



Budget Message

Thank You

I would like to take this opportunity to express my sincere appreciation for the hard work, effort and team-play that went into the creation of the biennial FY 2014/16 budget and capital plan.

I want to thank the City elected officials for their leadership and support without which the directions being pursued herein could not be advanced. My deep gratitude is extended to the entire executive team including Dave Hinig, Alexa Davis, Vickie Kroneberger, Sheri Repp-Loadsman and Russell Morreale – a team that has been remarkably resilient, responsive and fast-moving in the creation of this foundational document. Also, a special thank you to the Finance staff, Lori Yamasaka, Michelle Mello and Karen Kato for their time, energy and attention to detail in preparing this financial plan.

Finally, I want to thank all staff citywide for sharpening their pencils resulting in a sustainable and responsible fiscal plan.

Anton Dahlerbruch, City Manager

FY 14/16 BUDGET MESSAGE



At the outset of this 75th anniversary year, mindful of continuing the City’s long, established history of fiscal conservatism and cost conscious operational practices, we embarked on a budget process of planning and building the next phase of the City’s future. Our goals and perspectives in preparing this budget encompassed (1) continuing a tradition of fiscal planning that is prudent and sustainable and (2) establishing an accurate fiscal base required to strengthen the organization’s efficiency, effectiveness and responsiveness, and build the operational, capital, and human resource infrastructure necessary for serving the community. The two-year plan before you is the start of a multi-year process; it is both resourceful and operationally realistic, ensuring no disruption to the high standards of service provided to the community, while placing the City on a trajectory for continued excellence.

This budget certainly looks different than years past. The change in format and methods of presentation was purposeful as a first step forward in designing a financial environment that is accessible and reporting documents that are technically strong, yet “more readable” and, hence, informative to the general public. This document is the first of several steps toward enhancing communications and knowledge of City services and work plans that will evolve in future years. With this revision of past budget documents, we hope you find this publication to be of added value.

This fiscal plan places a focus on community enhancements, connectivity, staff development, organizational effectiveness, service delivery, capital planning, and technology. It further represents a long term operating and capital planning process, an initiative that will continue and be strengthened with interim reports, improved accountability, clearer communications and future budgets. The operational portion of the budget has been shaped based on a programmatic, or functional, structure emphasizing the City’s various service delivery centers. These service centers, more commonly known by their department names – Administration – Finance - Police – Paramedic & Fire Services – Planning, Building & Public Works, are those units responsible for specific services and performing the City’s core duties. The budget document has been crafted to highlight each of the named service delivery centers.

In terms of dollars and cents, the budget document strives to answer the three essential questions:

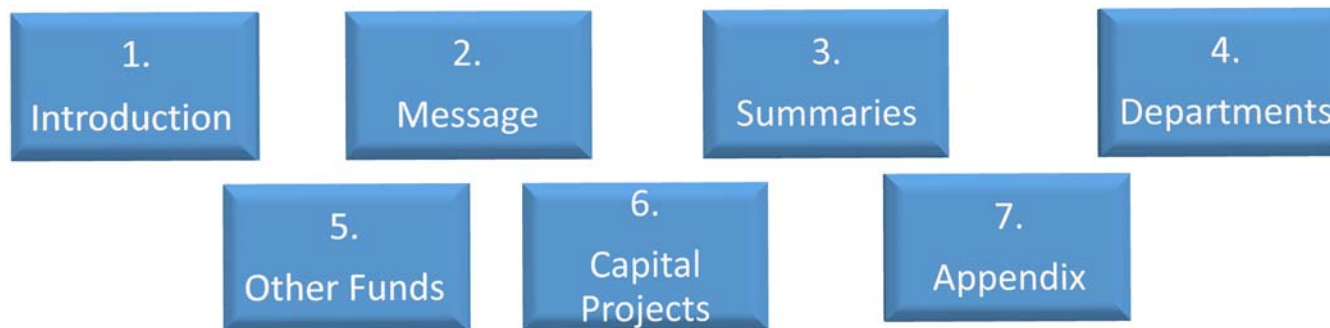
- What We Have** - Exactly how much does the City have in reserve to draw from and use now and within the near term?
- What We Take In** - What are the City’s Revenue Sources?

What We Spend - How are tax and fee dollars used in the delivery of community services?

Capital improvements are also a key focus of this report. More than cost, capital improvement projects (CIPs) are of great interest for the community, as they are a factor in Palos Verdes Estates' highly visible and functional physical environment. Done well and right, they preserve, enhance and nurture the quality of life in Palos Verdes Estates.

STRUCTURE OF THE DOCUMENT

This document is a financial plan that includes a three year historical view of past results and estimates. Revenues are presented by Fund (tantamount to a private-industry subsidiary or division), Category and Source while expenditures are divided into Fund- Department – Program and Category. These are organized in summary and more detailed layouts. Service centers have also been asked to include a description of mission, accomplishments and future goals; each Departmental budget section presents this information under the headings “What we do?”, “What we have accomplished” and “Goals”. In summary, the document's overall structure is as follows:



The Summaries section consolidates the numbers from all the various sources and uses and organizes them into a comprehensive and meaningful manner. The section essentially “telescopes” the financial data from high level to detail to provide access to the various perspectives of interest.

Department Budgets and Other Funds provide a platform from which each department defines the resource levels necessary for service delivery. The Capital Projects section quantifies large scale improvement projects (hardscape brick and mortar items or plans thereof) designed to maintain City infrastructure, open spaces, streets and roadways, sewer lines, storm drain system, and facilities.

The Appendix is a collection of added information. It also includes important information such as a detailed and comparative listing of City staffing and a schedule of items requested and proposed in the budget process above the base budget. Lastly, the appendix includes a multi-year forecast, some key performance measures and a listing of authorized positions.

BUDGET HIGHLIGHTS

The biennial Fiscal Year (FY) 2014/15 and 2015/16 operating budget is balanced, and it maintains service levels across the board. It responds to several much needed refurbishments in several key areas – staff development – training – equipment – safety – technology – capital outlay and large scale capital projects.

From a perspective of staffing and organizational structure, the City's traditional functional structures has been preserved by maintaining a hybrid balance of in-house staff and contract services. Contract based services are deployed in all key functions including Safety (paramedic and fire contract), Maintenance (waste hauling, landscaping contracts), Administration (legal, technology, professional service contracts) and Planning, Building & Public Works (Building and Engineering contracts).

This budget also incorporates necessary organizational changes initiated in FY 13/14 with the full staffing of two mission-critical core internal full-time positions – a Planning & Building Director and Finance Director. These positions enhance operations and advance key initiatives in a manner that is both timely, accountable and undiluted in focus. Based upon further assessment, this budget includes an additional in-house Planner offset by a reduction in contractual services. This is a discipline that is both a significant cost savings to the City as compared to current external billing rates and will be best vested to address the community needs through constant presence and internal direction.

As discussed in more detail below, this fiscal plan is conservatively built based on full costing levels and revenue projections that do not overreach. Revenue estimates are attentive to an economy that is fragile at local, state and federal levels. Within these parameters, projections are sustainable and allow for steady operations going forward. In summary:

- The General (operating) fund is balanced for both FY 2014/15 and FY 2015/16
- Policy (rainy day) reserves have been maintained at established levels
- Revenues increased moderately and are forecasted to remain so in the two year term (increase projected to be 2 to 3%)
- Property tax is again the main revenue driver coming off of a better than average past year (increase projected to be 2.5%)
- Full Time Equivalent positions (full and part-time) increase from 57 to 59 (inclusive of positions added in mid-FY 13/14)

- Normal and sustainable salary and benefit growth have been included
- Cal PERS Safety pension rate increases have been included as estimated
- Increases in regional healthcare and insurance costs have been allowed
- The budget includes a substantial investment in long deferred equipment, services, system upgrades, security measures and technology of over \$400,000

PROJECTED FUND BALANCES & RESERVES

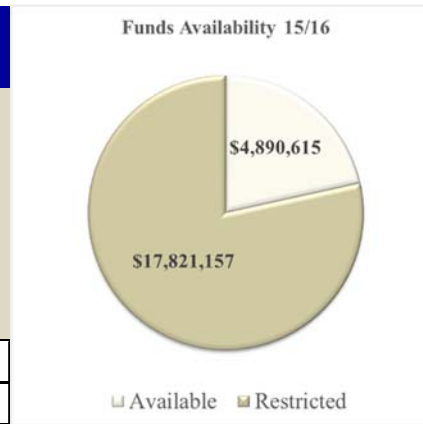
This biennial budget maintains the strong General fund reserve for “rainy day” needs and unplanned disasters and emergencies, recognizing the City’s stable, but non-diversified, revenue base. To that end, the budget establishes the following two full year projections of projected fund balances:

FUND GROUP	PROJECTED		
	JUNE 2014	JUNE 2015	JUNE 2016
GENERAL FUND	9,325,290	9,247,837	9,244,230
FIRE TAX FUND	511,779	511,779	511,779
SPECIAL REVENUE FUNDS	1,363,367	1,244,682	1,418,947
TRANSIT TAX FUNDS	768,785	744,475	726,225
CAPITAL FUNDS	11,337,351	8,523,351	7,025,451
SHARED SERVICE FUNDS	3,848,661	3,753,741	3,785,141
TOTAL	27,155,233	24,025,865	22,711,773

A view of the table above reveals a maintenance of strong fund balances as well this budget’s investment in citywide capital improvements.

Another important analysis and component of fund reserves has to do with Funds availability given policy restrictions and/or the proceeds they contain. To that end, this budget also projects fund availabilities as listed below. As such, it is important to know the concept that governmental accounting categorizes dollars (i.e. –places them in funds) based upon their source of origin and the degree of discretion that can be applied to their use. For the most part, General Fund dollars and Capital dollars that remain uncommitted, beyond set policy reserve levels, assume the highest degree of availability while other “special revenue” funds, originating from state, federal, special tax or grant dollars are restricted. In the end result – only about 1/3 of City Funds remain discretionary. A fact that many find most surprising.

FUND	June 2015		June 2016	
	Available	Restricted	Available	Restricted
GENERAL FUND	675,688	8,572,149	581,514	8,662,715
FIRE TAX FUND	-	511,779	-	511,779
SPECIAL REVENUE FUNDS	-	1,244,682	-	1,418,947
TRANSIT TAX FUNDS	-	744,475	-	726,225
CAPITAL FUNDS	5,523,601	2,999,750	4,309,101	2,716,350
SHARED SERVICE FUNDS	-	3,753,741	-	3,785,141
	6,199,289	17,826,576	4,890,615	17,821,157
		24,025,865		22,711,773



This budget was built in strict observance to the City’s practice of maintaining a 50% reserve level. This reserve balance grows from \$8.3 Million to \$8.7 Million over the two year term representing 50% of base funds (all funds excluding capital and sewer) and 75% of the City’s General operating Fund.

ESTIMATED REVENUES

The City checkbook is made up of many Funds or categories, all of which are listed in summary and detail within the budget document. For purposes of the budget message, it is most helpful and instructive to focus in on the General Fund, as it provides the resources that drive core City services. The General Fund makes up 65% of all city revenue, and when combined with the City’s Special Paramedic and Fire Services Parcel Tax, operations make up 90% of all city incoming resources. To that end, most of the City’s capital projects are also seeded via transfers of available dollars that flow through the General fund.

In the biennial term, the City is projecting a moderate 2.3% growth in revenue streams over FY 13/14 projected results followed by a 3.01% growth for FY 15/16. In calculating FY 14/15 growth against the prior year biennial budget, growth has come in at a much better than expected 6.98% and factors into favorable FY 13/14 year-end financial result projections.

Given its importance to City operations, it is also key to note that the Paramedic and Fire Tax Special Tax revenue is staged to increase by 4% commensurate with the new costing provided to the City for the FY 14/15 contract term. A similar level of increase was factored into FY 15/16.

When parsing out the major elements of the General Fund revenues, it is clear that property tax remains as the major driver in the anticipated growth patterns when considering sheer incoming dollar revenue streams as displayed below. Property tax growth assumptions are conservatively founded based upon near term trends, available market forecasts tempered with inherent uncertainties that exist in the national and state economies.

SOURCE	PROJECTED	ADOPTED	PLANNED	\$ CHANGE	% CHANGE	\$ CHANGE	% CHANGE
	2013/14	2014/15	2015/16	One Yr	One Yr	Two Yr	Two Yr
PROPERTY TAXES	6,294,040	6,449,000	6,680,000	154,960	2.46%	385,960	6.13%
PROPERTY TAX IN-LIEU-FEE	1,177,930	1,206,000	1,251,000	28,070	2.38%	73,070	6.20%
CONCESSIONS, RENT & INTEREST	1,098,250	1,096,000	1,117,000	(2,250)	-0.20%	18,750	1.71%
PLANNING & BUILDING FEES	995,500	1,034,000	1,067,000	38,500	3.87%	71,500	7.18%
FRANCHISE FEES	533,000	537,000	548,000	4,000	0.75%	15,000	2.81%
OTHER AGENCIES	524,050	545,000	545,000	20,950	4.00%	20,950	4.00%
FINES	200,930	209,000	209,000	8,070	4.02%	8,070	4.02%
BUSINESS LICENSE TAX	205,000	207,000	211,000	2,000	0.98%	6,000	2.93%
REAL ESTATE TRANSFER TAX	168,000	168,000	171,000	-	0.00%	3,000	1.79%
SALES TAX	152,100	150,000	154,000	(2,100)	-1.38%	1,900	1.25%
LICENSE & PERMITS	28,440	37,000	37,000	8,560	30.10%	8,560	30.10%
SERVICE CHARGES	65,960	70,000	70,000	4,040	6.12%	4,040	6.12%
TOTAL	11,443,200	11,708,000	12,060,000	264,800	2.31%	616,800	5.39%

Another important assumption factored into the budget is moderately growing planning and building permit fee revenue; the projection is based upon historical trends. It is key to note that these revenues serve to offset planning, building and permit contract service costs that are included within the Planning, Building & Public Works budget. An average of 3.5% per year in growth is expected for these services.

EXPENDITURES

On the resource outlay side of the equation, expenditures reflect the organizational and capital investments. In the biennial term, the City is projecting an 8% growth in General fund expenditures over FY 13/14 projections and a 15% increase that include significant capital improvement and equipment activities to address deferred functional needs of the organization and community. FY 14/15 is followed by much more normalized and moderate respective growth rates of 2.5% in the General Fund and less than 1% overall. Over a two year term, compared to year-end FY 13-14 projections, this calculates to a 9% General operating increase and a 13% increase considering all Fund outlays. Again, this is a period of investment and revitalization.

A look at the expenditure numbers by area of service delivery follows:

SERVICE AREA	PROJECTED	ADOPTED	PLANNED	\$ CHANGE	% CHANGE	\$ CHANGE	% CHANGE
	2013/14	2014/15	2015/16	One Yr	One Yr	Two Yr	Two Yr
ADMINISTRATION	1,132,084	1,141,674	1,106,119	9,590	0.85%	(25,965)	-2.35%
FINANCE	532,523	611,469	639,399	78,946	14.82%	106,876	16.72%
POLICE	6,027,710	6,418,685	6,634,245	390,975	6.49%	606,535	9.14%
PLANNING, BLDG & PUBLIC WORKS	2,757,645	3,113,625	3,183,845	355,980	12.91%	426,200	13.39%
GENERAL FUND	10,449,963	11,285,453	11,563,608	835,490	8.00%	1,113,645	9.63%
FIRE SERVICES	4,275,240	4,458,230	4,591,830	182,990	4.28%	316,590	6.89%
TRANSIT	394,889	402,310	406,250	7,421	1.88%	11,361	2.80%
CAPITAL PROJECTS	1,842,839	4,014,385	2,298,235	2,171,546	117.84%	455,396	19.82%
SEWER PROJECTS	185,000	370,000	345,000	185,000	100.00%	160,000	46.38%
EQUIPMENT	65,325	430,000	140,000	364,675	558.25%	74,675	53.34%
INSURANCE	150,000	142,920	267,000	(7,080)	-4.72%	117,000	43.82%
OTHER FUNDS	6,913,293	9,817,845	8,048,315	2,904,552	42.01%	1,135,022	14.10%
TOTAL	17,363,256	21,103,298	19,611,923	3,740,042	21.54%	2,248,667	11.47%

The numbers above are discussed in detail throughout this fiscal plan. However, it is important to note a few key facts:

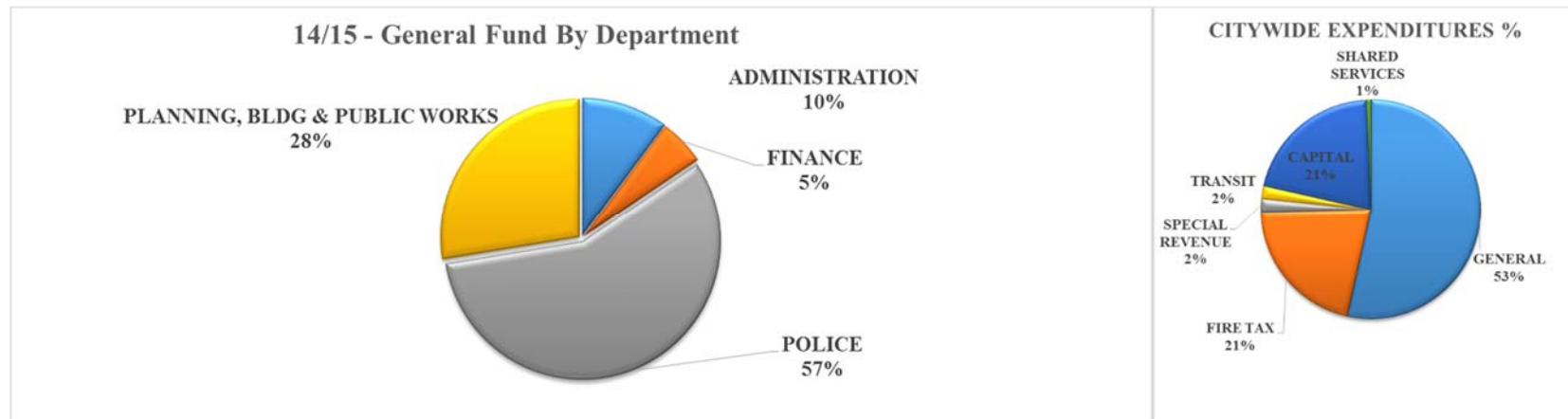
- Citywide personnel expenditures include full staffing levels as a conservative approach “as if” there are no position vacancies
- Labor costs include normally anticipated growth patterns but also significant pension rate increases in Police (2% annually)

- Both the Capital Improvement Project (CIP) Fund and the Sewer Fund reflect the advancement of significant projects

DEPARTMENT BUDGETS

The budget document has been layered in a manner that highlights departmental areas and includes a discussion of “what has changed.” With the General Fund making up 57% of the budget followed by Fire Services at 23% and capital and equipment at 15%, a breakout of total General fund and citywide expenditures is as follows:

A review of each department and service area budget will reveal the following highlights:



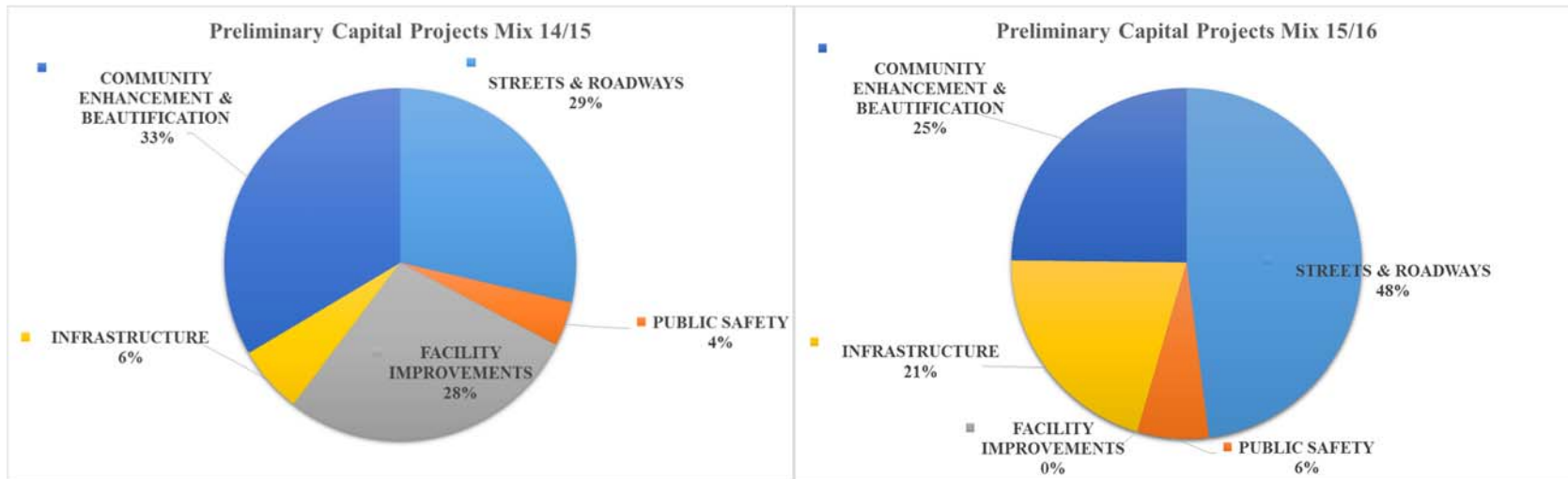
- 2015 election costs are projected within the City Clerks budgets estimated at \$40,000 in FY 14/15
- Training dollars have been enhanced for non-Police personnel by \$15,000 for staff development
- Legal fees have been increased by \$50,000 in line with litigation experience (rates and the retainer are unchanged)
- A full year of contract based technology support is reflected in the Finance budget (+ \$16,000)
- Safety budgets have been enhanced for additional overtime department readiness and emergency preparedness training in the amount of \$37,000
- A volunteer patrol and parklands ranger program in the amount of \$32,000
- Increased gasoline costs citywide – mostly Public Works and Police

- County Paramedic and Fire contract increase of approximately \$200,000
- Addition of one in-house planner with a net cost savings compared to current contract costs
- Enhancing routine weed abatement annual contract services (+\$50,000)
- Proposing a myriad of citywide technology, vehicle and equipment replacements – this factors into internal service department allocation costs as well
- \$35,000 in expenditures to build and relocate a sturdy stables manure holding area storage bin
- A citywide increase in water costs given drought conditions

CAPITAL IMPROVEMENT PROJECTS

This budget takes a stride ahead in setting the beginnings of a formal Capital Improvement Plan (CIP) document. The section included herein titled Capital Improvements serves to communicate all existing and active projects and identify all future projects within the two-year term. Staff intends to expand this to a five-year presentation in coming months.

A review of this document reveals a significant investments in the community infrastructure as detailed by project within the CIP section:



TRANSFERS

In accounting terms transfers do not flow through the expenditure categories but are certainly important elements of the financial picture and results. Key transfers are explicitly defined within the budget document summary section are summarized below:

FY 14-15

\$500,000 Transfer from General Fund to seed future capital projects
\$197,500 set aside from the General fund unreserved to maintain a 50% policy reserve
\$250,000 from the Gas Tax Fund to the capital fund for road resurfacing
\$128,000 of available Measure R dollars for road reconstruction projects
\$ 29,000 from the special projects fund (AQMD dollars) for a police hybrid vehicle

FY 15-16

\$500,000 Transfer from General Fund to seed future capital projects
\$ 90,566 set aside from the General fund unreserved to maintain a 50% policy reserve
\$ 50,000 from the Gas Tax Fund to the capital fund for road resurfacing
\$128,000 of available Measure R dollars for road reconstruction projects

CONCLUSION

Preparing the FY 14/15 and FY 15/16 budget was collaborative and inclusive; all Departments were asked to document and define needs based experience and realities in the field. They were asked to undergo a quasi-zero-based budgeting approach designed to provide a valuable audit trail, cross train staff in the budgeting process, and participate in meaningful budget deliberations that was facilitated. In doing so, we believe this budget has taken an important first step in calibrating the “fiscal compass” to ensure that community services are enhanced by providing a proper balance of resources.

This budget represents a step forward toward moving the organization, accountability, community enhancement plans, and service delivery into the future and to a higher level. It represents a proactive and progressive future with an investment into the community and into personnel for enhancing customer service, practices, capital improvements and efficiencies. The work plan behind this budget represents our commitment to continually achieving the community’s expectations and doing the best for the City of Palos Verdes Estates.

As a foundation of our organizational vision, this budget, with the projects and work plan enumerated, is financially realistic and sustainable for two years. We are in the midst of a 5 year plan to solidify the City's position and direction and thereafter, the changes being implemented as embodied in this budget will be both routine and the basis upon which to continually build, refine and improve. New practices and procedures will also provide for routine updates and status reports to continue and improve the flow of information and accountability.

In conclusion, with the presentation of this budget, we submit a fiscal plan that is doable, fiscally sound and moves us forward.

Thank you.

Sincerely,

Anton Dahlerbruch
City Manager
June 24, 2014



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