



CITY OF MANHATTAN BEACH CITY HALL

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TO: Honorable Mayor and Members of the City Council

FROM: Libby Bretthauer, Finance Director

MEETING: City Council Regular Meeting, May 5, 2026

SUBJECT: Agenda Item No. 9 - Presentation of the Fiscal Year 2027 Proposed Operating Budget and Consideration of CERT Funding Request.

DATE: May 4, 2026

ERRATA SHEET

Please replace Pages 29-37 of the Fiscal Year 2027 Proposed Budget report in Agenda Item 9 with the attached pages 29-37. The pages in the agenda packet contain Fiscal Year 2026 information superseded by Fiscal Year 2027 data. The web link provided in the staff report has been updated to reflect these corrections and remains active.

BUDGET OVERVIEW

Looking at the budget on a fund-by-fund basis, the following summarizes each fund of the entire FY 2027 Budget and includes comparisons to the prior year's adopted budget. Additional summary schedules of all revenues and expenditures are presented in the Summaries section of the budget document.

GENERAL FUND

Year-end projections for FY 2026 indicated that revenues will exceed expenditures by about \$8,782,541 primarily due to the one-time bond proceeds received in August 2025 and a combination of increases largely tied to Public Safety Overtime, Contract Services and Plan Check Consultants, in addition to the effect of reclassifying transfers out expenditures.

The General Fund balance on June 30, 2026, is projected to be \$34.5 million, which exceeds the Government Finance Officers' Association (GFOA) minimum recommendation of 17% of operational expenditures (\$18.7 million).

FY 2027 General Fund Ongoing Revenues are currently budgeted at \$118,965,764 and Ongoing Expenditures are budgeted at \$116,993,996, resulting in an anticipated structural budget surplus of \$1,971,768. When taking into account nonrecurring expenditures (one-time costs and capital purchases) and net transfers to other funds, there is a projected decrease in fund balance of \$9,588,758.

The Financial Policy reserve of 20% of operating expenditures is about \$23.4 million in FY 2027, which is greater than the Government Finance Officers Association (GFOA) recommendation of "no less than two months (17%) of regular general fund operating revenues or regular general fund operating expenditures."

Historically, the City Council has maintained a \$4.0 million "Economic Uncertainty" reserve. With the necessary transfer of \$6.0 million to the Insurance Fund due to extraordinary claims activity, this Economic Uncertainty Reserve has been temporarily depleted. When economic conditions improve, or any unexpected one-time revenues become available, this Economic Uncertainty Reserve may be re-established.

The General Fund's Unreserved Fund Balance is estimated at \$1.5 million at the end of fiscal year 2027, for a total estimated fund balance of \$24.9 million.

GENERAL FUND REVENUES:

Ongoing General Fund revenues are projected to be \$118,965,764 in FY 2027, which is a decrease of nearly \$6.5 million (-5.1%) from the FY 2026 Adopted Budget. The total General Fund revenues (both ongoing and Nonrecurring funds), inclusive of transfers is \$119,112,514 in FY 2027. The decrease in General Fund Revenue for FY 2027 is mainly due to the one-time bond proceeds of \$13.2 million received in the previous fiscal year for the debt financing related to the purchase of 400 Manhattan Beach Blvd site (former US Bank location).

Other increases in the General Fund include the new sales and transaction use tax through Measure MMB, and increases in Property Taxes, Transient Occupancy Taxes, Parking Citations, and Building and Plan Check Services.

Specific impacts on our key revenue sources include:

Property Taxes: For FY 2027, Property Taxes are increasing as assessed values continue to rise based on higher home sale prices given low inventory and high demand. The net assessed value of property in Manhattan Beach increased 5.3% since the previous year. Property Tax receipts contribute 41.6% of General Fund revenue. Overall, Property Tax receipts are expected to increase 5.4% over the prior year budget to \$49.6 million in FY 2027. Comparing this to the more recent FY 2026 mid-year projection, Property Taxes are estimated to increase \$2.2 million or 4.6%.

Our leading indicator for potential changes in property values is Real Estate Transfer Taxes, which are based on sales transactions. At this time, sales activity has increased from the previous year, resulting in a FY 2026 year-end projection of \$850,000. With



mortgage rates expected to remain relatively high over the next year, sales activity is anticipated to stay at the current pace in FY 2027, resulting in Real Estate Transfer Taxes of \$850,000. This data is closely monitored for impacts to our largest General Fund revenue source.

Sales Tax: The City's second-largest General Fund revenue source (10.1% of total revenue) has increased to \$12.0 million, about \$555,000 (4.9%) above the prior year budget. The City's most significant sales tax categories are General Consumer Goods and Restaurants/Hotels. In addition to our vibrant Downtown and North Manhattan Beach business districts, the Manhattan Village Mall was revitalized over the last few years with a 53,300-square-foot expansion called the Village Shops, which consists of curated open-air dining and retail space with a modern look. Several luxury shops and restaurants have since opened, creating an upscale and attractive shopping experience for visitors.

Over the last several years, online sales continue to grow while point-of-sale tax revenues have been trending down in the State. Online sales result in the collected sales tax going into a countywide pool, which is then allocated based on the City's share of point-of-sale taxes countywide. This trend towards online shopping is expected to continue, but with a strong brick-and-mortar base, the City will continue to receive a stable share from the County pool.

Additionally, on November 5, 2024, Manhattan Beach voters approved Measure MMB, which is a one-half cent (0.5%) sales tax measure to support general City services, including keeping local streets, sidewalks, infrastructure, and parks safe, clean, and well maintained; repairing/upgrading aging community facilities; fixing potholes; and improving parking availability and traffic safety. In FY 2027, Measure MMB is expected to generate \$6,654,000 in new sales tax revenue that will be used locally to support ongoing and critical capital improvement projects and related debt service. With this revenue generating additional General Fund sources, a \$5.0 million transfer is planned to support capital activities in the CIP Fund.

Transient Occupancy Tax (TOT): Hotel, motel and short-term rental occupancy taxes are expected to generate approximately \$9.3 million in General Fund revenue in FY 2027, approximately \$208,200 (2.3%) more than the prior year budget. The budget for FY 2027 assumes occupancy rates will be steady over the coming months. The significant increase in TOT collected is the result of over 200+ licensed short-term rentals operating in the Coastal Zone as of April 2026.

This revenue also affects the Capital Improvement Fund since 15% of the base 10% tax (approximately \$1,110,400) is dedicated to that fund (the CIP amount is in addition to the \$9.3 million expected in the General Fund).

Business License Tax: Business License Tax in FY 2027 is expected to generate \$5.9 million, which is an increase of \$50,000 (1%) over the prior year budget. The slight increase in business license tax revenues is due to anticipated CPI increases, as well as an offset of reduced one-time revenues related to the discovery program where non-licensed businesses remitted payment in FY 2026.

Building Permits & Plan Check Fees: Residential and commercial building activity has remained relatively consistent with prior years and there are several large commercial projects on the horizon, which are expected to boost Plan Check and Building Permit cost recovery fees. Additionally, the City approved a Mid-Year Budget increase to Building Plan Check Fees by \$1 million, due to the significant increase in building permit applications and associated plan check request.

Based on current activity levels and the recent User Fee Study that was adopted on April 15, 2025, Plan Check Fees are expected to generate \$3.1 million, which is an increase of \$1.1 million (53.3%). Building permits are projected to increase by \$636,600 (25.0%) over the prior year adopted budget of \$2.6 million.

Service Charges: Service Charges are increasing by \$890,000 (10.5%) from the prior year, primarily due to the recent User Fee Study that was adopted in April 2025 which increases the overall cost recovery for most user fees by applying an annual CPI adjustment per MOU increases. The Study involved a comprehensive review of all Citywide user fees and an in-depth analysis of each position, time and cost involved in delivering discretionary services. Ambulance fees and Parks & Recreation class fees were also adjusted per recent trends.



Parking Citations: Parking citation fines are issued by Community Service Officers with the purpose of penalizing violators for exceeding meter time limits and encouraging parking turnover in the high-demand parking environment of Manhattan Beach. The parking citations were last adjusted at the April 15, 2025, City Council meeting, which resulted in slight increases in FY 2026. However, the parking citation revenues in FY 2027 are expected to remain flat compared to the prior year adopted budget at approximately \$2.7 million.

Operating Service Transfers: Operating Service Transfers are estimated at nearly \$5.3 million, which is \$271,000 (5.0%) lower than the prior year budget. This decrease is mainly attributed to a temporary reduction in Engineering Service Charges in other Funds due to higher than normal vacancies within the Engineering Division that typically charge out time to applicable funds and CIP projects. For example, Engineering and Grant Accounting staff hours worked on Capital Improvement Projects are reimbursed by Special Revenue Funds (Gas Tax, Proposition "C", Measure "R", and Measure "M"), the CIP Fund, and Enterprise Funds (Water, Storm Drain, and Sewer).

Another component to the Operating Service Transfers are the Administrative Service Charges which act to reimburse the General Fund for supporting other funds for salaries and benefits of support staff, utilities, depreciation on buildings, and other indirect costs. These Administrative Service Charges are costs allocated to other funds through the methodology of a Cost Allocation Plan (CAP), which was most recently adopted by City Council on April 15, 2025. The updated CAP was developed based on a 100% cost recovery model which reimburses the General Fund for all indirect overhead costs and eliminates the General Fund subsidy to other funds for these costs. The purpose of the CAP is to spread / allocate costs to the applicable funds that receive central services in support of their daily operations.

The results of this allocation of Engineering Service Charges and Administrative Service Charges are reflected in the Schedule of Administrative Service Charges within the Appendix section of this Proposed Budget Book.

A complete listing of revenues is located in the Fund Summaries section of this document.

GENERAL FUND EXPENDITURES:

Ongoing General Fund expenditures equal \$116,993,996 in FY 2027, which reflects a \$11,413,767 (10.8%) increase from the FY 2026 adopted budget. The total General Fund expenditures (both ongoing and nonrecurring costs), inclusive of one-time capital and transfers out is \$128,701,272 in FY 2027. When compared to the more recent FY 2026 mid-year estimates, the total expenditure budget in FY 2027 is \$9.4 million (7.8%) higher.

At about 54.4% of General Fund Expenditures, **Salaries and Benefits** represent the largest portion of the budget in FY 2027. This category shows an increase due to cost-of-living adjustments that are anticipated in labor agreements and necessary position changes to meet organizational needs and service requests from the community, which are explained in depth in the City Manager's Budget Message. Recruitment and employee retention are a top priority internally as we adapt to changing workforce trends.

The Salaries and Benefits category also includes a six percent vacancy factor for full-time staffing, which equates to roughly \$3.8 million across all funds, and approximately \$3.4 million in the General Fund. This vacancy factor is in recognition of the fact that, throughout the year, various positions are vacant through attrition and retirements, and that salary savings are achieved during these vacancies. This practice was implemented several years ago when significant year-end savings would result from fully budgeted staff positions. The current method recognizes vacancies up-front, with the expected savings factored into the budget.

Pension costs remain a significant driver of employee benefit costs. Managing future pension costs and meeting retirement obligations remain one of the City's biggest challenges. Over 95% of retirement costs are attributable to the City's Governmental Funds and growing pension costs have the potential to crowd out other funding needs. In May 2021, the City issued pension obligation bonds (POBs), which eliminated the City's unfunded liability at the time and replaced it with bonded debt. By issuing the POBs, the City was able to finance the pension liabilities at a true interest cost of 2.72%, which was 4.08% lower than the CalPERS discount rate of 6.8%. However, due to fluctuations in CalPERS returns, the City's funded status will fluctuate from being over-funded to under-funded and result in a net pension liability. For this reason, the City created a Pension Liability Policy to allocate the POB "savings" to specific uses rather than being absorbed by operational costs. Due to extraordinary increases in transfer out expenses,



the scheduled transfer of \$3.5 million in POB savings to the Pension Trust Fund was temporarily paused while we focus on funding rising CalPERS UAL payments (\$2.7 million in FY 2027) and the one-time \$6.0 million cash infusion to the Insurance Reserve Fund.

Contract & Professional Services are increasing \$1.8 million (12.5%) from last year's budget, mainly due to notable increase in contract services. These include increases for Plan Check Services (+\$513,750), Building Inspection Services (+\$150,000), Planning Contract Services (+\$137,000), Civil Engineering Contract Services (+\$258,863), Public Works Admin Contract Costs (+\$95,000), Older Adult Services (+\$131,850), Human Resources Consulting Services for Workplace Investigations (+\$255,000), and General Election costs (+\$169,200).

Materials and Services are increasing \$594,715 (12.0%) from last year's budget mainly due to increases in Departmental Supplies (+\$105,662), Bank Service Charges (+\$152,346), and Service Agency Contributions (+\$131,406), which include new annual donations to Marine Mammal Care and the Round House Aquarium.

Utilities are proposed to decrease by \$200,491, due to less than anticipated electricity rate increases than projected in the previous fiscal year. The City expects to adjust expenditures to meet projections in the FY 2027 Mid-Year Budget process.

Internal Service Charges include charge-outs for the Insurance Reserve, Fleet, Information Technology and Building Maintenance funds, which are used to capture and allocate common costs across all departments. Overall, this category is increasing by \$1.6 million (10.4%) due to higher insurance costs and technology purchases, which are more fully described in the Internal Services Fund section below.

Capital Equipment costs within the General Fund significantly increase in FY 2027 (+\$362,500) when compared to the prior year, primarily due to the need for Extrication Tools and Cardiac Monitors.

Debt Service payments increased slightly by \$679,348, which aligns with pre-established debt service payment schedules.

Transfers Out: Transfers from the General Fund to other funds can occur when other funds do not have sufficient revenues to meet expenditures and require the support of General Fund tax dollars. In the past few years, the City has taken major steps to reduce General Fund subsidies to other funds by putting forward revenue enhancements that increase cost recovery, such as the Storm Drain Measure, User Fee Study and Parking-related fees.

Although major steps have been taken to reduce General Fund subsidies to other funds, the FY 2027 budget still requires necessary transfers to support the Street Lighting and Landscape Fund (\$270,376). Additional transfers include \$5 million to the CIP Fund to support ongoing and critical infrastructure projects and related debt service. Additionally, a one-time transfer of \$6 million from the General Fund to the Insurance Reserve Fund is expected to support increased costs and ongoing litigation and workers' compensation claims against the city.

Overall, the FY 2027 General Fund budget outlook is projected to face a reduction in fund balance/budget deficit of \$9.6 million. This is driven by increased transfers out to other funds and rising service costs, infrastructure needs, and broader economic pressures affecting cities nationwide. City staff have taken a proactive approach to the budget by reducing costs while maintaining service levels and exploring new revenue opportunities with the City Council. The City of Manhattan Beach remains committed to a stable financial outlook and is committed to long-term sustainability, while also staying mindful of the fiscal impacts of upcoming economic shifts.

OTHER FUND HIGHLIGHTS

SPECIAL REVENUE FUNDS

The **Street Lighting and Landscaping Fund** derives its revenues from assessments of property owners. Increasing the assessments, which have not changed since 1996, will require a successful Proposition 218 vote. As a result, the FY 2027 assessment basis remains fixed with no increase from prior years. Because expenses for utilities and maintenance are not fixed and have risen since 1996, the General Fund must contribute increased amounts each year in order to fund this service. The subsidy is



estimated at \$300,932 in FY 2027. There is an estimated \$175,000 for additional one-time repairs, contributing to the increase in General Fund transfers. In addition to the subsidy, the City contributes \$13,765 to cover the City's portion of the Streetscape zone. This Fund exhausted its reserves long ago and, until new assessments are in place, General Fund subsidies will have to continue in order to support the program costs.

The **Gas Tax Fund** (Gas Tax and SB1 Funds) accounts for State gas tax monies dedicated to roadway and sidewalk projects. The FY 2027 Budget includes revenues estimated at \$2.2 million and capital expenditures of \$2.3 million. Funded projects include allotments for the Biennial Slurry Seal Program (\$1.4 million), Annual Citywide Concrete Repair Program (\$365,000), Annual Street Resurfacing Program (\$200,000), with more details available in the Capital Improvement Plan Section.

The **Asset Forfeiture Fund** includes estimated revenues of \$78,600 consisting of anticipated interest earnings on the fund balance and reimbursement for overtime costs related to narcotic enforcement efforts through L.A. IMPACT. The receipt of other Asset Forfeiture funds is unpredictable and therefore not programmed into the budget. The associated costs for these efforts are budgeted at \$490,000, including a one-time draw on fund balance for a Police Department Workstation Ergonomic updates (\$220,000).

The **Police Safety Grants Fund** includes anticipated revenues of \$215,800 in grant funds and interest income, and \$275,000 in operating expenditures for front-line law enforcement supplies and equipment.

The **Grants Fund** is being used to account for revenues and expenditures related to new projects funded by grants and contributions from private parties. The Grants Fund currently has about 10 of the 20+ grant-subsidized capital improvement projects. Although the City has several grant-funded projects in progress as well as various applications under consideration by granting agencies, no new awards have been included in the proposed budget for FY 2027.

The majority of **Proposition "A" Fund** revenues are based on a half-cent sales tax in Los Angeles County, which is then distributed on a per capita basis. FY 2027 revenues are estimated at \$934,271 and operating expenditures for the Dial-A-Ride and other transit services are budgeted at \$968,295. These expenditures include additional funds of approximately \$60,137 for a pilot project utilizing ride-share services within the Dial-A-Ride program.

The **Proposition "C" Fund**, established for transportation and street improvement programs, reflects estimated transit sales tax revenues of \$796,718. Expenditures totaling \$390,542 include capital funding for the Annual Street Resurfacing Program (\$350,000).

The **AB 2766 Fund** was established in 1990 and provides per capita funding to cities and counties located in the South Coast District to be used to reduce motor vehicle air pollution. Revenues of \$54,500 are budgeted in FY 2027, which may be used for future projects or purchases such as additional electric vehicle chargers.

Measure "R" was approved by L.A. County voters in November 2008. This half-cent sales tax can be used for projects such as pothole repairs, major street resurfacing, left-turn signals, bike ways, pedestrian improvements, streetscapes, traffic signal synchronization, and local transit services (including subsidizing Dial-A-Ride services as done in the past). Revenues totaling \$612,813 are budgeted in FY 2027. Budgeted expenditures totaling \$131,690 include capital funding for the Annual Street Resurfacing Program (\$25,000) and the Aviation Blvd and 33rd Street Sidewalk Gap Project (\$75,000).

Measure "M" was approved by L.A. County voters in November 2016 to ease congestion and improve neighborhood streets and intersections. The City started receiving Measure M funds in FY 2018. In FY 2027, revenues are budgeted at \$656,575. Within total expenditure of \$421,801, Measure M funded project includes the Annual Street Resurfacing Program (\$250,000).

The **Measure "W" Fund** was created in 2021 to account for the Los Angeles County Measure W parcel tax approved by voters on November 6, 2018, to fund improvements and maintenance of local storm drain systems. As part of the measure, a portion of the funds collected annually are distributed to municipalities to fund upgrades and the maintenance of each agency's storm drain infrastructure. The City began receiving Measure W funds in FY 2021 and will continue receiving an estimated \$443,030 per year. Within total expenditure of \$328,888, including additional funds for the Measure W funded project 28th Street Stormwater Infiltration (\$200,000).



CAPITAL IMPROVEMENTS FUNDS

In years past, City Councils have created dedicated revenue sources for the **Capital Improvements Fund** in order to provide reliable funding for important projects (previously, project funding relied on General Fund surpluses). These revenue sources and the year enacted are as follows:

- 1998 Transient Occupancy Tax – 15% of the base 10% tax
- 2025 General Fund Surpluses - Transfer up to \$5 million of General Fund revenues, or as otherwise set by City Council for any given fiscal year

Together, these funding resources are projected to generate around \$6.1 million in FY 2027. The CIP Fund has existing debt service on the Police & Fire facility, the Fire Station #2 Certificates of Participation, and the 400 MBB Acquisition Bonds, budgeting for \$1.8 million in bond-related expenditures.

A total of \$1.5 million in new projects are scheduled in FY 2027, including:

- \$350,000 for City Hall HVAC Replacement
- \$325,000 for Facilities Structural Assessment Study
- \$250,000 for School District Project
- \$300,000 for Mariposa Fitness Station Parcourse Equipment Replacement
- \$100,000 for Polliwog Park Historic “Red” House Roof Replacement
- \$200,000 for Outdoor Dining Project – Flex Spaces

With these new projects and the previously approved projects to be funded, the CIP Fund is proposed to have a total expenditure of \$5.2 million. The unreserved fund balance of \$326,180 at the end of FY 2027, which will be used for future planned capital improvements. Additionally, \$1.5 million is set aside in a new debt service and capital reserve with the goal of increasing fund balance for future capital needs and in anticipation of future infrastructure projects.

The **Bond Construction Fund** was used to account for the Fire Station No. 2 Project, which was completed in FY 2025.

The **Utility Undergrounding District (UAD) Construction Fund** is used to account for bond proceeds and construction expenditures to complete the utility undergrounding work in each district. District 4 was completed in FY 2025 and Districts 12 and 14 are nearing completion. Two new districts (8 & 13) may initiate a Proposition 218 vote in FY 2027, which will set into motion new bond issuances and construction.

ENTERPRISE FUNDS

FY 2027 revenues in the **Water Fund** are estimated at \$19.3 million while operating expenses, capital projects and debt service in this fund total \$24.0 million. Capital projects totaling approximately \$5.3 million include \$4.3 million for 2nd Street Booster Station Improvements; \$850,000 for Groundwater Well 15 Site Improvements, and \$175,000 for Block 35 Elevated Tank Improvements. Although annual water rate increases were approved for November 2022 through November 2026, revenues from service charges have been impacted by lower consumption due to conservation efforts and heavier rainfall trends. With operational costs continuing to rise, and necessary capital improvements for aging infrastructure on the horizon, the City has begun a Water and Sewer Rate Study to assess if additional rate adjustments are needed to maintain operations and fund future projects.

The **Storm Drain Fund** includes revenues of nearly \$2.3 million from the City’s Storm Drain Assessment Fee and expenditures of \$3.3 million. In FY 2024, the City passed a Proposition 218 measure to implement a new Storm Drain Fee, which went into effect in FY 2025. Since then, the operational costs and capital needs related to storm water mandates have continued to rise, which may require a future Storm Drain Fee Study to assess if the current rate structure is adequate to keep up with required mandates.

The FY 2027 Budget allocates funds for street sweeping and mandated National Pollution Discharge Elimination System (NPDES) Permit Compliance Programs. The budgeted capital projects in the Storm Drain Fund total \$1.6 million, including the Dominguez Channel Trash TMDL (\$875,000), Golf Course Storm Drain Lift Station Electrical Upgrades (\$558,337), and the TMDL Trash



Treatment (\$125,000). The City has significant regional obligations under the Waste Discharge Requirements and NPDES Permit for Municipal Separate Storm Sewer System (“MS4”) Discharges within the Coastal Watersheds of Los Angeles and Ventura Counties. Under this permit, the City must undertake a myriad of programs to control and prohibit discharges of pollutants into the MS4. These programs include maintenance and operations work performed by employees and upcoming multi-million dollar capital projects to prevent pollution in the waters in the Beach Cities Watershed area, which include the Santa Monica Bay and the Dominguez Channel.

In the **Sewer Fund**, revenues are projected to be \$5.0 million with operating expenses, capital projects, and debt service estimated at \$4.6 million. The budgeted capital project in the Sewer Fund includes \$1.6 million for the Sewer Master Plan Update, and \$50,000 for the Voorhees Lift Station Upgrade. Although new annual sewer rate increases were approved for November 2023 through November 2027, like in the Water Fund, revenues from service charges have been impacted by lower consumption due to conservation efforts and heavier rainfall trends. Similar to the Water Fund, the City has begun a Water and Sewer Rate Study to assess if additional rate adjustments are needed to maintain operations and fund capital projects in the Sewer Fund.

The **Parking Fund** accounts for collections and expenditures for street meters and City-owned lots, debt service on the Metlox parking structure, and maintenance of the Metlox Town Square. In FY 2026, the Parking Fund began to realize significant revenue increases based on the parking rate increase from \$2.00/hour to \$2.50/hour for on-street meters and city parking lots, which was adopted on April 15, 2025. These Parking Fund revenue enhancements were developed to address the City’s critical parking needs resulting from the unexpected Lot 3 Parking Lot Replacement Project, in addition to:

- Increased demand for parking for visitors and business employees;
- Aging parking infrastructure;
- Outdated parking meter technology, including the need for conversion to advanced kiosk pay-stations; and
- Other parking lot improvement projects, such as waterproofing parking structures, as aging infrastructure reaches its maximum useful life.

Based on the current hourly parking meter rates, the Parking Fund revenues are projected at \$5.7 million. Expenditures are estimated at \$5.3 million, which includes \$650,000 in debt service on the Metlox parking structure and capital projects including additional funds for the Annual Parking Payment Facilities Improvements Program (\$700,000), the Parking Structure Lot 3 Replacement Project (\$700,000), Waterproofing City Hall and the Police/Fire Parking structures (\$400,000), and a new project for Annual Parking Facilities Capital Improvement Program (\$250,000). Fund revenues and expenditures also include the Downtown Business Improvement District assessments (approximately \$120,000), which the City collects and then remits to the Downtown Business and Professional Association through a contractual agreement. Any excess parking meter revenues are being accumulated in fund balance for future parking infrastructure projects and debt service.

An additional factor that impacts Parking Fund revenue is the Holiday Meter Bagging period that typically occurs for the 28 days preceding Christmas. In 2026, the meters will be bagged on November 25, the day before the Thanksgiving holiday. This policy of Meter Bagging reduces roughly one month’s worth of parking meter revenues as the meter rates are at no cost to the public during the affected period.

The **County Parking Lots Fund** accounts for the two County-owned beach parking lots commonly referred to as El Porto and 26th Street. Similarly, on April 15, 2025, the City Council approved revenue enhancements to increase the parking meter rates for County Lots (Bruce’s Beach and El Porto) from \$2.50 to \$3.50 per hour. Based on the current parking rates, revenues are projected at \$1.1 million in FY 2027 and expenditures of \$1.1 million are budgeted, including operational costs and \$643,359 for the County Lots operating lease. Excess funds (\$146,750) are transferred to the General Fund after accounting for the County’s share of revenue. Beginning in May 2026, County Parking Lot B at Bruce’s Beach will be closed for approximately 13-15 months to allow for the construction, staging and completion of the 28th Street Infiltration Project. As such, both operational costs and revenues for Lot B are adjusted to account for inactivity during FY 2027.

The **State Pier and Parking Lots Fund** relates to the operational activity for the State-owned Pier and adjacent parking lots. As with the County parking beach lots, the State Pier Fund parking lot meter rates were also adjusted from \$2.50 to 3.50 per hour based on revenue enhancements approved by City Council on April 15, 2025. Revenues of \$1.1 million are projected in FY 2027 and



operating and capital expenditures are budgeted at \$730,534. Fund revenues are used to maintain and operate the Pier and parking lots, and the Pier comfort stations.

INTERNAL SERVICE FUNDS

The City operates four Internal Service funds that provide for the operation, maintenance, and replacement of facilities or equipment, or serve to spread the cost of an internal function across the user departments.

The FY 2027 **Insurance Reserve Fund** budget contains revenues of \$17.7 million (primarily from charge-outs to other funds and a one-time transfer) and expenditures of nearly \$13.7 million. A one-time transfer of \$6.0 million from the General Fund is necessary to replenish reserves in the Insurance Fund caused by an extraordinary increase in claims paid and litigation expenses.

The Insurance Reserve Fund allocates charges to other funds based on recent experience and actuarial funding estimates. In recent years, costs have escalated faster than the budgeted charge-outs and reserves were drawn down year after year including FY 2023 (\$1,044,242), FY 2024 (\$209,260), FY 2025 (\$1,257,165) and FY 2026 estimated (\$2,939,439). Combined, the projected draw down of Insurance Fund reserves over the course of four years is estimated at \$5,450,106, which illustrates how the reserves have been depleted. With cost escalations predicted to continue into FY 2027, the transfer from General Fund reserves is necessary to maintain sufficient working capital in the Fund.

In FY 2027, charge outs to departments for liability and property claims increased by \$1,618,458 when compared to the year-end projection for FY 2026. These charge-outs fund insurance premiums, claims paid, litigation expenses and claims administration costs. The significant increase is primarily due to an increase in claims expense influenced by various factors such as rising medical expenses, higher frequency and severity of incidents, and increased litigation and related expenses. The increase in insurance premiums is attributed to a tough insurance market which has been impacted by the increase in cybersecurity incidents and significant weather-related events across the country, including hurricanes, severe connective storms and wildfires.

Overall, budgeted claims paid in FY 2027 have increased for liability by \$1.0 million to \$3.5 million and workers' compensation liability has remained at the same level compared to prior years with a budget of \$4.0 million. Workers compensation and liability expenses are difficult to predict because of our relatively small population and the volatile way extraordinary cases occur. The result is that there are extreme swings in expense from year to year.

Workers' compensation continues to be a challenge both in terms of cost control and predictability. Ongoing old cases can significantly deplete insurance reserves. These claims can significantly increase the City's liability. While proactive workplace injury prevention programs help with our current employees, the City could be exposed to escalating costs for many years after separation from employment.

To mitigate risk, the City has a Self-Insured Retention (SIR) of \$500,000 for liability and \$750,000 for Workers' Compensation. This approach is balanced with an internal assessment of funding needs and will be reevaluated as needed.

The **Information Technology Fund** provides for the operation of the City's Information Technology (IT) Department, including managing and maintaining the City's technology infrastructure, ensuring secure and seamless operations, and supporting the City Departments with their technological needs. The IT core functions incorporate end-user support, infrastructure support, application support, Geographic Information Systems (GIS) services, communications and collaborations, cybersecurity, and business process improvements. The Department's budget is charged to the other departments based on the number of devices - workstations, printers, desk phones, mobile devices, etc. - being utilized and the number of employees in each division. In FY 2027, Information Technology Fund revenues are \$6.6 million, and expenditures are budgeted at \$7.1 million.

The Proposed Budget includes the upgrade of one full-time Office Assistant to an Administrative Assistant to better suit the necessary job duties of the position, and provide improved efficiency based on an increase of administrative duties, largely due to the increase in the Department's operations (+\$15,839). Additionally, funding is allocated for a city-wide phone system replacement based on the need for hardware and software (+\$250,000).



The **Fleet Management Fund** is charged to departments in two separate line items - fleet maintenance and fleet rental. Fleet maintenance accounts for repairs and routine vehicle maintenance based on the average maintenance and repair cost according to the type and number of vehicles a department operates. The fleet rental charge provides for the replacement of City vehicles, and is a straight-line depreciated charge based on the cost and expected life of each vehicle. However, the City does not always replace vehicles according to the “expected life” schedule. Instead, the City evaluates the condition of the vehicle at the end of its useful life and may defer the replacement if the vehicle is still in good condition. Service charges totaling \$4.2 million are budgeted in FY 2027 to support operations of \$4.4 million, including higher fuel costs, and vehicle and equipment replacements of \$2.3 million. A full list of vehicle and equipment replacements is included in the Capital Budget Summary section of this document. The Fleet Management Fund is expected to have \$465,687 in fund balance after FY 2027 for future vehicle replacements.

The **Building Maintenance and Operations Fund** consists of programs from two different departments. The Fund provides for Public Works’ Building Maintenance program, which maintains City facilities and grounds, and the Finance Department’s Purchasing program which ensures that common equipment and supplies (such as photocopiers and paper) are maintained. The Fund’s FY 2027 Budget includes revenues of \$2.8 million and expenditures of \$2.8 million. Expenditures associated with this fund are allocated to departments based on their number of employees and the square feet of buildings they occupy.

TRUST AND AGENCY FUNDS

The **Section 115 Trust Fund** contains transfers from the General Fund per the Pension Liability Policy adopted by the City Council in conjunction with the issuance of the Pension Obligation Bonds (POBs), which paid off the City’s CalPERS liability in 2021 and exchanged it for level-debt service. The ongoing transfers from the General Fund reallocate the proposed budgetary “savings” achieved by the issuance of the POBs, which is derived from the difference between what would have been paid to CalPERS compared to the current level-debt payments of \$5.5 million. The Policy was written to provide flexibility in the allocation of savings depending on priorities each year. Since the inception of the Policy, two of the last five years were modified to allocate more funds to capital needs and less toward pre-funding future pension payments.

Additionally, due to extraordinary increases in transfers out expenses in the General Fund, the scheduled transfer of \$3.5 million to the Section 115 Trust Fund was temporarily paused while we focus on funding rising CalPERS UAL payments (\$2.7 million in FY 2027) and the one-time \$6.0 million cash infusion to the Insurance Reserve Fund. At the end of FY 2027, the balance in the Section 115 Trust Fund is projected to be \$6.5 million.

	POB "SAVINGS" CIP FUND TRANSFER		POB "SAVINGS" SECTION 115 TRANSFER		TOTAL
FY 2022	40%	\$492,596	60%	\$738,894	1,231,490
FY 2023	80%	1,596,585	20%	399,146	1,995,731
FY 2024	80%	1,994,920	20%	492,380	2,487,300
FY 2025	40%	1,194,471	60%	1,791,707	2,986,178
FY 2026	0%	0	100%	3,246,893	3,246,893
FY 2027	0%	0	0%	0	0
		\$5,278,572		\$6,669,020	\$11,947,592

