

City of Rolling Hills Estates

State of California



Fiscal Health Report 2013-14 through 2022-23



Prepared by
Administrative Services Department



*Fiscal Health Report
2013-14 through 2022-23*

*Prepared by
Administrative Services Department
City of Rolling Hills Estates, California*

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Ernie Howlett Park

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Fiscal Health Report

Administrative Services Department

March 12, 2024

Mayor and Members of City Council:

Staff is pleased to submit for your review the Fiscal Health Report, which includes the results of operations for Fiscal Year (FY) 2022-23. The purpose of this report is to provide the City Council, staff, and the public with a view of the City's financial condition over time so that we can ensure its future fiscal health.

Briefly, the Fiscal Health Report is a financial monitoring system that computes a number of "factors" and compares the results over time. This system is based on the monitoring systems of the International City Managers Association (ICMA) and the Government Finance Officers Association (GFOA) of the United States and Canada, using selected relevant factors for the City of Rolling Hills Estates.

How the System Works

Trends are color-coded for easy reference: green is favorable; blue is favorable/stable; yellow is stable; orange is unfavorable/stable; and red is unfavorable. A summary sheet of all factors is presented on page 4.

Several factors use population as a component of the formula. The intent is to show if revenues and expenditures are keeping pace with population growth, which might increase the demand for services. While the City's population increased slightly to 8,446 in 2022-23, which is slightly higher over 10 years from 8,184 in 2013-14, however, the population average for 10 years is 8,175. The per capita formula is still valid for purposes of establishing a relationship between the factors.

It is also important to view the factors in relation to each other. Therefore, an unfavorable trend in expenditures combined with a favorable trend in revenues may not raise immediate concern. On the other hand, stable or declining revenues combined with increasing expenditures could flag a potential problem.

Highlights

Over the ten-year period, Sales Tax continues to be one of the City's largest revenue sources along with Property Tax revenue. The City's total sales tax in FY 2022-23 had an increase over last year, and sales tax revenues continue to rise in the past few years. Keep in mind that the "Triple Flip" ended in FY 2015-16. Our conservative sales tax assumptions for FY 2023-24 reflect a slight growth assumption in revenue compared to FY 2022-23 actual revenues, and this is anticipated due to the economic conditions.

The City's largest individual source of revenue over the ten-year period has been Property Tax. Property tax revenues continued to grow, however, revenues increased by \$266,932 or 6.9%, over the previous fiscal year. In 2023, the Assessment Valuations reflected a 6.0% increase with a \$4.67 billion net value, and in 2023 realized a 7.7% increase. Overall, the property values in the City remain strong, as there is a high demand to live in this area.

However, the City is seeing the building permit revenues return to normal levels that have been extraordinarily high for the last few years. These high revenues will be reflected in the charts such as Factor 1 with an increase in Revenue per Capita over the 10-year period. Council has made policy that these extraordinary revenues will be allocated to reserves and one-time expenditures.

Total General Fund operating expenditures rose by \$394,589, driven by modest increases in spending across various General Government areas, including legislative, administration, public safety, and community development, with notable but not excessive growth in public works and community services.

In the city, per capita General Fund expenditures were lower than per capita revenues, reflecting a strong economy and development. However, expenditures are being closely monitored.

Public Safety continues to be a top service priority and the second highest category of operating expenditures at \$2,515,897. The cities of Rolling Hills, Rolling Hills Estates and Rancho Palos Verdes jointly contract with the County Sheriff for police protection and detective services. Under the agreement, each city's cost is based on an incident formula. The cost for the City of Rolling Hills Estates is 28% of the total regional cost.

Overall, as reflected in the results of the FY 2022-23 financial audit, the City continues to perform fiscally well through prudent financial planning and careful monitoring of the budget items.



Michael C. Whitehead
Administrative Services Director

Fernando Estrada
Senior Accountant

Factor Summary Sheet

Factor No.	Factor	FY 19-20	FY 20-21	FY 21-22	FY 22-23
1.	Revenue per Capita				
2.	Sales Tax per Capita				
3A.	General Fund Operating Expenditures per Capita				
3B.	Public Safety Expenditures per Capita				
3C.	General Fund Revenues & Expenditures per Capita				
4A.	Fringe Benefits as Percent of Wages				
4B.	Personnel Costs as Percent Total General Fund Operating Expenditures				
5.	Operating Position				
6.	Property Assessed Values				
7A.	Property Taxes per Capita				
7B.	Property Taxes as Percent of General Fund Revenue				
8.	Building Permit Revenues and Building Inspection Expenditures				
9.	Capital Project Expenditures Compared to Total Expenditures				
10.	General Fund Capital Project Expenditures per Capita				

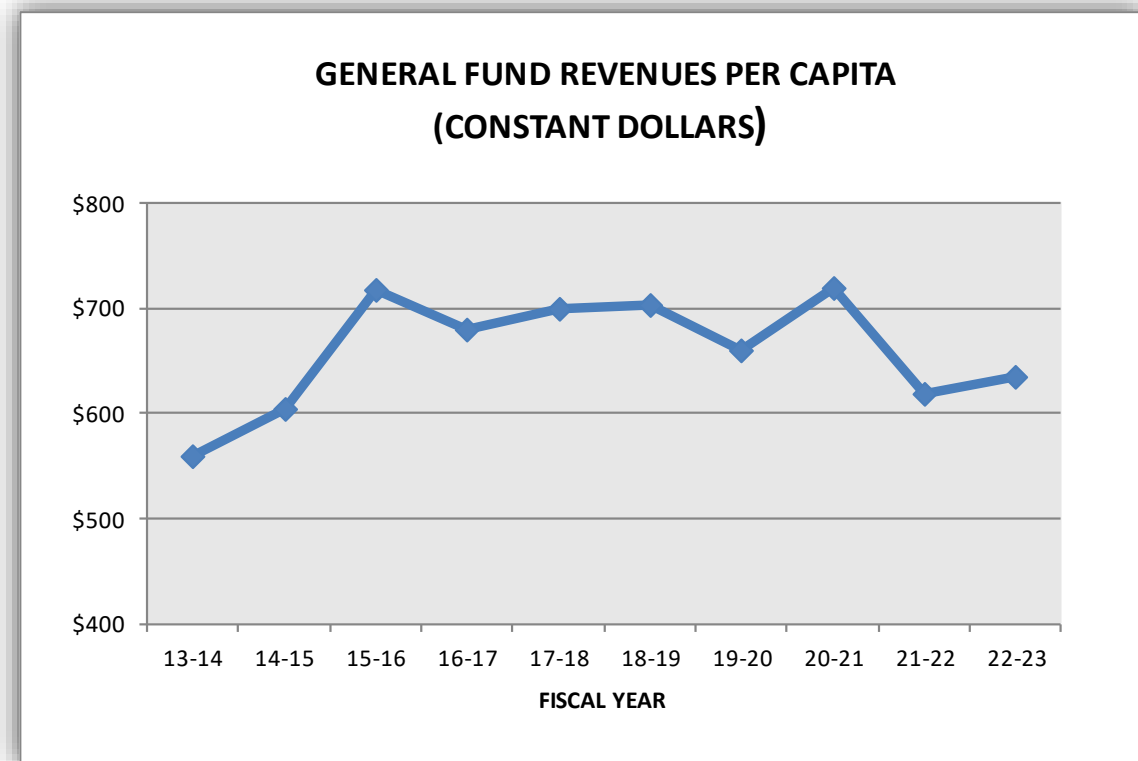
LEGEND

	Favorable		Favorable/Stable		Stable		Unfavorable/Stable		Unfavorable
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Factor 1 - Revenue per Capita

DESCRIPTION - This factor is designed to show whether revenues are keeping pace with growth in the community. A municipality strives to maintain existing levels of services with all revenues sources. The primary source of General Fund revenues are sales tax revenue, property taxes, and building permits. FY 2015-16 begins to show the increase in building permit revenues, and FY 2021-22 reflects the return of building permit revenues to conventional levels. Additionally, sales tax revenues slightly increased due to an uptick in consumer goods and in the County pool.

This factor should be watched closely in conjunction with Factor 3A, which is operating expenditures per capita.

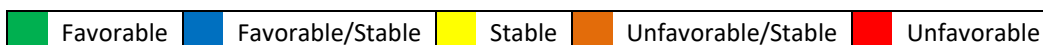


FORMULA =
$$\frac{\text{Total Operating Revenue/CPI}}{\text{Population}}$$

Warning Sign: Decreasing Operating Revenue Per Capita

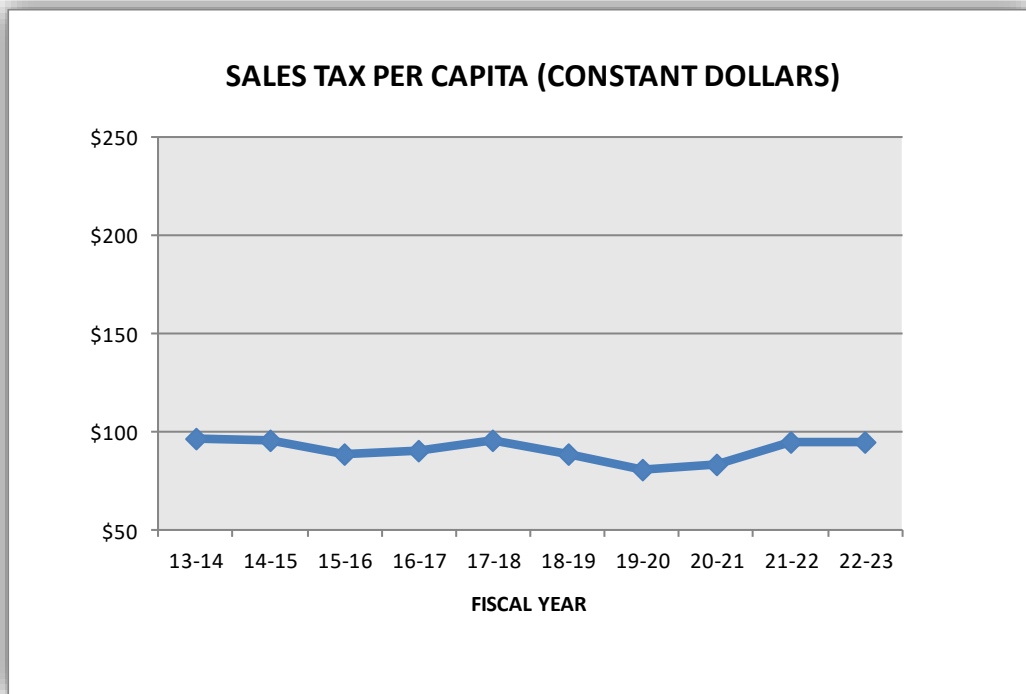
TREND:

■ **FAVORABLE**



Factor 2 - Sales Tax per Capita

DESCRIPTION - Since the sales tax constitutes such a large percentage of the general fund revenue, this factor is annually examined, relative to the population of Rolling Hills Estates. A favorable trend occurs when sales tax increases compared to the population. Decreasing sales tax, without the loss of a major retailer or economic downturn, might indicate the City is losing its share of retail activity. The City receives 1% of total sales tax collected, however the State Board of Equalization charges the City a 1% administration fee. The drop in sales tax in FY 2015-16 can be attributed to the development in the commercial district, and the pandemic shutdowns can be seen starting in FY 2019-20 until the rise in FY 2020-21. However, sales tax increased again after the shutdown of businesses and online sales increased in the City. Sales Tax is Stable with the slight increase in population.



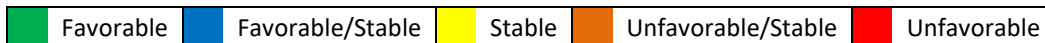
FORMULA =
$$\frac{\text{Sales Tax Revenue/CPI}}{\text{Population}}$$

Warning Sign: Decreasing Sales Tax and Increasing or Stable Population

TREND:

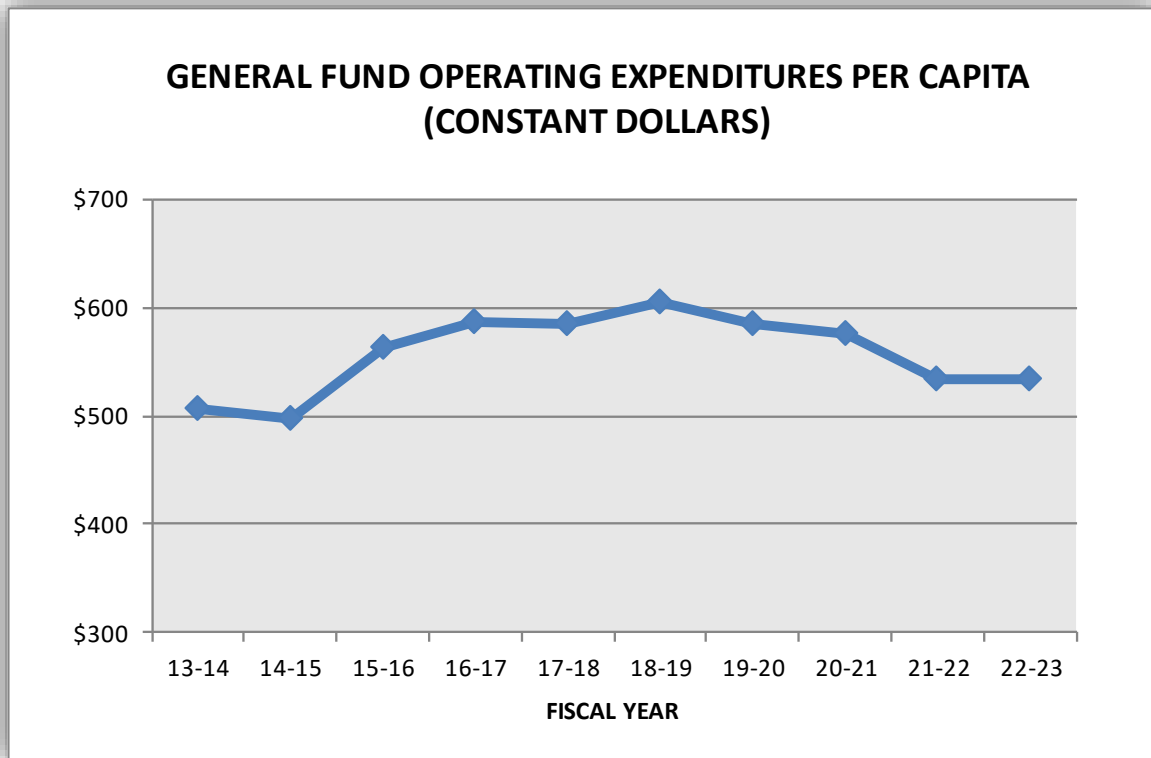


STABLE



Factor 3A – General Fund Operating Expenditures per Capita

DESCRIPTION - This factor is designed to show the cost-per-person of providing City services. Total General Fund operating expenditures increased \$394,589 or 4.5% to the prior year. Overall, General Fund operating expenditures per capita exhibit displays the trend over the 10-year period.



FORMULA =
$$\frac{\text{Total Gen. Fund Operating Expenditures/CPI}}{\text{Population}}$$

Warning Sign: Significantly Increasing Operating Expenditures Per Capita, Especially When Combined With a Stable or Unfavorable Trend in Factor 1 - Revenues Per Capita

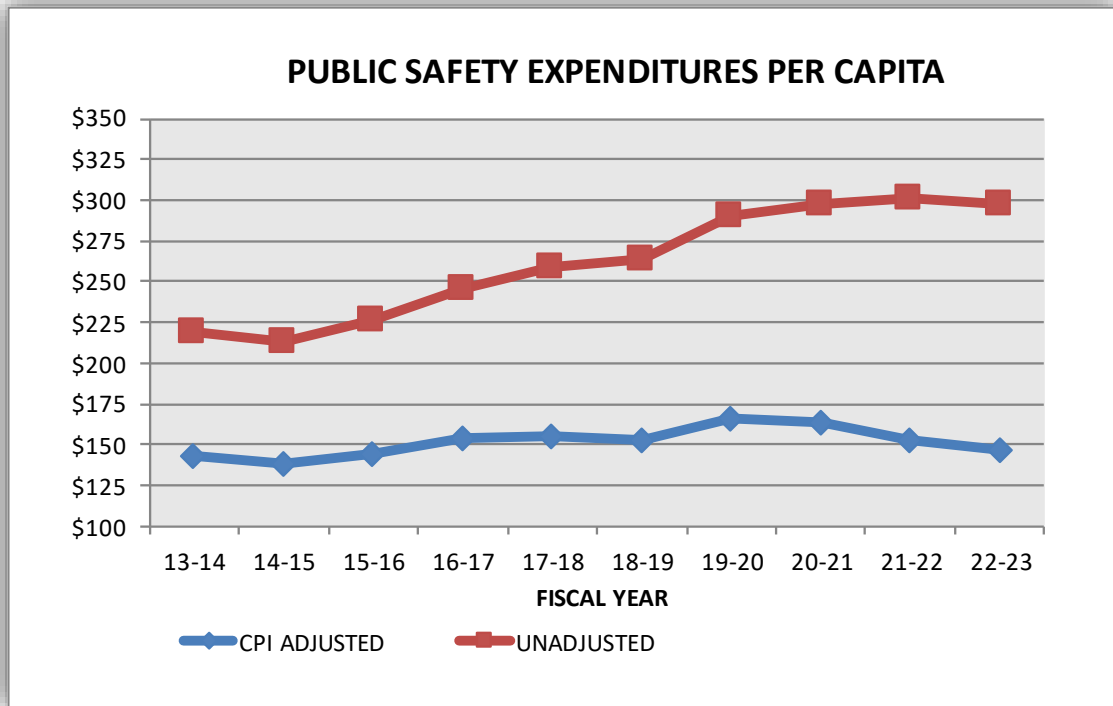
TREND:

■ FAVORABLE/STABLE

■ Favorable
 ■ Favorable/Stable
 ■ Stable
 ■ Unfavorable/Stable
 ■ Unfavorable

Factor 3B - Public Safety Expenditures per Capita

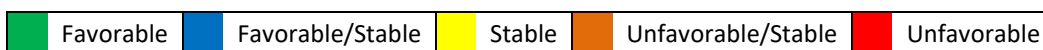
DESCRIPTION - Since Public Safety expenditures represent one of the highest level of expenditures and remain a top service priority of the City, this item is examined separately. The City's share under the regional policing formula is 28% of the total regional cost. Public Safety expenditures in FY 2022-23 were \$2,515,897 which was an increase of \$23,527 from FY 2021-22. The graph displays actual expenditures and expenditures adjusted for inflation and increase in population.



FORMULA =
$$\frac{\text{Public Safety Expenditures}}{\text{CPI}} \div \text{Population}$$

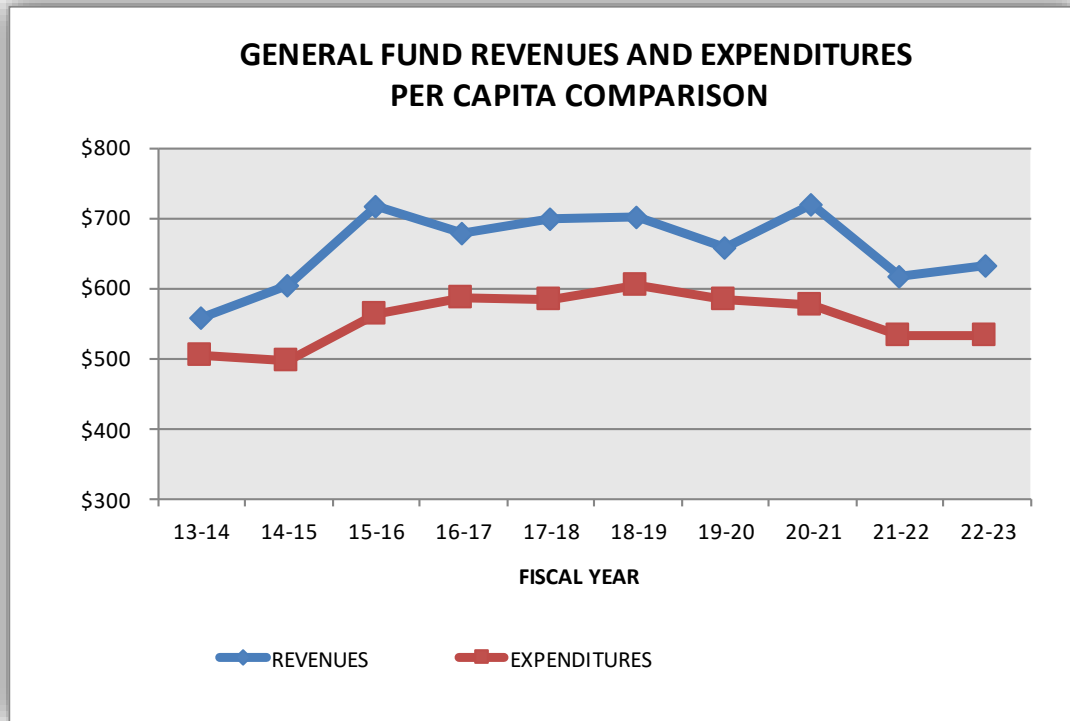
Warning Sign: Significantly Increasing Per Capita Expenditures

TREND:
 STABLE



Factor 3C - General Fund Revenues and Expenditures per Capita

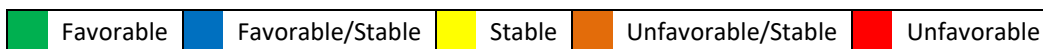
DESCRIPTION - This table shows Factors 1 and 4 combined and provide a graphic display of their relationship. The revenue increase is due to development projects and sales tax in the City. Expenditures also slightly decreased during this period with the conservative budget and staff changes. Revenues are strong and the exceptionally high development has normalized as seen in Fiscal Years 2021-22 and 2022-23.



Warning Sign: Significantly Increasing Per Capita Expenditures (In Red) Combined With Stable Or Declining Per Capita Revenues (In Blue).

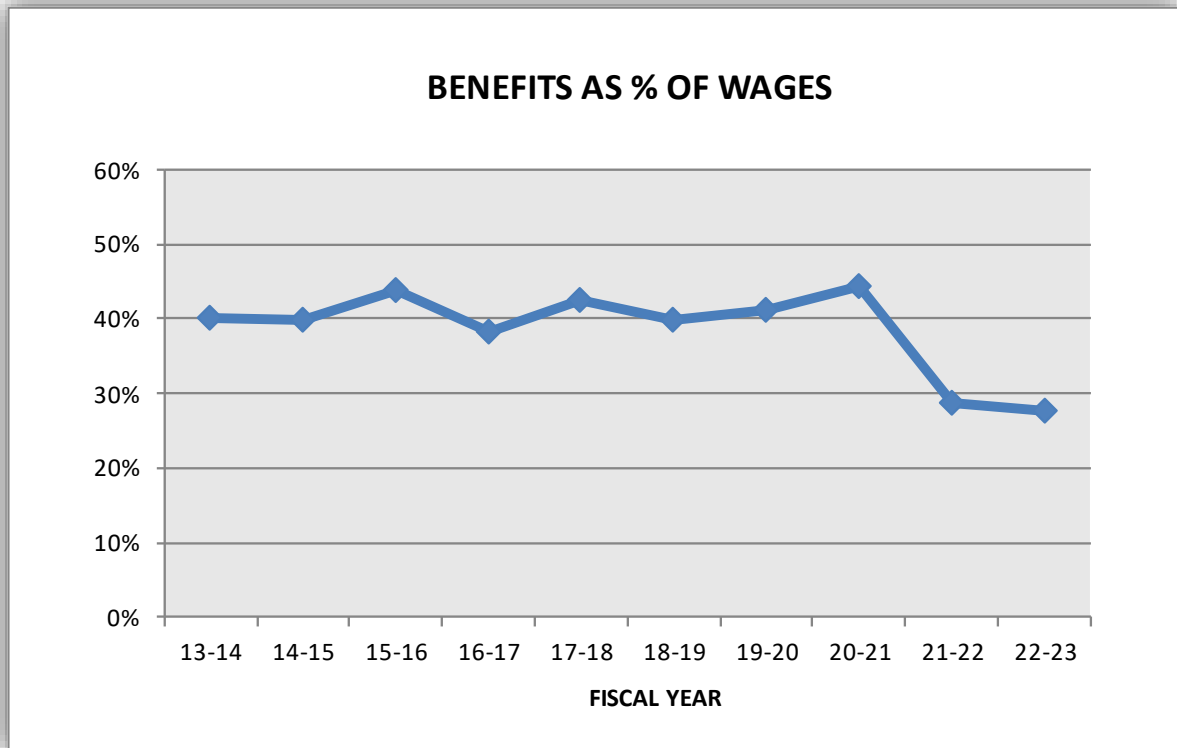
TREND:

■ FAVORABLE/STABLE



Factor 4A - Benefits Costs as a Percent of Total Wages

DESCRIPTION - This factor is designed to reflect the benefits costs on a municipality's finances. Decreased costs for worker's compensation insurance, and full-time staff paying the employee's share of PERS helped stabilize benefits costs. The additional CalPERS UAL lump sum payments have stabilized CalPERS costs in addition with rate smoothing. Additionally, in an attempt to address cost overall in personnel, the City has three retirement tiers in CalPERS and only two tiers for new hires. The significant impact with the final pension obligation bond payment made in FY 2020-21.

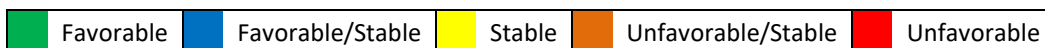


FORMULA =
$$\frac{\text{Total Benefits Costs}}{\text{Total Wages}}$$

Warning Sign: Unexpected Increasing Benefits Costs Compared To Total Wages

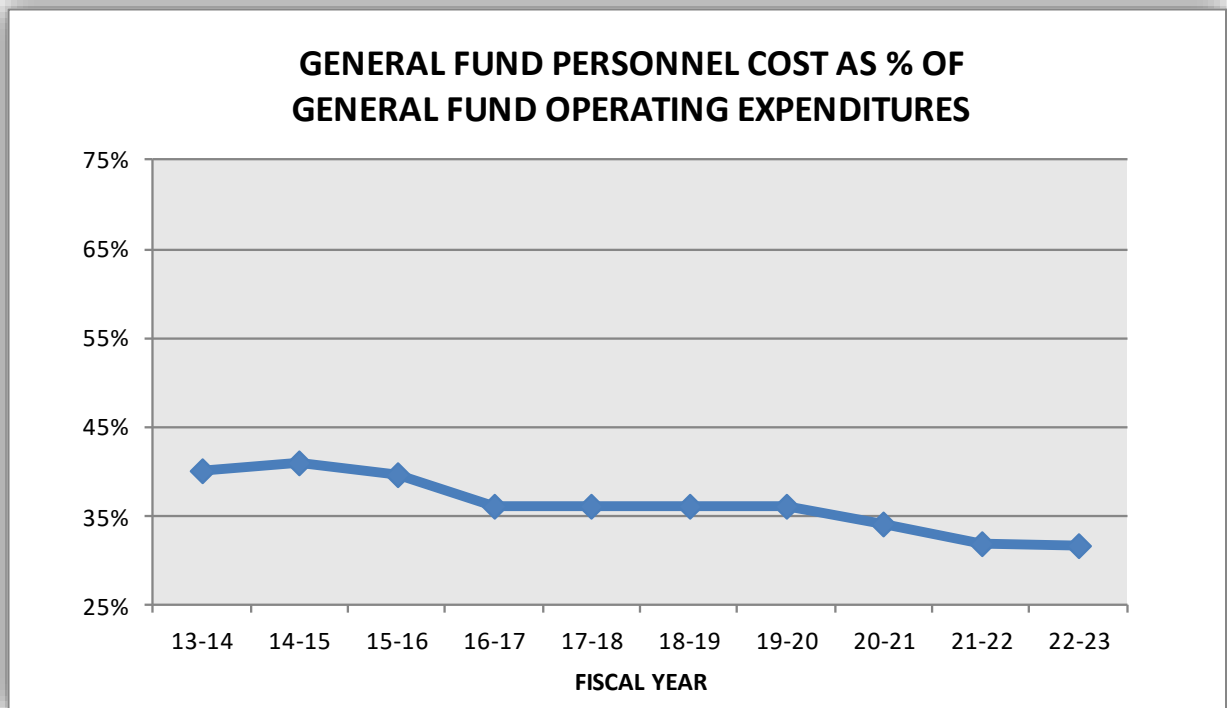
TREND:

 **FAVORABLE**



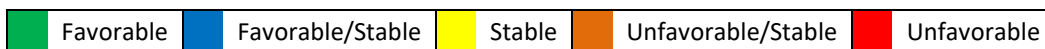
Factor 4B - Personnel Costs as Percent of Total General Fund Operating Expenditures

DESCRIPTION - This factor is designed to show the percentage of total operating expenditures devoted to personnel costs. Personnel costs include wages, salaries and benefits such as health insurance and pension costs. This factor should be examined with factor 4A - benefits. A Favorable trend occurs when personnel costs as a percentage of total General Fund operating expenditures remain fairly constant while recognizing any personnel changes. The downward trend is from staff reorganization, savings from CalPERS payments, and payoff of the pension obligation bond.



TREND:

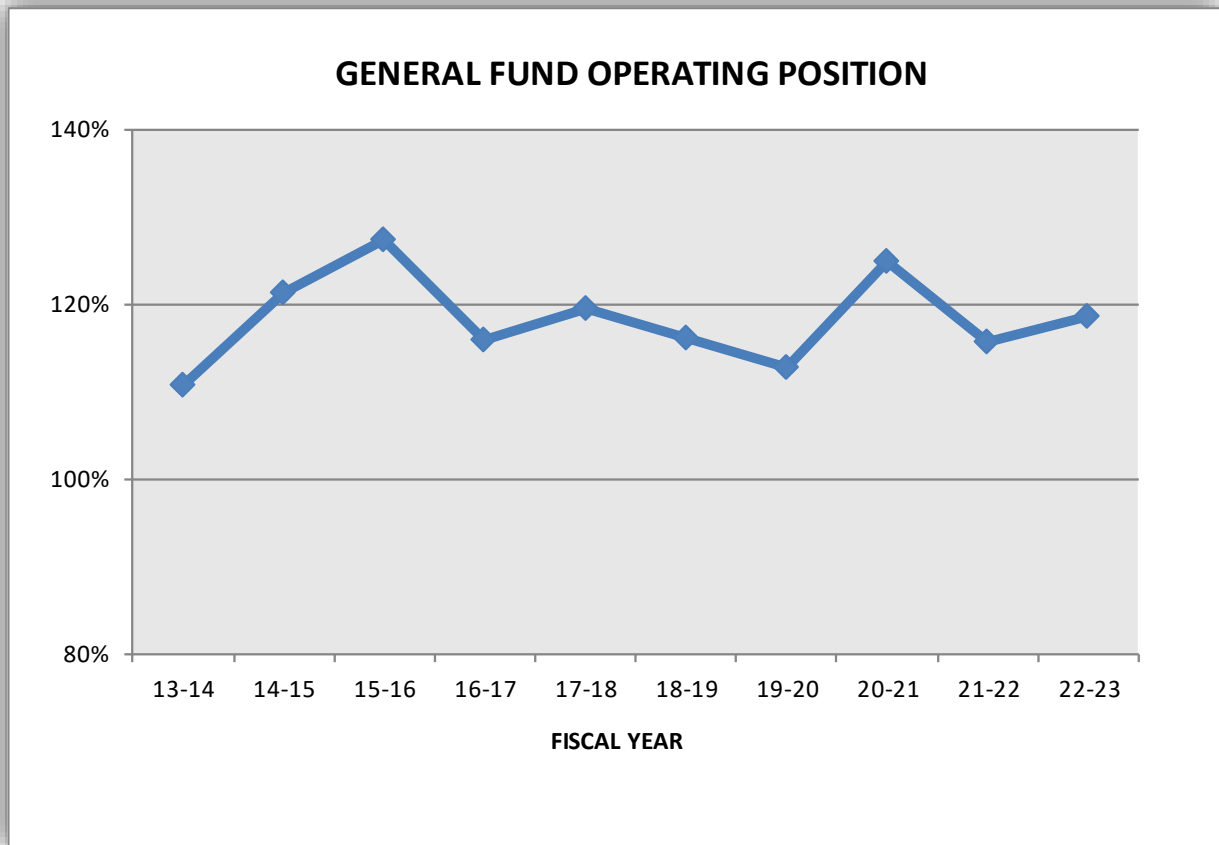
■ **FAVORABLE**



Factor 5 - Operating Position

DESCRIPTION - This factor is designed to demonstrate whether a municipality needs to draw on fund balance to fund current operations. In this factor, 100% means the City attained a break-even point, a number greater than 100% means the City had an operating surplus; and less than 100% means the City was operating at a deficit.

The FY 2022-23 result remains with a healthy operating surplus and a conservative budgeting approach keeping in mind the economic environment.



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

Warning Sign: Increasing Amount of General Fund Operating Deficits

TREND:

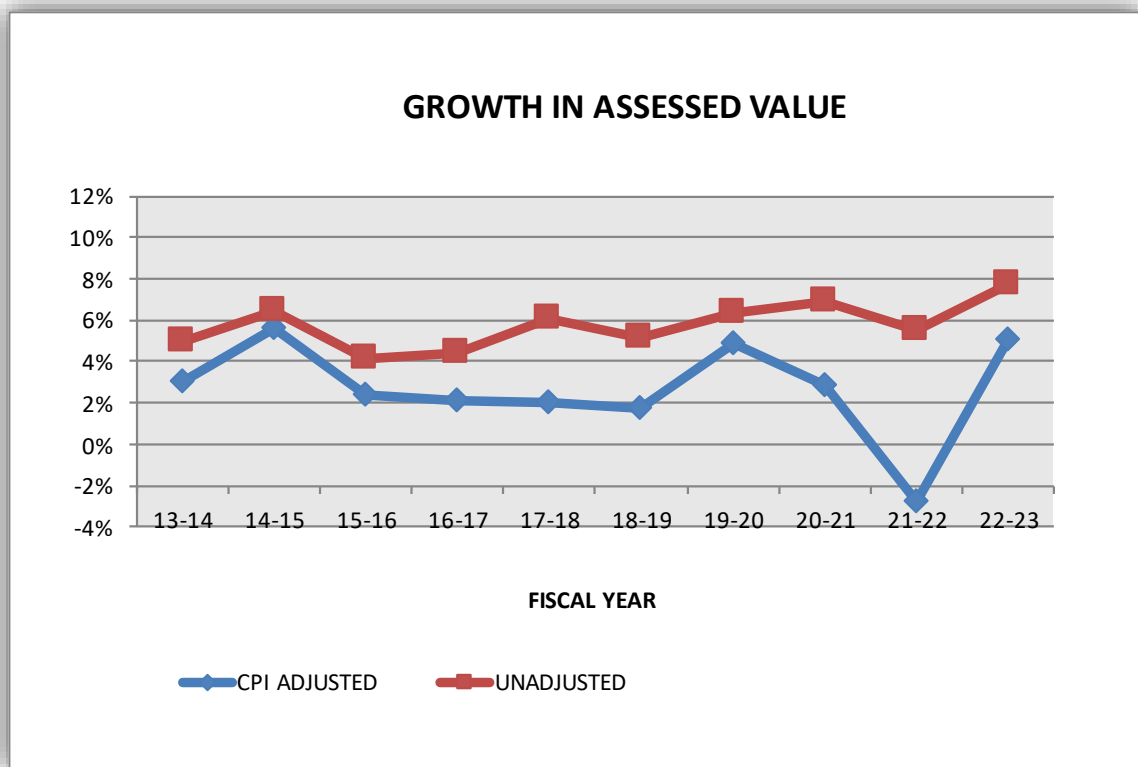
■ **FAVORABLE**

■ Favorable	■ Favorable/Stable	■ Stable	■ Unfavorable/Stable	■ Unfavorable
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Factor 6 - Property Assessed Values

DESCRIPTION - This factor measures the growth of assessed property values. While the City does not levy a property tax, it does receive the maximum level of AB 1197 property tax revenue. The AB8 apportionment formula is a countywide formula whereby the City receives only 6.69% share of the countywide 1% property tax which is based on the City's proportional share of the total countywide value of assessed, non-exempt property values. Future increases in this revenue source are to be determined by increases in the assessment roll.

In fiscal year 2021-22 the City's assessed value increased by 7.7%, however CPI rose to an extraordinary high of 8.6%. Overall, property values within the City continue to rise with the demand to live in this area.

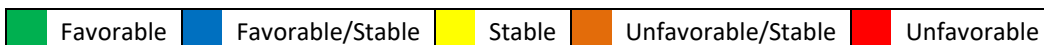


FORMULA =
$$\frac{\text{Current Year AV minus Last Year's AV/CPI}}{\text{Last Year's AV}}$$

Warning Sign: Decreasing Growth of Unadjusted Assessed Value below 0%

TREND:

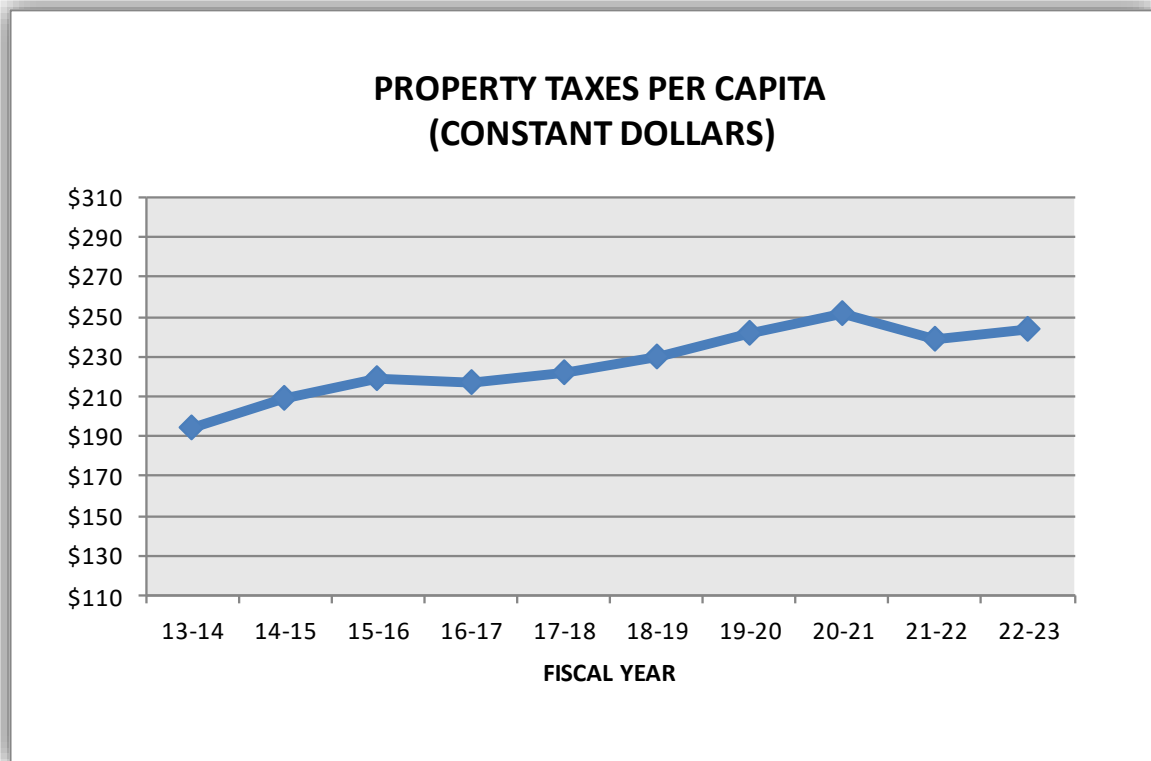
■ **FAVORABLE**



Factor 7A - Property Taxes per Capita

DESCRIPTION - This factor measures the City's share of AB 1197 property taxes received from Los Angeles County. Since the City's share is part of the County's pool of 6.69% of the 1% Los Angeles County share, future property taxes will only change by changes in assessment roll. It should be noted that the City has no control over this revenue source since Los Angeles County levies the property tax. The healthy increases in assessed values (Factor 7) translate into higher property taxes.

The increase in FY 2014-15 is the Triple Flip ending and the Property Tax in lieu of the VLF Fees has been included with the Property Tax revenues for all years. Fiscal Years 2021-22 and 2022-23 reflect the increase in the City's population for both years.

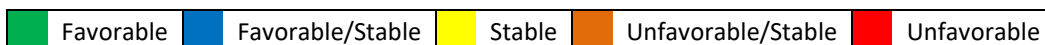


FORMULA =
$$\frac{\text{Property Tax Revenue}}{\text{Population}}$$

Warning Sign: Decreasing Property Tax Revenue

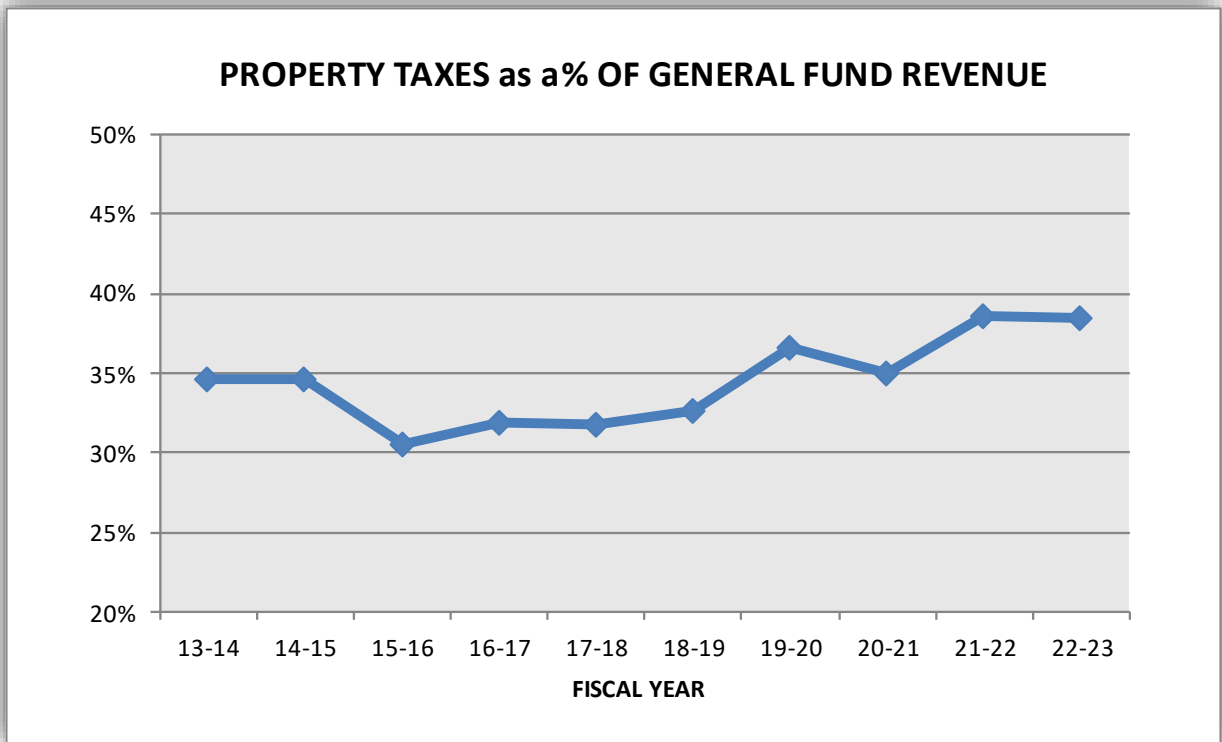
TREND:

■ **FAVORABLE**



Factor 7B - Property Taxes as Percentage of General Fund Revenue

DESCRIPTION - This factor represents the percentage of General Fund revenue that is generated from Property Tax revenue. However, other revenue sources, such as the extraordinary increase in building permits, will affect this factor as can be seen over the prior years. It is good to monitor it as a percentage of total revenue, and this factor should remain favorable in future years. In FY 2021-22 Property Tax Revenue was 38.5% of General Fund Revenue, and in FY 2022-23, Property Tax represented 38.4% of total revenue.



FORMULA =
$$\frac{\text{Property Tax Revenue}}{\text{Total General Fund Revenue}}$$

Warning Sign: Decreasing Property Tax Revenue as Percent of Total Revenue without an offsetting revenue source

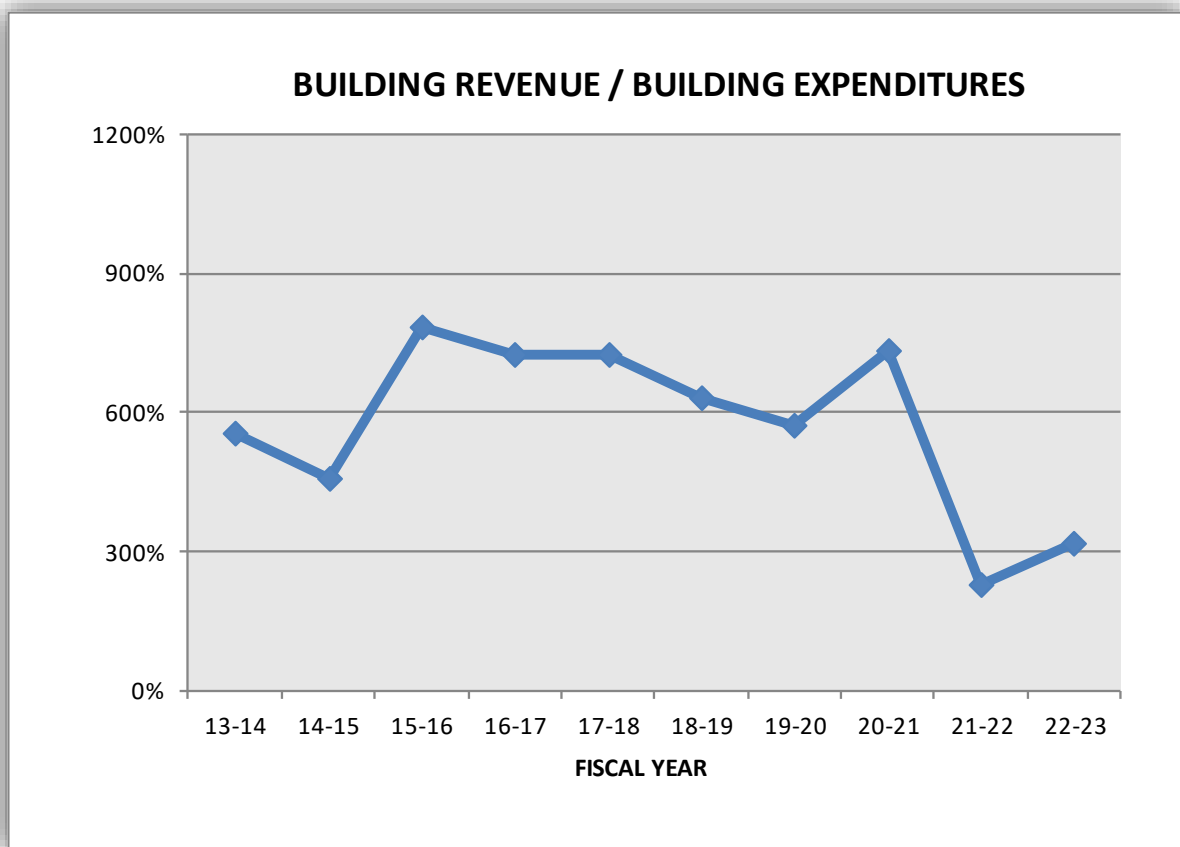
TREND:

■ **FAVORABLE**

■ Favorable	■ Favorable/Stable	■ Stable	■ Unfavorable/Stable	■ Unfavorable
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Factor 8 – Building Permit Revenues and Building Inspection Expenditures

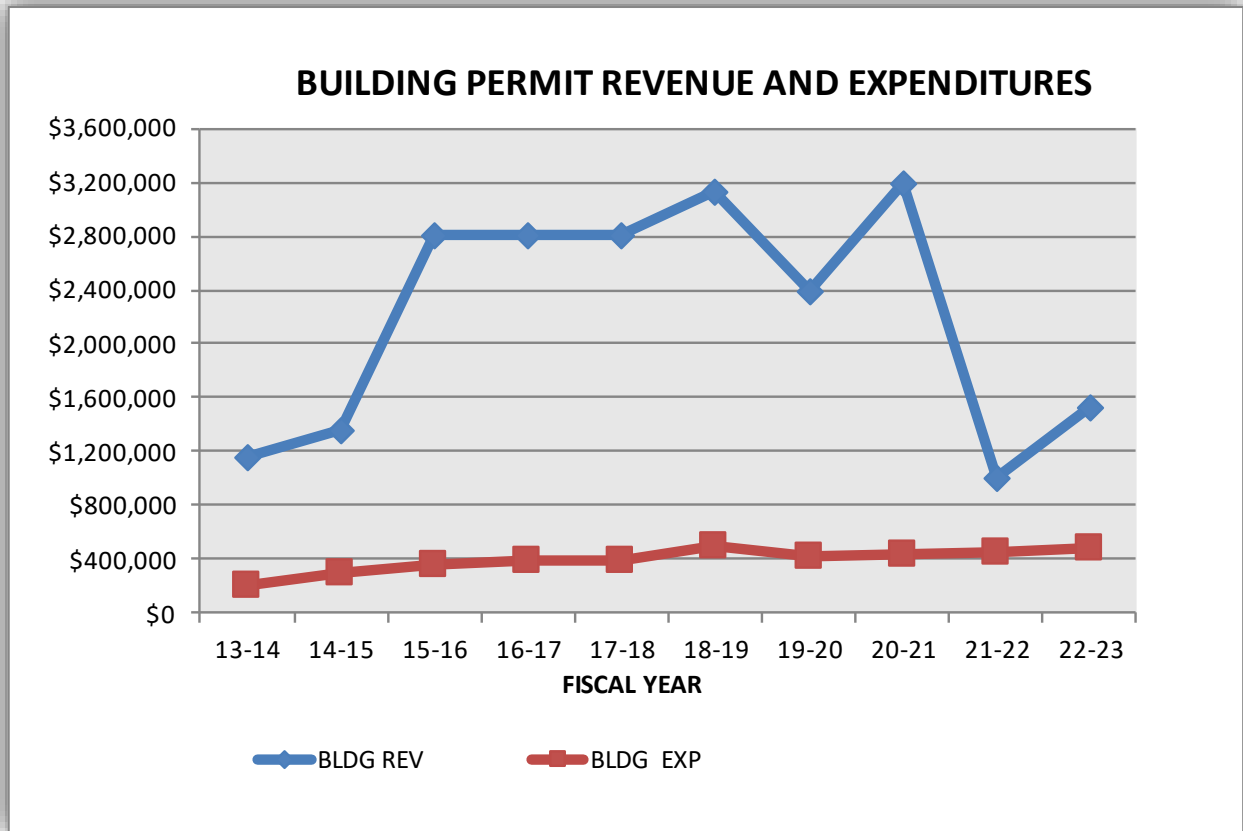
DESCRIPTION - This factor compares the City's revenue from plan check and building inspection fees (accounts 3230) to related expenditures for plan check and building inspection services (account 4510-437). A fee study that was conducted lowered the return from a 3:1 to a 2.5:1, and graphs do not reflect the loss of revenue due to discounted fees for such as solar and roof replacement permits. Administrative and overhead costs are not included in these expenditures. The revenue and expenditure levels vary, depending on the building activity of a particular fiscal year. This factor provides two graphic displays of the relationship between the revenues and the expenditures (percent and total dollar) and shows the overall level of private sector building activity over the past ten fiscal years. FY 21-22 show the return to normal and expected levels for the revenues.



Warning Sign: Decreasing Building Permit Revenues When Compared To Increasing Building Permit Expenditures

(Factor 12 is continued on the following page.)

Building Permit Revenues have risen to historic levels since FY 15-16. Building Permit and Inspection revenues show growth again in FY 2022-23 from developments and economic growth.



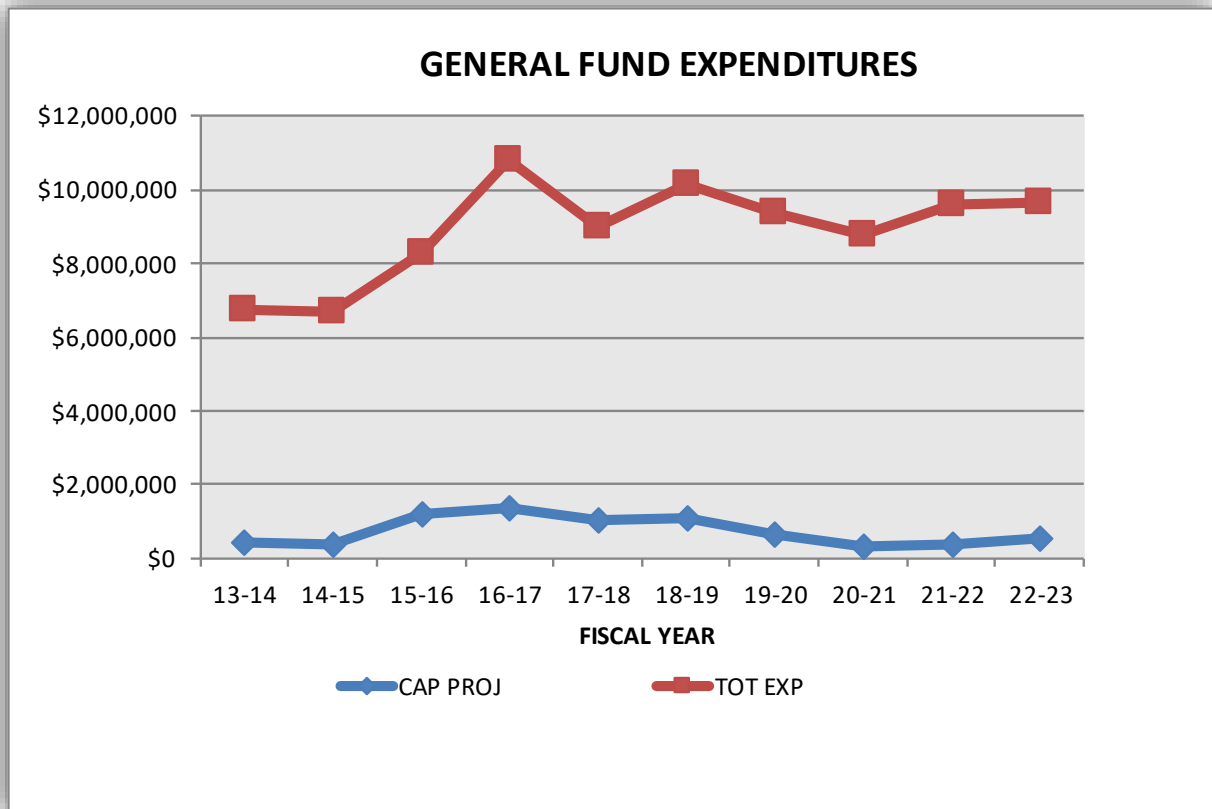
TREND:

■ **FAVORABLE**

Favorable	Favorable/Stable	Stable	Unfavorable/Stable	Unfavorable
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Factor 9 – General Fund Capital Project Expenditures Compared To Total Fund Expenditures

DESCRIPTION - This factor compares the City's capital outlays in the General Fund to total Fund expenditures. Such capital outlays are financed using the operating surpluses of prior fiscal years (no debt is incurred, thus keeping capital costs lower). This factor provides a graphic display of the fiscal health of the General Fund to provide for both capital expenditures and the costs of current operations.



Warning Sign: Decreasing Capital Expenditures When Compared To Increasing Total Expenditures

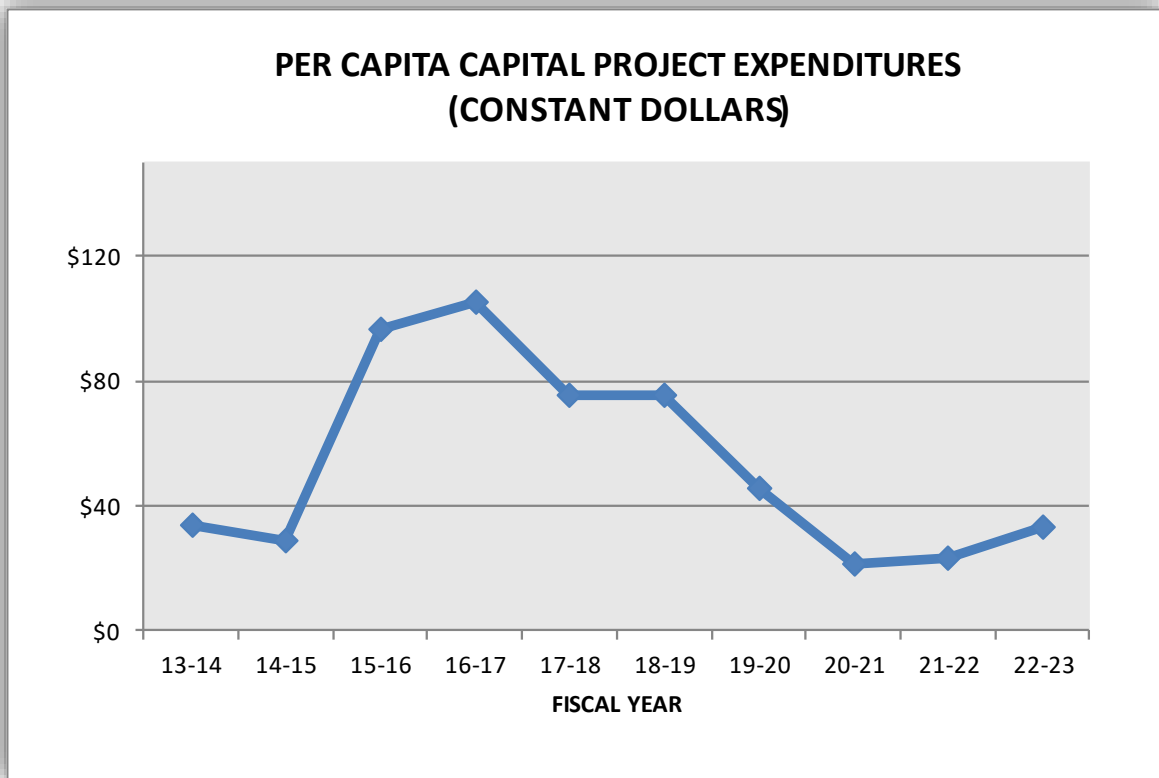
TREND:

 FAVORABLE/STABLE

Favorable	Favorable/Stable	Stable	Unfavorable/Stable	Unfavorable
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Factor 10 – General Fund Capital Project Expenditures per Capita

DESCRIPTION - This factor analyzes the per capita amount expended for capital improvements over the past ten fiscal years. This factor provides a graphic display of the ability of the General Fund to provide for capital expenditures while continuing to finance current operating costs. This factor in 2022-23 is adjusted for inflation with \$33.35 per capita capital project expenditures. The increase in FY 15-16 is due to the projects from the City’s healthy reserves and long-term projections of City finances.



Warning Sign: Decreasing Capital Expenditures Per Capita.

TREND:

■ **FAVORABLE**

■ Favorable	■ Favorable/Stable	■ Stable	■ Unfavorable/Stable	■ Unfavorable
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