



# City of Hermosa Beach

Civic Center, 1315 Valley Drive, Hermosa Beach, CA 90254-3885

January 30, 2024

Honorable Mayor and Members of the City Council and Citizens of Hermosa Beach, California:

## **Introduction**

Presented herein is the Annual Comprehensive Financial Report (ACFR) of the City of Hermosa Beach for the fiscal year ended June 30, 2023. The report is intended to update readers on the status of the City's financial position and results of operations for the past fiscal year.

Management's representations concerning the finances of the City of Hermosa Beach are contained herein. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Hermosa Beach has established an internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Hermosa Beach's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Hermosa Beach's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

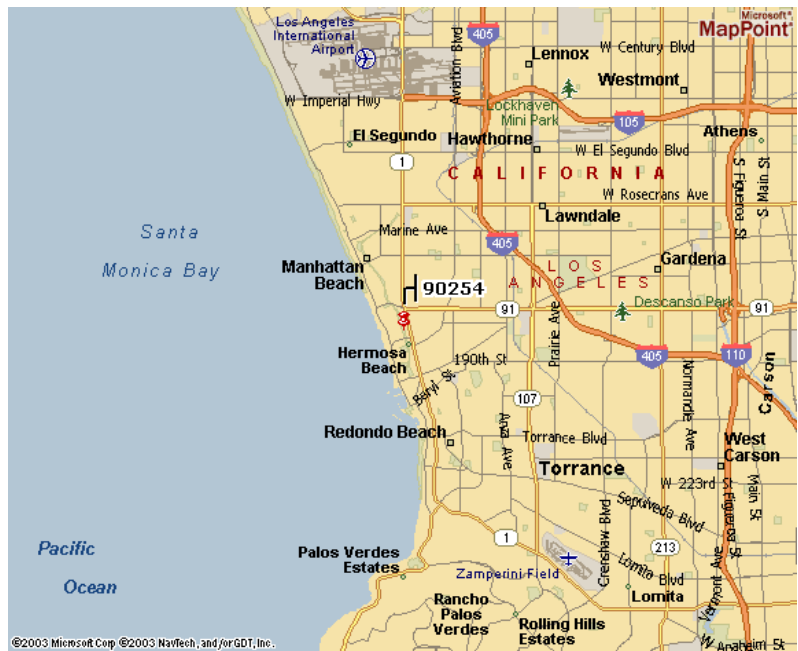
## **Audit**

The City of Hermosa Beach's financial statements have been audited by Gruber and Lopez, Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hermosa Beach for the fiscal year ended June 30, 2023, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Hermosa Beach's financial statements for the fiscal year ended June 30, 2023, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis. This letter of transmittal is designed to complement the Management Discussion & Analysis (MD&A) and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditor.

## Profile of the Government

The City of Hermosa Beach is a beachfront, bedroom community with a stable population, located four miles south of Los Angeles International Airport. The City occupies 1.4 square miles and serves a population of 19,018, according to the State's latest population estimate. However, as a beach city, the City experiences a high visitor population and the associated costs. Due to this high visitor population, the City operates in many ways like a larger city. During the 2022-23 fiscal year, beach attendance ranged from a low of 81,900 in November 2022 to a high of 898,000 in July 2022, according to the Los Angeles County Fire Department, Lifeguard Division.



The City of Hermosa Beach, incorporated on January 14, 1907 as a general law city, operates under the Council-Manager form of government. Policy-making and legislative authority are vested in a governing council consisting of five members of the City Council elected on a non-partisan basis at large for a four-year term. Council members serve staggered terms, with an election every two years. One member is chosen by fellow members to serve as Mayor for a period of approximately nine months; one is chosen to serve as Mayor Pro Tem. The terms of office for those elected in November of 2017 and 2019 were extended by one year to accommodate the election date change from odd-numbered years to even-numbered years effective November 2022, as approved by the City Council to coincide with County elections.

The Council is responsible for, among other things, establishing policy, passing ordinances, adopting an annual budget; appointing members to various City Commissions and Boards and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments.

The City offers a full range of municipal services, including police, fire protection (provided by Los Angeles County beginning December 30, 2017), community development (planning and zoning), cultural, recreation and parks, public works (maintenance and construction of public improvements), parking and animal control, and general administration. Financial information for the Lighting and Landscaping District, the Lower Pier Avenue Assessment District and the Myrtle Avenue, Loma Drive, Bayview Drive, and Beach Drive Utility Underground Districts are included in the City's financial statements as required by governmental accounting standards.

Selected information from the U.S. Census Bureau's Quick Facts is shown on the following page.

**U.S. CENSUS BUREAU QUICK FACTS**

Category	Hermosa Beach	California	Category	Hermosa Beach	California
Persons under 5 years, 2022 estimate	5.0%	5.7%	Persons under 18 years, 2022 estimate	19.3%	22.3%
Persons 65 years and over, 2022 estimate	14.0%	15.8%	Female persons, 2022 estimate	46.0%	49.9%
Non-Hispanic White	73.4%	34.7%	Hispanic	11.4%	40.3%
Non-Hispanic Black	0.6%	6.5%	Non-Hispanic American Indian	0.0%	1.7%
Non-Hispanic Asian	7.3%	16.3%	Persons per households, 2018-2022	2.00	2.89
Bachelor's Degree or higher, persons age 25+, 2018-2022	78.3%	35.9%	High School graduate or higher, persons age 25+, 2018-2022	99.1%	84.4%
Per capita income in the past 12 months (2022 dollars), 2018-2022	\$106,731	\$45,591	Persons below poverty level, 2018-2022	5.8%	12.2%
Households, 2018-2022	8,882	13,315,822	Owner-occupied housing units, 2018-2022	51.4%	55.6%
Median value of owner-occupied housing units, 2018-2022	\$1,862,400	\$659,300	Housing units in multi-unit structures, 2022	46.2%	35.5%
Households with a computer, 2018-2022	98.4%	95.9%	Mean travel time to work, 2018-2022	31 minutes	29.2 minutes

The U.S. Census Bureau Quick Facts are as of January 2024. Further data regarding the City may be found in the Statistical Section.

The annual budget serves as the foundation for the City of Hermosa Beach’s financial planning and control. All departments of the City of Hermosa Beach are required to submit revenue estimates and requests for appropriations to the Finance Director according to a budget calendar. The Finance Director and City Manager use these requests as the starting point for developing a proposed budget, which is presented to the City Council for review by May 15. At least one public budget workshop is held prior to the required public hearing, with adoption required no later than June 30. If the City Council fails to adopt a budget by that date, the budget submitted by the City Manager, as amended by the City Council, if applicable, is the appropriated budget except for capital improvement outlays. The appropriated budget is prepared by fund and department (e.g., Police Department). The City Manager may make transfers of appropriations between departments within each fund; transfers of appropriations between funds, however, require the approval of the City Council. The City Council receives monthly revenue and expenditure reports during the year and a midyear budget review is conducted after the first six months of the fiscal year to ensure estimates are on target. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. Several funds including the Tyco Tideland Fund, the Myrtle District Administrative Expense Fund, the

FEMA Special Revenue Fund, the CARES Act Fund, and the Greenwich Underground Fund did not have an adopted budget due to no estimated revenue or appropriations. For the General Fund and major governmental funds with appropriated annual budgets, this comparison is presented as Required Supplementary Information on pages 80–88. For non-major governmental funds with appropriated annual budgets, this comparison is presented as Supplementary Information, after the Notes to the Financial Statements.

**Factors Affecting Financial Condition**

**American Rescue Plan Act (ARPA) of 2021.** The City received \$4,621,755 in federal funds in two payments. ARPA funds include the following eligible uses:

1. To respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impact industries such as tourism, travel, and hospitality; or
2. To respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the State, territory, or Tribal/local government that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work; or
3. For the provision of government services to the extent of the reduction in revenue of such State, territory, or Tribal/local government due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year of the State, territory, or Tribal government prior to the emergency; or
4. To make necessary investments in water, sewer, or broadband infrastructure.

The covered period for eligible expenditures is March 21, 2021 to December 31, 2024. Costs can be obligated by December 31, 2024, but must be expended by December 31, 2026. See the Management Discussion and Analysis for more information about the City’s use of ARPA funding.

**Local economy.** With a General Fund revenue increase of 5 percent, the local economy continued recovery from the rapid downturn in 2020 due to the pandemic.

Hermosa Beach is a “bedroom community” as evidenced by a household count of 8,882 and an in-city business count of 665 (excluding apartments and home occupations).

Growth in secured and unsecured valuation for Hermosa Beach is 6.2 as compared to 6.9 percent for Los Angeles County. The 6.2 percent growth was the 28th highest of 88 cities in Los Angeles County. The table below shows the comparison of median home prices between Hermosa Beach and Los Angeles County.

	Median Home Prices		Average Median Prices	
	June 30, 2023	June 30, 2022	2022-23	2021-22
Hermosa Beach	\$ 3,498,444	\$ 2,067,500	\$ 2,110,516	\$ 2,052,069
Los Angeles County	\$ 864,000	\$ 860,000	\$ 744,146	\$ 798,583

General Fund Secured Property Taxes increased 6 percent in 2022–23, consistent with growth in assessed values. Historically, property adjacent to the beach has held its value better and has grown faster as compared to property in the other areas.

As a beach city, the three highest occupations are management, sales, and advertising/marketing. Residents typically enjoy access to a much more diverse employment base with the proximity of all the other cities in Los Angeles County. The unemployment rate in Hermosa Beach as of June 2023 is 3.2 percent, compared with 5.3 percent for Los Angeles County and 4.9 percent for California. The rates are

higher than June 2022 City, County and State rates of 2.9 percent, 4.9 percent and 4.1 percent, respectively.

Sales tax receipts for 2022-23 are down 6 percent from the prior year primarily due to a decrease in the County and State Pools. The lower pool receipts represent 64 percent of the total decrease due to in-state fulfillment from large warehouses and existing retail outlets rather than online. Sales tax revenue increased 17 percent in 2020-2021 and 21 percent in 2021-2022 so revenue is at a very high level, even with the decrease. The Eating/Drinking Category which produces the highest sales tax at 33 percent of the total, increased 5 percent.

Revenue from transient occupancy tax (TOT) (the tax on hotel stays) increased 9 percent from 2021-22. TOT revenue is higher than 2018-19 pre-COVID by 58 percent. One new 30 room boutique hotel was added October of 2020. Revenue increased 85 percent from 2020-21 to 2021-22. A new 8 room hotel was opened April 2023 but is not included yet. Average occupancy for 2022-23 for 10 hotels was 77 percent vs. the prior year's rate of 75 percent. Hermosa Beach has ten hotels and one youth hostel, with room capacities ranging from 8 rooms to 96 rooms. There are also seven short term vacation rentals in the commercial area with eight rooms/units. Travelers have definitely returned to this attractive beach location.

Utility user tax (UUT) revenue increased 17 percent last year and is the fourth highest source of tax revenue at almost \$2.5 million. The largest increase was in natural gas service at 180 percent with electric second at 103 percent.

See Management's Discussion and Analysis for more revenue details.

**Accounting changes.** In 2014-15 the City implemented Government Accounting Standards Board (GASB) Statement No 68, Accounting and Financial Reporting for Pensions, which required net pension liabilities to be included in the financial statements for the first time, and Statement No 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which was essentially a cleanup provision. Net pension liabilities of \$59,358,585 were recorded in 2022-23 and the unrestricted net position was reduced accordingly. The change in accounting standards impacted only the government-wide financial statements, notes, and required supplemental information. There is no impact to the fund financial statements. See Note 9 for more information.

In 2017-18 the City implemented GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, effective July 1, 2017, which requires net OPEB liabilities to be included in the financial statements for the first time. GASB 75 updates Other Postemployment Benefit (OPEB) accounting and financial reporting standards to be consistent with the pension standard in GASB 68. Similar to GASB 68, the change in accounting standards impacted only the government-wide financial statements, notes, and required supplemental information. There is no impact to the fund financial statements. See Note 10 for more information.

In 2021-22 City implemented GASB 87, Leases, which establishes a single model for lease accounting based on the underlying principle that leases are financings of the right to use the underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government's leasing activities. For more information see Note 1, Section Q- Leases Receivable, Note 1, Section R- Accounting Changes, and Note 4- Lease Revenues.

As a matter of record, the following GASB statements are effective for the June 30, 2023 financial statements. GASB Statement 91, Conduit Debt Obligations, and GASB Statement 96, Subscription-Based Information Technology Arrangements. The adoption of GASB 91 did not significantly impact the City. The primary objective of GASB 96 is to enhance the relevance and consistency about governments' subscription activities. Under this Statement, the City is required to recognize a subscription liability and

intangible right-to-use subsection asset as described in Note 1, Section R- Accounting Changes, and Note 7.

**California Public Employees Retirement System (CalPERS).** The preliminary CalPERS investment return as of June 2023 was 5.8 percent, bringing the total fund performance to 6.1 percent for the five-year period, 7.1 percent for the ten-year period, and 7 percent for the twenty-year period. With CalPERS discount rate of 6.8 percent and 2023 preliminary return of 5.8 percent, the estimated overall funded status stands at 72 percent.

The 2020–21 rate of return triggered a reduction in the discount rate used to calculate employer and Public Employee’s Pension Reform Act (PEPRA) member contributions due to the Funding Risk Mitigation Policy approved in 2015. The Funding Risk Mitigation policy lowers the discount rate in years of good investment returns. The discount rate, or assumed rate of return, dropped from 7 percent to 6.8 percent. This was the first time the policy has been triggered.

In February 2018, CalPERS adopted a new amortization policy. The new policy applies only to newly established amortization bases and requires fixed dollar (level) amortization rather than percent of pay (escalating). Gains and losses are amortized over 20 rather than 30 years, with a five-year ramp up for investment gains and losses (no ramp down) and no ramp up or down for other amortization bases. The policy minimizes total interest paid over time and pays off UAL faster. It was effective with the June 30, 2019 valuation for 2021–22 contributions.

In December 2017, the CalPERS Board adopted new actuarial assumptions based on the 2017 CalPERS Experience Study and Review of Actuarial Assumptions, which impacted the 2019–20 required contributions.

On December 20, 2016, the CalPERS Board approved a change in the discount rate from 7.5 percent to 7 percent over three years. The change is implemented over a three-year period beginning in 2018-19. Lowering the discount rate, also known as the assumed rate of investment return, means that employers will see increases to contribution rates and higher unfunded liability payments. The City’s miscellaneous and safety plans had side funds (which are liabilities that existed in 2003 when CalPERS “pooled” the City’s plans with other cities of similar size) that paid off from 2018-19 to 2019-20 which helped mitigate the rate increases.

The City created a Retirement Stabilization Fund in 2003-04 to plan for anticipated rate increases. This amount now appears as part of the “committed” balance in the General Fund in the amount of \$1,021,575. Funds were approved by City Council to be placed in a retirement trust, but the plan for a trust was paused due to COVID-19 and will be reevaluated.

**Long-term financial planning.** The City’ adopted financial policies address a range of items including accounting and reporting, internal controls, budget, revenue, debt service and investments. The policies are published in the budget and reviewed annually.

The City Council’s adopted financial policies relating to long-term financial planning for specific funds are as follows:

Insurance Fund – Goal of \$3,000,000 in net assets for aberrations in claims reserves and catastrophic losses.

Equipment Replacement Fund – Goal of net assets equal to the accumulated amount calculated for all equipment, based on replacement cost and useful life of equipment.

Contingency – Goal equal to 16 percent of the General Fund appropriations for economic uncertainties, unforeseen emergencies. The goal was increased to 20 percent starting fiscal year 2023–24.

Compensated Absences—Goal equal to 25 percent funding for accrued liabilities for employee vacation, sick and compensatory time.

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, Capital Improvement Fund, Capital Facility Reserve, and to add to Contingency Funds as needed. The City Council makes changes as necessary to the year-end transfer, depending on the equity in the funds or based on other needs.

The City had unspent funds of \$2,700,989 in 2022–23 as a result of improved revenue and salary savings due to vacant positions and employee leaves. Due to the ongoing economic uncertainty, the City Council agreed to leave the unspent funds in the General Fund, with recommendations for use of the funds to be presented as a part of the 2023–24 Preliminary Budget.

Historically as part of the budget process, a five-year financial forecast is developed and presented with the Preliminary Budget and Five-Year Capital Improvement Program.

Primary capital projects coming up, (other than street and sewer improvements, which occur every year) include Bus Stop Improvements, Pay-By-App Parking Signage, Utility Box Wrappings, Strand Bollards Permitting and Design, Gateway and Wayfinding Signs Conceptual Design, PCH Mobility Improvement Project, Hermosa Avenue Green Street, Strand Bikeway and Walkway Improvements at 35<sup>th</sup> Street, Pedestrian Crossing Safety Improvements, Prospect Avenue Curb Ramps, Longfellow Sidewalk Improvements, Parking Lot A Improvements, Tree Well Grates, Greenbelt Pedestrian Trail, City Park Lighting Conceptual Design, Citywide Park Master Plan, Temporary Beach Accessible Routes, South Park Slope and Irrigation Repairs, City Wide ADA Improvements, Downtown Strategic Plan Implementation, New Corporate Yard Facility, Bard Trailer Improvements, Civic Center Charging Stations, Tsunami Siren, Pickleball Court Resurfacing, Citywide Roof Repair, Municipal Pier Structural and Electrical Repairs, City Park Restrooms and Renovations, Parking Lot D improvements, Emergency Operations Center Renovations, Clark Building Renovations, 14<sup>th</sup> Street Beach Restroom Construction, Parking Lot A Improvements, Police Station Improvements, ADA Improvements, and Parking Structure (Lot C) Improvements.

**Cash management policies and practices.** Temporarily idle cash was invested during the year in obligations of the U.S. Treasury, certificates of deposit, the State Treasurer's investment pool and the Los Angeles County pool. The average maturity was 60 months, with an average weighted yield on investments of 2.1 percent. Investment income includes changes in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue nor do such amounts necessarily become realized since the City intends to hold the investments to maturity.

**Risk management.** The City is self-insured up to \$250,000 for liability claims. Through a blend of self-insurance and reinsurance, the City has excess coverage up to \$40 million obtained through the Independent Cities Risk Management Authority (ICRMA), a joint powers authority consisting of medium-sized California municipalities. The cost of the insurance depends on both the loss experience of member cities, the loss experience of the City and the City's payroll size.

The City purchases workers' compensation coverage through a self-insured program available through ICRMA. The City maintains a \$500,000 self-insured retention limit and participates in a self-insured risk sharing pool through the ICRMA, with excess coverage through Safety National Casualty Company, providing coverage up to the statutory limits.

Claims defense and settlement are coordinated by third party administrators for both liability and worker's compensation, with oversight by the Human Resources Manager.

Additional information on the City's risk management activity can be found in Note 8 of the Notes to the Financial Statements.

**Pension and other post-employment benefits.** The City provides pension benefits to safety and non-safety employees through the California Public Employees Retirement System (CalPERS). CalPERS

provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City was successful in negotiating two tier rates for new employees in all bargaining units beginning in 2011-12. With the State's pension reform implemented January 1, 2013, the City now has three tiers. As of June 30, 2023, the City has thirty-two (32) active Tier 1 employees, eighteen (18) active Tier 2 employees and ninety-one (91) active employees in Tier 3. The City paid employee contributions as a negotiated benefit for many years however in 2012-13 the City negotiated that employees would begin paying the entire share of the employee contribution over three years with an offsetting increase in salaries, which was achieved as of 2014-15. All of these changes enacted reduce pension costs over time. City employer contributions are actuarially determined on an annual basis.

The City also provides post-employment health care benefits for certain retirees. As of the end of the current fiscal year, there were eighty (80) retirees receiving these benefits. The OPEB trust is currently 102.4 percent funded. Additional information on the City's other postemployment benefit plan can be found in Note 10 of the Notes to the Financial Statements.

The City established a trust with an outside party to administer these funds in July 2007. The City is contributing the annual required contribution for all employees as determined by an actuarial study in the manner as is done for retirement contributions to CalPERS. The concept of a retirement trust was approved by City Council in June 2018 and \$829,060 from the Police side fund payoff savings was set aside in the 2019-20 to be placed in the retirement trust. The trust was put on hold due to the COVID-19 pandemic and will be reevaluated.

Additional information on the City of Hermosa Beach's pension arrangements and other post-employment benefits can be found in Notes 9 and 10 in the Notes to the Basic Financial Statements.

## **Awards and Acknowledgements**

The report for fiscal year ending June 30, 2022 is still under review by the Government Finance Officers Association (GFOA). The certificate, when received, will be added to the electronic version of the report. No printed copies are distributed. The GFOA awarded a 2021 Certificate of Achievement for Excellence in Financial Reporting to the City of Hermosa Beach for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021 which was the thirtieth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a report must be published that satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Annual Comprehensive Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would also like to express our appreciation to the City Manager and all of the departments, including the City Clerk and City Treasurer, and to our auditors, Gruber and Lopez, Inc, for their assistance and support in preparation of the report. Credit also must be given to the Mayor and the City Council for their continuing support for maintaining the highest standards of professionalism in the management of the City of Hermosa Beach's finances.

Respectfully submitted,



Viki Copeland  
Finance Director