

CITY OF PALOS VERDES ESTATES

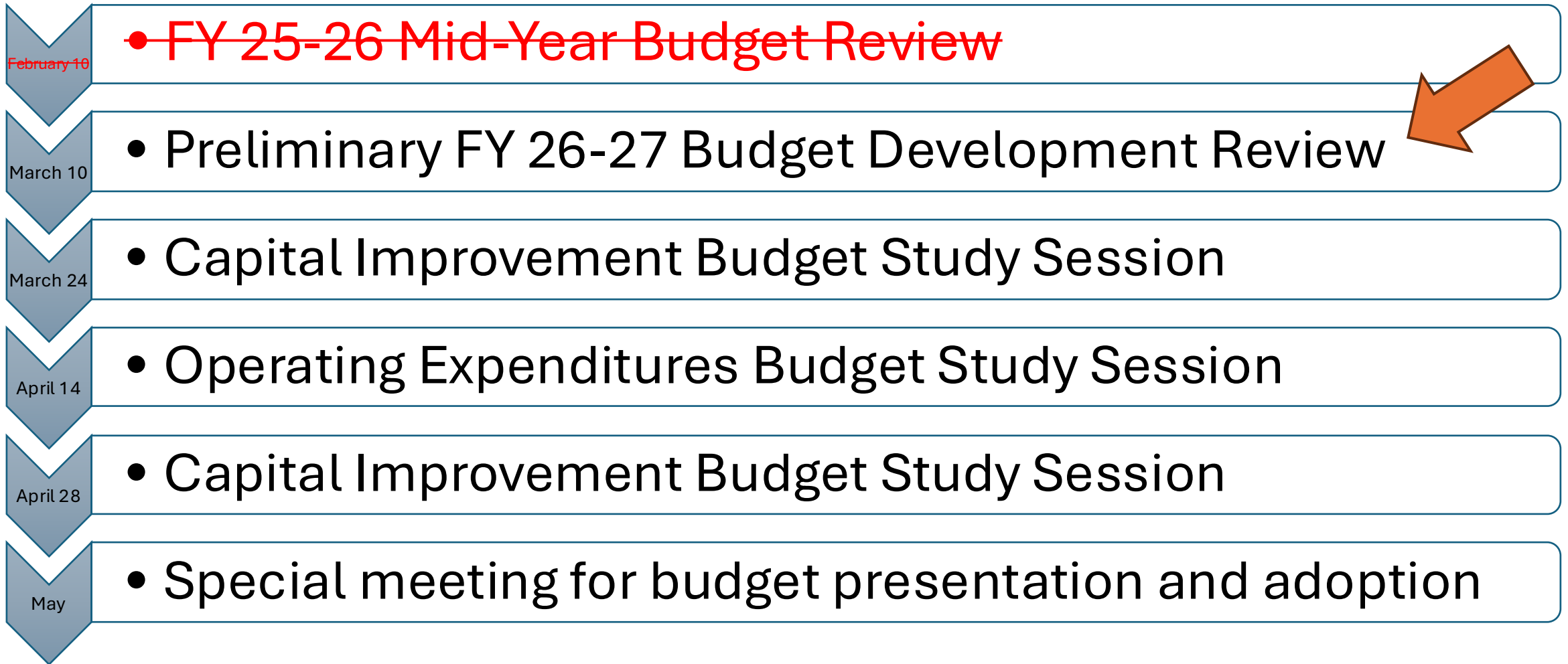


City of Palos Verdes Estates FY 2026-27 Preliminary Budget Development

March 10, 2026



Fiscal Year Budget Development – Where are we?

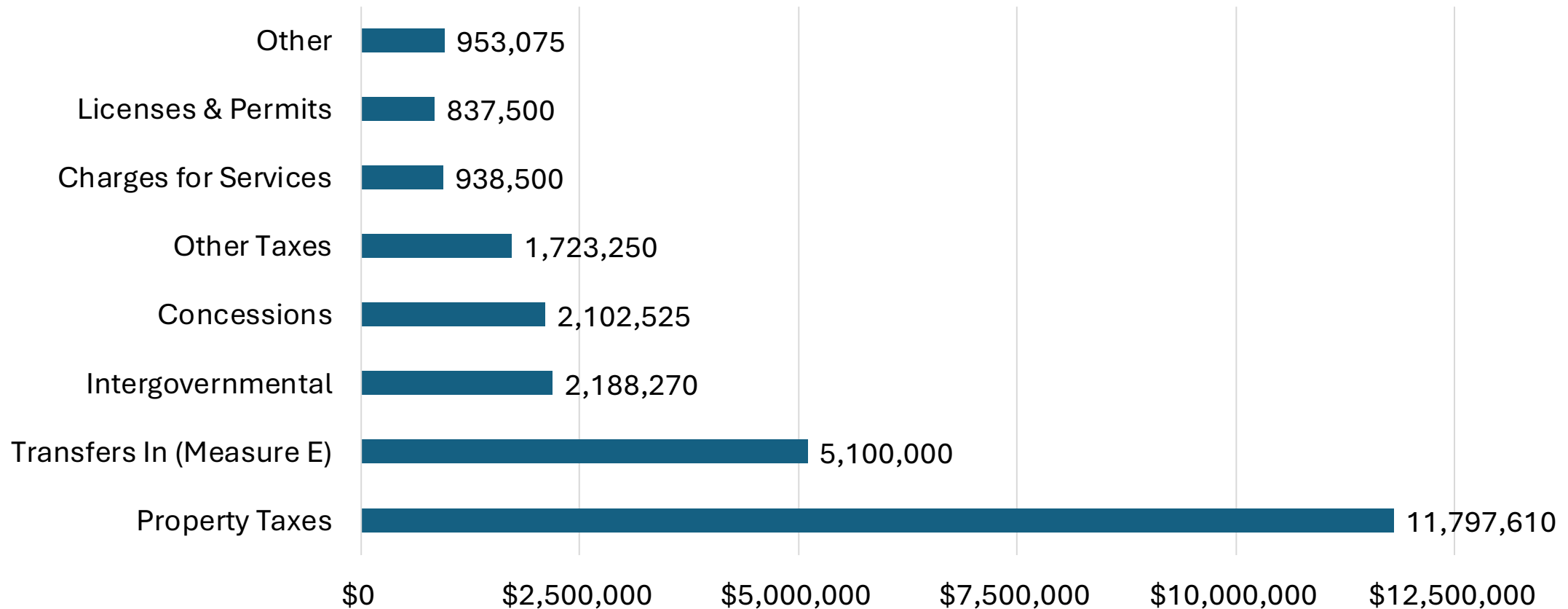


Purpose of Tonight's Discussion

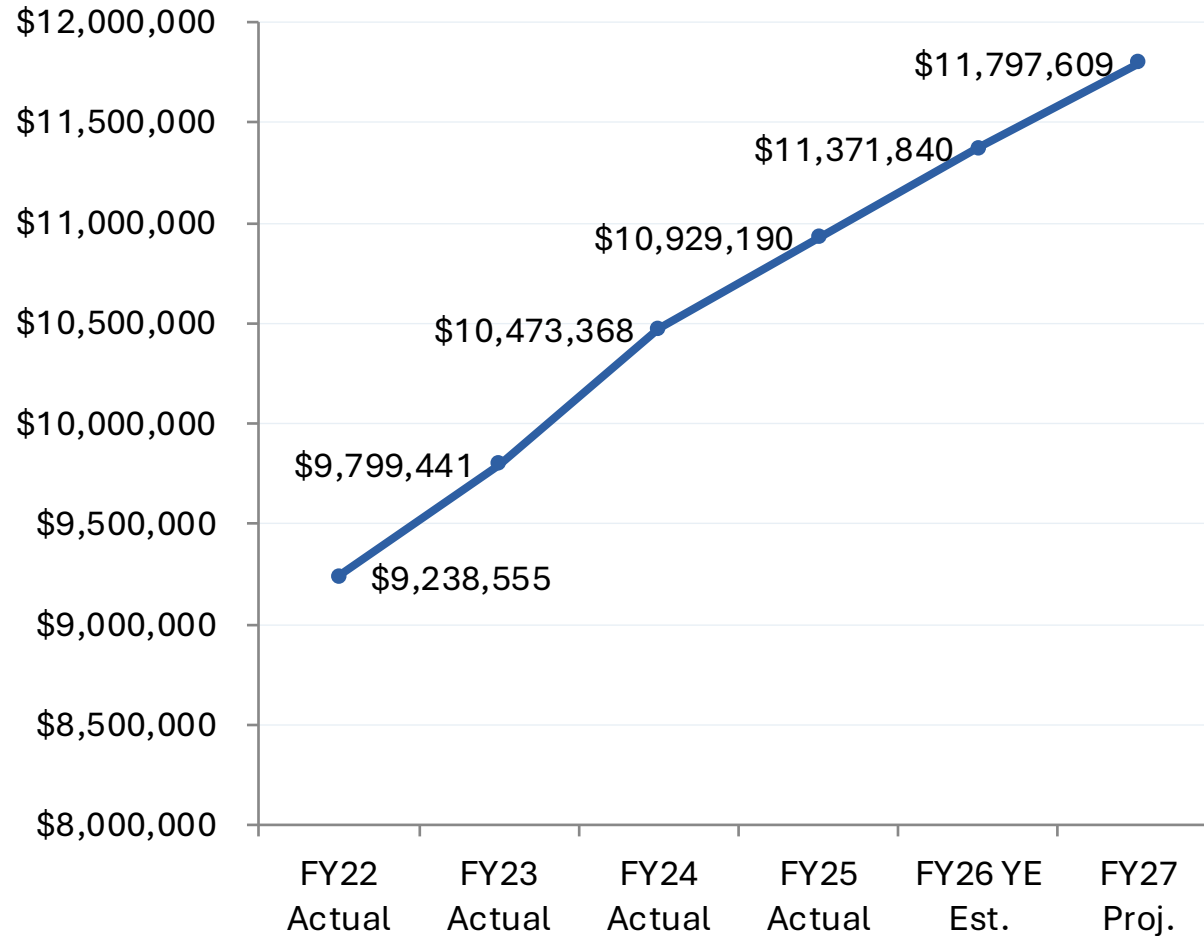
- I. Overview of the FY 26-27 Budget Development Approach
- II. Budget Outlook
 - I. Detailed Revenue Projections
 - II. Expenditure Development and Projected Pressures
- III. Long Term Financial Considerations
- IV. Next Steps
- V. Staff Recommendation

FY 2026-27 General Fund Revenue Projections

Total projected Revenues are \$25,640,730; Increase of \$436,673, +1.7%



Property Taxes - \$11,797,610

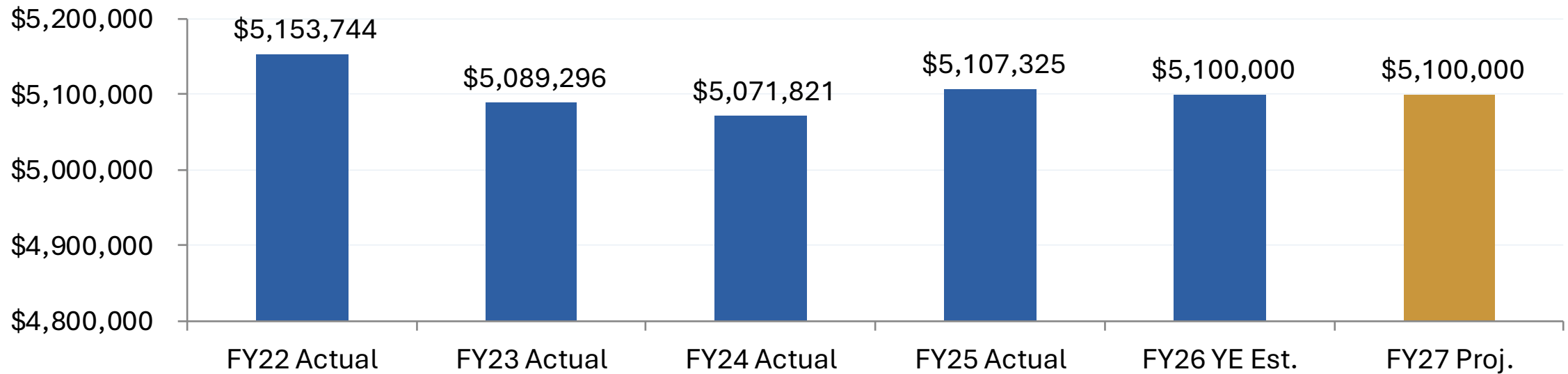


- Top Revenue Source – 46% of General Fund
- \$11,547,100 in secured Property Tax
 - HdL +4.6% Growth
- \$356,909 in unsecured property tax
- \$(125,000) in prior year adjustments
 - 4-yr average

Transfer In (Measure E) - \$5,100,000

Second Largest Source – 20% of General Fund

What is this? The PVE Law Enforcement Special Assessment is levied annually as a parcel charge to fund police services.



Intergovernmental & Concessions

Intergovernmental

- \$2,188,270
 - Increase of \$91,980; +4.4% vs. Adopted

What it is: VLF Tax Return - the State's vehicle license fee backfill allocated based on assessed valuation.

Concessions

- No change from Adopted
 - Updated expected before May 2026
- Golf Course - \$1,607,495
- Beach & Athletic Club - \$278,000
- Tennis Club - \$217,030

Other General Fund Revenue Sources

The following categories are generated primarily through transactions with external parties and are sensitive to market conditions and demand. Projections represent best analytical estimates based on actual data and will be updated as additional data becomes available.

Revenue Category	FY26 Adopted	FY26 YE Est.	FY27 Projected	vs. Adopted	Notes
Other Taxes	\$1,755,718	\$1,755,718	\$1,723,250	(\$32,468)	Franchise taxes held flat/trended; Business License Tax on decline; property transfer tax based on estimated transfer volume
Charges for Services	\$975,250	\$927,720	\$938,500	(\$36,750)	Annualization of planning/permit fees and other fees
Licenses & Permits	\$930,700	\$930,700	\$837,500	(\$93,200)	Annualization of construction and other permits
Use of Money & Property	\$741,000	\$741,000	\$741,000	-	Investment earnings and rents held flat
Fines & Forfeitures	\$120,000	\$103,720	\$105,500	(\$14,500)	Annualization of vehicle code fines and declining trend
Other Revenues	\$106,575	\$106,575	\$106,575	-	Insurance premium dividend held flat pending confirmation on amount; misc. revenue held flat

Expenditure Pressures: Overview

- Staff continues compiling department expenditure requests for April presentation.
- Early indicators show expenditure growth may outpace typical revenue growth.
- Key cost drivers:
 - Personnel
 - Insurance
 - Contractual Services
 - Capital Needs
- Overall trend reflects rising structural cost pressures requiring long-term planning

Salaries & Benefits Pressures

- Personnel costs projected to increase approximately 9% in FY 26–27 due to negotiated MOUs and cost-of-living adjustments.
- CalPERS Unfunded Actuarial Liability (UAL) exhibits significant growth.

Fiscal Year	UAL	Additional	Difference from Prior	UAL % Increase	Total Payments
FY 26-27	\$ 2,081,276		\$ 186,260	9.8%	
FY25-26	\$ 1,895,016		\$ 405,811	27.3%	\$1,895,016
FY24-25	\$ 1,489,205		\$ 242,342	19.4%	\$ 1,489,205
FY23-24	\$ 1,246,863	\$ 250,000	\$ (101,270)	-7.5%	\$1,496,863
FY22-23	\$ 1,348,133	\$ 1,070,740	\$ 136,668	11.3%	\$ 2,418,873
FY21-22	\$ 1,211,465	\$ 750,000	\$ 189,623	18.6%	\$ 1,961,465
FY20-21	\$ 1,021,842	\$ 53,104	\$ 138,933	15.7%	\$ 1,074,946
FY19-20	\$ 882,909		\$ 188,418	27.1%	\$ 882,909
FY18-19	\$ 694,491		\$ 170,164	32.5%	\$ 694,491
FY17-18	\$ 524,327		\$ 524,327	-	\$ 524,327

Tentative Insurance & Liability Costs

- Significant cost pressures expected across all California Joint Powers Insurance Authority insurance programs for FY 26–27.

Program	Current Cost	Estimated Increase	Projected Cost (Assuming Mid-Range Increase)
Liability (including Cyber)	\$741,761	+30%	\$964,289
Workers' Comp	\$423,596	-3% to +25%	\$411,888–\$529,495
Property	\$92,679	+10–20%	\$101,947–\$111,214
Pollution	\$2,843	+10%	\$3,127
Government Crime	\$1,459	+10%	\$1,605
Underground Storage Tank	\$467	+10%	\$513.7
Minus Excess and Reimbursements	(\$136,649)	TBD	TBD
TOTAL	\$1,126,156		TBD

Insurance & Liability Costs – Why the Increase?

- JPIA Reports the following:
 - The liability insurance market for California public agencies continues to harden, with fewer carriers, reduced capacity, and higher self-insured retentions.
 - Rising high-severity claims—driven by vehicle accidents, hazardous conditions, employment practices, slip-and-fall incidents, and police use of force—are accelerating costs.
 - Public entities statewide are facing impacts from social inflation, including nuclear verdicts, third-party litigation financing, inflated settlements, and an increasingly aggressive plaintiffs' bar.
 - Growing public skepticism toward institutions, especially law enforcement, contributes to larger jury awards, establishing higher benchmarks for future settlements.
 - Market stabilization is unlikely in the near term, and cities, counties, schools, and risk pools are all experiencing similar upward cost pressures.

Health Insurance Assessment

- FRMS medical benefits program terminated, requiring a special assessment for member cities.
- Assessment to the City as of July 2025: \$349,904 to cover claims deficit.
- City Attorney continues to address the issue with FRMS.
- City transitioned to Blue Shield and Kaiser plans, producing ~\$40,000 in annual savings going forward.

Contractual Services Overview

- Contractual services remain volatile, influenced by staffing vacancies, workload, and market rates.
- We are a City with contractual needs for external technical expertise to maintain service levels.
- Costs fluctuate based on vendor availability and project demand.

Key Contractual Service Areas

- Weed Abatement
 - New combined approach (hand-crews + goat grazing) reduces projected FY 26–27 cost to \$563,080 (35% decrease).
 - Service coverage increases from 140.14 acres → 185.67 acres (32% increase). Increased efficiency while enhancing wildfire mitigation.
- Engineering & Building Services
 - HR Green contract expires June 30, 2026.
 - Costs for FY 26–27 will depend on extension or RFP results; increases likely due to market conditions.
- Tree Trimming
 - Funding restored to \$350,000 for FY 25–26 after prior reduction.
 - FY 26–27 expected to maintain service level but may see reduced tree count due to COLA increases.

Capital Improvement Cost Pressures

- Capital projects rely heavily on General Fund transfers, with no dedicated revenue source.
- Rising operational costs reduce available discretionary funding for capital needs.
- Projects affected: stormwater, roadway repair, facilities, and parklands.
- Cost escalation creates increasing tension between operations and infrastructure investment.

Fiscal Outlook & Long-Term Risks

- General Fund reserve projected to decline from \$24.9M → \$22.8M.
- Only \$9.0M remains unassigned after accounting for the \$8M emergency reserve.
- Limited flexibility to absorb unanticipated capital needs or cost escalations.
- Combined pressures (personnel, insurance, contractual, capital) pose significant structural budget challenges in coming years.

Projected Fund Balance

- Beginning fund balance: \$24.95M
- Projected ending fund balance: \$22.80M
- Projected General Fund Reserves of \$17.01M (above minimum estimated reserve of \$13.66M)

Projected June 30, 2025 Fund Balance	\$23,800,329
(+/-) Adjustment to Actual	<u>\$1,148,357</u>
Actual June 30, 2025 Fund Balance	\$24,948,686
Projected Deficit	<u>\$(2,145,676)</u>
Projected June 30, 2026 Fund Balance	<u>\$22,803,010</u>

Next Steps and Budget Approach

- Staff asks Council to provide additional project consideration to research and general direction on deficit.
- Staff will model this year's budget based on last year's budget approach which maximizes cost savings and strives to maintain service levels.
- Focus Areas
 - Revenue Forecasting
 - Departmental Expenditures
 - Long Range Planning
- Prepare for CIP Study Session on March 24

Staff Recommendation

- Staff recommends that the City Council receive and file this report on the development of the Fiscal Year (FY) 2026–27 Budget and provide feedback on priorities, financial strategies, and the budget calendar.

Questions?