

**AGENDA
CITY OF RANCHO PALOS VERDES
NOTICE OF MEETING OF THE FINANCE ADVISORY COMMITTEE
MARCH 24, 2010
COMMUNITY ROOM
30940 HAWTHORNE BOULEVARD
RANCHO PALOS VERDES**

7:00 PM CALL TO ORDER

1. Roll Call
2. Approval of Agenda
3. Approval of Draft Minutes for the meeting conducted March 10, 2010
4. Review of the Draft General Plan Fiscal Element Narrative
5. Staff and Member Oral Reports
6. Public Comments (This section of the agenda is for audience comments for items **NOT** on the agenda.)
7. Adjournment

American with Disabilities Act. In compliance with the Americans with Disabilities Act of 1990, if you require a disability-related modification or accommodation to attend or participate in this meeting, including auxiliary aids or services, please call the City Clerk's Office at 310 544-5208 at least 48 hours prior to the meeting.

NOTE: Staff reports are available for inspection at City Hall, 30940 Hawthorne Boulevard during regular business hours, 7:30 A.M. to 5:30 P.M. Monday – Thursday and 7:30 A.M. to 4:30 P.M. on Friday. Materials related to an item on this Agenda submitted to the Committee after distribution of the agenda packet are available for public inspection in the Finance Department at 30940 Hawthorne Boulevard, Rancho Palos Verdes during regular business hours.

Written materials, including emails, submitted to the City are public records and may be posted on the City's website. Accordingly, you may wish to omit personal information from your oral presentation or written materials as it may become part of the public record regarding an agenda item.

Materials related to an item on this Agenda submitted to the Finance Advisory Committee after distribution of the agenda packet are available for public inspection at the front counter of the lobby of the City Hall Administration Building at 30940 Hawthorne Boulevard, Rancho Palos Verdes during normal business hours.

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DRAFT MINUTES

CITY OF RANCHO PALOS VERDES

FINANCE ADVISORY COMMITTEE

MARCH 10, 2010

Chair Coleman called the meeting to order at approximately 7:35 p.m. at the Community Room, 30940 Hawthorne Boulevard, for the purpose of conducting business pursuant to the Agenda. Roll call was answered as follows:

PRESENT: Coleman, James and Self

ABSENT: Bradley

Also present were Deputy Director of Finance and Information Technology Downs, Community Development Deputy Director Pfof, and Assistant Planner Harwell.

APPROVAL OF AGENDA

Member James motioned for approval of the agenda and Chair Coleman seconded. By acclamation, the agenda was unanimously approved.

APPROVAL OF DRAFT MINUTES FOR THE MEETING CONDUCTED SEPTEMBER 23, 2009

Member James proposed an amendment to the September 23, 2009 meeting minutes. Member James motioned for the approval of the September 23, 2009 meeting minutes, as amended, and Member Self seconded. By acclamation, the September 23, 2009 minutes were unanimously approved, as amended.

PRESENTATION OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2009

Deputy Director Downs provided a brief presentation of the Comprehensive Annual Financial Report for fiscal year ended June 30, 2009, and answered Committee questions. Committee Members offered suggestions for improvements to the Management's Discussion & Analysis.

REVIEW OF DRAFT GENERAL PLAN FISCAL ELEMENT NARRATIVE

Deputy Director Pfof provided the Committee with General Plan history, background information, best practices, and requirements; and answered Committee questions. Committee Members indicated that they would perform a closer review of the draft document in preparation for the next FAC meeting.

Deputy Director Downs indicated that any comments received from Committee Members by March 17th would be included in the agenda packet for the March 24th meeting.

STAFF AND MEMBER ORAL REPORTS

Deputy Director Downs provided the Committee with dates for the City Council's process to replace former Member Emenhiser and appoint a new FAC Chairperson.

Deputy Director Downs also indicated that a copy of the PowerPoint presented to the City Council on March 2nd for the FY09-10 Midyear Financial Review would be sent to the FAC via email.

PUBLIC COMMENTS

None.

ADJOURNMENT

Member Self made a motion for adjournment and Chair Coleman seconded. By acclamation, the meeting was adjourned at approximately 9:18 P.M.

Chair, Financial Advisory Committee

ATTEST:

Kathryn Downs, Recording Person



MEMORANDUM

**TO: HONORABLE CHAIR & MEMBERS OF THE FINANCE
ADVISORY COMMITTEE**

**FROM: KATHRYN DOWNS, DEPUTY DIRECTOR OF FINANCE
& INFORMATION TECHNOLOGY
GREG PFOST, COMMUNITY DEVELOPMENT DEPUTY
DIRECTOR**

DATE: MARCH 24, 2010

**SUBJECT: DRAFT GENERAL PLAN FISCAL ELEMENT
NARRATIVE**

RECOMMENDATION

Review the Draft General Plan Fiscal Element Narrative, and provide comments and suggestions to Staff.

BACKGROUND

State law requires all cities to adopt a General Plan that expresses the community's development goals and embodies public policy relative to the distribution of future land uses, both public and private.

According to the State's Guidelines, the General Plan serves to:

- "Identify the community's land use, circulation, environmental, economic and social goals and policies as they relate to land use and development.
- Provide a basis for local government decision-making, including decisions on development approvals and exactions.
- Provide citizens with opportunities to participate in the planning and decision-making processes of their communities. '
- Inform citizens, developers, decision-makers, and other cities and counties of the ground rules that guide development within a particular community. "

DRAFT GENERAL PLAN FISCAL ELEMENT NARRATIVE

March 24, 2010

Page 2 of 2

The City's General Plan was originally adopted in 1975. Other than minor amendments, and state mandated Housing Element updates, the last significant update occurred in 1984 with the Eastview Annexation. In 2002, the City Council formed a General Plan Update Steering Committee, which included representation from each City advisory board (including the Finance Advisory Committee). By 2004, the General Plan Update Steering Committee had developed recommended goals and policies. At that time City Council directed Staff to obtain consulting help and begin the formal update to the General Plan.

State law requires 7 mandatory elements to the plan: Land Use, Circulation, Housing, Conservation, Open Space, Noise, and Safety. A Fiscal Element is not required by state law, but is a useful tool to provide overall guidance for the City's fiscal goals and policies. The City's existing General Plan includes a Fiscal Element.

DISCUSSION

The draft document attached to this report includes the goals and policies adopted by the General Plan Update Steering Committee, as well as a narrative section written by Staff. On September 29, 2009, City Council directed the Finance Advisory Committee (FAC) to perform a truncated review, limited to a maximum of 2 meetings, of the Draft Fiscal Element in parallel with other advisory board reviews. Since that time, Staff has been in process of writing the draft narratives for each element. The FAC's review of the Draft General Plan Fiscal Element does not include the goals and policies as recommended by the General Plan Update Steering Committee. The City Council reviewed the recommended goals and policies in 2004.

Two meetings have been scheduled for the FAC's review of the narrative: March 10th and March 24th, 2010. State law mandates that the General Plan Update be reviewed by the Planning Commission with final adoption by the City Council. The City Council adopted 2010 Tactical Plan includes a General Plan Update milestone for the Planning Commission to review the Fiscal Element by April 27, 2010. Therefore, it is necessary that the FAC complete its review by March 24th to ensure that any suggestions can be incorporated into the draft document before it is presented to the Planning Commission.

FAC MEETING OF MARCH 10, 2010

At the March 10th FAC meeting, Members agreed to provide comments and suggestions for the Draft Fiscal Element in preparation for the March 24th FAC meeting. As of report time, comments have been received from one Member (see attached). Any further comments provided to Staff prior to the March 24th meeting will be provided as late correspondence that night. Staff will be prepared with the Draft Fiscal Element electronic file to record real-time changes proposed by the FAC at its March 24th meeting. As the next step in the process, the Planning Commission will receive the Draft Fiscal Element inclusive of the FAC's suggested changes prior to April 27th.

**DRAFT FISCAL ELEMENT
COMMENTS RECEIVED FROM
FINANCE ADVISORY COMMITTEE MEMBERS
MARCH 18, 2010**

Bill James

1. I think that a balanced budget should be a specific goal or policy of the City.
2. I think that a lot of the descriptive parts of the plan could be eliminated. I haven't read the entire proposed Master Plan, but I have the impression based on the section that I did read that there could be two documents: a description of the administration of our city, including its history (which would encompass about 75-80% of what I read), and then the "Master Plan" which talks about how the City intends to approach its future.

For example, the fact that "The City's CAFR has received an unqualified opinion from the auditors each year and has been annually awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA)" is a nice pat on the back, but has little to do with planning for the future - unless achieving one or both of those distinctions are to be stated goals.

There are a number of other examples that I could cite, but all of them are similar. From my perspective, at least, it might be nice to be able to look to something called a "Master Plan" that is a little more user friendly in size.

I. Introduction

Providing City services, maintaining the City's infrastructure and implementing various goals and policies of the General Plan depends on the City's ability to prudently manage its revenues and expenditures. The Fiscal Element of the General Plan establishes the policy framework upon which short and long-term financial decisions are made.

As noted in the Introductory Section of the General Plan, in California, all cities are required to prepare and maintain a General Plan outlining the direction of the community focusing on seven elements: land use, circulation (transportation), housing, conservation, open space, noise and safety. In addition to these elements, the City of Rancho Palos Verdes goes beyond basic compliance with State law by also including a Fiscal Element in its General Plan.

The City values prudent and responsible fiscal management as described in the practices throughout this fiscal element. Additionally, the availability of funding, and its appropriate use, guides all aspects of City government. Thus, the Fiscal Element contains the City's financial policies and provides the overall framework upon which all fiscal decisions are made to achieve the goals laid out in each of the Plan's elements.

II. Purpose of the Fiscal Element

The Fiscal Element of the General Plan establishes the policy framework necessary to guide all of the City's short and long-term fiscal decisions. In addition to identifying policies that City officials will follow in conducting the financial affairs of the City, it serves as a planning document to assist in making fiscal decisions from a comprehensive perspective. It is intended to ensure that the fiscal aspects of policy issues are considered whenever and wherever possible. It does so by establishing clear relationships between City goals and policies and their fiscal needs and impacts.

In particular, the Fiscal Element:

- Defines and describes the City's financial planning structure, including its:
 - Financial Management Structure
 - Approach to Budgeting
 - Financial Planning
 - Use of Reserves
 - Capital Improvement Planning
 - Revenue and Expenditure Management
 - Accounting and Financial Reporting Practices
 - Purchasing

- Debt Management
- Analyzes the City's past and present fiscal health, and identifies its revenue and expenditure base;
- Identifies the long range goals needed for fiscal sustainability and establishes the action strategies necessary to achieve these goals; and
- Sets forth the foundation for the City's financial policies.

III. **Format of the Fiscal Element**

The Fiscal Element is arranged in several sections designed to take the reader through a logical progression of information that provides the proper context for the establishment of the City's financial goals and policies. The first section is **Financial Management**. This section discusses the various financial planning tools of the City, including a discussion of how the General Plan is used as an important financial planning tool. The next section, **Fiscal Health, Revenue and Expenditure Structure**, provides an important discussion on the limitations that California municipalities face in raising revenues and provides an overview of the City's revenue and expenditure structure. The final section addresses general **Projected Economic Conditions and Issues**, which generalizes the City's projected fiscal health and identifies potential fiscal issues in relationship to future development and infrastructure improvements within the City.

IV. **Financial Management**

A. **Financial Management Structure**

Financial management in the City of Rancho Palos Verdes is supported by a number of City-wide systems and processes that impact most every financial decision made. The systems provide a structure that ensures accountability for services provided. Rancho Palos Verdes also maintains a system of internal financial management practices and controls that support sound fiscal stewardship. These include financial planning, accounting and reporting practices, purchasing, and capital planning.

As the City Council has ultimate fiscal responsibility for the City, financial reporting is an important component of Financial Management. The City Council is provided with a Midyear Financial Report, periodic cash position reports, periodic reports of reserve position, a Year-End Financial Report, and an overview of the Comprehensive Annual Financial Report.

B. **General Plan**

The General Plan is a prescriptive document that identifies the desired future for a local jurisdiction. It is both a statement of purpose and a statement of general direction. As a statement of purpose, the General Plan portrays a vision of the City's future and identifies long-range goals. As a statement of direction, it declares the current policies of the City Council to achieve the goals, and the strategies which the staff will deploy to implement those policies. The General Plan not only paints the picture of the desired future of the City, but also prescribes a course of action for moving from existing conditions to desired conditions. City priorities and goals reflected in the General Plan are the basis for the City's budget.

C. Approach to Budgeting

The City's budget is more than just a compilation of revenues and expenditures. It represents a financial and policy implementation plan. The budget establishes a legal operating and capital plan for each fiscal year to ensure compliance in conformance with local and state laws. In addition, it is a communication medium for the City Council, staff and the public. It encompasses the City's commitment to match the delivery of quality, customer-oriented services to the community with the financial resources available. The City strives to prepare an annual balanced budget. Due to the City's limited ability to raise revenues, careful consideration is given to service expansion or additions. To aid with financial planning and improve the efficiency of the budget process, a two-year budget document is prepared; although each fiscal year budget is adopted annually by the City Council.

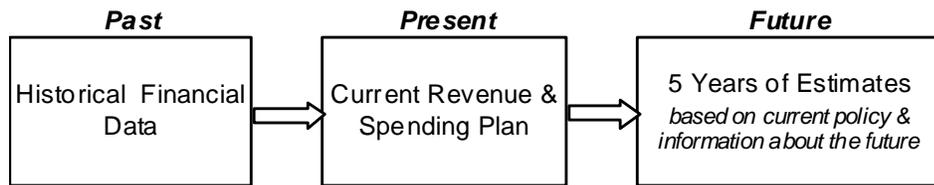
City Staff annually prepares the Five Year Financial Model as required by City Council policy. The Model includes all funds of the City and its component units (Redevelopment Agency and Improvement Authority). Staff also develops a Five Year Capital Improvement Plan (CIP) which allows the programming and planning of capital facilities and improvements. The Model and the CIP help staff and the City Council to develop the annual operating budget by projecting into the future what anticipated revenues and expenditures may be and identifying those larger CIP projects that may be funded during the annual operation budget.

D. Financial Planning

While annual budget review and approval is a sound business practice and is required by the State of California Government Code and the City's Municipal Code, an understanding of the City's long-term financial picture is more important than just looking at a one-year snapshot. While preparing the Five Year Financial Model, Staff works with all departments to assess expected trends for

future expenditures and performs a complete analysis of all revenues. Assumptions are developed and revenues are estimated. After developing future estimates, fund balances are analyzed to ensure that reserves are maintained and expenditures do not exceed funding sources. Each year, the City Council appointed Finance Advisory Committee is presented with the draft Model and provides comments prior to the City Council's review at the Budget Workshop. The Budget is developed based on estimates consistent with the Model.

The Five Year Financial Model



E. Use of Reserves

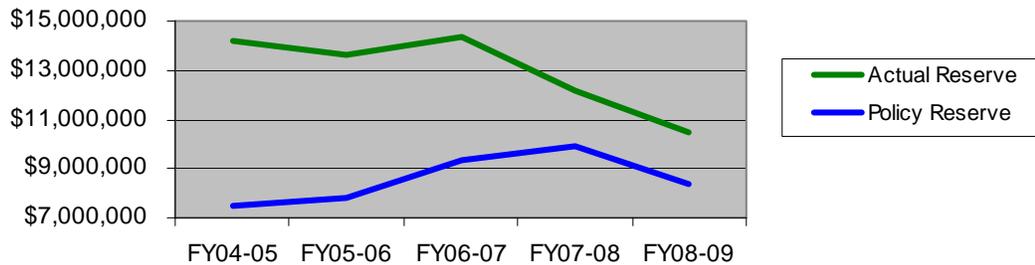
The establishment and management of Reserves (sometimes referred to as rainy-day funds, or contingency funds) are a prudent fiscal policy, as well as an important consideration in the evaluation of the City's credit rating. Local governments have experienced much volatility in their financial stability due to the economy, natural disasters, and actions taken by state government which includes taking revenues from local governments to resolve state budget problems. California cities are at an even greater disadvantage than the rest of the country due to the unique regulations imposed through a strong voter initiative process, and the difficulty to raise property taxes if the need would arise.

Sound financial management includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies include, but are not limited to: cash flow requirements, economic uncertainties including downturns in the local, state or national economy, local emergencies and natural disasters, loss of major revenue sources, unanticipated operating or capital expenditures, uninsured losses, tax refunds, future capital projects, unanticipated infrastructure repairs, vehicle and equipment replacement, and scheduled capital asset and infrastructure repair and replacement. The establishment of prudent financial reserve policies is important to ensure the long-term financial health of the City.

Rancho Palos Verdes has a conservative reserve policy which requires that the City maintain a minimum reserve in the General

Fund. The City also maintains a minimum reserve in the Capital Improvement Projects (CIP) fund for major improvement projects related to roadways, storm drains, parks, buildings, rights-of-way, and the sewer system. In addition to these reserve levels, there are smaller reserves established for several other City funds. Specific reserve information is outlined in a separate City Council policy statement.

General Fund Reserve
5-Year History

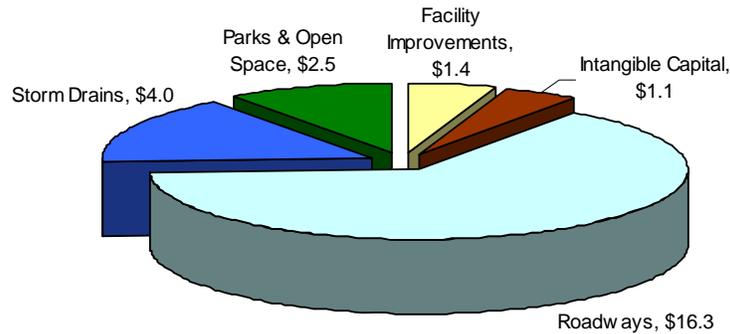


The City Council can amend the reserve policy at any time. For FY08-09, the General Fund reserve policy was changed from 50% of annual budgeted revenue to 50% of annual budgeted expenditures. In addition, \$3 million was transferred from the General Fund reserve to establish an emergency projects reserve with the Capital Improvement Projects Fund.

F. Capital Improvement Planning

A Capital Improvement Plan (CIP) is a guide for the efficient and effective provision of resources for improving and maintaining public infrastructure and facilities. Programming capital facilities and improvements over time can promote better use of the City’s limited financial resources, reduce costs and assist in the coordination of public and private development. Staff compiles an inventory of projects through a comprehensive review of existing reports, infrastructure plans, community input and City Council direction. The CIP is integrated into the Five Year Model and presented to the City Council during each annual budget process. As required by law, the Planning Commission also reviews the CIP to ensure that all projects are consistent with the goals and policies in the General Plan.

2009 Five-Year Capital Improvement Plan
in millions



G. Revenue Management

Since its incorporation in 1973 as a “no-property tax city”, Rancho Palos Verdes has long recognized the importance of managing City revenues to maintain and enhance fiscal strength and stability over both the short term and long term. A “no-property tax city” is one which prior to the passage of Proposition 13, did not levy a local property tax. Following the passage of Proposition 13, cities that previously had levied a local property tax were allocated a larger share of the 1% property assessment established by Proposition 13. As the City of Rancho Palos Verdes did not levy a local property tax, it was allocated a minimal share (about 6%) of the 1% property assessment.

The two major categories of revenues received by government are taxes and fees, each with important distinctions. In order to levy a new tax or increase an existing tax, local governments must hold an election to obtain voter approval, while fees may be imposed without a public vote. The taxes collected by the City primarily support general governmental purposes such as paying for basic and/or essential services.

User fees, in contrast, are charges imposed for discretionary services that benefit a specific segment of the community. Fees are distinguished from taxes in two principal ways. First, the amount of the fee may not exceed the cost of providing the service, while the amount of a tax has no such restriction. Second, the service for which the fee is charged must bear a relationship to the person or entity paying the fee. In general, user fees are reviewed annually and set by the City Council to recover the full cost of providing a particular service. The Council may choose to charge a fee for a service that does not recover the cost in order to achieve a specific policy objective. The City engages a consultant approximately every four or five years to perform a complete

analysis of all user fees to ensure that fees are set at appropriate recovery levels. User fees are published in the Annual Fee Schedule.

Staff annually assesses revenue trends as part of the City's Five Year Financial Model. Revenue assumptions are reviewed and revised each fiscal year. Some tax revenues are apportioned by state or county agencies, and some tax revenues are imposed locally (e.g. utility users' tax and transient occupancy tax). Staff coordinates periodic audits of the collection process of locally imposed tax revenues. Staff also manages investment of the City's idle cash and lease arrangements for the use of City property. City staff continually monitors the collection of all revenues to ensure maximum receipt of monies legally due to the City.

H. Expenditure Management

Once the operating and capital budgets have been prepared and adopted by Council, staff is responsible for closely monitoring the expenditures and results to ensure that resources are being used as effectively as possible to maintain desired service levels in compliance with the budget adopted by the City Council.

The City's Municipal Code calls for appropriations to be made by budget program. Any changes in the total appropriation for any given program require Council approval, while the changes within that program can be approved by the City Manager.

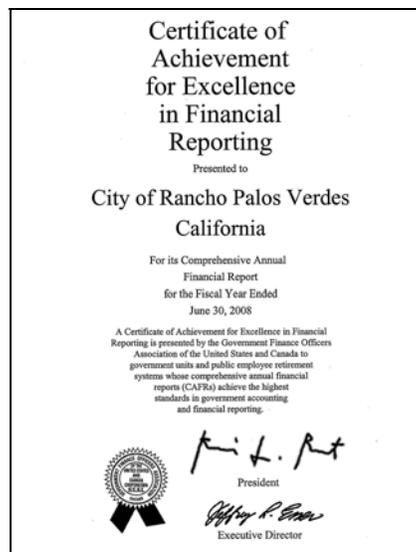
Article XIII B of the California Constitution, approved by the voters in 1979 as Proposition 4, placed limits on the amount of revenue which can be spent by government entities. The Proposition also established a formula for annual calculation of the appropriation limit. Each year the City calculates its appropriations limit, which is adopted by Council as part of the budget approval. Historically, the City's revenue budget has been well below the annual appropriation limit.

I. Accounting & Financial Reporting Practices

Local Ordinance and State Statutes require that the city issue annually a report on its financial position and activity, and that an independent firm of certified public accountants audit the report. The City annually prepares and issues a Comprehensive Annual Financial Report (CAFR). The CAFR includes financial statements, which are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. While traditionally addressed to the City Council, the annual financial audit is also

intended to provide relevant financial information to Rancho Palos Verdes residents, City staff, creditors, investors, and other concerned readers. The City maintains its financial records in accordance with standards set by the Governmental Accounting Standards Board (GASB), and implements all recommended GASB pronouncements.

The City's CAFR has received an unqualified opinion from the auditors each year and has been annually awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). The CAFR offers readers an overview and analysis of the city's financial activities for each fiscal year.



J. Purchasing

As a contract city, Rancho Palos Verdes engages in a wide range of contracts to deliver the full range of local government services, and construction and maintenance of City facilities and infrastructure. These include contracts for the acquisition of personal property (supplies, equipment, materials and goods), public projects and professional services performed by an independent contractor (e.g. engineering and public safety).

The Rancho Palos Verdes' ordinance governing bid requirements, purchasing and contracting procedures is clearly intended to achieve the following goals: 1) Obtain cost effective results, 2) Avoid the appearance of impropriety or wasteful practices, 3) Achieve a balance between costs and benefits of maximizing quality within available resources, 4) Guard against favoritism,

fraud and conflicts of interest, and 5) Ensure compliance with applicable state and federal statutes.

K. Debt Management

The City does not currently carry any debt. However, when planning for capital projects the City will consider the issuance of debt as a financing mechanism and the City's ability to repay any debt incurred.

V. Fiscal Health, Revenue and Expenditure Structure

The Fiscal Health of the City contains four sub-sections. The first, Fiscal Health provides a brief history of the City's fiscal health since incorporation. The second, City's Revenue Base, is an overview of the City's revenue structure. The third sub-section is titled Overview by Source. This sub-section provides descriptions of the City's major revenue sources. The fourth and final sub-section is titled Expenditures, and provides an overview of the City's major expenditures.

A. Fiscal Health

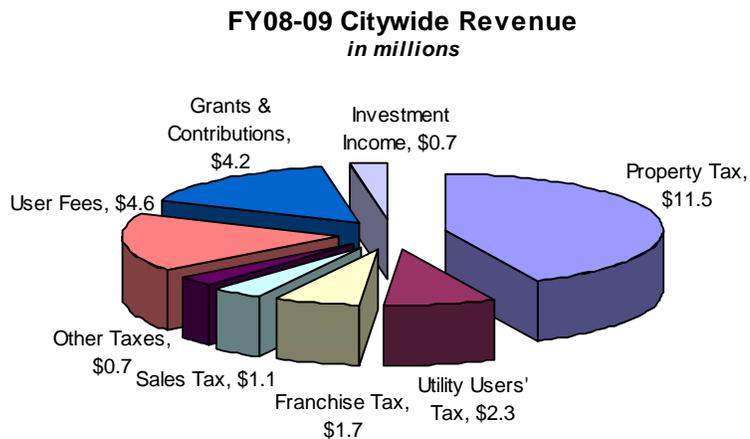
Since the City's incorporation in 1973, the City has maintained a conservative approach based on keeping property taxes low and providing necessary services to meet the needs of residents. The City incorporated as a "no property tax city," so this is reflected in the basic level of services provided. However, Rancho Palos Verdes is the largest City on the Palos Verdes Peninsula and has very different needs and priorities today. Over the years, funding has not been adequate to proactively maintain the City's major infrastructure systems causing the City to be faced with significant costly repairs in recent years. Certain assessment districts have been formed over the years in some areas to assess individual property owners for specific infrastructure repairs. For example, a unique above-ground sewer system was constructed in the Abalone Cove portion of the City's landslide area. Property owners are assessed for the maintenance of the system. In addition, property owners approved a storm drain user fee, providing a ten-year revenue stream to help pay for improvement of the City's storm drains. However, given the age and condition of the infrastructure in the City, the need to repair infrastructure extends beyond what these limited assessments and fees can provide. Thus, in 2009, the City Council approved a formal Capital Improvement Plan to address the need for financial and strategic planning for the City's infrastructure needs. The City still maintains a conservative approach to managing its infrastructure and strives to seek out any available sources of funding, such as grants or other contributions to pay for infrastructure projects.

B. City’s Revenue Base

The structure of the City’s revenue sources has a major influence on the City’s ability to maintain and expand services. The structure and source of City revenue also are very important to the City’s ability to withstand economic downswings. If possible, it is prudent for a city to have a diversity of revenue sources since each individual revenue source reacts differently to economic conditions.

The two major categories of revenues received by government are taxes and user fees. In 1978, Proposition 13 created a distinction between “general” and “special” taxes. A general tax is any tax imposed for general governmental purposes, while special taxes are collected or earmarked for a specific purpose or program. Restrictions on the establishment extension, or increase of any tax were also imposed by Proposition 13 and Proposition 218 which was passed later in 1996. The taxes collected by the City are primarily general taxes which are used to support general governmental purposes. Through FY08-09, the City’s major tax revenues have been property tax, utility user tax, franchise tax and sales tax.

User fees, in contrast to taxes, are charges imposed for services that benefit a specific segment of the community. In Rancho Palos Verdes, user fees are generally set to cover the full cost of providing the service, unless the City Council chooses to charge a lower fee to achieve a specific policy objective.



Protection of the City’s property values, including public safety and infrastructure maintenance, will help to ensure the stability of property tax. Recent commercial development in the City will enhance future revenue, including transient occupancy tax and sales tax. As the City continues to develop proactive programs for infrastructure maintenance and replacement, additional dedicated

revenue sources such as fees and assessments should be considered.

The ways that cities are financed have continued to change since the development of the original Fiscal Element in the General Plan. The passage of Proposition 218 in 1996, which added new procedural steps for the enactment of taxes, assessment, and property-related fees, had a notable impact in this regard. In summary, Proposition 218 requires majority voter approval for general taxes and two-thirds voter approval for special taxes. It also requires majority approval for benefit assessments on real property and imposes certain notice and hearing and voter approval requirements for a fee or charge that is property related.

Several other state legislative actions have occurred which either reduced the City's revenue base or altered its composition. The most significant action was in 2004, when voters passed Proposition 1A, a Constitutional amendment to protect local governments from revenue take-away by the state. Proposition 1A was the culmination of a historic agreement between the state and local governments to limit the state's ability to shift city revenue to its General Fund. In addition, Proposition 1A provided a mechanism to the state to declare a fiscal emergency and take a property tax loan from cities equal to eight percent of the City's annual property tax revenue. If enacted, such a loan is required to be repaid within three years with interest. The state cannot take a property tax loan more than twice in any ten year period, and may only take the second loan if the first loan has been repaid.

The result in these changes has been that Property Tax has become Rancho Palos Verdes' single largest General Fund revenue source, while revenues such as the Motor Vehicle License Fee and other state apportionments have decreased significantly. Due to the significance of Property Tax to the City of Rancho Palos Verdes, it is important to maintain facilities and provide services that protect the city's property values.

C. Revenue Overview by Source

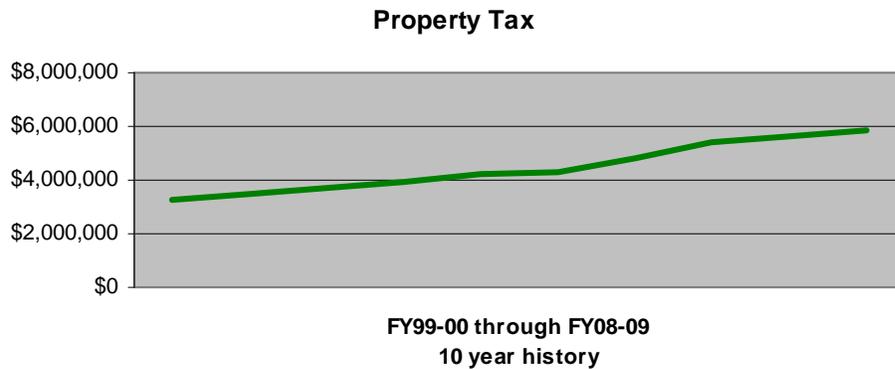
Unrestricted General Fund Revenue Sources

The General fund accounts for a variety of unrestricted revenues that may be used for any expenditure of the City. Primarily, General fund revenue consists of general-purpose taxes. The most significant General fund revenue sources are described below.

1. Property Tax

Property Taxes are the largest single source of revenue to the General Fund. The Los Angeles County Assessor determines property valuations for all real property within the City. The County levies the base property tax of one percent, equaling \$1 per each \$100 of assessed valuation (subject to growth limitations of 2% per year). Rancho Palos Verdes' share of the \$1 is about 6%. (Example: For a home with a \$600,000 assessed valuation, the base property tax billed by the County is \$6,000 per year, and the City's 6% share is about \$360 per year.) A number of other governmental agencies providing services within the City receive the remaining share of the one percent levy, with the majority going to the County and the School Districts.

This has been a stable and steadily increasing source of revenue for the City due to strong property values. Long-term ownership of properties combined with Proposition 13 limits on increases in assessed valuation has resulted in assessed values that are much lower than market value. Therefore, anytime a property changes ownership and is re-assessed at current market value, the City's property tax revenue increases. This source of revenue is expected to continue to grow in the future.



2. **Property Tax In-Lieu of Vehicle License Fees**
 Prior to 1999, State residents paid a Vehicle License Fee of 2% of the market value of their respective vehicles to the Department of Motor Vehicles. This Vehicle License Fee funding is passed through to cities and counties throughout California. The State legislature reduced the Vehicle License Fee tax rate from 2% to 0.65% over a period of three years ending in 2001. The same legislation also guaranteed cities and counties that the State would “backfill” or pay the difference between the two rates.

The Property Tax In-Lieu of Vehicle License Fee component of the State's Budget eliminated the backfill portion (1.35%) of the Vehicle License Fee payment and replaced it dollar for dollar with property tax taken from the Educational Revenue Augmentation Fund. The Property Tax In-Lieu of Vehicle License Fee is permanent and took effect on July 1, 2004. Property Tax In-Lieu of Vehicle License Fee revenue is an allocation of property tax that increases each year in direct correlation to the increase in assessed value of taxable property within the City.

3. Sales and Use Tax

In accordance with the California Revenue and Taxation Code and the Bradley-Burns Uniform Local Sales and Use Tax Law of 1955, this tax is currently imposed at the rate of 9.25% on the sales price of any taxable transaction in Los Angeles County (as of 2010).

The State Board of Equalization administers sales and use tax. The City currently receives 0.75% of the sales tax rate. The State, County and Transportation District share the remaining sales tax collected.

The City is primarily a bedroom community with limited commercial activity. Because of the limited amount of taxable business, economic fluctuations typically do not have a material impact on the General Fund in any given year.

4. Utility Users Tax

In 1993, the voters of the City approved a tax of 3% on the consumers of natural gas, electricity, water, and telephone services. The tax is collected by each of these utilities as a part of its regular billing procedure and remitted to the City. As utility rates continue to increase in the future, this revenue source is expected to grow accordingly.

5. Franchise Taxes

Under several State statutes, the City imposes franchise tax on natural gas, electric, water, trash and cable television companies operating in the City for the privilege of using the City rights-of-way. The amounts paid are based on a percentage of gross receipts. This revenue source is also expected to grow in direct correlation to utility rates.

6. Business License Tax

Title 5 of the Municipal Code requires all entities conducting business within the City to pay annual business license tax, generally based on the gross receipts of the business. The business license tax was enacted solely to raise revenue for municipal purposes, and was not intended for regulation. The business license tax rate increases by the Consumer Price Index in Los Angeles County each year.

7. Transient Occupancy Tax

The City's transient occupancy tax (TOT) is 10% of rent charged by an operator for the privilege of occupying a hotel. In 2009, construction of a large luxury hotel was completed and was opened to the public; thereby increasing the City's TOT revenue significantly. In the future, this revenue source will fluctuate based on economic conditions.

8. Golf Tax

In 1993, the golf tax was established as 10% of golf fees charged by the golf course operator.

9. Community Development Permits

The Community Development Department issues permits for building/remodel construction activities involving residential and commercial structures to ensure compliance with the City's Development Code. Permit fees are charged to recover the cost of providing such services.

10. Use of Money and Property

This includes earnings from investment of City funds as well as rents received for the use of City property. The City maintains an annual City Council adopted investment policy that restricts investment choices based first on safety, then liquidity and yield.

Restricted Revenues

The revenue sources listed below are restricted by law or administrative action for specific purposes. These monies are deposited into other funds of the City. The most significant sources of Restricted Revenues are listed below.

Transportation

The City receives allocations of various cents-per-gallon transportation taxes that are administered by the state and county. These revenue allocations are primarily based on population. As these taxes are not percentages of the price of gasoline, the revenue sources remain flat when consumption is consistent from

year to year. When consumption decreases in times of conservation, so does the revenue to the City. State-shared transportation revenues may be subject to future potential state legislated reductions.

Transportation revenues are restricted and can only be used for the construction, improvement, and maintenance of public rights-of-way. Activities financed by the transportation revenues include, but are not limited to, street patching, slurry sealing, street reconstruction, curb/gutter/sidewalk repair, public transit contributions and street sweeping.

Landscape and Street Lighting

The City has several benefit assessment districts for landscape and street lighting maintenance. These funds may be used for improvements within the defined district in addition to activities including operation, servicing, and maintenance.

Infrastructure Maintenance

The City has assessments related to the improvement and maintenance of specific types of infrastructure (e.g. storm drains, sewers). These fees are typically based on the parcel's proportionate use of the infrastructure system.

In 2005, property owners approved a 30-year storm drain user fee based on each parcel's proportionate use of the City's storm drain system. The storm drain user fee generates about \$1.2 million of revenue annually, and is used to maintain and repair the City's storm drain system. In 2007, via general election, the voters amended the storm drain user fee to sunset in 10 years (the year 2016).

In 2009, the City Council took action to initiate development of a City-wide user fee. If established, the revenue collected would be used to begin a proactive program of repair and maintenance of aging sewer lines.

Development Impact Mitigation

The City levies several Development Impact Mitigation fees to be used for specific purposes. The City's goal is to ensure that all revenues generated by growth and development are sufficient to cover the costs related to development growth.

Redevelopment Agency

The City's Redevelopment Agency receives property tax increment in the project area (the landslide area of the City). This revenue is

used to repay the Agency’s debt to the County used to finance construction of landslide abatement facilities. The Agency began collecting tax increment in 1985, and will continue to collect tax increment through 2034. The tax increment is the increase in property taxes within the redevelopment project area that result from increases in the project area assessed value that exceed the base year (1984-1985) assessed value.

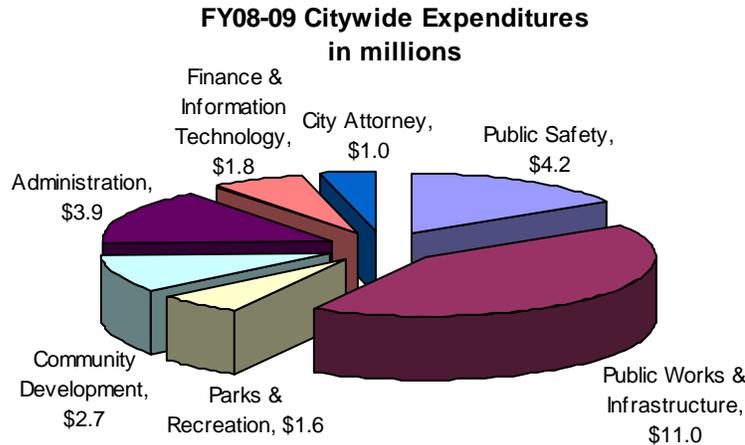
Most of the Redevelopment Agency’s tax increment repays debt used to fund landslide mitigation projects. State law requires that 20% of the tax increment be set aside to provide for affordable housing within the City.

D. Expenditure Structure

The City provides most of its services through vendor contracts. For example, police and fire services are contracted with Los Angeles County, city attorney services are provided by an outside law firm, and public works are provided by vendors who provide responsive bids. By operating as a contract city, Rancho Palos Verdes is able to obtain competitive pricing and retain a small workforce of employees to manage the City’s business. The City has consistently had a low per-capita expenditure ratio when compared with other agencies.

FY 06-07 Expenditures Per Capita	
Statewide Average of Cities	1,592
Rolling Hills	1,229
Rolling Hills Estates	1,203
Palos Verdes Estates	937
Rancho Palos Verdes	477

Only the most basic essential services are provided by the City. The county collects a separate share of property tax to provide fire service; however, the City pays for police service out of its General Fund. The City owns and maintains the roadway, sewer, storm drain and park infrastructure. Utility service is provided by the private sector.

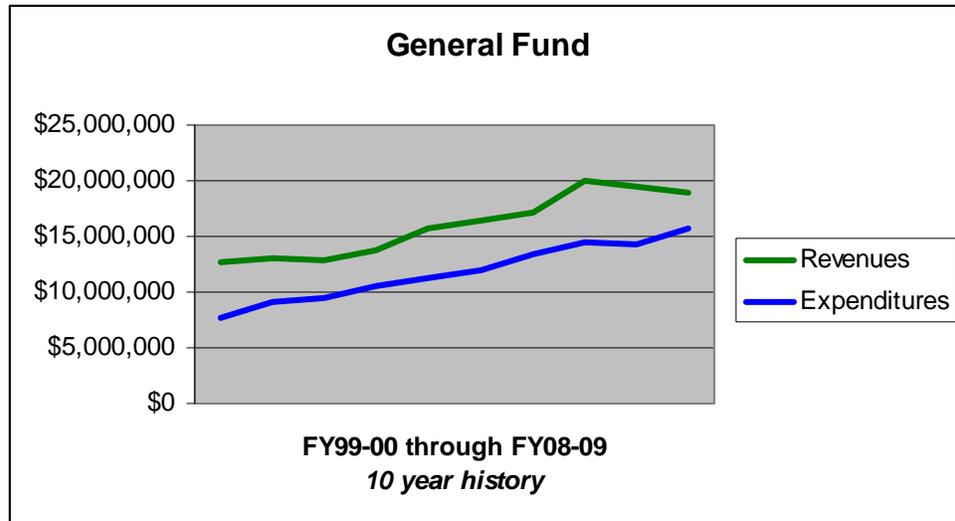


Without a vote of the residents, the City's options to raise additional revenue are very limited. Therefore, additional services and improvements desired by residents must compete with essential expenditures such as public safety and infrastructure for limited resources. Much of the City's infrastructure was built in the 1960's, is at the end of its useful life and must be either repaired or replaced to continue functioning. Additionally, most of the City's buildings are more than 30 years old and are in desperate need of replacement. Furthermore, in an attempt to protect coastal habitat, the City has acquired more than 1,400 acres of open space that must be maintained to standards imposed by state and federal resource agencies. As street maintenance expenditures grow, the City's General Fund must provide an increasing subsidy, as transportation revenues discussed previously typically remain flat.

VI. Fiscal Sustainability

A. Resource Management

The City's budget is managed conservatively, and expenditures are controlled to every extent possible. Quite often, the only source of funding for infrastructure repairs and maintenance is the excess of General Fund revenues over General Fund expenditures.



With additional TOT and golf tax revenue expected from the luxury hotel beginning in FY09-10, future revenues are expected to continue to exceed operating expenditures; thereby, providing excess revenues to help maintain the City’s infrastructure. However, this trend could be impacted with addition or expansion of services, costs associated with a disaster (e.g. earthquake, slope failure and fire), or with state legislation that shifts certain revenues away from the City (e.g. vehicle license fees and highway users’ tax). Management of the City’s resources should always include proactive planning tools such as the Capital Improvement Plan, as well as continual monitoring of the state and its potential actions.

The City’s prudent fiscal policies allow the City to conduct its business in a resource-scarce environment. The City strives to secure outside funding sources (grants and earmarks) or use new revenue sources (tax from the newly developed luxury hotel) for necessary infrastructure projects identified in the Capital Improvement Plan instead of adding or expanding services. Future projects include roadway stabilization due to storm water runoff issues, traffic safety improvements, and replacement of aging facilities. As of 2010, more than \$100 million of projects have been identified that remain unfunded. A schedule of unfunded projects is maintained in the City’s Capital Improvement Plan.

B. Economic Outlook

Due to the climate of California and the coastal location of the City, property values are likely to remain high into the future. However, future economic development will likely be minimal as the City has very little developable land remaining. Furthermore, the state will continue to look to local government to help solve its financial problems. With the solid and consistent property tax revenue base,

proactive planning, and cautious management of the City's resources, the City will be able to continue providing basic services the community expects.

VII. Fiscal Goals

- A. It shall be a goal of the City to hold the property tax to a minimum and to continually explore and analyze the advantages and disadvantages of alternate or new sources of revenue.
- B. It shall be a goal of the City to explore cooperative financing strategies that might be undertaken in association with others.
- C. It shall be a goal of the City to take maximum advantage of regulatory legislation to obtain contributions, dedications, reservations (option to purchase) and rights of way (i.e., easements).
- D. It shall be a goal of the City that revenues generated by development shall be sufficient to cover the costs related to such development.
- E. It shall be a goal of the City to thoroughly evaluate capital asset expenditures to ensure that available financing alternatives are sufficient to meet related ongoing operating expenditures.
- F. It shall be a goal of the City to maintain a prudent general fund reserve.
Note: This is a new Goal.
- G. It shall be a goal of the City to consider all available funding sources for City expenditures.
Note: This is a new Goal.

VIII. Fiscal Policies

It is the policy of the City to:

- 1. Consider the cost effectiveness and community benefits of new City services and facilities.
- 2. Require that wherever appropriate, new City services be paid for by the users in the form of specified fees or taxes.
- 3. Work toward integration of common services among neighboring jurisdictions, agencies and organizations for improved cost effectiveness and quality of service.

4. Consider the financial impacts of City decisions on other governmental agencies and/or public utilities serving our residents.
5. Encourage State legislative action to provide equitable distribution of tax revenues commensurate with the City's responsibilities.
6. Seek funds from government sources only if the impacts to and obligations of the City caused by accepting funds are not unduly burdensome.
7. Evaluate the merits of contracting for services versus in-house staffing.
8. Encourage private contributions and donations to the City.
9. Consider administrative and enforcement capabilities and available funding before imposing new regulations to address whether such new regulations can be effectively administered.
10. Consider the financial impact of City decisions on City residents.
11. Finance recurring expenditures from recurring revenues.
12. Consider the cost impacts of approving any new development within the City.