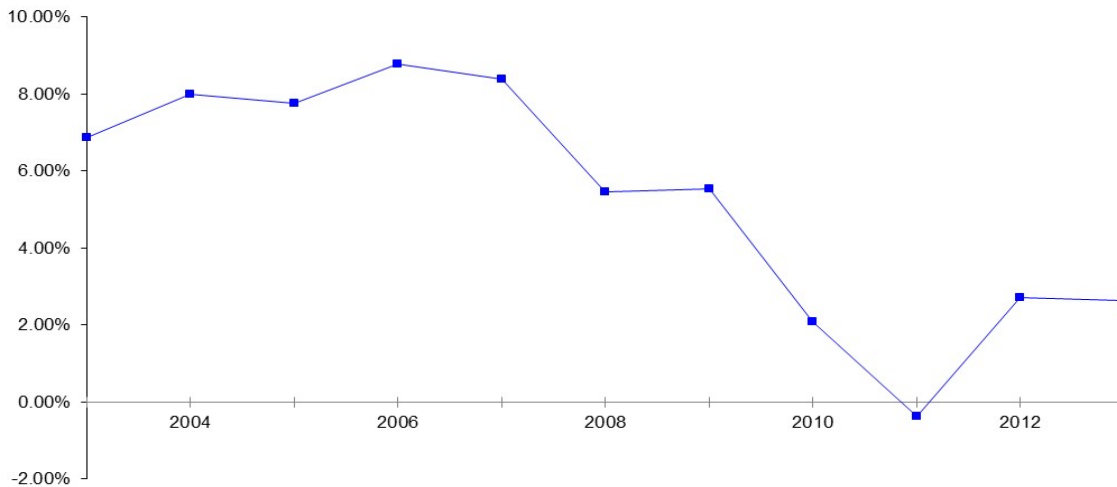
Factor No.	Factor	2010	2011	2012	2013
1	Assessed Values				
2	Property Tax as % of General Fund Revenue				
3	General Fund Revenue Per Capita				
4	General Fund Expenditures Per Capita				
5	Personnel Costs as % of General Fund Expenditures				
6	Benefit Costs as % of Personnel Costs				
7	General Fund Balance as % of Total Operating Expenditures				
8	Operating Position				
9	Revenue Shortfall/ Budget Overruns				

FACTOR 1 - GROWTH IN ASSESSED VALUES

DESCRIPTION – Assessed values (AV) are a key component of fiscal health since property taxes represent 54% of 2013 total general fund revenue. 2013 assessed values increased by 2.64%, aided by the maximum 2% CPI adjustment permitted under Proposition 13. This is the second year that AV has been flat. The 2013 rating must be viewed in context. Growth is flat compared to 2012 and exceeds the growth in 2011; however, it is likely we will not see improvement in home values until at least FY 2014-15 and years of recurring AV increases in excess of 6% are unlikely in the near term. General fund revenues continue to exceed expenditures by a comfortable margin. The City is in no danger of an immediate general fund operating deficit, and can endure several years of even modest growth (+2%) in assessed values.

FORMULA -
$$\frac{\text{Current Year Assessed Value Minus Last Year's Value}}{\text{Last Year's Property Value}}$$

WARNING SIGN - DECREASING GROWTH OF ASSESSED VALUES



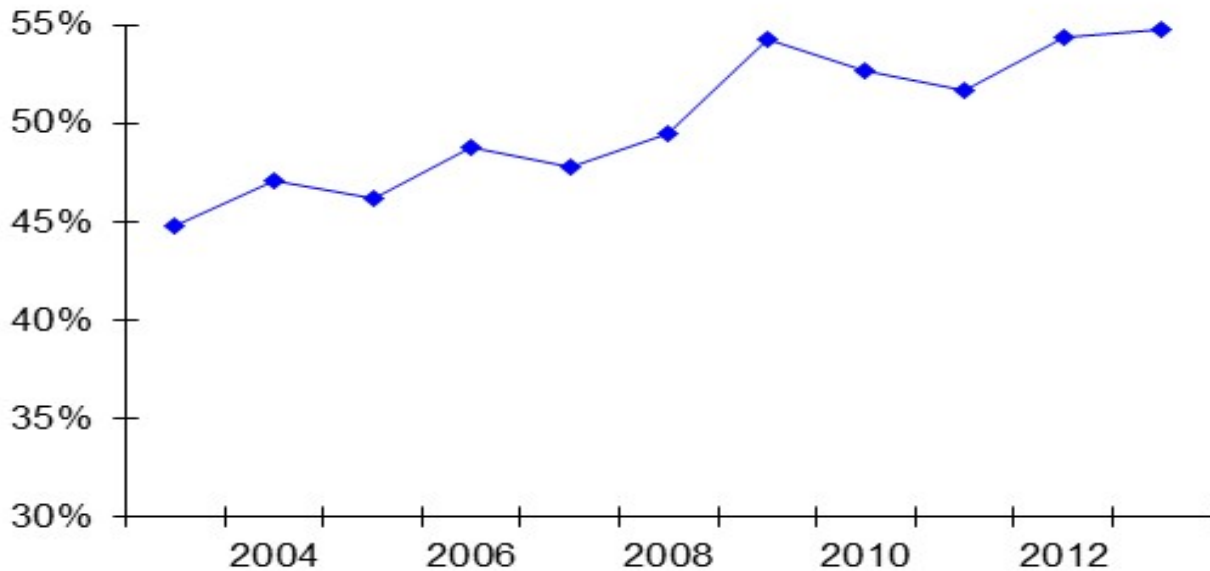
TREND  Stable


FACTOR 2 - PROPERTY TAX COLLECTIONS AS PERCENTAGE OF GENERAL FUND REVENUE

DESCRIPTION – This factor focuses attention on property taxes, which are a key revenue source for this city. An increasing or decreasing percentage of property tax compared to total revenue could indicate a problem. An increasing percentage may indicate a lack of revenue diversification and an over-reliance on property tax, while a decreasing percentage may indicate lack of assessed value growth and/or an increasing delinquency rate. For FY 2013, property tax revenue (all sources) equaled 54% of general fund revenue which was the same rate as 54% in 2012. In the absence of an economic recovery, which would result in higher development revenue, sales taxes and other sources influenced by discretionary income (e.g. concession fees), the City by its residential nature will continue to show a heavy reliance on property taxes.

FORMULA -
$$\frac{\text{Property Tax Revenue}}{\text{General Fund Operating Revenue}}$$

WARNING SIGN - SIGNIFICANTLY INCREASING OR DECREASING PERCENTAGE OF PROPERTY TAX REVENUE AS A PERCENTAGE OF GENERAL FUND OPERATING REVENUE



TREND 

 Stable

FACTOR 3 - GENERAL FUND REVENUE PER CAPITA

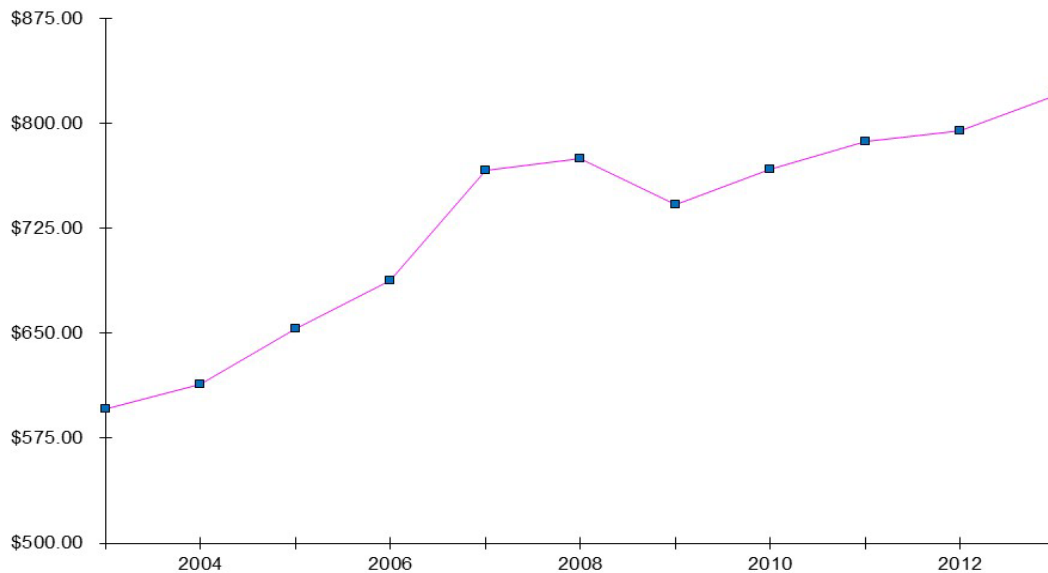
DESCRIPTION – This factor is designed to show whether revenues are keeping pace with growth in the community in order to gauge if there are resources to meet demands for service. While population growth is not a concern for Palos Verdes Estates, the per capita analysis does provide a useful approach to analyzing revenues and expenditures, once we account for the effects of population adjustments based on census results.


Per capita revenue for 2013 totaled \$820 compared to \$795 in 2012. General fund revenues increased 3.7% in 2013 compared to the prior year. We expect the revenue trend line to continue to remain flat for at least the next two years, given minimal growth in assessed values and the absence other factors pointing to strong economic performance.

Factor 4B (page 10) provides the graphic representation of both revenue and expenditures per capita, and it is important to view these factors in relation to each other.

FORMULA -
$$\frac{\text{General Fund Operating Revenue}}{\text{Population}}$$

WARNING SIGN - DECREASING OPERATING REVENUE PER CAPITA



TREND 
Stable

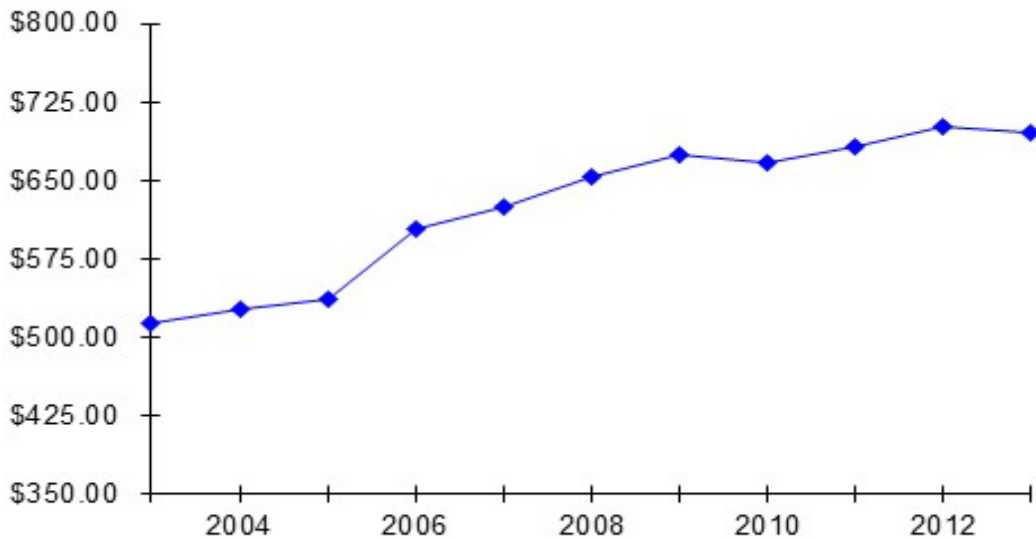
FACTOR 4 - GENERAL FUND EXPENDITURES PER CAPITA



DESCRIPTION - This factor is designed to show the cost-per-person of providing general fund City services. Increasing expenditures per capita can be troublesome if revenues per capita are stable or declining, which reflects our current situation. Per capita expenditures totaled \$696 in 2013 compared to \$701 in 2012. Total general fund expenditures decreased \$25,015 (less than 1%) compared to FY 2012. Savings from the cancellation of the election and continued personnel consolidations were the main drivers of the reduction. With the hiring of a new City Manager and bringing some currently contracted positions “in house”, this factor may change.

As mentioned in previous reports, and displayed in Factor 4B (page 10), general fund revenues continue to perform in a manner which allows a comfortable margin above expenditures.

FORMULA -
$$\frac{\text{Total Operating Expenditures}}{\text{Population}}$$

WARNING SIGN - **SIGNIFICANTLY INCREASING OPERATING EXPENDITURES PER CAPITA, ESPECIALLY WHEN COMBINED WITH A STABLE OR UNFAVORABLE TREND IN FACTOR 2 - REVENUES PER CAPITA.**



TREND  
Stable

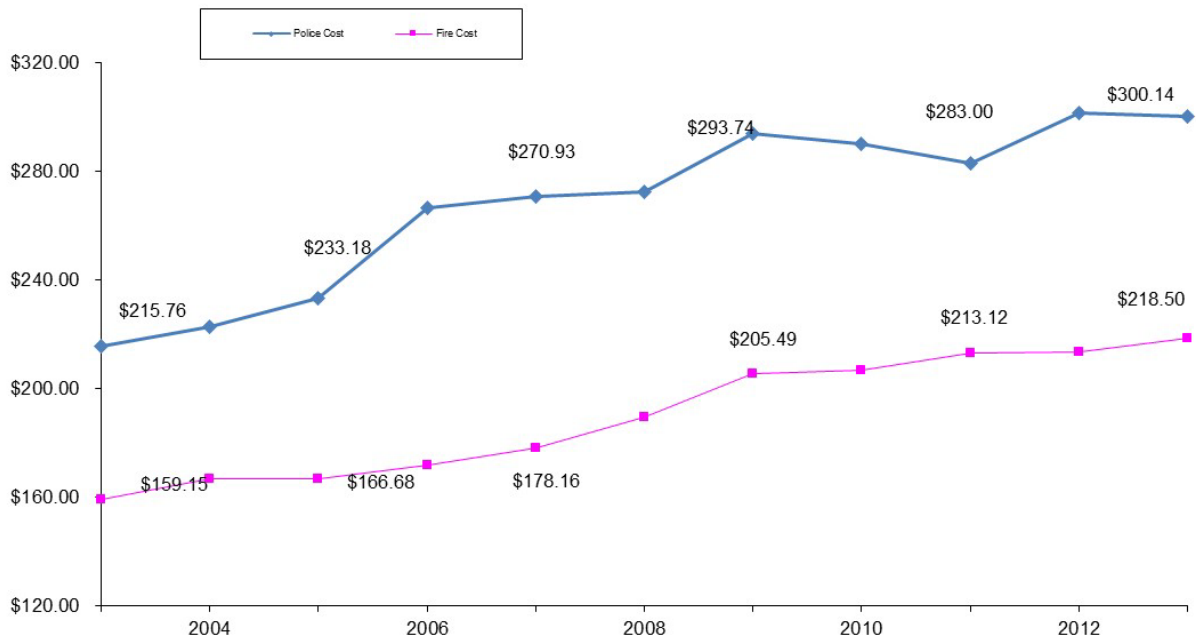
FACTOR 4.A. - PUBLIC SAFETY EXPENDITURES PER CAPITA

DESCRIPTION – Public Safety, police and fire costs, represented 55% of total operating expenditures in 2013. Personnel costs represent the vast majority of the costs for these departments – 83% in the Police Department and 78% within fire. The annual increase in the fire contract cost is capped at a maximum 4.2%. The Police Department costs are determined in large part by terms of the labor agreements, as well as employer PERS costs. In addition, since the analysis for the Police Department includes general fund costs only, the extent expenses are shifted to the general fund from restricted funds, as occurred beginning in 2006, affects the trending / per capita costs as well.

In 2013, the per capita cost differential between police and fire was \$82, compared to \$88 in 2012. General fund costs for Police operations in 2013 increased a total of \$43,540 compared to 2012, all of which is attributable to salary and benefit costs. We realized full staffing within the Police department for a time during 2013. Due to the very small department, any vacancy, even temporary, can have a notable impact on the per capita cost.

FORMULA -
$$\frac{\text{Public Safety Expenditures}}{\text{Population}}$$

WARNING SIGN - SIGNIFICANTLY INCREASING PER CAPITA EXPENDITURES



TREND ●

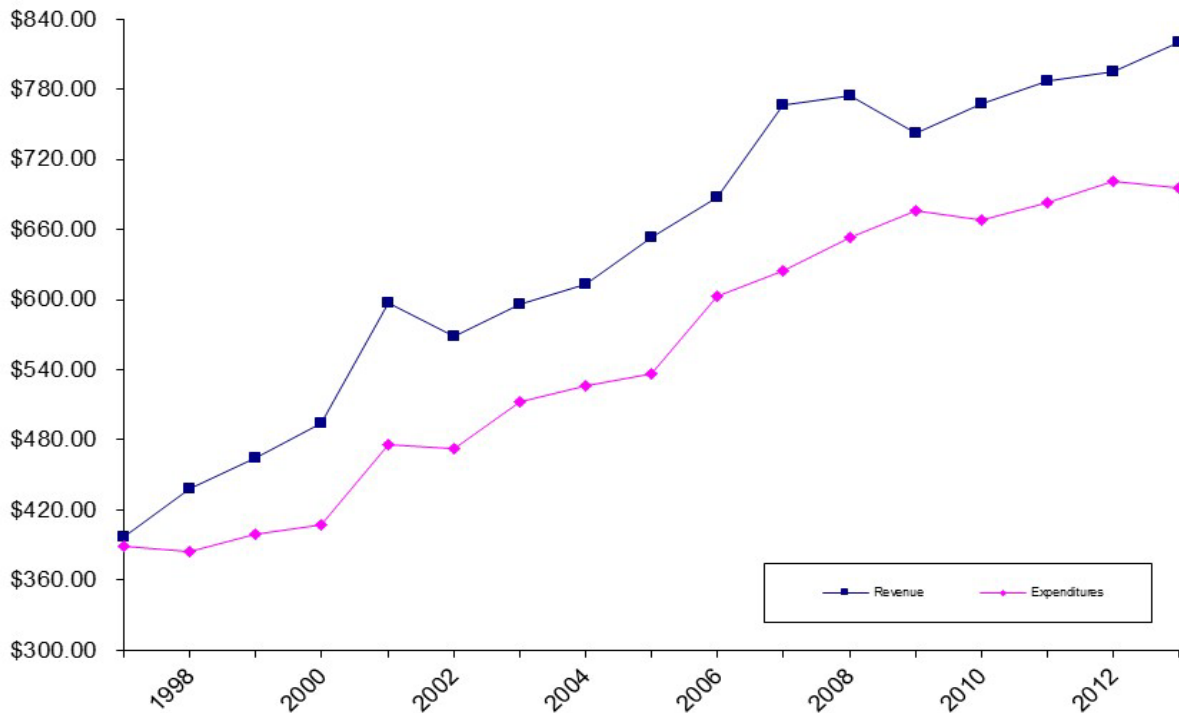
 Stable

FACTOR 4.B. - REVENUES AND EXPENDITURES PER CAPITA

DESCRIPTION - This item shows Factors 3 and 4, Revenues and Expenditures per Capita, in tandem. Data from 1997 forward is shown to provide a longer historical perspective. Results in 2005, 2006 and 2009 reflect state property tax diversions that occurred in those years. FY 2007 represented the peak of fiscal performance with the widest margin of revenue in excess of expenditures (\$141), which coincides with the peak in median home values. The results for 2013 show general fund revenues per capita in excess of expenditures of \$124. The City continues to experience a healthy general fund surplus. The challenge in the future will be relatively stagnant revenues coupled with increasing expenditure pressure on the general fund.

Per capita revenues have exceeded expenditures by the following margins:

1997	\$ 7.86	2003	\$ 82.99	2009	\$ 66.69
1998	\$ 53.62	2004	\$ 87.01	2010	\$ 99.39
1999	\$ 65.85	2005	\$116.79	2011	\$105.80
2000	\$ 86.36	2006	\$ 84.61	2012	\$ 93.15
2001	\$121.65	2007	\$141.35	2013	\$123.81
2002	\$ 95.60	2008	\$121.79		



TREND ●
Stable

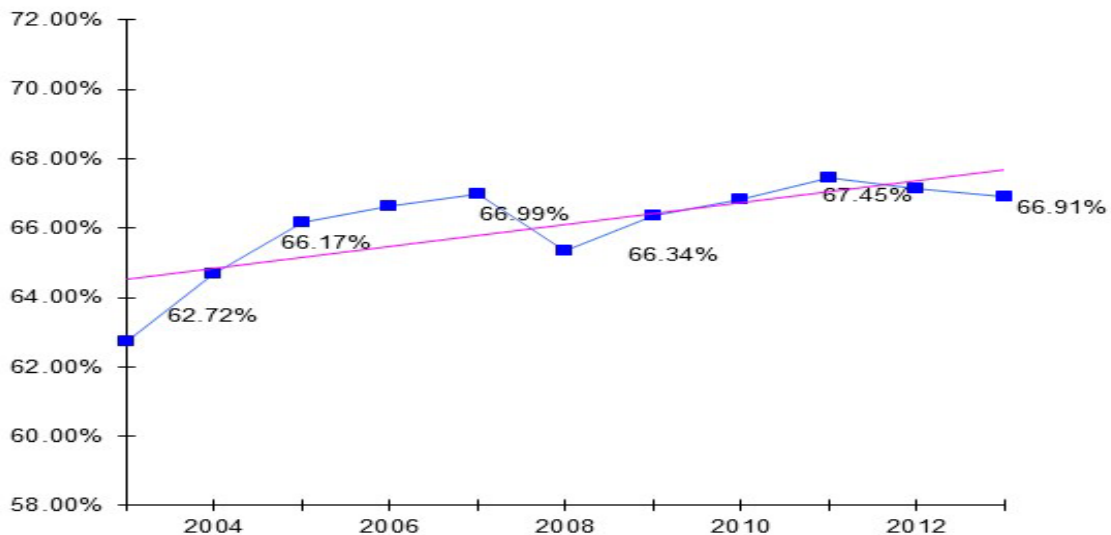
FACTOR 5 - PERSONNEL COSTS AS PERCENTAGE OF TOTAL GENERAL FUND EXPENDITURES


DESCRIPTION - This factor is designed to show the percentage of general fund expenditures devoted to personnel costs. There is no ideal percentage or municipal standard for this factor and services provided by City personnel as opposed to contract affects the percentage. Building and planning contract service costs related to development activity are deleted from total general fund costs in order to give a more consistent picture.

From 2005 – 2010, personnel costs remained relatively constant as a percentage of total general fund expenditures (66%). The trend line is slightly positive. In FY 2010 and 2011, the City provided a fixed stipend in-lieu of across the board salary increases. The FY 2012 and 2013 results appear to show the beginning of a slightly decreasing trend. However, this is a temporary situation. FY 2013 results are slightly lower than 2012 (-.24%) due to the retirement of long-time personnel and position vacancies. During FY 2013-14, the process of hiring new personnel and labor negotiations will begin and may have an effect on this factor.

FORMULA -
$$\frac{\text{Total Personnel Costs}}{\text{Total General Fund Expenditures-Cost for Development Services}}$$

WARNING SIGN - SIGNIFICANTLY INCREASING PERSONNEL COSTS COMPARED TO TOTAL EXPENDITURES ABSENT NEW EMPLOYEES OR BENEFITS



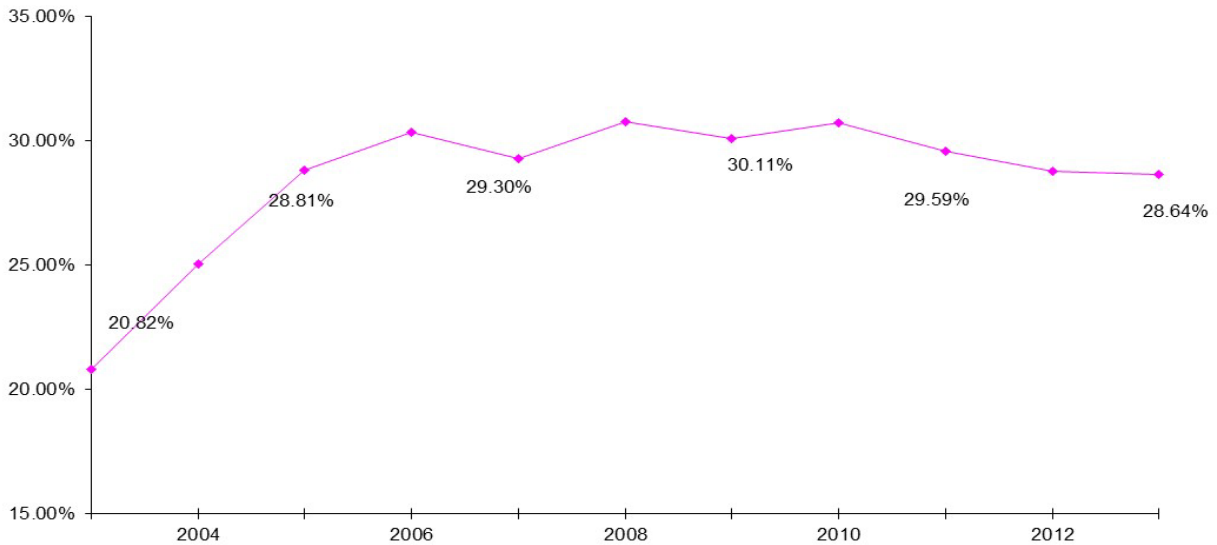
TREND 
 Watch

FACTOR 6 - BENEFIT COSTS AS PERCENTAGE OF TOTAL PERSONNEL COSTS

DESCRIPTION - This factor is designed to demonstrate the impact of fringe benefit costs on a City's finances. Fringe benefits are sometimes viewed as low cost items compared to salaries, which may not always be the case. This factor was rate unfavorable from 2004-2006, when we experienced rapidly escalating retirement rates before PERS implemented rate smoothing and "pooled" plans for cities of less than 100 lives. From 2007-2011, a "watch" rating was applied to this factor, due to potential increased PERS costs related to the fund's investment performance. Medical insurance costs during this period moderated and the City's contribution is capped through agreements with the employee associations. The "watch" rating is being applied to this factor again for 2013. Pension reforms will likely result in further stability of the City's benefits costs over time; however, this may take several years to be realized and PERS is now considering changes to the discount rate and an increase to the mortality rate used in their calculation which may adversely affect our rates in the near future. The City will enter into new labor negotiations in FY 2013-14 with the two employee groups. We will not know the effects of these potential changes to this factor until the negotiation are completed and PERS returns with their boards' decision.

FORMULA -
$$\frac{\text{Benefit Cost}}{\text{Total Personnel Costs}}$$

WARNING SIGN - INCREASING FRINGE BENEFIT COSTS COMPARED TO TOTAL SALARY AND WAGE COSTS



TREND

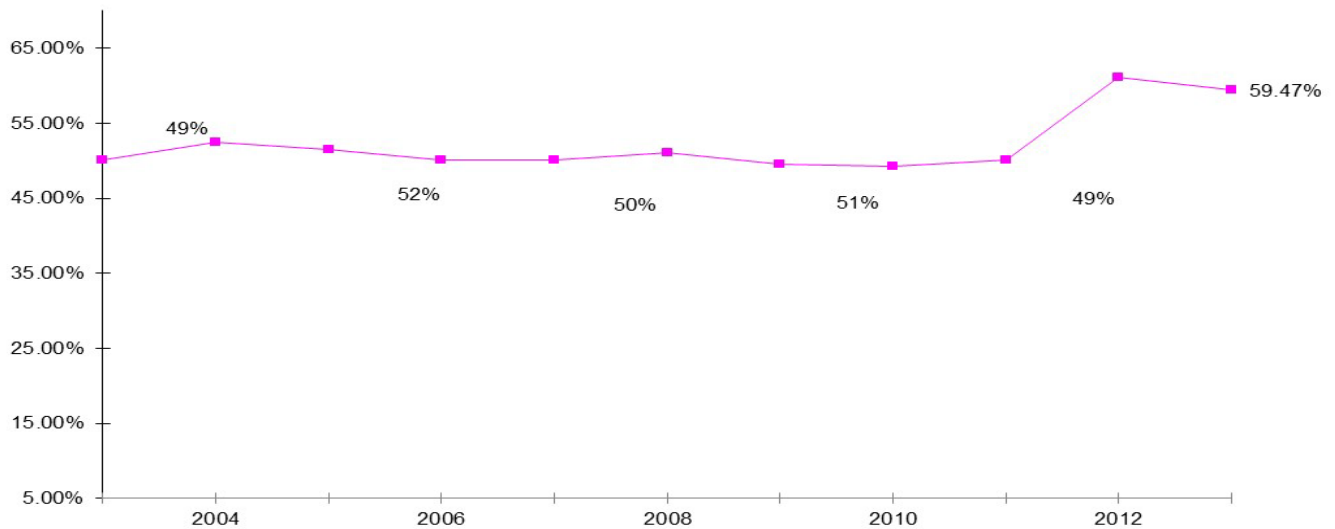
Watch

FACTOR 7 – GENERAL FUND BALANCE AS A PERCENTAGE TO TOTAL OPERATING EXPENDITURES

DESCRIPTION - This factor is designed to show the undesignated portion of the general fund balance as a percentage of the next year's (FY 13-14) total budgeted operating expenditures, including the cost of fire service, which is financed outside the general fund. This provides a means to gauge a City’s ability to respond to unforeseen emergencies, representing available funds expressed as a percentage of total expenditures. In 2011, the City implemented provisions of GASB 54 and adopted a formal fund balance policy. The Council approved a “committed” general fund balance of \$7.2 million to address economic uncertainties. In prior years, funds in excess of the targeted balance (50% of operating budget) were transferred to the capital fund, except during 2009 and 2010 when excess funds were used to reduce the PERS safety plan side fund liability. The PERS liability was eliminated during FY 11-12 and results of operations for 2013 reflect an excess general fund balance.

FORMULA -
$$\frac{\text{General Fund Undesignated Balance}}{\text{Total Budgeted Operating Expenditures}}$$

WARNING SIGN - DECREASING UNDESIGNATED GENERAL FUND BALANCE AS A PERCENT OF TOTAL OPERATING EXPENDITURES



TREND ●

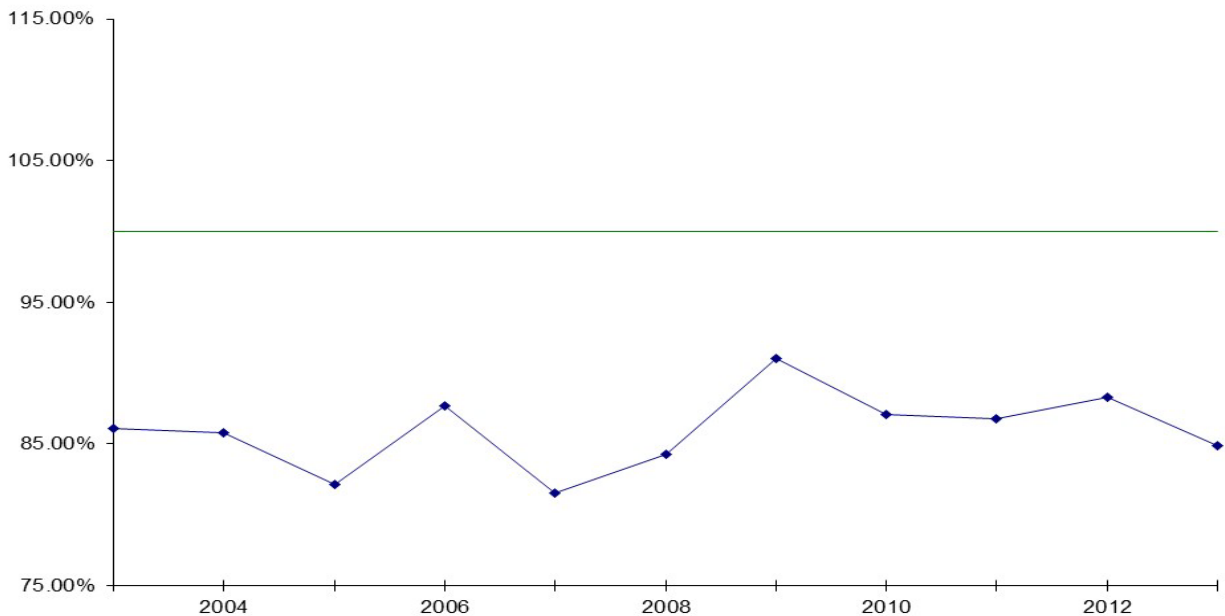
 Stable

FACTOR 8 - OPERATING POSITION

DESCRIPTION - This factor is designed to demonstrate whether a municipality is operating at “break even” or is relying on its fund balance to finance current operations. In this calculation, a number more than 100% means the City was operating at a deficit; 100% means the City broke even; less than 100% means the City had an operating surplus and earned more than was spent. *The City has realized a general fund surplus each year since 1994 and continues to realize a comfortable general fund surplus.* Dedicated special financing for fire contract costs are a critical component of the City’s fiscal picture and as stated in past reports, property tax revenues alone do not cover the cost of operations for the Police Department.

FORMULA -
$$\frac{\text{General Fund Operating Expenditures}}{\text{General Fund Operating Revenues}}$$

WARNING SIGN - INCREASING AMOUNTS OF GENERAL FUND OPERATING DEFICITS AS A PERCENTAGE OF TOTAL OPERATING REVENUE



TREND 
Favorable

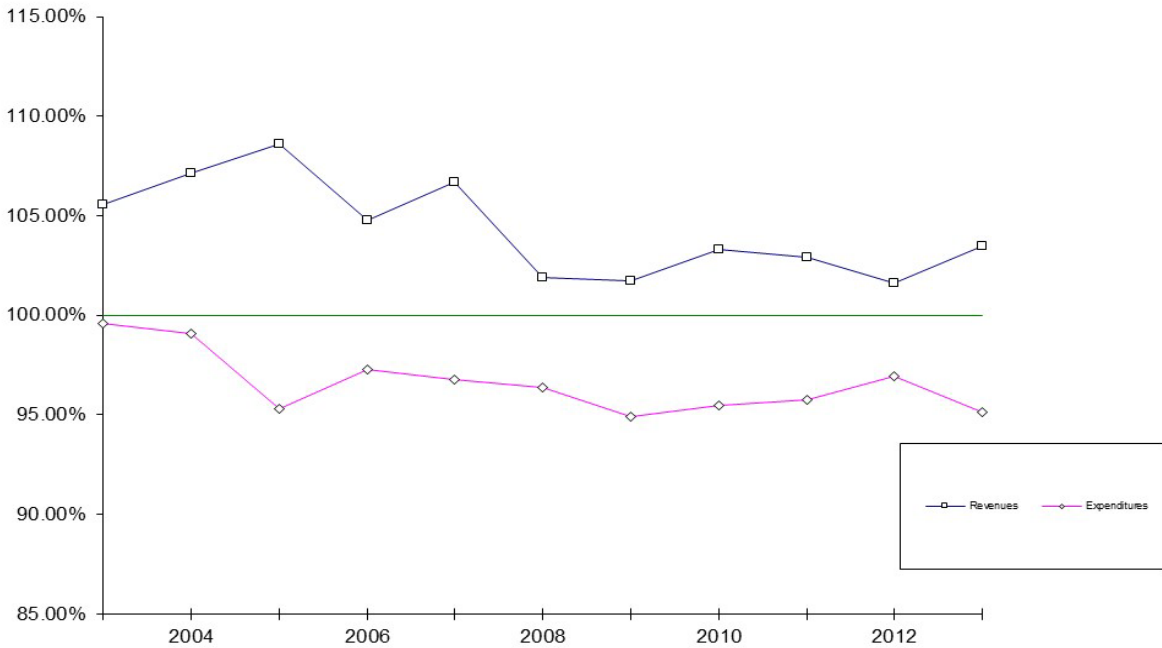
FACTOR 9 - REVENUE SHORTFALL AND EXPENDITURE OVERRUN

DESCRIPTION - This factor is helpful in determining fiscal condition and the performance of municipal officials in controlling budgets. While estimating revenues and expenditures is not an exact science, some municipalities routinely over-estimate revenues to make budgets balance. Likewise, there could also be a continuing pattern of expenditures exceeding budget. Combined with revenue shortfalls, this can lead to a serious problem in a very short time. A calculation of 100% means an exact budget to actual match.

Our historic conservative budgeting has achieved consistent performance of revenues slightly in excess of budget and expenditures slightly below, resulting in general fund operating surplus (see Factor 8). While our goal would be to have our revenue and expenditure budgets track as closely to 100% as possible, the scenario reflected below is an acceptable alternative.

FORMULA -
$$\frac{\text{Year-end Actual Revenues and Expenditures}}{\text{Budgeted Revenues and Expenditures}}$$

WARNING SIGN - INCREASING AND/OR CONSECUTIVE REVENUE SHORTFALLS OR BUDGET OVERRUNS



TREND 
Favorable

FISCAL HEALTH REPORT FACTOR CALCULATIONS**APPENDIX**

		2003		2005		2007		2009		2011		2013
Factor 1	ASSESSED VALUE	3336502029	3603607956	3910426647	4224376707	4578558396	4828404612	5095981371	5202703875	5183491000	5324234000	5465024000
	CHANGE	6.87%	8.01%	8.51%	8.03%	8.38%	5.46%	5.54%	2.09%	-0.37%	2.72%	2.64%
	POPULATION	13928	14086	14208	14041	14085	14046	14046	14085	13480	13516	13589
Factor 2	PROPERTY TAX % GENERAL FD REV	44.74%	47.04%	46.19%	48.80%	47.78%	49.52%	54.30%	52.68%	51.64%	54.38%	54.74%
	CURRENT PROP TAX COLLECTION	3347066	3628027	3949536	4370726	4549980	4810980	5081257	5243610	5304265	5494212	5689018
	% OF CURRENT LEVY COLLECTED	97.40%	97.79%	97.63%	97.41%	96.20%	94.98%	95.29%	96.55%	97.59%	97.90%	98.19%
	TOTAL PROPERTY TAX COLLECTED	3714562	4066440	4287637	4715003	5157263	5389989	5661511	5694990	5490647	5841802	6098958
Factor 3	GF REV-UUT	8302318	8644796	9282048	9661601	10794782	10884403	10426844	10809603	10632711	10743040	11141465
	PER CAPITA	\$596.09	\$613.72	\$653.30	\$688.10	\$766.40	\$774.91	\$742.34	\$767.45	\$788.78	\$794.84	\$819.89
Factor 4	TOTAL GF	7146525	7419267	7622745	8473658	8803882	9173673	9490201	9409784	9206520	9483981	9458966
	EXPENDITURE PER CAPITA	\$513.10	\$526.71	\$536.51	\$603.49	\$625.05	\$653.12	\$675.65	\$668.07	\$682.98	\$701.69	\$696.08
Factor 4a	POLICE	3666111	3891139	4193324	4850963	5023036	5180143	5510809	5486155	5195354	5599603	5643145
	ADJUST INFLATION	0.819695012	0.80676673	0.7900847	0.77087992	0.75971	0.7385	0.7480	0.7452	0.7343	0.7281	0.7228
	PER CAPITA	3005093	3139241	3313081	3739510	3816039	3825333	4121897	4088354	3814895	4076868	4078655
Factor 4b	FIRE	2704209	2908234	2997418	3128674	3303129	3604101	3855061	3911087	3912491	3961582	4108103
	ADJUST INFLATION	0.819695012	0.80676673	0.7900847	0.77087992	0.75971	0.7385	0.7480	0.7452	0.7343	0.7281	0.7228
	PER CAPITA	2216627	2346266	2368214	2411832	2509413	2661488	2883454	2914593	2872902	2884284	2969184
	PER CAPITA	\$159.15	\$166.57	\$166.68	\$171.77	\$178.16	\$189.48	\$205.29	\$206.93	\$213.12	\$213.40	\$218.50

FISCAL HEALTH REPORT FACTOR CALCULATIONS

		2003		2005		2007		2009		2011		2013
Factor 5	PERSONNEL	4072551	4341520	4614128	5188625	5449676	5553804	5914122	5885320	5817881	6005475	5967135
	GF EXP	6493625	6713316	6973136	7787484	8134671	8501284	8914253	8806607	8625582	8944083	8918629
	%	62.72%	64.67%	66.17%	66.63%	66.99%	65.33%	66.34%	66.83%	67.45%	67.14%	66.91%

Factor 6	BENEFIT	847968	1087135	1329305	1575586	1596615	1710408	1780820	1808203	1721757	1729567	1709134
	PERSON	4072551	4341520	4614128	5188625	5449676	5553804	5914122	5885320	5817881	6005475	5967135
	%	20.82%	25.04%	28.81%	30.37%	29.30%	30.80%	30.11%	30.72%	29.59%	28.80%	28.64%

Factor 7	FUND BALANCE	50.13%	52.44%	51.42%	50.12%	50.12%	51.08%	49.57%	49.26%	50.09%	61.07%	59.47%

Factor 8	OPERATING POSITION	86.08%	85.82%	82.12%	87.70%	81.56%	84.28%	91.02%	87.05%	86.59%	88.28%	84.90%

Factor 9	REVENUE SHORT	8302318	8644796	9282048	9661601	10794782	10884403	10426844	10809603	10632711	10743040	11141465
	BUDGET	7863615	8070110	8547835	9219270	10117025	10681815	10246895	10447500	10305970	10572680	10764315
	PERCENT	105.58%	107.12%	108.59%	104.80%	106.70%	101.90%	101.76%	103.47%	103.17%	101.61%	103.50%
Factor 9	EXPEND OVER	7146525	7419267	7622745	8473658	8803882	9173673	9490201	9409784	10813495	10242790	9458966
	BUDGET	7174955	7488556	7995905	8710850	9094880	9516455	10000690	9853215	11295720	10568649	9943080
	PERCENT	99.60%	99.07%	95.33%	97.28%	96.80%	96.40%	94.90%	95.50%	95.73%	96.92%	95.13%