

Management's Discussion and Analysis

As management of the City of Hermosa Beach, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Hermosa Beach for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages v - xii of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City of Hermosa Beach exceeded its liabilities and deferred inflows of resources at the close of the last fiscal year by \$80,942,077 (net position). Unrestricted net position has a deficit balance of \$729,396. Excluding the \$59,358,585 aggregate net pension liability, \$58,629,189 represents unrestricted net position and may be used to meet the government's ongoing obligations.
- The City's net position increased by \$14,727,024.
- As of June 30, 2023, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$47,429,546, an increase of \$3,423,625 in comparison with the prior year. This increase is due to revenue exceeding expenditures in the current year.
- At the end of the current fiscal year, the City of Hermosa Beach's governmental fund balances of \$47,429,546 are comprised of non-spendable funds of \$640,420; restricted funds of \$15,727,766; committed funds of \$5,108,056; and assigned funds of \$25,390,844 to indicate that funds are not available for new spending. Although funds are shown in the committed or assigned category, the City Council still does have discretion over the use of these funds and may change the committed or assigned use. Under that scenario, approximately 64 percent, or \$30,498,900 of the \$47,429,546 in funds could be redirected at the discretion of the City Council. An additional \$562,460 or 1 percent is unassigned. See Note 11 in the Notes to the Basic Financial Statements.
- At the end of 2022-23, \$2,700,989 of unspent funds remained in the General Fund as a result of increased revenue and lower expenditures due to vacancies and employee leaves. Due to the ongoing economic uncertainty since the COVID-19 pandemic, unspent funds were not transferred to another fund at the end of the fiscal year. The General Fund also has a committed and assigned fund balance of \$15,314,603 or 35 percent of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Hermosa Beach's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements are designed to provide readers with a broad overview of the City of Hermosa Beach's finances, in a manner similar to a private-sector business.

The **Statement of Net Position** presents information on all the City of Hermosa Beach's assets plus deferred outflows or resources ("DOR") and liabilities plus deferred inflows of resources ("DIR"),

with the difference between the assets plus DOR and liabilities plus DIR reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Hermosa Beach is improving or deteriorating.

The **Statement of Activities** presents information showing how the government's net positions changed during the most recent fiscal year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

The governmental activities of the City of Hermosa Beach include legislative and legal, general government, public safety, public works, community development, and culture and recreation.

The government-wide financial statements include not only the City of Hermosa Beach, but also 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. Although these entities are legally separate, they function for all practical purposes as part of the City, and therefore have been included as an integral part of the primary government.

The Government-Wide Financial Statements can be found on pages 19-22 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Hermosa Beach, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Hermosa Beach maintains thirty-three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the following funds, which are considered to be a major fund:

General Fund
Grants Special Revenue Fund
Tyco Special Revenue Fund
RTI Undersea Cable Special Revenue Fund
Capital Improvement Capital Projects Fund

Major funds are governmental or enterprise funds whose revenues, expenditures/expenses, assets and DOR or liabilities and DIR are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Data from the other twenty-eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the Supplementary Information section in this report.

The City of Hermosa Beach adopts an annual appropriated budget for its funds. A budgetary comparison statement has been provided for the General Fund, ARPA Special Revenue Fund, Tyco Special Revenue Fund, RTI Undersea Cable Special Revenue Fund, and Capital Improvement Capital Projects Fund in the Required Supplementary Information and Supplementary Information sections to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 25-30 of this report.

Proprietary funds. The City of Hermosa Beach maintains one type of proprietary fund.

Internal service funds are used to accumulate and allocate costs internally among the City of Hermosa Beach's various functions. The City of Hermosa Beach uses internal service funds to account for its fleet of vehicles, information systems and equipment, and risk management/insurance activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within **governmental activities** in the government-wide financial statements.

Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 33-35 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Hermosa Beach's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Funds of the Lower Pier Avenue, Myrtle Avenue, Loma Drive, Bayview Drive, and Beach Drive Undergrounding Districts are held as fiduciary funds.

The fiduciary fund financial statements can be found on pages 38-39 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44-78 of this report.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Hermosa Beach's major funds. Required supplementary information can be found on pages 80-91 of this report.

Other supplementary information. The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately

following the required supplementary information. Other supplementary information can be found on pages 96-144 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2023, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$80,942,077. Without the net pension liability of \$59,358,585, the net position would be \$140,300,662.

The City implemented GASB 68, Accounting and Financial Reporting for Pensions for the June 30, 2015 financial statements and GASB 75, Accounting and Financial Reporting for Postemployment Benefits, for June 30, 2018 financial statements, which require the City to include its net pension and OPEB liabilities in the government-wide financial statements for the first time. Similar to the City's long-term debt, the net pension and OPEB liabilities are payable over an extended time horizon and do not represent a claim on current financial resources. The statements implement changes to accounting and reporting; they do not apply to the way pensions or other postemployment benefits are funded. For more information on the implementation of GASB 68 and 75, please refer to Notes 9 and 10 in the Notes to the Basic Financial Statements.

While the City is now required to show the net pension and OPEB liabilities in the government-wide statements, according to the Governmental Finance Officers Association (GFOA) the underlying factual situation has not changed. Standard and Poor's (the rating agency who rated the City's bonds) indicated that GASB 68 will lead to more conservative liability estimates and provide some additional disclosure. They will continue to focus on commitment to funding, investment performance, trend analysis, affordability, and maintaining plan sustainability. The Annual Required Contribution (ARC) for pension will continue to be reported as the Actuarially Determined Contribution. Standard and Poor's believes this is an easily recognizable and understandable measure for governments. They currently estimate with what frequency governments fully fund their ARC (which Hermosa Beach does 100 percent of the time).

The major components of GASB 68 and GASB 75 that affect the Statement of Net Position for Government-wide are:

- **Deferred Outflows of Resources-** Includes the deferred pension and OPEB contribution, which is equal to the total amount of the 2022–23 contributions. The contributions are deferred to 2023–24 because the net liability balance is one year in arrears. Also includes changes in assumptions, the difference between projected and actual investment earnings and the difference between the employer contributions and the employer's proportionate share of contributions (for pensions).
- **Net Pension and Net OPEB Liabilities (recorded in Long-Term Liabilities) -** Represents the actuarially valued liabilities Plans as of June 30, 2022.
- **Deferred Inflows of Resources-** Includes changes in assumptions, the difference between the expected and actual earnings on investments (amortized on a straight-line basis over five years), changes in employer's proportion (for pensions), and differences between employer contributions and the employer's proportionate share of contributions (for pensions).

Net Position		
June 30, 2023		
(dollars in thousands)		
	Governmental Activities	
	2023	2022
Current and Other Assets	\$ 81,184	\$ 74,768
Noncurrent Assets	68,624	69,425
Total Assets	149,808	144,193
Deferred Outflows of Resources	30,208	14,637
Current Liabilities	8,696	8,667
Noncurrent Liabilities:		
Net Pension Liability	59,359	31,904
Long-term Liabilities- Other	15,483	15,276
Total Liabilities	83,538	55,847
Deferred Inflows of Resources	15,536	36,768
Net Position:	80,942	66,215
Net Invested in Capital Assets	67,871	66,545
Restricted	13,800	10,995
Unrestricted	(729)	(11,325)
Total Net Position	80,942	66,215

The largest portion of the City of Hermosa Beach’s net position \$80,942,077 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The City of Hermosa Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

A portion of the City of Hermosa Beach’s net position \$13,800,053 represents resources that are subject to external restrictions on how they may be used.

Compliance with GASB 68 and GASB 75 require that the City’s net pension and OPEB liabilities are recorded on the Statement of Net Position, which reduces unrestricted net position and creates a negative unrestricted net position or deficit of (\$729,396). Excluding the \$59,358,585 net pension liability, \$58,629,189 is available to meet the City’s ongoing obligations to residents.

At June 30, 2023, the City is able to report positive balances in all categories of net position for the government as a whole except for unrestricted due to the implementation of GASB 68 and the inclusion of the net pension liability, which will likely remain a long-term liability for several decades. The following is the condensed Statement of Activities and Changes in Net Position for the fiscal years ending June 30, 2023 and June 30, 2022.

Governmental Activities. Governmental activities increased the City of Hermosa Beach’s net position by \$14,727,024. Significant elements of this change are as follows:

Changes in Net Positions		
June 30, 2023		
(dollars in thousands)		
	Governmental Activities	
	2023	2022
Revenues:		
Program Revenues:		
Charges For Services	\$ 9,970	\$ 9,601
Operating Grants and Contributions	8,722	5,644
Capital Grants and Contributions	130	60
General Revenues:		
Property Taxes	23,146	21,886
Other Taxes	13,514	13,141
Grants and Contributions Not		
Restricted to Specific Programs	2,200	2,212
Other	1,828	1,331
Total Revenues	59,510	53,895
Expenses:		
Legislative and Legal	1,450	1,542
General Government	5,522	5,788
Public Safety	24,019	26,721
Community Development	1,963	2,365
Culture and Recreation	1,878	2,476
Public Works	9,693	8,721
Interest and Fiscal Charges	258	149
Total Expenses	44,783	47,762
Increase (Decrease) in Net Position	14,727	6,133
Net Position - Beginning	\$ 66,215	\$ 60,082
Net Position - Ending	\$ 80,942	\$ 66,215

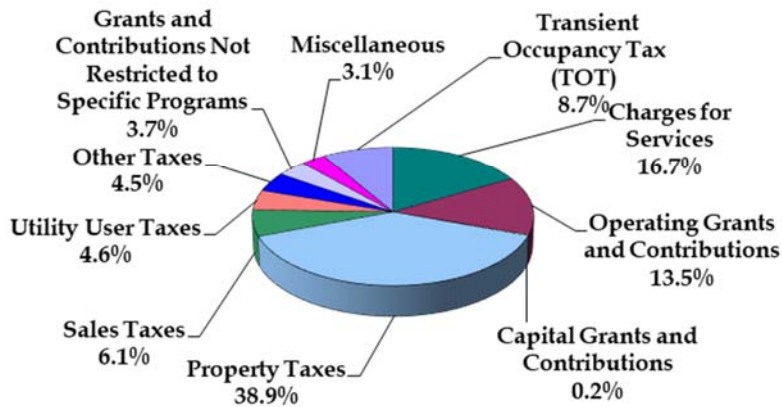
Revenue for Governmental Activities

- Property tax revenue increased \$1,259,670 or 6 percent, which is in line with continued growth in property values.
- Sales Tax revenue decreased by \$227,085 or 6 percent, primarily due to a decrease in the County and State Pools. Sales tax increased by 21 percent in 2021-22 and by 17 percent in 2020-21 and revenue remains strong despite the decrease.
- Transient Occupancy Tax (TOT) revenue increased by \$420,376 or 9 percent, presumably due to increased room rates. The overall occupancy rate for hotels in 2022-23 was 77 percent compared to 75 percent in 2021-22. A new hotel was added in April 2023 and the number of permitted short-term vacation rentals increased in 2022-23 from five to eight.
- Utility User Tax was up by \$392,649 or 17 percent. The largest increase was in the category natural gas service.
- Operating Grants & Contributions increased by \$3,057,689 or 54 percent due to an increase in Measure W Funds, and the receipt of MTA Measure R grant funds, CDBG funds for ADA related CIPs, and FEMA reimbursement for Covid-19 related expenditures. The City also received the second half of the American Rescue Plan Act of

2021 allocation. \$2,369,269 of the \$4,621,755 allocation was previously received in 2021-22. The \$2.3 million included in the 2021-22 Budget was used to partially restore staffing to pre-pandemic levels and for the provision of public safety to the extent of the reduction in revenue due to the COVID-19 public health emergency. \$1,313,107 of the second payment of \$2.3 million was used for the provision of public safety to the extent of the reduction in revenue due to the COVID-19 public health emergency in 2022-23, leaving \$997,769 for future use.

- Real Property Transfer Tax decreased by \$347,292 or 51 percent. Two large condominium complexes were sold in 2021-22.
- Charges for services increased by \$369,254 or 4 percent due to the increase in building permits, reinstatement of encroachment fees for permanent encroachments and the implementation of fees for temporary outdoor dining decks in March 2022, and continued increase in parking related revenue due to increased meter usage from the pandemic lows .

Revenue by Source - Government Activities



Revenue:	2023	2022
Property Taxes	\$ 23,145,983	\$ 21,886,313
Charges for Services	9,969,850	9,600,596
Operating Grants & Contributions	8,722,157	5,664,468
Transient Occupancy Tax (TOT)	5,151,136	4,730,760
Sales Tax	3,621,875	3,848,960
Utility Users Taxes	2,061,918	1,669,269
Other Taxes	2,679,129	2,891,425
Grants & Contributions not Restricted to Specific Programs	2,200,305	2,212,461
Miscellaneous	1,828,531	1,331,049
Capital Grants & Contributions	129,994	60,645
Total Revenues	\$ 59,510,878	\$ 53,895,946

Expenses for Governmental Activities

Expenses for Governmental Activities decreased by \$4,674,835 or 10 percent.

Legislative and Legal expenses decreased by \$91,288 or 6 percent. This is primarily due to GASB 68 and 75 recording of the department's share of the pension and OPEB obligation adjustments. Reviewing costs in the governmental funds, there were increased staffing costs in the City Clerk's office due to the Deputy City Clerk's position, which was filled in March of 2022, and the hiring of a Senior Office Assistant. Contract services costs also increased due to consulting work related to updating the City's records retention schedule and City records organization. City Attorney costs were also up over 2021-22.

General Government decreased by \$265,767 or 5 percent. This is primarily due to GASB 68 and 75 recording of the department's share of the pension and OPEB obligation adjustments. Reviewing costs in the governmental funds, there were increased salary and benefit costs due to filling of the vacant Senior Management Analyst and Management Analyst positions in the City Manager's office and Accountant positions in Finance. The allocation of the Human Resources Analyst position was funded 100 percent by the General Fund due to the addition of a Risk Management Analyst in the Insurance Fund. There was also an increase in signing and retention bonuses as the City worked to stabilize personnel levels throughout the City.

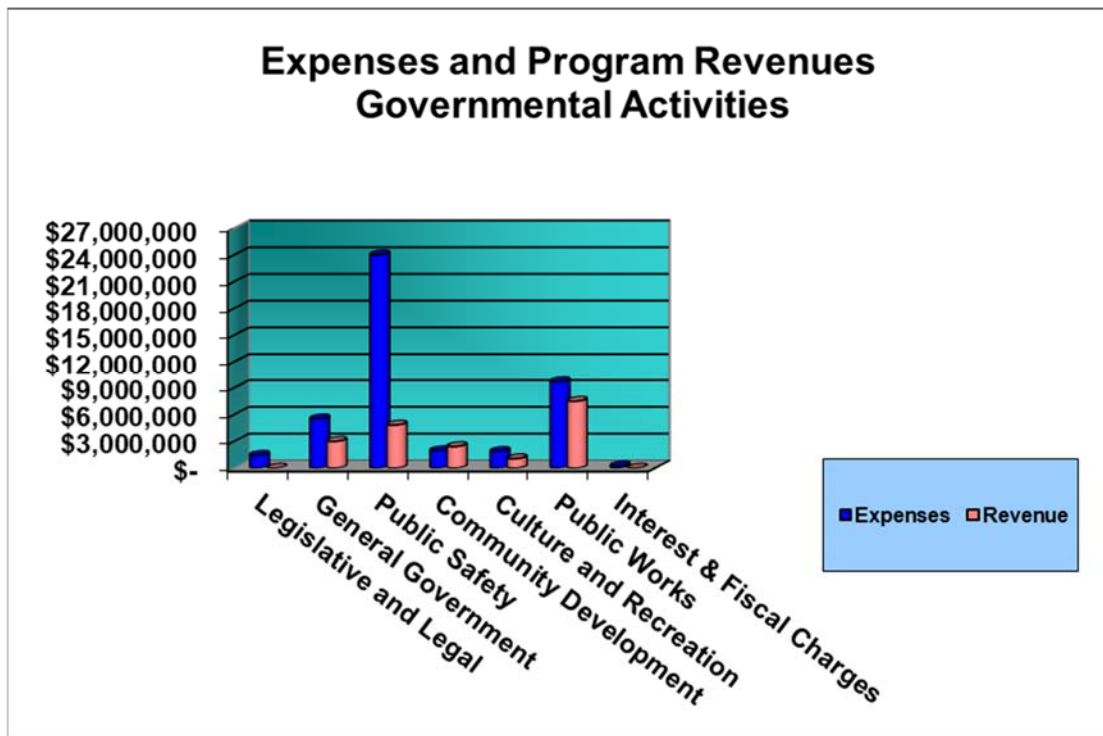
Public Works expenses increased by \$649,920 or 6 percent. There were increased staff costs due to the hiring of the Public Work's Management Analyst position, Public Works Inspector, Engineering Technician, Senior and Assistant Engineers, and Maintenance I workers. The department also had several interns working in both Public Works Administration and the Public Works Yard. There were also increases to contract services in Parks due to the Citywide landscaping services contract. There were increase CIPs costs due to the Municipal Pier Structural Assessment and Repairs project.

Community Development expenses decreased by \$402,313 or 17 percent. This is primarily due to GASB 68 and 75 recording of the department's share of the pension and OPEB obligation adjustments. The Community Development department also had reduced salary and benefit cost due to ongoing staff vacancies.

Culture and Recreation expenses decreased by \$598,046 or 24 percent This is primarily due to GASB 68 and 75 recording of the department's share of the pension and OPEB obligation adjustments. Reviewing costs in the governmental funds, expenditures increased slightly due to the hiring of the vacant Senior Recreation Supervisor position.

Public Safety decreased by \$2,775,974 or 10 percent. This is primarily due to GASB 68 and 75 recording of the department's share of the pension and OPEB obligation adjustments. Reviewing costs in the governmental funds, expenditures were up due to an increase in contract services costs for Fire Services and retirement costs related to the Fire unfunded liability annual payment. Additionally, staff costs increased in Community Services as Community Services Officer positions were filled.

Interest and fiscal charges increased in 2022-23 in the amount of \$108,473 or 73 percent.



Financial Analysis of the Government's Funds

As noted earlier, the City of Hermosa Beach uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Hermosa Beach's governmental funds is to provide information on near-term inflows, outflows, and balances of spending resources. Such information is useful in assessing the City of Hermosa Beach's financing requirements. These funds are accounted for by using the modified accrual basis of accounting. Types of governmental funds reported by the City include the General Fund, Special Revenue funds, and Capital Projects funds.

As of the end of the current fiscal year, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$47,429,546, an increase of \$3,423,625 in comparison with the prior fiscal year. See Note 11 for more information. The total fund balances of the governmental funds consist of the following:

- Non-spendable fund balances of \$640,420 due to prepaid items, the largest of which is the July Fire Services payment.
- Restricted fund balance of \$15,727,766 which have restrictions imposed by external parties or enabling legislation. Funds in this category include Lighting District Funds, Gas Tax Funds, Proposition A and C Transportation Funds, Measure R, M and W Funds, Asset Forfeiture Funds, Supplemental Law Enforcement Funds (COPS), Fire Protection Funds, and Sewer and Storm Drain Funds.
- Committed fund balance of \$5,108,056 which includes retirement stabilization funds, parking in lieu fees, and reserves for a retirement trust.
- Assigned fund balance of \$25,390,844 which includes the amounts to be used for specific purposes of the City, but that do not meet the criteria to be classified as restricted or committed. Funds in

this category include Contingency funds (“rainy day” funds), Compensated Absences funds, Capital Projects, Capital Improvements, Capital Facilities Reserve, and Storm Drain funds.

- Unassigned fund balance of \$562,460, which is the unspent funds of \$2,700,989 in the General Fund reduced by a due to other funds liability of \$1,185,409 primarily for COVID-19 related claims in the FEMA Fund.

The General Fund, ARPA Special Revenue Fund, Tyco Special Revenue Fund, RTI Undersea Cable Special Revenue Fund, and Capital Improvement Capital Projects Fund qualified as major funds under the GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, reporting criteria.

The General Fund balance decreased in 2022-23 by \$1,500,471. While there were unspent funds remaining of \$2,700,989, there was a transfer in of \$1,313,107 from the ARPA Special Revenue Fund and transfers out of \$7,464,343, including one-time transfers out to the Insurance Fund and Equipment Replacement Fund to meet the funding goal, to the Capital Improvement Capital Projects Fund to fund future CIP needs,

Overall General Fund revenue increased by 5 percent over 2021–22. The increase is a result of the following: an increase in property taxes of 6 percent; an increase in other taxes of 7 percent; an increase in licenses and permits of 21 percent; an increase in use of money and property of 7 percent; an increase in intergovernmental of 5 percent; and an increase in charges for services of 3 percent. The increases were partially offset by a decrease in sales tax of 6 percent; a decrease in fines and forfeitures of 13 percent; and a decrease in miscellaneous of 25 percent. Interest earned on investments is negative \$113,810 due to unrealized losses on investments.

General Fund expenditures show an increase of 7 percent as staffing and operations normalized from the COVID-19 reductions. The increase is primarily due to Legislative and Legal, General Government, Public Safety, Public Works and Capital Outlay. The City’s leadership has worked on a recruitment and retention strategy to fill positions that were previously frozen during the Covid-19 pandemic, new positions that were added in the 2022–23 budget, and positions vacant due to attrition. Additionally, as previously noted, there have been increased contract services costs related to fire services, records retention and organization, and landscaping services.

General Fund Budgetary Highlights

The final amended budget for revenue other than transfers increased by 6 percent from the adopted budget, based on revenue trends from the first five months of the year. Actual revenue was just under the final budget by \$589,601 or 1 percent for the following reasons:

- Property tax was up \$352,626 or 2 percent.
- Other taxes were up \$248,059 or 2 percent primarily due to conservative estimates in transient occupancy tax (TOT) and utility user tax (UUT), and franchise fee, which were partially offset by a decline in sales tax, as previously noted.
- Licenses and Permits were down \$454,761 or 30 percent primarily due to building permit revenue, which came in at 63 percent of budget.
- Fines and forfeitures were down \$308,748 or 18 percent due to a decrease in parking related court fines and an adjustment to administrative citations accrued in prior years.

- Charges for Services were up \$111,567 or 2 percent primarily due to an increase in plan check fees.
- Interest was down \$463,018 or 133 percent primarily due to the recording of unrealized losses on investments, which is not budgeted.

The final amended budget for appropriations other than Transfers Out increased over the original budget by 5 percent. Actual expenditures other than Transfers Out were less than the final appropriations by 9 percent primarily due to vacant positions and unspent one-time appropriations which may be requested for reappropriation to the 2023-24 budget.

Capital Asset and Debt Administration

Capital assets. The City of Hermosa Beach's net investment in capital assets for its governmental activities as of June 30, 2023, amounts to \$67,871,420 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, park facilities, roads, highways, and monuments.

Major capital asset events during the fiscal year included the following:

Governmental Activities

- Municipal Pier Structural Assessment and Repairs of \$1,808,722
- Annual Street Improvements of \$273,037
- City Park Restroom Renovations of \$553,023

Additional information on the City of Hermosa Beach's capital assets can be found in Note 6.

Long-term Debt

In October 2020 the Hermosa Beach Public Financing Authority issued 2020 Lease Revenue Bonds to refund and defease the 2015 Lease Revenue Bonds issued to fund oil settlement costs. The refunding will save approximately \$965,000 through 2035. Other long-term liabilities include net pension liability and compensated absences. See Note 7 and Note 9.

Tyco Special Revenue Fund

The Tyco Fund is a major fund in 2022-23 due to the recording of leases receivable of \$3,284,819 and a corresponding deferred inflows of resources for lease revenue from Tyco that will be recognized over the lease term. This is a change in accounting rules due to the implementation of GASB 87 in FY 2021-22, Leases, referred to in the Transmittal Letter and Note 1, Section R. For more information on the lease agreement, see Note 4 Lease Revenue. During the year ended June 30, 2023, the City recognized \$161,268 in lease revenue and \$125,070 in interest revenue during the current fiscal year related to the lease. There were capital outlay expenditures of \$309,959. The fund balance as of June 30, 2023 is \$1,967,398.

Grants Special Revenue Fund

The Grants Special Revenue Fund, a new major fund, reported a June 30, 2023 fund balance of -\$1,185,409 due to unavailable revenue of \$1,737,643. The City received the grant reimbursement related to CIP 629 Municipal Pier Structural Assessment and Repairs and CIP 660 Municipal Pier Electrical Repairs after the 60 day accrual period.

ARPA Special Revenue Fund

The final \$2,310,876 of the \$4,621,755 allocation of American Rescue Plan Act (ARPA) funds was received in 2022-23. \$1,313,107 was transferred to the General Fund to be used for the provision of public safety to the extent of the reduction in revenue due to the COVID-19 public health emergency. The fund balance at June 30, 2023 is \$997,769.

RTI Undersea Cable Special Revenue Fund

The RTI Undersea Cable Special Revenue Fund is a major fund again in 2022-23 due to the recording of leases receivable of \$3,894,618 and a corresponding deferred inflows of resources for lease revenue from MC Global that will be recognized over the lease term. This is a change in accounting rules due to the implementation of GASB 87 in FY 2021-22, Leases, referred to in the Transmittal Letter and Note 1, Section R. For more information on the lease agreement, see Note 4- Lease Revenue. There was a transfer out of \$239,245 to the Lighting/Landscaping District Fund to cover the budgeted deficit. The fund balance as of June 30, 2023 is \$885,423.

Capital Improvement Capital Projects Fund

Projects funded from the Capital Improvement Fund, a major fund, in 2022-23 include: Gateway and Wayfinding Signs Conceptual Design, Storm Drain Improvements, Greenbelt Pedestrian Trail, Citywide Park Master Plan, Temporary Beach Accessible Routes, Prospect Avenue Curb Ramps, South Park Slope and Irrigation Repairs. City Facilities Condition and Needs Assessment, Record Center Renovation, Civic Center Charging Stations, Kelly Courts Improvements, Police Facilities Improvements, Municipal Pier Electrical Repairs, City Park Restroom Renovations, Clark Building Renovations, Parking Structure (Lot C) Improvements, and Tree Well Grates. Transfers in of \$4,614,380 were made from 2020-21 unspent funds from the General Fund. The ending fund balance of \$12,331,476 includes \$1,267,968 in the Capital Facilities Reserve.

Insurance Fund

The City's established goal for net position in the Insurance Fund is \$3,000,000. The balance at June 30, 2023 was under the funding of \$3 million. The Insurance Fund beginning balance was \$2,359,392. Claims expenses and adjustments for actuarially determined claims payable were higher than expected, resulting in the ending balance of \$1,879,001.

Economic Factors and Next Year's Budgets and Rates

- On April 25, 2017, the City Council voted to contract fire services in Hermosa Beach with the Los Angeles County Consolidated Fire District. The 2023-24 Budget includes the sixth full year with the County the final payments for the renovation of the Fire Department facility. The 2023-24 Budget also includes the following:
 - \$9,979,017 is committed for Contingency in the General Fund, which is an increase from the previous funding goal of 16 percent of operating expenditures to 20 percent and in line with the City's financial policy and the Council goal for a "Financially Sound City Government". No funds from the Contingency were used to offset any impact of COVID-19.
 - The remaining balance of \$997,769 is transferred to the General Fund from the American Rescue Plan Act (ARPA) of 2021 Fund for the provision of public safety to the extent of

the reduction in revenue due to the COVID-19 health emergency. The CARES Act Fund was also closed out into the General Fund.

- o \$664,416 is transferred from the General Fund for the 2020 Refunding Lease Revenue Bonds debt service. The 2015 Lease Revenue Bonds were refunded in 2020–21, saving approximately \$1 million over the life of the bonds. The bonds will be paid off in December 2035.
- o \$30.8 million of Capital Improvement Projects are funded, which includes \$6.5 million in new funding.
- o Six new positions are added, including four Maintenance Worker II positions, Public Works Assistant Superintendent, and Recreation Specialist.

Revenue Trends and Assumptions

Revenue for FY 2023–24 is estimated to increase 7 percent over FY 2022–23. All of the City’s largest revenue sources, property tax, transient occupancy tax, sales tax and utility user tax are faring well as the pandemic comes to a close. Secured property tax, is projected to increase by 8 percent FY 2023–24. Property tax is the largest and most stable source of revenue for the City. Sales tax is projected to increase by 3 percent and transient occupancy tax is projected to remain at the current level.

The City has come through uncharted territory in the three years since the pandemic began in March of 2020 and subsequent worldwide uncertainty over the war in Ukraine, rising operational costs, and disruption in supply chains. No contingency or “rainy day funds” were used in FY 2022–23 or in the two previous fiscal years during the pandemic. The City Council increased the level of contingency funds from the current policy of 16 percent of operating budget to 20 percent with the 2023–24 Adopted Budget.

Unemployment continues to remain relatively low. In June 2022, the City unemployment rate was 2.9 percent versus June 2023 of 3.2 percent. Los Angeles County was 4.7 percent versus 5.3 percent as of June 2023. The State’s unemployment rate was 4.9 percent versus 8.2 percent in June 2022. The U.S unemployment rate remained flat at 3.6 percent in June 2023 from June 2022.

The City’s FY 2023–24 Budget prioritizes foundational investments in organization and infrastructure, seeks to protect the City’s long-term fiscal sustainability within its current funding realities, and reflects the community’s values and spending priorities. The FY 2022–23 Budget sought to further COVID-19 recovery efforts and advance the City’s core resources – staff, infrastructure, and systems – towards the goal of maintaining fiscal sustainability and providing essential services Hermosa Beach residents expect and deserve. The investments made in FY 2022–23 stabilized personnel levels and laid the groundwork for critical operational evaluations and system enhancements. Many of these operational assessments are well underway and the FY 2023–24 Budget seeks to provide staff with the resources to make foundational improvements in operations, technology, and infrastructure.

Requests for Information

This financial report is designed to provide a general overview of the City of Hermosa Beach’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 1315 Valley Drive, Hermosa Beach, CA 90254.