

**NEW ISSUE - FULL BOOK-ENTRY
BANK QUALIFIED**

**RATING: Standard & Poor's: "AA+"
See "RATING"**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2020 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. The Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$8,110,000*

**HERMOSA BEACH PUBLIC FINANCING AUTHORITY
2020 Refunding Lease Revenue Bonds**

Dated: Date of Delivery

Due: November 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the "2020 Bonds") are being issued by the Hermosa Beach Public Financing Authority (the "Authority") under a resolution adopted by the Board of Directors of the Authority on September 22, 2020, and an Indenture of Trust dated as of October 1, 2020 (the "Indenture") by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). See "THE 2020 BONDS – Authority for Issuance."

Use of Proceeds. The 2020 Bonds are being issued to (i) defease and refund certain outstanding bonds of the Authority captioned "\$11,600,000 Hermosa Beach Public Financing Authority 2015 Lease Revenue Bonds", and (ii) pay the costs of issuing the 2020 Bonds. See "FINANCING PLAN."

Security for the 2020 Bonds. Under the Indenture, the 2020 Bonds are payable from and secured by a first pledge of and lien on "Revenues" (as defined in this Official Statement) received by the Authority under the Amended and Restated Lease Agreement dated as of October 1, 2020 (the "Lease"), by and between the Authority, as lessor, and the City of Hermosa Beach (the "City"), as lessee, consisting primarily of payments (the "Lease Payments") made by the City under the Lease with respect to the lease of certain real property, as further described in this Official Statement. The 2020 Bonds are also secured by certain funds on deposit under the Indenture. See "SECURITY FOR THE 2020 BONDS."

Bond Terms; Book-Entry Only. The 2020 Bonds will bear interest at the rates shown on the inside cover page, payable semiannually on May 1 and November 1 of each year, commencing on May 1, 2021, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The 2020 Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the 2020 Bonds will not receive certificates representing their interests in the 2020 Bonds. Payments of the principal of, premium, if any, and interest on the 2020 Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2020 Bonds. See "THE 2020 BONDS – General Provisions."

Redemption. The 2020 Bonds are subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption from insurance or condemnation proceeds prior to maturity. See "THE 2020 BONDS – Redemption."

NEITHER THE 2020 BONDS, NOR THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, NOR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE 2020 BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE 2020 BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

**MATURITY SCHEDULE
(see inside cover)**

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF 2020 BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE 2020 BONDS.

The 2020 Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority and the City by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the 2020 Bonds will be delivered in book-entry form through the facilities of DTC on or about ____, 2020.



The date of this Official Statement is: _____, 2020

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances will this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor will there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful.

MATURITY SCHEDULE*

\$ _____ Serial Bonds
(Base CUSIP†: _____)

<u>Maturity</u> (November 1)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
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\$ _____ - _____% Term Bonds due November 1, 20____; Yield _____%; Price _____%;
CUSIP† No. _____

† CUSIP Copyright CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. None of the City, the Authority nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

* Preliminary; subject to change

**HERMOSA BEACH PUBLIC FINANCING AUTHORITY
CITY OF HERMOSA BEACH
LOS ANGELES COUNTY, CALIFORNIA**

**BOARD OF DIRECTORS
OF THE AUTHORITY AND MEMBERS OF THE CITY COUNCIL**

Mary Campbell, *Chairperson and Mayor*
Justin Massey, *Vice Chairperson and Mayor Pro Tempore*
Michael Detoy, *Member and Council Member*
Hany Fangary, *Member and Council Member*
Stacey Armato, *Member and Council Member*

CITY OFFICERS

Suja Lowenthal, *City Manager*
Viki Copeland, *Finance Director*
Eduardo Sarmiento, *City Clerk*

FINANCING SERVICES

BOND COUNSEL AND DISCLOSURE COUNSEL

Jones Hall,
A Professional Law Corporation
San Francisco, California

MUNICIPAL ADVISOR

NHA Advisors, LLC
San Rafael, California

TRUSTEE

U.S. Bank National Association
Los Angeles, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the 2020 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2020 Bonds.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the 2020 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City since the date hereof.

Limited Scope of Information. The City has obtained certain information set forth herein from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the City.

Preparation of Official Statement. The information set forth in this Official Statement has been furnished by the Authority and the City, and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Involvement of Underwriter. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the 2020 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2020 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

Document Summaries. All summaries of the Indenture or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The 2020 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The 2020 Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2020 Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, the Authority, the other parties described in this Official Statement.

Website. The City maintains a website. However, the information presented on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2020 Bonds.

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OFFICIAL STATEMENT

\$8,110,000*
HERMOSA BEACH PUBLIC FINANCING AUTHORITY
2020 Refunding Lease Revenue Bonds

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2020 Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Indenture (as defined below). See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Authority for Issuance. The Hermosa Beach Public Financing Authority (the "**Authority**") is issuing the bonds captioned above (the "**2020 Bonds**") under the following:

- (a) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 (the "**Law**"),
- (b) resolutions adopted by the Board of Directors (the "**Board**") of the Authority on September 22, 2020 (the "**Authority Resolution**"), and by the City Council (the "**City Council**") of the City of Hermosa Beach (the "**City**") on September 22, 2020 (the "**City Resolution**"), and
- (c) an Indenture of Trust (the "**Indenture**") dated as of October 1, 2020, by and between the Authority and U.S. Bank National Association, as trustee (the "**Trustee**").

The Authority. The Authority is a joint powers authority formed pursuant to a Joint Exercise of Powers Agreement dated as of July 14, 2015, between the City and the Parking Authority of the City of Hermosa Beach under Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended, for the purpose, among others, of having the Authority provide financial assistance to the City by entering into, among other arrangements, lease/leasebacks with the City.

The City. The City is located in Los Angeles County approximately 22 miles southwest of the City of Los Angeles. The City is one of three beach cities in the surrounding area, including

* Preliminary; subject to change.

Manhattan Beach, Hermosa Beach, and Redondo Beach. The City, incorporated on January 14, 1907, had an estimated population of 19,614 as of January 1, 2020, and covers approximately 1.4 square miles. See “APPENDIX D - GENERAL INFORMATION ABOUT THE CITY OF HERMOSA BEACH AND LOS ANGELES COUNTY.”

Form of Bonds; Book-Entry Only. The 2020 Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York (“**DTC**”), or its nominee, which will act as securities depository for the 2020 Bonds. Purchasers of the 2020 Bonds will not receive certificates representing the 2020 Bonds that are purchased. See “THE 2020 BONDS - Book-Entry Only System” and “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Purpose of the 2020 Bonds. The 2020 Bonds are being issued to:

- refund and defease the bonds previously issued by the Authority captioned “\$11,600,000 Hermosa Beach Public Financing Authority 2015 Lease Revenue Bonds” (the “**2015 Bonds**”), and
- to pay the costs of issuing the 2020 Bonds.

See “FINANCING PLAN.”

Security for the 2020 Bonds and Pledge of Revenues. Under the Indenture, the 2020 Bonds are payable from and secured by a first pledge of and lien on “**Revenues**” (as defined in this Official Statement) received by the Authority under the Amended and Restated Lease Agreement dated as of October 1, 2020, between the Authority, as lessor, and the City, as lessee (the “**Lease**”), consisting primarily of payments (the “**Lease Payments**”) made by the City under the Lease. The 2020 Bonds are also secured by certain funds held under the Indenture. See “SECURITY FOR THE 2020 BONDS.”

The City and the Authority will enter into an Amended and Restated Site Lease dated as of October 1, 2020 (the “**Site Lease**”), under which the City will lease certain real property to the Authority, consisting of the City’s civic center (the “**Leased Property**”), as described in “THE LEASED PROPERTY,” in return for an upfront payment under the Site Lease. Concurrently, the City and the Authority will enter into the Lease, under which the Authority will lease the Leased Property back to the City in return for the annual Lease Payments. See “SECURITY FOR THE 2020 BONDS.”

Redemption. The 2020 Bonds are subject to optional redemption, mandatory sinking fund redemption and special mandatory redemption from insurance or condemnation proceeds prior to their stated maturity dates. See “THE 2020 BONDS – Redemption.”

Abatement. The Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City’s use and possession of the Leased Property or any portion thereof. If the Lease Payments are abated under the Lease, the 2020 Bond Owners would receive less than the full amount of principal of and interest on the 2020 Bonds. To the extent proceeds of rental interruption insurance are available, Lease Payments (or a portion thereof) may be made from those proceeds during periods of abatement. See “SECURITY FOR THE 2020 BONDS – Abatement” and “BOND OWNERS’ RISKS.”

Risks of Investment. Debt service on the 2020 Bonds is payable only from Lease Payments and other amounts payable by the City to the Authority under the Lease. For a discussion of some of the risks associated with the purchase of the 2020 Bonds, see “BOND OWNERS’ RISKS.”

NEITHER THE 2020 BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, NOR THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE 2020 BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE 2020 BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

FINANCING PLAN

Refunding Plan

The 2015 Bonds were issued on August 13, 2015, in the original principal amount of \$11,600,000, of which \$9,890,000 is currently outstanding. The net proceeds of the 2015 Bonds were used to make certain payments under an agreement entered into for the purpose of settling certain claims made against the City.

The 2020 Bonds are being issued to defease and pay or refund on a current basis all outstanding maturities of the 2015 Bonds, as identified in the following table.

Identification of Refunded 2015 Bonds*

Maturities to be Paid or Refunded (November 1)	CUSIP†	Principal Amount Redeemed	Redemption Date	Redemption Price (% of Par Amount Redeemed)
2020	427637 AE3	\$500,000	11/01/2020	100%
2021	427637 AF0	510,000	11/01/2020	100
2022	427637 AG8	520,000	11/01/2020	100
2023	427637 AH6	535,000	11/01/2020	100
2024	427637 AJ2	545,000	11/01/2020	100
2025	427637 AK9	560,000	11/01/2020	100
2026	427637 AL7	575,000	11/01/2020	100
2027	427637 AM5	595,000	11/01/2020	100
2028	427637 AN3	615,000	11/01/2020	100
2029	427637 AP8	635,000	11/01/2020	100
2030	427637 AQ6	655,000	11/01/2020	100
2031	427637 AR4	680,000	11/01/2020	100
2032	427637 AS2	705,000	11/01/2020	100
2033	427637 AT0	730,000	11/01/2020	100
2034	427637 AU7	750,000	11/01/2020	100
2035	427637 AV5	780,000	11/01/2020	100
		\$9,890,000		

* Preliminary, subject to change.

† CUSIP Copyright CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. None of the City, the Authority nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

On the Closing Date, the Authority will cause the Trustee to transfer a portion of the proceeds of the 2020 Bonds to U.S. Bank National Association (the “**Escrow Agent**”), for deposit in an escrow fund (the “**Escrow Fund**”) to be established and held by the Escrow Agent under an Escrow Agreement (the “**Escrow Agreement**”) to be entered into on the Closing Date by the Authority, the City and the Escrow Agent. In addition, on or before the Closing Date, the City will transfer to the Escrow Agent funds equal to the debt service due on the 2015 Bonds on November 1, 2020, for deposit into the Escrow Fund. The total amount deposited in the Escrow Fund will be sufficient to pay and redeem the 2015 Bonds in full on November 1, 2020 (the “**Redemption Date**”).

The Escrow Agent will hold the amounts on deposit in the Escrow Fund in cash, uninvested. All amounts held in the Escrow Fund will be applied on the Redemption Date to pay and redeem the 2015 Bonds at a redemption price equal to 100% of their outstanding principal amount, together with accrued interest to the Redemption Date, without premium. As a result of the deposit of funds with the Escrow Agent, the 2015 Bonds will be legally defeased and will be payable solely from amounts held in the Escrow Fund.

The amounts held by the Escrow Agent in the Escrow Fund are pledged solely to the payment and redemption of the 2015 Bonds, and will not be available for the payment of debt service on the 2020 Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the 2020 Bonds are as follows:

Sources:

Principal Amount of 2020 Bonds	\$
<i>Plus (Less): Original Issue Premium (Discount)</i>	
<i>Plus: Funds with Respect to 2015 Bonds</i>	
TOTAL SOURCES	\$

Uses:

Deposit to Escrow Fund [1]	\$
Costs of Issuance [2]	
Underwriter's Discount	
TOTAL USES	\$

[1] Represents the amount to be transferred to the Escrow Agent for deposit in the Escrow Fund and used to defease the 2015 Bonds. See “–Refinancing Plan” above.

[2] Represents funds to be used to pay Costs of Issuance, which include legal fees, municipal advisor fees, printing costs, rating agency fees and other costs of issuing the 2020 Bonds.

THE LEASED PROPERTY

Description and Location

Lease Payments will be made by the City under the Lease for the use and occupancy of the Leased Property, which consists generally of the City's city hall complex (the "**City Hall Complex**") located at 1315 Valley Drive, which contains approximately 25,700 square feet of usable space and consists of three buildings originally constructed in 1960 housing the city hall, police station and fire department. The City Hall Complex is located on a site of approximately 2 acres.

In 2017, the City entered into an agreement with the Consolidated Fire Protection District of Los Angeles County (the "County Fire District") entitled "Agreement for Services by and between the Consolidated Fire Protection District of Los Angeles County and the City of Hermosa Beach" dated October 31, 2017 (the "County Agreement") under which the County Fire District agreed to provide fire protection services to the community. Under the County Agreement, the City carried out a renovation of the existing fire station with a total cost of \$1,816,360. This project included the removal of the second floor, installation of a new roof, and a redesign of the first floor to include five dormitories, two ADA accessible restrooms, an office, a remodeled kitchen, HVAC, and new lighting. Exterior changes include tinted and retrofitted windows and newly designed landscaping. Demolition began in mid-September 2019, followed by construction beginning on October 7, 2019, and completion in August 2020. The renovation changed the square footage of the fire station from 8,500 square feet to 4,500 square feet.

The County Agreement constitutes an unrecorded lease of the fire station to the County Fire District, which is included in the definition of Permitted Encumbrances under the Indenture. See "BOND OWNERS' RISKS – Default" and "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The insured value of the structures making up the City Hall complex is currently \$13,649,310.

Changes to Leased Property

Additions and Improvements. Under the Lease, the City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements.

The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City under this provision of the Lease; except that if any such lien is established and the City first notifies or causes to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit

the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

Substitution

Under the Lease, the City has the option at any time and from time to time to substitute other real property (the “**Substitute Property**”) for the Leased Property or any portion thereof (the “**Former Property**”), upon satisfaction of all of the conditions set forth in the Lease, which include (among others) the following:

- The City must file with the Authority and the Trustee, and cause to be recorded in the office of the Los Angeles County Recorder sufficient memorialization of, an amendment of the Site Lease and the Lease that removes the legal description of the Former Property and adds the legal description of the Substitute Property.
- The City must obtain a CLTA policy of title insurance insuring the City’s leasehold estate under the Lease in the Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.
- The City must certify in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California, and has been determined to serve a governmental function of the City.
- The City and the Authority must file with the Trustee a written certificate stating that (a) based on the estimated value of the Substitute Property, the remaining Lease Payments constitute fair rental value for the use and occupancy of the Substitute Property, taking into consideration the factors set forth in the Lease, and (b) the useful life of the Substitute Property at least extends to November 1, 2045.

See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Upon the satisfaction of all the conditions precedent contained in the Lease, the Term of the Lease will end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property under this provision of the Lease.

Release of Leased Property

Under the Lease, the City has the option at any time and from time to time to release any portion of the Leased Property from the Lease (the “**Released Property**”) provided that the City has satisfied all of the requirements under the Lease that are conditions precedent to such removal, which include (among others) the following:

- The City must file with the Authority and the Trustee, and cause to be recorded in the office of the Los Angeles County Recorder sufficient memorialization of, an amendment

of the Site Lease and the Lease that removes the Released Property from the Site Lease and the Lease.

- The City and the Authority must file with the Trustee a written certificate stating that based on the estimated value of the property which remains subject to the Lease following such release, the remaining Lease Payments constitute fair rental value for the use and occupancy of such property, taking into consideration the factors set forth in the Lease.

See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Upon the satisfaction of all the conditions precedent set forth in the Lease, the term of the Lease and the Site Lease will end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release.

THE 2020 BONDS

This section provides summaries of the 2020 Bonds and certain provisions of the Indenture. See APPENDIX A for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Authority for Issuance

The 2020 Bonds are being issued under the Law, the Authority Resolution (which was adopted by the Board of the Authority on September 22, 2020), the City Resolution (which was adopted by the City Council on September 22, 2020), and the Indenture. Under the Authority Resolution and the City Resolution, the 2020 Bonds may be issued in a principal amount not to exceed \$11,600,000.

General Provisions

Bond Terms. The 2020 Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000, so long as no 2020 Bond has more than one maturity date. The 2020 Bonds will mature in the amounts and on the dates, and bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the annual rates, set forth on the inside cover page of this Official Statement.

Calculation of Interest. Interest on the 2020 Bonds is payable from the Interest Payment Date next preceding the date of its authentication unless:

- (a) a 2020 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- (b) a 2020 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or
- (c) interest on any 2020 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Record Date. Under the Indenture, “Record Date” means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

Payments of Principal and Interest. Interest on the 2020 Bonds will be payable on May 1 and November in each year, beginning May 1, 2021 (each an “Interest Payment Date”).

While the 2020 Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to the 2020 Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the 2020 Bonds. See “– Book-Entry Only System” below.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the 2020 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any 2020 Bond

which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such 2020 Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the 2020 Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the 2020 Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of 2020 Bonds in an aggregate principal amount of at least \$1,000,000, which is on file with the Trustee as of any Record Date, the Trustee will pay interest on such 2020 Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner.

The Trustee will pay principal of the 2020 Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

Transfer, Registration and Exchange

The following provisions regarding the exchange and transfer of the 2020 Bonds apply only during any period in which the 2020 Bonds are not subject to DTC's book-entry system. While the 2020 Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Bond Register. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2020 Bonds, which will upon reasonable notice as agreed to by the Trustee, be open to inspection during regular business hours by the Authority; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2020 Bonds as provided in the Indenture.

Transfer. Any 2020 Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such 2020 Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee will collect any tax or other governmental charge on the transfer of any 2020 Bonds under this provision of the Indenture.

Whenever any 2020 Bond is or 2020 Bonds are surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver to the transferee a new 2020 Bond or 2020 Bonds of like series, interest rate, maturity and aggregate principal amount. The Authority will pay the cost of printing 2020 Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of 2020 Bonds.

Prior to any transfer of the 2020 Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor will be required to

provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis report obligations under Section 6045 of the Internal Revenue Code of 1986, as amended. The Trustee will conclusively rely on the information provided to it and will have no responsibility to verify or ensure the accuracy of such information.

Exchange. The 2020 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2020 Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee will collect any tax or other governmental charge on the exchange of any 2020 Bonds under this provision of the Indenture. The Authority will pay the cost of printing 2020 Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of 2020 Bonds.

Limitations. The Trustee may refuse to transfer or exchange, under the provisions of the Indenture described above, any 2020 Bonds selected by the Trustee for redemption under the Indenture, or any 2020 Bonds during the period established by the Trustee for the selection of 2020 Bonds for redemption.

Redemption

Optional Redemption. The 2020 Bonds maturing on or before November 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates.

The 2020 Bonds maturing on or after November 1, 20__, are subject to redemption in whole, or in part at the Written Request of the Authority among maturities on such basis as the Authority may designate and by lot within a maturity, at the option of the Authority, on any date on or after November 1, 20__, from any available source of funds, at a redemption price of the principal amount of the 2020 Bonds to be redeemed plus accrued interest to the date of redemption, without premium.

The Authority shall give the Trustee written notice of its intention to redeem the 2020 Bonds under this provision of the Indenture, and the manner of selecting such 2020 Bonds for redemption from among the maturities thereof, at least 45 days prior to the proposed redemption date.

Mandatory Sinking Fund Redemption of Term Bonds. The 2020 Bonds maturing on November 1, 20__ (the “**20__ Term Bonds**”) are subject to mandatory redemption in whole, or in part by lot, from sinking fund payments made under the Indenture, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on November 1 in the years as set forth in the following table:

20__ Term Bonds	
Payment Date (November 1)	Payment Amount

(maturity)

If some but not all of the 20__ Term Bonds have been redeemed through optional or special mandatory redemption, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of the 20__ Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the Authority, which will notify the Trustee in writing of such determination.

Special Mandatory Redemption From Insurance or Condemnation Proceeds. The 2020 Bonds are subject to redemption as a whole, or in part by lot on a pro rata basis among maturities, on any date, from any Net Proceeds required to be used for such purpose as provided in the Indenture, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

Selection of Bonds for Redemption. Whenever provision is made in this Indenture for the redemption of less than all of the 2020 Bonds of a single maturity, the Trustee will select the 2020 Bonds of that maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee will treat each 2020 Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate 2020 Bond.

Notice of Redemption. The Trustee will mail notice of redemption of the 2020 Bonds by first class mail, postage prepaid, not less than 20 nor more than 60 days before any redemption date, to the respective Owners of any 2020 Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories. In addition, the Trustee shall file a copy of each redemption notice electronically with the Information Services.

Neither the failure to receive any notice nor any defect therein shall affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of 2020 Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

However, while the 2020 Bonds are subject to DTC's book-entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the letter of representations executed by the Authority and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the 2020 Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the Indenture.

Rescission of Redemption. The Authority has the right to rescind any notice of the optional redemption of 2020 Bonds under the Indenture by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2020 Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The Authority and the Trustee will have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall cause notice of such rescission to be given to the respective Owners of any 2020 Bonds designated for redemption, at their addresses appearing on the Registration Books, and to the Municipal Securities Rulemaking Board and the Securities Depositories.

Partial Redemption. Upon surrender of any 2020 Bonds redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2020 Bond or 2020 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2020 Bonds surrendered.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on the 2020 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2020 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2020 Bonds so called for redemption will cease to accrue, said 2020 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2020 Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

Book-Entry Only System

The 2020 Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple of \$5,000, under the book-entry system maintained by DTC. While the 2020 Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a 2020 Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the 2020 Bonds. Purchasers of the 2020 Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM” for further information regarding DTC and the book-entry system.

DEBT SERVICE SCHEDULE

The table below shows annual debt service payments on the 2020 Bonds.

Year Ending November 1	Principal	Interest	Total Debt Service
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
Total:			

SECURITY FOR THE 2020 BONDS

The principal of and interest on the 2020 Bonds are not a debt of the Authority or the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of their respective property, or upon any of their income, receipts, or revenues except the Revenues and other amounts pledged under the Indenture.

This section provides summaries of the security for the 2020 Bonds and certain provisions of the Indenture, the Lease and the Site Lease. See “APPENDIX A – Summary of Principal Legal Documents” for a more complete summary of the Indenture, the Lease and the Site Lease. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Revenues; Pledge of Revenues

Pledge of Revenues and Other Amounts. Under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Revenues and all amounts (including proceeds of the sale of the 2020 Bonds) held in any fund or account established under the Indenture are pledged to secure the payment of the principal of and interest on the 2020 Bonds in accordance with their terms and the provisions of the Indenture. This pledge constitutes a lien on and security interest in the Revenues and such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

Definition of Revenues. “Revenues” are defined in the Indenture as follows:

(a) all amounts received by the Authority or the Trustee under or with respect to the Lease, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any additional lease payments that are pledged or assigned for the payment of any bonds, notes or other obligations other than the 2020 Bonds; and

(b) all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture.

Assignment to Trustee

Under the Assignment Agreement, the Authority will transfer to the Trustee all of the rights of the Authority in the Lease (other than the rights of the Authority under the provisions of the Lease regarding Additional Rental Payments, repayment of advances, indemnification, and the payment of attorneys’ fees). The Trustee will be entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will immediately be paid by the Authority to the Trustee. The Trustee is also entitled to and will, subject to the provisions of the Indenture regarding duties of the Trustee, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease.

Allocation of Revenues by Trustee; Application of Funds

Deposit of Revenues in Bond Fund. Under the Indenture, all Revenues will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the “**Bond Fund**” which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease Agreement to be deposited in the Insurance and Condemnation Fund or the Redemption fund will be promptly deposited in such funds.

All Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. Any surplus remaining in the Bond Fund, after payment in full of (i) the principal of and interest on the 2020 Bonds, or provision therefore under the Indenture, and (ii) any applicable fees and expenses to the Trustee, will be withdrawn by the Trustee and remitted to the City.

Transfers from the Bond Fund. Under the Indenture, on or before each Interest Payment Date, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Bond Fund), the following amounts in the following order of priority:

(a) ***Deposit to Interest Account.*** The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all 2020 Bonds then Outstanding.

(b) ***Deposit to Principal Account.*** The Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2020 Bonds coming due and payable on such Interest Payment Date, including the principal amount of any Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date.

Application of Accounts.

Application of Interest Account. All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2020 Bonds as it comes due and payable (including accrued interest on any 2020 Bonds purchased or redeemed prior to maturity).

Application of Principal Account. All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2020 Bonds at their respective maturity dates, including the principal amount of any Term Bonds which are subject to mandatory sinking fund redemption.

Lease Payments

Requirement to Make Lease Payments. Under the Lease, subject to the provisions of the Lease concerning rental abatement and prepayment of Lease Payments, the City agrees to pay to the Authority, its successors and assigns, the Lease Payments in the respective amounts specified in the Lease, to be due and payable in immediately available funds on the Interest Payment Dates immediately following each of the respective Lease Payment Dates specified in the Lease, and to be deposited by the City with the Trustee on each of the Lease Payment Dates

specified in the Lease (defined as the 5th Business Day immediately preceding each Interest Payment Date).

Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date (other than amounts required for payment of past due principal or interest on any 2020 Bonds not presented for payment) will be credited towards the Lease Payment then required to be paid under the Lease.

The City will not be required to deposit any Lease Payment with the Trustee on any Lease Payment Date if the amounts then held in the Bond Fund, the Interest Account and the Principal Account are at least equal to the Lease Payment then required to be deposited with the Trustee.

Rate on Overdue Payments. If the City fails to make any of the payments of Lease Payments required in the Lease, the payment in default will continue as an obligation of the City until the amount in default has been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment at the highest rate of interest on any Outstanding 2020 Bond.

Fair Rental Value. The aggregate amount of the Lease Payments and Additional Rental Payments coming due and payable during each Rental Period constitute the total rental for the Leased Property for such Rental Period, and are payable by the City in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period.

The Authority and the City have agreed and determined that the total Lease Payments represent the fair rental value of the Leased Property. In making that determination, consideration has been given to the estimated value of the Leased Property, other obligations of the City and the Authority under the Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the City and the general public.

Limited Obligation

THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE AUTHORITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Source of Payments; Covenant to Budget and Appropriate Funds for Lease Payments

The Lease Payments are payable from any source of available funds of the City, subject to the provisions of the Lease regarding abatement.

Under the Lease, the City covenants to take all actions required to include the Lease Payments in each of its budgets during the Term of the Lease and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. This covenant of the City constitutes a duty imposed by law and each and every public official of the City is required to take all actions required by law in the performance of the official duty of such officials to enable the

City to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the City.

Additional Rental Payments

Under the Lease, in addition to the Lease Payments, the City is required to pay when due the following amounts of Additional Rental Payments in consideration of the lease of the Leased Property by the City from the Authority thereunder:

(a) all fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Property, when due;

(b) compensation to the Trustee for its services rendered under the Indenture and for all expenses, charges, costs, liabilities, legal fees and other disbursements incurred by the Trustee in and about the performance of its powers and duties under the Indenture;

(c) all fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease or the Indenture;

(d) all amounts coming due and payable as Excess Investment Earnings in accordance with the Lease; and

(e) all out-of-pocket expenses of the Authority in connection with the execution and delivery of the Lease or the Indenture, or in connection with the issuance of the 2020 Bonds, including but not limited to any and all expenses incurred in connection with the authorization, sale and delivery of the 2020 Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving the Lease, the 2020 Bonds, the Indenture or any of the other documents contemplated hereby or thereby, or otherwise incurred in connection with the administration of the Lease.

Abatement

Termination or Abatement Due to Eminent Domain. Under the Lease, if the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

(a) the Lease will continue in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary; and

(b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

Abatement Due to Damage or Destruction. Under the Lease, the Lease Payments are subject to abatement during any period in which by reason of damage or destruction (other than

by eminent domain as described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof.

The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction.

Notwithstanding the foregoing, the Lease Payments may be paid with proceeds of rental interruption insurance during any period in which the Lease Payments would otherwise be subject to abatement, it being hereby declared in the Lease that such proceeds constitute a special fund for the payment of the Lease Payments.

In the event of any such damage or destruction, the Lease continues in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage and destruction.

Property Insurance

Liability and Property Damage Insurance. Under the Lease, the City is required to maintain or cause to be maintained throughout the Term of the Lease, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns.

Such policy or policies must provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such policy or policies must provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Lease regarding self-insurance, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which paid.

Casualty Insurance. Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding 2020 Bonds.

Such insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance; provided that earthquake insurance shall not be required under any circumstances. Such insurance may be subject to such deductibles as the City deems adequate and prudent.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance must be applied as provided in the Lease.

Rental Interruption Insurance. Under the Lease, the City is required to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the casualty insurance requirements described above, in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years.

Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance, if any, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as they become due and payable.

Insurance Net Proceeds; Form of Policies. Each policy of casualty insurance, rental interruption insurance and title insurance maintained under the Lease must name the Trustee as loss payee so as to provide that all proceeds thereunder are payable to the Trustee. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease. All such policies shall provide that the Trustee is given 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby.

The City is required to file with the Trustee, upon the written request of the Trustee, a certificate of the City stating that all policies of insurance required under the Lease are then in full force and effect. The Trustee has no responsibility for the sufficiency, adequacy or amount of any insurance or self-insurance required under the Lease and is fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

If any liability and property damage insurance maintained under the Lease is provided in the form of self-insurance, the City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a statement of the risk manager of the City or an independent insurance adviser engaged by the City identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. If any such insurance is provided in the form of self-insurance by the City, the City has no obligation to make any payment with respect to any insured event except from those reserves.

Amendment of Lease to Provide for Additional Rental

Under the Lease, the City has the right to amend the Lease for the purpose of providing for the payment of additional amounts of rental for the use and occupancy of the Leased Property, but only if

- (a) such additional rent payments are pledged or assigned for the payment of any bonds, notes or other obligations the proceeds of which are applied to finance or refinance

the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control,

(b) the City has filed with the Trustee a Written Certificate of the City stating that the estimated value of the Leased Property is, or following the completion of the acquisition and construction of any improvements to be financed from the proceeds of such bonds, notes or other obligations will be, at least equal to the aggregate original principal amount of the 2020 Bonds and all such other bonds, notes or other obligations, and

(c) the City has filed with the Trustee written evidence that the amendments made under this provision of the Lease will not of themselves cause a reduction or withdrawal of any rating then assigned to the 2020 Bonds.

CITY FINANCIAL INFORMATION

General

The City of Hermosa Beach is located in Los Angeles County approximately 22 miles southwest of the City of Los Angeles. The City is one of three beach cities in the surrounding area, including Manhattan Beach, Hermosa Beach, and Redondo Beach. The City, incorporated on January 14, 1907, had an estimated population of 19,614 as of January 1, 2020, and covers approximately 1.4 square miles. The City operates under a Council-Manager form of government. See “APPENDIX D - GENERAL INFORMATION ABOUT THE CITY OF HERMOSA BEACH AND LOS ANGELES COUNTY.”

City Budgets

Annual Budget Process. Work begins on the budget process in February. Department heads prepare estimates of revenues and departmental expenditures for submission to the Finance Director. The City Manager and Finance Director meet with each department to review the estimates and discuss requests. From these meetings, the preliminary budget is developed. The Capital Improvement Budget and Five Year Capital Improvement Plan, which are part of the same document, follows the same process.

The City Manager is required to submit a preliminary budget to the City Council on or before May 15th of each year. One or two public workshops are held in May and June to review the budget and receive public input. One formal public hearing is held in June, prior to budget adoption. The City Council must adopt an annual budget, by resolution, on or before June 30 for the coming fiscal year (July 1 – June 30). If the budget is not adopted by that date, the preliminary budget, except for capital outlays, goes into effect until the budget is adopted.

The budget may be amended during the year, as necessary. A Midyear Budget Review is conducted in February, at which time adjustments to revenue estimates and appropriations are made. Expenditures may not exceed appropriations at the fund level. The City Manager may approve transfers of appropriation within funds; transfers of appropriations from one fund to another require City Council approval.

Budgets are adopted for all governmental and proprietary funds on a basis consistent with generally accepted accounting principles.

Adopted Fiscal Year 2020-21 Budget. The Fiscal Year 2020-21 Budget anticipates \$35.9 million in General Fund revenues, a 16% decrease compared to the Fiscal Year adjusted 2019-20 Budget, assuming the impacts of COVID-19 would continue through the end of December 2020.

The General Fund operating expenditure plan presented in the Fiscal Year 2020-21 Budget is \$39 million and represents a 6.1% decrease compared to the Fiscal Year adjusted 2019-20 Budget. Personnel costs are 1.7% lower than the adjusted Fiscal Year 2019-20 Budget due to the decision to freeze ten vacant positions.

City's Budgeted and Estimated Actual Figures. The table below sets forth (i) a comparison of the City's adjusted General Fund budget and revised COVID-19 General Fund budget to the revised estimated actual figures for Fiscal Year 2019-20 and (ii) the City's adopted General Fund budget for Fiscal Year 2020-21.

TABLE 1
CITY OF HERMOSA BEACH
General Fund Budgeted and Estimated Actual Figures, Fiscal Year 2019-20, and
General Fund Budget, Fiscal Year 2020-21

	2019-20 Adjusted Budget	COVID-19 2019-20 Budget	Revised COVID 2019-20 Estimated Actual Year-End [1]	COVID-19 2020-21 Adopted Budget
Revenues				
Taxes	\$30,280,486	\$28,243,077	\$28,900,238	\$28,244,926
Licenses and permits	1,213,724	734,016	727,008	905,881
Fines and forfeitures	2,365,086	2,084,412	2,160,244	1,033,230
Use of money and property	1,006,122	857,930	886,360	802,659
Intergovernmental	127,256	132,085	127,555	143,510
Charges for services	7,523,765	5,653,988	6,122,989	4,674,001
Other revenue	165,416	114,252	127,906	66,145
Total Revenues	42,681,855	37,819,760	39,052,300	35,870,352
Expenditures				
Personal Services	22,263,508	19,998,248	19,889,642	21,895,709
Contract Services Private	5,686,419	4,628,099	4,107,142	4,192,113
Contract Services/Capital Improvement Projects	398,559	398,559	8,793	175,704
Contract Services/Govt.	6,931,895	6,721,077	6,841,396	6,932,731
Material/Supplies/Other	5,831,188	5,614,948	5,298,306	5,777,335
Equipment/Furniture	81,431	76,809	55,648	34,816
Buildings/Improvements	363,672	363,672	363,672	--
Total expenditures	41,556,672	37,801,412	36,564,598	39,008,408
Excess of revenues over expenditures	\$1,125,183	\$18,348	\$2,487,701	(\$3,138,056) [2]
Other financing sources (uses):				
Transfers in	402,922	2,312,672	2,312,672	3,396,734
Transfers out	(2,318,562)	(2,318,562)	(2,318,565)	(1,776,701)
Total other financing sources (uses)	(1,915,640)	(5,890)	(5,893)	1,620,033
Change in fund balance	(\$790,457)	\$12,458	\$2,481,808	(\$1,518,023)

[1] Represents updated actual Fiscal Year 2019-20 figures as of September 2020.
Source: City of Hermosa Beach.

Effects of COVID-19 on 2019-20 Estimated Actual Results. Major revenue assumptions used in the Covid-19 Fiscal Year 2019-20 year-end estimated actual results are as follows:

Taxes are estimated to decrease by \$2,037,409 or 6.7% due to the following accounts:

- Sales Tax decreases by \$354,545 or 11% based on a forecast by the City's consultant for each business type and each quarter.

- Transient occupancy tax decreases by \$1,136,639 or 32% based on assumed occupancy of 30% through June 30, 2020.
- Business License decreases by \$447,091 or 38% based on suspension of fees through June 30, 2020.
- Other Taxes decrease by \$79,134.

Licenses and Permits are estimated to decrease by \$479,708 or 39.5% due to the following accounts:

- Building Permits decreases by \$300,420 assume a 15% decrease from the original year-end estimate which did not assume COVID-19 impacts.
- Other Licenses and Permits decrease by \$179,288.

Fines and Forfeitures are estimated to decrease by \$280,674 or 11.9% due to the following accounts:

- Court Fines/Parking decreases by \$243,856 or 11% due to suspension of street sweeping fines and a reduction in issuance of other parking fines.
- Other Fines and Forfeitures decrease by \$36,818.

Use of Money and Property is estimated to decrease by \$148,192 or 14.7% due to the following accounts:

- Community Center Leases, Rentals, and Theatre decreases by \$89,513 or 29% assuming the cancellation of events through the end of Fiscal Year 2019–20.
- Plaza Promotions decreases by \$30,000 or 100% assuming the cancellation of events through the end of Fiscal Year 2019–20.
- Film Permits decrease by \$19,232 or 26% assuming the cancellation of filming through the end of Fiscal Year 2019–20.
- Intergovernmental/State revenues are estimated to increase by \$4,829 or 3.8%.

Service Charges are estimated to decrease by \$1,869,777 or 24.85% due to the following accounts:

- General Plan Maintenance Fees decrease by \$112,450 or 52% assuming a 15% reduction to the original year end estimate, which did not take into account COVID-19 impacts.
- Plan Check Fees decreases by \$61,200 assuming a 15% reduction to the original year end estimate, which did not take into account COVID-19 impacts.
- Encroachment Permits decrease by \$86,400 or 30% due to suspension of outdoor dining permits assumed through June 30, 2020.

- Parking Meters decrease by \$512,248 or 24% due to an 80% reduction April-June 2020.
- Lot A Revenue decreases by \$153,985 or 30% based on March revenue assumed for April-June 2020.
- Parking Structure Revenue decreases by \$198,687 or 30% due to closure in March 2020.
- Contract Recreation Classes decreases by \$185,110 or 39% assuming the cancellation of recreation classes through Fiscal Year 2019–20.
- Other Recreation Programs decrease by \$133,781 or 55% assuming the cancellation of recreation programs through the end of Fiscal Year 2019–20.
- Other Service Charges decrease by \$410,099.

Other Revenue is estimated to decrease by \$51,164 or 30.9%. Other Revenue vary from year to year due to refunds, reimbursements, contributions, and miscellaneous revenue.

Subsequent Budget Adjustments and Summary of Revised Net Revenue Shortfall Estimates for Fiscal Years 2019-20 and 2020-21.

The State’s Executive Order N-33-20, which ordered all individuals in California to stay home or at their place of residence except as needed to maintain continuity of operations, was issued on March 19, 2020, which, coincidentally, is the same day that department estimates of revenue and appropriation requests for the Fiscal Year 2020–21 budget were due.

Recognizing the potential impact of COVID-19, departments were asked to submit new revenue estimates for Fiscal Years 2019-20 and 2020-21, using the assumption that the effects of COVID-19 would continue at the same level through December 31, 2020.

The revised revenue estimates, when combined with the initial department budget requests, show an estimated net revenue shortfall of \$2.3 million for Fiscal Year 2019–20 and \$6.2 million for Fiscal Year 2020–21. Departments were then asked to submit departmental appropriation reductions and identify any previously requested supplemental items that are essential. All capital improvement projects were reviewed and changes made to prioritize the use of restricted funds and reduce the use of discretionary funds. All 13 vacant personnel positions were reviewed, resulting in the freezing of 12 of those positions for Fiscal Year 2019–20 and 10 for Fiscal Year 2020–21. The balance of the deficit gaps for both years were closed with a combination of using general funds that were previously unspent and transferred for other uses and swapping restricted funds for general funds, as further described below.

Budget Balancing Actions for Fiscal Year 2019-20. The estimated General Fund revenue shortfall for Fiscal Year 2019-20 is estimated to be \$2.3 million. Steps taken to balance the Fiscal Year 2019-20 budget include:

- Departments were asked to make reductions, resulting in the freezing of 12 vacant positions and reductions in part time personnel.

- The Fiscal Year 2019–20 Budget contained a reserve of \$200,000 for general capital improvements. Also in Fiscal Year 2019–20, excess funds in the General Fund of \$393,000 were transferred at midyear to the Capital Improvement Fund. Both amounts were used to reduce the deficit.

- Excess amounts in the Insurance Fund were used to reduce the shortfall, due to a reduction of \$500,000 in estimated worker's compensation claims and amounts in excess of the \$3 million goal in the Insurance Fund.

- A donation from the Chamber of Commerce for holiday decorations was recognized to reduce general fund expenditures for this purpose.

- An amount of \$100,000 will be carried forward to 2020–21 from Prospective Expenditures.

Effects of COVID-19 on 2020-21 General Fund Budget. Major revenue assumptions resulting from COVID-19 on the Fiscal Year 2020-21 General Fund budget are as follows:

Taxes are estimated to decrease by \$2,035,560 due to the following accounts:

- Sales Tax is estimated at just over \$2.75 million, a 12.6% decline from the Fiscal Year 2019-20 budget, based on a forecast by the City's consultant for each business type and each quarter.

- Transient occupancy tax decreases by \$908,027 or 39% based on assumed occupancy of 30%.

- Other Taxes decrease by 5%.

Licenses and Permits are estimated to decrease by \$307,843 or 25.4% due to the following accounts:

- Building Permits decrease by \$251,500 estimating a 30% reduction of baseline permits.

- Other Licenses and Permits decreases by \$56,343.

Fines and Forfeitures are estimated to decrease by \$1,331,856 or 56.3% due to the following accounts:

- Court Fines/Parking decreases by \$1,248,086, or 55% due to suspension of street sweeping fines and reduction in other parking fines.

- Other Fines and Forfeitures decreases by \$83,770.

Use of Money and Property is estimated to decrease by \$203,463 or 20.2% due to the following accounts:

- Community Center Leases, Rentals, and Theatre decreases by \$143,220 assuming the cancellation of events through December 31st.

- Plaza Promotions decreases by \$47,460 assuming the cancellation of events through December 31st.

- Other Use of Money and Property decreases by \$12,803

Intergovernmental/State is estimated to increase by \$16,254 or 12.8%.

Service Charges are estimated to decrease by \$2,849,764 or 37.9% due to the following accounts:

- Plan Check Fees decreases by \$156,000 estimating 60% of baseline fees.

- Encroachment Permits decreases by \$288,000. It is unknown when restaurant encroachment payments will be made due to closures.

- Parking Meters decreases by \$875,970, or 42% due to an 80% reduction through December 2020.

- Lot A Revenue decreases by \$272,692, or 52% based on actual revenues received during the second half of Fiscal Year 2018-19.

- Parking Structure Revenue decreases by \$334,472, or 50% due to closure for six months.

- Contract Recreation Classes decreases by \$203,430 assuming the cancellation of recreation classes through December 31st.

- Other Recreation Programs decreases by \$91,190 assuming the cancellation of recreation programs through December 31st.

- Other Service Charges decreases by \$628,010.

Other Revenue is estimated to decrease by \$99,271 or 61% due to the following accounts:

- Planning EIR Admin Reimbursement decreases by \$42,592 due to minimal activity expected for 2020–21. Account was not reduced due to COVID-19 impacts.

- Contributions Non-Government decreases by \$23,309.

- Other Revenue decreases by \$33,370.

Reconciliation of Net Revenue Shortfall Between Fiscal Year 2019-20 and Fiscal Year 2020-21. The table below summarizes the calculation of the revised the General Fund net revenue shortfall of \$6.2 million for Fiscal Year 2020–21.

Estimated Revenue 2019-20 Budget	\$42,681,855
Less: Estimated Revenue 2020-21 Budget	<u>\$35,870,352</u>
Revenue Decrease	(\$6,811,503)
Transfers In 2019-20 Budget	\$402,922
Less: Estimated Transfers In 2020-21 Budget	<u>\$396,734</u>
Transfers In Decrease	(\$6,188)
Estimated Appropriations 2019-20 Midyear Budget	\$40,939,034
Less: Initial 2020-21 Appropriations	<u>\$41,326,719</u>
Appropriations Decrease	(\$387,685)
Transfer Out 2019-20 Budget	\$2,318,562
Less: Estimated Transfers Out 2020-21 Budget	<u>\$1,788,970</u>
Transfers In Decrease	\$529,592
CIP Carry Forward	\$367,439
Changes in Fund Balance	\$100,324
Estimated 2020-21 Revenue Shortfall	<u>(\$6,208,021)</u>

Budget Balancing Actions for Fiscal Year 2020-21. As shown in the table above, the estimated Fiscal Year 2020-21 General Fund revenue shortfall due to COVID-19 was initially estimated to be \$6.2 million. Steps taken to balance the Fiscal Year 2020-21 budget include:

- Departments were asked to make reductions, including in Capital Improvement Projects and then identify previously submitted supplemental requests that were essential.
- The payment due to the County for the Fire Facility Renovation, originally funded by the General Fund, will be funded from the Capital Facility Reserve in the Capital Improvement Fund.
- The largest budget balancing action is to transfer \$3,000,000 from the Sewer Fund to the General Fund, representing an excess amount in the Insurance Fund in 2014–15 as a result of the settlement of the oil litigation. Funds were set aside as a contingency for the oil settlement and were no longer needed. Since the City had not yet implemented the sewer service charge, funds were transferred to the Sewer Fund. The sewer service charge was implemented in the following year, 2015–16 to fund sewer operations and capital improvements. The \$3,000,000 may be transferred to the General Fund since the original source of funds was the Insurance Fund which is discretionary. Most funds in the Insurance Fund originate from the General Fund through charges to departments for insurance, equipment replacement and building maintenance.
- Excess funds achieved through the 2019–20 budget balancing process were carried forward.
- The required 16% contribution to the Contingency (Rainy Day Fund) was reduced because of the reductions in operating expenses.

The result of these actions is estimated to reduce the Fiscal Year 2020-21 revenue shortfall to \$0.

COVID-related grants. The City received an allocation of \$242,177 under the federal Coronavirus Aid, Relief, and Economic Security Act (the “**CARES Act**”), which will be paid in six payments. The City received CARES Act funding for 50% of its unemployment costs, equaling \$15,174 for April through June 2020. Funding of the remaining 50% is anticipated to be received through December 2020. In addition, the City has a claim pending for FEMA reimbursement of \$498,468 for purchases.

City’s Financial Policies

Strategic Plan. The City Council updated the strategic plan in May 2016. The strategic plan sets a value-based 15-year vision for 2031 and establishes 5-year goals to be accomplished by 2021. One of the major goals is to provide first-class services as compared to other cities.

Fund Balance Policies. The City Council has adopted policies for specific fund balances or reserve funds:

General Fund. Any funds remaining unspent at year-end in the General Fund transfer equally to the Contingency Fund, Insurance Fund, Equipment Replacement Fund, Capital Improvement Fund and Capital Facility Reserve. Transfers may be redirected as the need arises.

Contingencies. The adopted goal is to maintain fund balance equal to 16% of the General Fund appropriations for economic uncertainties and unforeseen emergencies.

Compensated Absences. The adopted goal is to maintain fund balance equal to 25% funding for accrued liabilities for employee vacation, sick and compensatory time.

Retirement Stabilization. These funds are set aside for use during periods of unstable rates.

Insurance Fund. The adopted goal is to maintain \$3,000,000 in net assets for unanticipated claims and catastrophic losses. Claims liabilities are recorded at the 56% probability level.

Equipment Replacement Fund. The adopted goal is to maintain net assets equal to the accumulated amount calculated for all equipment, based on replacement cost and useful life of equipment.

Investment Policy

Under Section 53600 et seq. of the California Government Code, the City is required to present an annual investment policy (the “**Investment Policy**”) for confirmation by the City Council. The City Council adopted its most recent Investment Policy on May 10, 2016. The Investment Policy is intended to provide guidelines for the prudent investment of City funds and to outline the policies for maximizing the efficiency of the City’s cash management. A full copy of the current Investment Policy is attached as APPENDIX G.

Financial Statements

Accounting Policies. The basic financial statements of the City are prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

See “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019” for a full presentation of the City’s accounting policies.

Management’s Discussion and Analysis. GASB Statement No. 34 requires the inclusion of management’s discussion and analysis as required supplementary information. See “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019” for a full presentation of management’s discussion and analysis for the most recent Fiscal Year.

Audited Financial Statements. The City’s most recent audited financial statements for the Fiscal Year ending June 30, 2019, are attached as “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019” to this Official Statement, which were prepared by the City and audited by Gruber and Associates, Newport Beach, California (the “Auditor”).

The Financial Statements should be read in their entirety. The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City or the General Fund. In addition, the Auditor has not reviewed this Official Statement.

General Fund Financial Data

The following tables provide a five-year history of the City's Comparative Balance Sheet, and summarize General Fund revenues, expenditures, transfers, and ending fund balances for the City for the last five Fiscal Years.

TABLE 2
CITY OF HERMOSA BEACH
GENERAL FUND BALANCE SHEET
Fiscal Years Ending June 30, 2016 through June 30, 2020

	Audited 2016	Audited 2017	Audited 2018	Audited 2019	Unaudited 2020
Assets					
Cash and investments	\$10,197,111	\$11,755,786	\$9,359,020	\$11,068,234	\$12,446,008
Accounts receivable	2,260,919	2,429,024	2,956,537	3,236,406	2,355,937
Property taxes receivable, net	647,216	604,619	629,878	699,026	699,026
Interest receivable on investments	23,836	10,987	14,121	11,830	8,321
Other receivables	4,143	--	--	--	--
Other assets	205,790	408,437	1,005,560	549,870	720,362
Due from other funds	170,068	170,068	26,698	26,808	26,697
Total assets	13,509,083	15,378,921	13,991,814	15,592,174	16,256,351
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	1,488,567	1,592,420	1,254,784	1,543,701	404,154
Accrued wages and benefits payable	935,229	1,394,194	757,284	827,667	686,671
Refundable deposits	409,647	337,634	297,263	592,521	180,670
Unearned revenue	48,884	50,401	50,402	50,401	52,719
Compensated absences, due within one year	1,201,498	1,737,101	1,427,428	1,364,766	1,237,211
Total liabilities	4,083,825	5,111,750	3,787,161	4,379,056	2,561,425
Deferred Inflows of Resources					
Unavailable Revenues	647,216	604,619	629,878	699,026	699,026
Total	647,216	604,619	629,878	699,026	699,026
Fund balances:					
Nonspendable	21,261	66,700	478,479	40,110	0
Restricted	329,890	158,149	170,336	345,902	318,206
Committed	28,900	1,115,600	1,144,500	1,108,275	1,937,335
Assigned/Reserved [1]	8,397,991	8,322,103	7,781,460	9,019,805	9,027,555
Unrestricted	--	--	--	--	1,712,804
Total fund balances	8,778,042	9,662,552	9,574,775	10,514,092	12,995,900
Total Liabilities and Fund Balances	\$13,509,083	\$15,378,921	\$13,991,814	\$15,592,174	\$16,256,351

[1] Amounts are assigned or reserved in the General Fund for the following: Capital Projects, Contingencies, Compensated Absences, Fire Services, Prop A Fund Exchange proceeds to fund an Assistant Engineer position and the reappropriation of one-time purchases or services not completed during the Fiscal Year.

Source: City of Hermosa Beach, audited financial statements.

The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

TABLE 3
CITY OF HERMOSA BEACH
GENERAL FUND REVENUES, EXPENDITURES AND FUND BALANCES
Fiscal Years Ending June 30, 2016 through June 30, 2020

	Audited 2016	Audited 2017	Audited 2018	Audited 2019	Unaudited 2020
Revenues					
Property taxes	\$14,655,395	\$15,753,082	\$17,072,844	\$18,110,645	\$19,119,818
Other taxes	10,284,023	10,737,793	10,319,281	10,225,084	9,780,420
Licenses and permits	1,111,366	967,956	787,563	850,059	727,008
Fines and forfeitures	2,244,697	2,070,599	1,921,215	2,361,403	2,160,244
Use of money and property	646,893	718,239	708,505	1,580,582	668,705
Intergovernmental	162,104	116,176	117,774	115,015	127,555
Charges for services	6,915,663	6,969,683	7,170,767	7,088,925	6,122,989
Miscellaneous	453,917	126,818	177,509	417,118	127,906
Interest earned on investments	239,793	--	66,019	473,737	217,655
Total Revenues	36,713,851	37,460,346	38,341,477	41,222,568	39,052,300
Expenditures					
Legislative and legal	1,621,138	1,448,509	1,302,500	1,499,065	1,299,229
General government	3,336,439	3,640,396	3,684,961	4,190,782	4,497,303
Public safety	20,950,756	21,287,623	21,338,362	21,946,780	21,411,918
Community development	1,662,880	1,832,234	1,945,096	2,019,366	2,088,577
Culture and recreation	1,261,563	1,282,637	1,383,630	1,523,233	1,512,542
Public works	5,199,400	4,869,805	5,087,725	5,442,726	5,382,565
Capital Outlay	119,130	565,588	544,259	439,417	372,465
Total expenditures	34,151,306	34,926,792	35,286,533	37,061,369	36,564,599
Excess of revenues over expenditures	2,562,545	2,533,554	3,054,944	4,161,199	2,487,701
Other financing sources (uses):					
Transfers in	362,884	353,853	351,298	533,887	2,312,672
Transfers out [1]	(4,661,075)	(2,002,897)	(3,564,028)	(3,755,769)	(2,318,565)
Total other financing sources (uses)	(4,298,191)	(1,649,044)	(3,212,730)	(3,221,882)	(5,893)
Change in fund balance	(1,735,646)	884,510	(157,786)	939,317	2,481,808
Fund balances, July 1	10,513,688	8,778,042	9,732,561 [2]	9,574,775	10,514,092
Fund balances, June 30	\$8,778,042	\$9,662,552	\$9,574,775	\$10,514,092	\$12,995,900

[1] The City makes annual transfers from the General Fund to the Lighting/Landscape Fund to cure the fund's deficit, to the 2015 Lease Revenue Bond Fund for principle and interest payments, and to the Sewer and/or Storm Drain Funds representing a portion of the Utility User Tax revenue. Additionally, in accordance with the City's Financial Policy, any unassigned/unreserved fund balance is transferred to the Contingency Reserve, Insurance Fund, Equipment Replacement Fund, Capital Improvement Fund, and/or Capital Facility Reserve at year-end.

[2] Reflects a restatement to correct sales tax revenue of \$70,009.

Source: City of Hermosa Beach.

Taxes and Other Revenues

Taxes and other sources of revenue received by the City are listed in the table below. Certain general taxes currently imposed by the City are affected by Proposition 218. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Articles XIIC and XIID of the State Constitution.”

The following table presents the tax revenues and franchise revenues of the City’s General Fund for the last six Fiscal Years and the next budget year:

TABLE 4
CITY OF HERMOSA BEACH
General Fund Tax Revenues By Source

	Audited 2014-15	Audited 2015-16	Audited 2016-17	Audited 2017-18	Audited 2018-19	Unaudited 2019-20	Budgeted 2020-21
Property Taxes	\$13,739,648	\$14,655,395	\$15,753,082	\$17,072,843	\$18,110,646	\$19,119,818	\$19,971,254
Sales & Use Tax	2,768,225	2,764,531	2,816,289	3,151,207	3,133,311	2,722,468	2,750,820
Transient	2,349,750	2,762,444	3,237,026	3,295,207	3,251,349	2,599,810	1,440,460
Occupancy Tax							
Business License Tax	1,059,445	1,058,663	1,098,421	1,061,130	1,107,724	1,095,424	732,024
Utility Users Tax	2,442,575	2,388,824	2,302,024	2,229,906	2,195,815	2,093,567	2,147,057
Other Taxes	1,328,176	1,309,559	1,284,033	1,281,831	1,236,887	1,269,151	1,203,311
Total	\$23,687,819	\$24,939,416	\$26,490,875	\$28,092,124	\$29,035,732	\$28,900,238	\$28,244,926

Source: City of Hermosa Beach.

Property Taxes

General. Property taxes represent the largest source of tax revenue to the City. This section describes property tax levy and collection procedures and certain information regarding historical assessed values and major property taxpayers in the City. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” and “RISK FACTORS – Property Taxes” for a description of risks associated with the levy and collection of property tax revenues.

Property taxes have historically been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13 (“**Proposition 13**”), property tax revenues were reduced by two-thirds and thereafter limited to 2% annual increases or the consumer price index, whichever is less. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the State Constitution” for further description of Proposition 13.

Levy and Collection. Property taxes are levied for each Fiscal Year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as “**secured**” or “**unsecured**” and is listed accordingly on separate parts of the assessment roll. The “**secured roll**” is that part of the assessment roll containing State-assessed public utilities property and real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “**unsecured roll**.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each Fiscal Year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the State Constitution" for further description of Proposition 13.

Suspension of Penalties, Costs, and Interest on Overdue Property Taxes due to COVID-19. On May 6, 2020, the Governor issued Executive Order N-61-20, which suspended the imposition of penalties, costs, and interest on overdue property taxes through May 6, 2021, where the taxes owed were not delinquent prior to the March 4, 2020 declaration of a state of emergency and the taxpayer demonstrates to the tax collector that the taxpayer has suffered economic hardship due to the COVID-19 pandemic.

The County Treasurer and Tax Collector has announced that property owners affected by COVID-19 may have late penalties cancelled if they are unable to pay their property taxes by April 10, 2020, and that the office of the Treasurer and Tax Collection has begun accepting requests for penalty cancellation related to COVID-19.

The extent of the impact of Executive Order N-61-20 and the current practices of the County Treasurer and Tax Collector on the City's property tax collections, and the date Executive Order N-61-20 might be modified or rescinded, are currently unknown.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share

the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

Assessed Valuation History. The table below presents a 11-year history of the assessed value of property within the City.

**TABLE 5
CITY OF HERMOSA BEACH
Assessed Valuation
Fiscal Years 2010-11 through 2020-21**

Year	Local Secured	Utility	Unsecured	Total
2010-11	\$4,825,080,309	\$399,025	\$36,744,190	\$4,862,223,524
2011-12	4,907,649,567	399,025	36,891,946	4,944,940,538
2012-13	5,052,809,783	399,025	39,980,774	5,093,189,582
2013-14	5,339,827,938	399,025	39,523,323	5,379,750,286
2014-15	5,666,591,496	399,025	44,055,095	5,711,045,616
2015-16	6,043,529,037	580,400	44,979,594	6,089,089,031
2016-17	6,552,847,820	580,400	40,355,701	6,593,783,921
2017-18	7,040,130,592	580,400	42,005,566	7,082,716,558
2018-19	7,495,085,701	580,400	44,748,545	7,540,414,646
2019-20	7,938,902,723	580,400	49,810,065	7,989,293,188
2020-21	8,409,543,922	580,400	49,674,321	8,459,798,643

Source: California Municipal Statistics Inc.

Major Property Taxpayers. The following table shows the top 20 local secured property taxpayers for the current Fiscal Year.

**TABLE 6
CITY OF HERMOSA BEACH
Top Twenty Local Secured Taxpayers
Fiscal Year 2020-21**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2020-21 Assessed Valuation</u>	<u>% of Total ⁽¹⁾</u>
1.	Crico of Fountain Place LP	Apartments	\$85,851,523	1.02%
2.	EQR Gallery Apartments Limited	Apartments	76,757,753	0.91
3.	S and P Hermosa Parent LLC	Commercial	29,661,859	0.35
4.	1601 PCH LP	Shopping Center	26,943,911	0.32
5.	Bagnard Company LLC	Residence	18,841,637	0.22
6.	Hermosa Hotel Investments LLC	Hotel	18,531,982	0.22
7.	Blake Holdings II LLC	Residence	18,309,818	0.22
8.	1221 Hermosa Avenue LLC	Commercial	18,000,000	0.21
9.	South Bay III LLC	Residence	17,823,347	0.21
10.	REG8 Plaza Hermosa LLC	Shopping Center	16,843,390	0.20
11.	Johnny and Elizabeth Lopez, Trustees	Residence	16,589,256	0.20
12.	Sepulveda Design Center LLC	Commercial	16,383,423	0.19
13.	Skechers USA Inc.	Residence	16,320,000	0.19
14.	IWF Hotel Hermosa LP	Hotel	16,193,963	0.19
15.	William Stirton	Residence	16,018,773	0.19
16.	Shay Properties LLC	Residence	15,646,088	0.19
17.	2200 Associates LLC	Office Building	15,478,687	0.18
18.	Kathy Ishii	Residence	15,016,093	0.18
19.	Boris LLC	Residence	14,760,575	0.18
20.	George H. Schuler	Office Building	<u>14,231,259</u>	<u>0.17</u>
			<u>\$484,203,337</u>	<u>5.76%</u>

[1] 2020-21 Local Secured Assessed Valuation: \$8,409,453,922.
Source: California Municipal Statistics, Inc.

Sales and Use Taxes

General. Sales and use taxes represent the second largest source of tax revenue to the City. The sales tax is an excise tax imposed on retailers for the privilege of selling or leasing tangible personal property. The use tax is an excise tax imposed for the storage, use, or other consumption of tangible personal property purchased from any retailer.

The sales tax rate for Los Angeles County is currently 9.5% distributed as follows: 6.25% State; Proposition A Transportation 0.5%; Proposition C Transportation 0.5%; Measure R Transportation 0.5%; Measure H (Los Angeles County Homeless Programs) 0.25%; Measure M (Los Angeles County Traffic Improvement Plan) 0.5%; City of Hermosa Beach 1% (or city point of sale, generally). This means that the City receives 1% of each dollar, or \$1 for each \$100 in sales that are taxable.

Sales Tax Rates. Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City's share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

**TABLE 7
CITY OF HERMOSA BEACH
Sales Tax Rates
As of July 1, 2020**

State	7.250%
County Measure H Homeless	0.250
County Traffic Improvement Plan	0.500
County Transportation Commission	1.000
County Metro Transportation Authority	<u>0.500</u>
Total	9.500%

Source: California State Board of Equalization.

Application of Sales Tax. Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The sales tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax.

Certain transactions are exempt from the State sales tax, including sales of the following products:

- food products for home consumption;
- prescription medicine;
- newspapers and periodicals;
- edible livestock and their feed;
- seed and fertilizer used in raising food for human consumption; and
- gas, electricity and water when delivered to consumers through mains, lines and pipes.

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization’s March 2018 Publication No. 61 entitled “Sales and Use Taxes: Exemptions and Exclusions,” which can be found on the State Board of Equalization’s website at <http://www.boe.ca.gov/>.

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the California Department of Tax and Fee Administration (“**CDTFA**”). This process was formerly administered by the State Board of Equalization. The Taxpayer Transparency and Fairness Act of 2017, which took effect July 1, 2017, restructured the State Board of Equalization and separated its functions among three separate entities: the State Board of Equalization, the CDTFA, and the Office of Tax Appeals. The State Board of Equalization will continue to perform the duties assigned to it by the state Constitution, while all other duties will be transferred to the newly established CDTFA and the Office of Tax Appeals. CDTFA will handle most of the taxes and fees previously collected by the State Board of Equalization, including sales and use tax.

Under the Sales and Use Tax Law, all sales and use taxes collected by the CDTFA under a contract with any city, city and county, redevelopment agency, or county are required to be

transmitted by the CDTFA to such city, city and county, redevelopment agency, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the CDTFA projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the CDTFA's quarterly projection. During the last month of each quarter, the CDTFA adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

According to the CDTFA, it distributes quarterly tax revenues to cities, counties, and special districts using the following method:

Using the prior year's quarterly tax allocation as a starting point, the CDTFA first eliminates nonrecurring transactions such as fund transfers, audit payments, and refunds, and then adjusts for growth, in order to establish the estimated base amount. The CDTFA disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter's actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire, or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances, and the current advance are provided with each quarterly clean-up payment.

The CDTFA receives an administrative fee based on the cost of services provided by the CDTFA to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

History of Taxable Transactions. Total taxable sales during calendar year 2019 in the City were reported to be \$263,126,807, a 1.5% decrease over the total taxable sales of \$265,920,080 reported during calendar year 2018. Summaries of historic taxable sales within the City and the County during the past five years in which data is available can be found in APPENDIX D.

Other Taxes and Revenues

Motor Vehicle In-Lieu Tax. The State imposes the vehicle license fee (the "VLF"), which is the fee paid annually in lieu of personal property taxes on a vehicle, and distributed to cities and counties. The vehicle license fee is based on vehicle value (originally in the amount of 2% of the market value of the vehicle) and declines as the vehicle ages. Since 1998 the fee has been incrementally reduced from 2% of a vehicle's current estimated value, but any such reductions were "backfilled" to local governments by the State from other sources. However, under the 2004-05 State Budget, the VLF was permanently reduced to 0.65% of the estimated value, and backfill by the State to local governments was eliminated, and instead will be met by an increased property tax apportionment to cities and counties. This amounted to approximately \$2.7 million in 2019 as a revenue neutral swap for the City.

Franchises. Several State statutes provide cities with the authority to impose fees on privately-owned utility companies and other businesses for the privilege of using city right-of-way.

The City collects franchise fees from gas and electric utilities, cable television and garbage franchises.

Transient Occupancy Tax. The transient occupancy tax, sometimes referred to as a hotel tax, is imposed on occupants for the privilege of occupying rooms in hotels, motels, inns and other taxed properties. The City's current transient occupancy tax is 14%.

Utility User Tax. Revenue for the Utility User Tax is estimated to be consistent with the 2019–20 Budget. The change in revenue for the past five years has been -2, -3%, -4%, -2%, and 0%, respectively.

State Budget

Although the City does not receive a significant portion of its annual revenues directly from the State, the State's financial condition and budget policies affect communities and local public agencies throughout the State. At various times, the State has experienced significant financial and budgetary stress.

Recent State budgets have been balanced and balanced budgets are projected for the foreseeable future, but there can be no certainty that budget-cutting strategies such as those used in prior years will not be used in the future should the State budget again experience stresses. To the extent that the State budget process results in reduced revenues to the City in the future, the City could be required to make adjustments to its budget.

Outstanding General Fund Debt

Although the City has a number of outstanding assessment district bonds, which are payable solely from assessments levied within the respective assessment district, the City has no General Fund outstanding long term debt other than the 2015 Bonds, which are anticipated to be defeased and refunded in full with the proceeds of the 2020 Bonds. See "FINANCING PLAN" and APPENDIX B.

Direct and Overlapping Bonded Debt

Set forth following is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. and effective September 1, 2020. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within the City; and (3) the third column is an apportionment of the dollar amount of each public agency's

outstanding debt (which amount is not shown in the table) to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 2.

**TABLE 9
CITY OF HERMOSA BEACH
Statement of Direct and Overlapping Debt
As of September 1, 2020**

2020-21 Assessed Valuation: \$8,459,798,643

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/20</u>
Metropolitan Water District	0.259%	\$ 83,476
El Camino Community College District	6.661	25,873,010
Hermosa Beach City School District	100.000	50,503,699
City of Hermosa Beach 1915 Act Bonds	100.000	<u>494,928</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$76,955,113
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	0.495%	\$11,402,338
Los Angeles County Superintendent of Schools Certificates of Participation	0.495	22,599
City of Hermosa Beach Lease Revenue Bonds	100.000	9,890,000⁽¹⁾
Los Angeles County Sanitation District South Bay Cities Authority	17.171	<u>270,251</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$21,585,188
GROSS COMBINED TOTAL DEBT		\$98,540,301⁽²⁾

Ratios to 2020-21 Assessed Valuation:

Combined Direct Debt (\$9,890,000)	0.12%
Total Direct Overlapping Tax and Assessment Debt....	0.91%
Combined Total Debt.....	1.16%

(1) Excludes lease revenue bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

The Hermosa Beach City School District is anticipated to issue approximately \$11,000,000 in additional general obligation bonds in October 2020.

Employee Relations

The City has 134 authorized regular positions for Fiscal Year 2020-21, of which 10 positions have been frozen and intended to remain unfilled. Sworn public safety personnel represent approximately 28% of City employees.

All regular full-time City employees are covered under negotiated agreements and are represented by the labor groups set forth below. Each contract has an expiration date of June 30, 2022.

Labor Group
Hermosa Beach Police Officers' Association
Hermosa Beach Police Management Association
Teamsters Union, Local 911
Professional and Administrative Employee Group
Hermosa Beach Management Association
Unrepresented Employees

Risk Management and Self-Insurance

The City maintains an internal service fund to account for the City's general liability and workers' compensation claims, automobile, property, and unemployment insurance.

The City is self-insured up to \$250,000 for liability claims. Through a blend of self-insurance and reinsurance, the City has excess coverage up to \$40 million obtained through the Independent Cities Risk Management Authority ("**ICRMA**"), a joint powers authority consisting of medium-sized California municipalities.

The City purchases workers' compensation coverage through a self-insured program available through ICRMA. The City maintains a \$500,000 self-insured retention limit and participates in a self-insured risk sharing pool through the ICRMA, with excess coverage through Safety National Casualty Co., providing coverage up to the statutory limits.

ICRMA is a joint exercise of powers authority organized and operating pursuant to the California Government Code and provides programs of risk sharing, insurance and risk management services in connection with liability, property, and workers' compensation claims. The City's premiums to ICRMA were \$978,317 for fiscal year 2018-19.

The workers' compensation and general liability claims payable of \$5,590,808 reported at June 30, 2019 includes the liability for claims in which it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Detailed financial information may be obtained from the ICRMA Program Administrator located at 18201 Von Karman, Suite 200, Irvine, CA 92612.

Employee Retirement System

*This caption contains certain information relating to California Public Employees' Retirement System ("**PERS**"). The information is primarily derived from information produced by PERS, its independent accountants and actuaries. The City has not independently verified the*

information provided by PERS and makes no representations and expresses no opinion as to the accuracy of the information provided by PERS.

The comprehensive annual financial reports of PERS are available on its Internet website at www.calpers.ca.gov. The PERS website also contains PERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference in this Official Statement. None of the Authority, City or Underwriter can guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or may be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

Plan Description. The City's defined benefit pension plans (Miscellaneous Plan, Safety Fire Plan and the Safety Police Plan) provide retirement and disability benefits which include annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous Plan, Safety Fire Plan, and the Safety Police Plan are part of the Public Agency portion of the PERS, an agent multiple-employer defined benefit pension plan administered by PERS, which acts a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance. Copies of PERS' annual financial report are available from their Executive Office, 400 P Street, Sacramento, California 95814.

The City contracted with Los Angeles County for Fire Services (the "**Fire District**") on December 31, 2017. The City will continue to be responsible for paying the retirement costs for fire employees related to the value of past service benefits, referred to as the unfunded actuarial liability.

PERS Contributions and Funding Policy. The City now has three tiers of retirement for Safety-Police, Safety-Fire and Miscellaneous employees. The third tier resulted from the Public Employees' Pension Reform Act (PEPRA) effective January 1, 2013. The retirement received by employees is dependent on their date of hire and previous employment with PERS' reciprocal agencies, as shown in the tables below.

Safety-Police

	Tier I	Tier II	PEPRA Tier III
Benefit Formula	3% at 50	2% at 50	2.7% at 57
Final Average Compensation:	12 months	12 months	36 months
Applies to Employees	Hired before July 1, 2011	Hired before Jan. 1, 2013	Hired after Jan. 1, 2013
Employee Contribution	9%	9%	12.25%

Safety-Fire

	Tier I	Tier II	PEPRA Tier III
Benefit Formula:	3% at 55	2% at 50	2.7% at 57
Final Average Compensation:	12 months	12 months	36 months
Applies to Employees:	Hired before July 1, 2011	Hired before Jan. 1, 2013	Hired after Jan. 1, 2013
Employee Contribution:	9%	9%	12.25%

Miscellaneous

	Tier I	Tier II	PEPRA Tier III
Benefit Formula:	2% at 55	2% at 55 or 2% at 60	2% at 62
Final Average Compensation:	12 months	12 months	36 months
Applies to Employees:	Hired before July 1, 2011	Hired before Jan. 1, 2013	Hired after 1/1/13
Employee Contribution:	7%	7%	6.25%

The City is required to contribute at an actuarially determined rate of annual covered payroll for normal cost and an actuarially determined dollar amount to amortize the unfunded liability. The actuarially determined rates and contribution amounts for each plan for the fiscal years ending June 30, 2020, through June 30, 2022, are as follows:

Safety-Police-Tier I

Fiscal Year 2019-20		Fiscal Year 2020-21		Fiscal Year 2021-22	
Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
23.654%	\$1,377,189	25.540%	\$1,572,592	25.59%	\$1,836,201

Source: PERS Actuarial Reports Dated August 2018, July 2019 and July 2020.

Safety-Police-Tier II

Fiscal Year 2019-20		Fiscal Year 2020-21		Fiscal Year 2021-22	
Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
19.231%	\$2,129	20.887%	\$3,884	20.94%	\$6,204

Source: PERS Actuarial Reports Dated August 2018, July 2019 and July 2020.

Safety-Police-PEPRA

Fiscal Year 2019-20		Fiscal Year 2020-21		Fiscal Year 2021-22	
Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
13.786%	\$2,326	13.884%	\$4,708	13.98%	\$7,720

Source: PERS Actuarial Reports Dated August 2018, July 2019 and July 2020.

Safety-Fire Tier I

Fiscal Year 2019-20		Fiscal Year 2020-21		Fiscal Year 2021-22	
Employer Normal	Employer Payment of	Employer Normal	Employer Payment of	Employer Normal	Employer Payment of

<u>Cost Rate</u>	<u>Unfunded Liability</u>	<u>Cost Rate</u>	<u>Unfunded Liability</u>	<u>Cost Rate</u>	<u>Unfunded Liability</u>
21.748%	\$605,215	0.0%	\$842,527	0.0%	\$970,185

Source: PERS Actuarial Reports Dated August 2018, July 2019 and July 2020.

Safety-Fire Tier II

<u>Fiscal Year 2019-20</u>		<u>Fiscal Year 2020-21</u>		<u>Fiscal Year 2021-22</u>	
Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
19.231%	0.0	0.0%	\$0.0	0.0%	\$0.0

Source: PERS Actuarial Reports Dated August 2018, July 2019 and July 2020.

Safety-Fire PEPRA

<u>Fiscal Year 2019-20</u>		<u>Fiscal Year 2020-21</u>		<u>Fiscal Year 2021-22</u>	
Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
13.786%	\$3,291	0.0%	\$3,586	0.0%	\$3,752

Source: PERS Actuarial Reports Dated August 2018, July 2019 and July 2020.

Miscellaneous-Tier I

<u>Fiscal Year 2019-20</u>		<u>Fiscal Year 2020-21</u>		<u>Fiscal Year 2021-22</u>	
Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
10.221%	\$1,317,500	11.031%	\$940,059	10.88%	\$1,116,032

Source: PERS Actuarial Reports Dated August 2018, July 2019 and July 2020.

Miscellaneous-Tier II

<u>Fiscal Year 2019-20</u>		<u>Fiscal Year 2020-21</u>		<u>Fiscal Year 2021-22</u>	
Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
8.563%	\$5,232	9.281%	\$17,423	9.13%	\$18,861

Source: PERS Actuarial Reports Dated August 2018, July 2019 and July 2020.

Miscellaneous-PEPRA

Fiscal Year 2019-20		Fiscal Year 2020-21		Fiscal Year 2021-22	
Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
6.985%	\$12,229	7.732%	\$14,209	7.59%	\$17,359

Source: PERS Actuarial Reports Dated August 2018, July 2019 and July 2020.

The City recognized pension expense in the following amounts for fiscal years ended June 30, 2017, 2018, and 2019:

<u>Fiscal Year Ended June 30,</u>	<u>Total City Contribution</u>
2017	\$1,501,426
2018	5,956,899
2019	7,728,075

Source: Comprehensive Annual Financial Reports for Fiscal Years Ending June 30, 2017, 2018 and 2019.

Funded Status. The following tables sets forth the schedule of funding for the City's pension plans for the fiscal years ended June 30, 2016, 2017, and 2018.

Safety-Police-Tier I

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2016	\$69,681,270	\$46,045,748	\$23,635,522	66.1%	\$2,714,523
2017	72,609,932	49,665,661	22,944,271	68.4	2,415,026
2018	77,467,175	52,834,880	24,632,295	68.2	2,435,923

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated July 2019.

Safety-Police-Tier II

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2016	\$443,997	\$397,644	\$46,353	89.6%	\$310,338
2017	599,122	553,879	45,243	92.4	343,598
2018	731,183	654,488	76,695	89.5	316,564

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated July 2019.

Safety-Police-PEPRA

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2016	\$304,397	\$271,397	33,000	89.2%	\$562,745
2017	498,171	464,153	34,018	93.2	791,254
2018	903,532	825,760	77,772	91.4	1,021,241

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated July 2019.

Safety-Fire-Tier I

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2016	\$34,499,456	\$24,657,399	\$9,842,057	71.5%	\$1,645,344
2017	37,252,699	27,719,590	9,533,109	74.4	1,632,823
2018	39,026,711	28,520,013	10,506,698	73.1	--

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated July 2019.

Safety-Fire-Tier II

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2016	\$5,667	\$9,884	(\$4,217)	174.4%	--
2017	6,168	10,943	(4,775)	177.4	\$112,202
2018	33,355	35,982	(2,627)	107.9	--

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated July 2019.

Safety-Fire-PEPRA

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2016	\$62,298	\$53,901	\$8,397	86.5%	\$109,987
2017	114,628	106,111	8,517	92.6	180,505
2018	121,418	105,413	16,005	86.8	--

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated July 2019.

Miscellaneous-Tier I

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2016	\$48,052,141	\$34,244,391	\$13,807,750	71.3%	\$3,306,166
2017	49,840,639	36,390,200	13,450,439	73.0	3,130,078
2018	54,658,791	39,578,744	15,080,047	72.4	3,018,541

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated July 2019.

Miscellaneous-Tier II

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2016	\$861,704	\$768,055	\$93,649	89.1%	\$1,289,100
2017	1,180,656	1,094,568	86,088	92.7	1,362,992
2018	1,580,141	1,428,210	151,931	90.4	1,009,239

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated July 2019.

Miscellaneous-PEPRA

Valuation Date (June 30)	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio ⁽¹⁾	Annual Covered Payroll
2016	\$403,749	\$360,106	\$43,643	89.2%	\$1,945,603
2017	730,954	687,712	43,242	94.1	2,524,274
2018	1,320,351	1,208,811	111,540	91.6	3,048,562

(1) Based on the market value of assets.
Source: CalPERS Actuarial Report Dated July 2019.

Recent Actions Taken by PERS. On February 18, 2014, the PERS Board (the “PERS Board”) approved new demographic actuarial assumptions based on a 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because

retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The PERS Board also assumed earlier retirements for Police 3%@50, Fire 3%@55, and Miscellaneous 2.7%@55 and 3%@60, which will increase costs for those groups. As a result of these changes, rates increased beginning in fiscal year 2016-17 (based on the June 30, 2014 valuation) with full impact in fiscal year 2020-21.

On November 18, 2015, the PERS Board adopted a funding risk mitigation policy intended to incrementally lower its discount rate – its assumed rate of investment return – in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. The policy established a mechanism to reduce the discount rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing discount rate, currently 7.0%, by at least four percentage points. PERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns.

In February 2017, the CalPERS Board revised the Funding Risk Mitigation Policy. The revisions include suspension of the policy until fiscal year 2020-21, and a decrease of the required first excess investment return threshold from 4% to 2%.

More information about the funding risk mitigation policy can be accessed through PERS' web site at the following website address:

<https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>

The reference to this Internet website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the City, and is not incorporated in this Official Statement by reference.

On December 21, 2016, the PERS Board voted to lower its discount rate from 7.5% to 7.0% over three years according to the following schedule.

<u>Valuation Date</u>	<u>Fiscal Year Required Contribution</u>	<u>Discount Rate</u>
June 30, 2016	2018-19	7.375%
June 20, 2017	2019-20	7.250
June 30, 2018	2020-21	7.000

For public agencies like the City, the new discount rate began increasing contribution costs in fiscal year 2018-19. Lowering the discount rate means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities and that active members hired after January 1, 2013, under PEPRAs will see their contribution rates rise.

On February 13, 2018, the PERS Board voted to shorten the period over which PERS will amortize actuarial gains and losses from 30 years to 20 years for new pension liabilities, effective for the June 30, 2019, actuarial valuations. Amortization payments for all unfunded accrued liability bases will be computed to remain a level dollar amount throughout the amortization period, and certain five-year ramp-up and ramp-down periods will be eliminated. As a result of the shorter amortization period, the contributions required to be made by employers may increase beginning in fiscal year 2021-22.

On July 15, 2020, PERS reported a preliminary 4.7% net return on investments for the 12-month period ended June 30, 2020.

Other Post Employment Benefits

This section is derived from the most recent audited financial statements of the City. See APPENDIX B.

Plan Description. On June 12, 2007, the City Council adopted a resolution authorizing participation in a post retirement health care plan trust (the "**Plan**") to be administered by Public Agency Retirement Services ("**PARS**") and Union Bank of California. In July 2007, the City signed an agreement with PARS to create and administer an irrevocable trust fund for the payment of other postemployment benefits for city employees. Funds in the amount of \$1,401,000 that were previously set aside were forwarded to Union Bank pursuant to the agreement to establish the trust during the year ended June 30, 2008. Contributions are made on a monthly basis.

The Plan provides medical insurance benefits to eligible retirees, which is a single-employer defined benefit plan. PARS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by contacting the City at 1315 Valley Drive, Hermosa Beach, CA 90254.

The Plan is comprised of employees and retirees from several bargaining units, including General and Supervisory; Professional and Administrative Employees Association; Hermosa Beach Management Association; Police Management Association; Police Officers Association and Firefighters Association. The range of monthly benefits to be paid by the City ranges from \$40 to \$556 per month based on years of service from 10 years to 20 years provided to the City. The monthly benefits paid by the City are subject to change with increases provided based on age at retirement and years of service.

Post-Retirement Health Care Coverage for Fire Employees. As mentioned above, the City has contracted with the Fire District to pay the retirement costs for fire employees related to the value of past service benefits. The current vesting period is 10 years of Fire District service. Service with the City does not count towards coverage, only time actually worked in Fire District service counts towards the vesting period. Hermosa Beach Fire Association ("**HBFA**") members who transfer to the Fire District and who take a service retirement before reaching 10 years of Fire District service are ineligible for the Fire District's retiree health benefit.

For those HBFA members who have 19 plus years of service with the City at the time of transfer to Fire District employment and who take a service retirement from the Fire District prior to vesting in the Fire District's retiree health plan, the City agrees to create a new Tier to the City's retiree health program as follow: the retired HBFA member will be eligible to receive from the City the \$ 350 per month benefit set forth in Article 42(D) of the MOU. This benefit is limited to the first four HBFA members who qualify for the benefit.

All of the Plan's employees became participants in accordance with negotiated Memorandum of Understanding ("**MOU**") as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU. Membership of the plan as of the 2018-19 fiscal year consisted of 67 retirees, 4 retirees not receiving benefits and 126 active plan members.

Based on an actuarial valuation as of July 1, 2018, the City's total OPEB liability as of June 30, 2019, was \$10,926,306.

For the fiscal year ended June 30, 2019, the City recognized an OPEB expense of \$266,916.

For more information regarding the City's OPEB, see Note 10 of the City's Comprehensive Annual Financial Report, which is attached as APPENDIX B to the Official Statement.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

The constitutional and statutory provisions discussed in this section have the potential to affect the ability of the City to levy taxes and spend tax proceeds for operating and other purposes.

Article XIII A of the State Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the State Constitution. Article XIII A, as amended, limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service (i) on indebtedness approved by the voters prior to July 1, 1978, (ii) on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property or (iii) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster, and in other minor or technical ways.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100 percent of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the State Constitution

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriations limit" imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on Bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years.

If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years.

The City has never exceeded its appropriations limit.

Articles XIII C and XIII D of the State Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the "Supermajority Vote to Pass New Taxes and Fees Act." Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article

XIIIC define “taxes” that are subject to voter approval as “any levy, charge, or exaction of any kind imposed by a local government,” with certain exceptions.

Taxes. Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City (“general taxes”) require a majority vote; taxes for specific purposes (“special taxes”), even if deposited in the City’s General Fund, require a two-thirds vote.

Property-Related Fees and Charges. Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a “special benefit,” as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

Reduction or Repeal of Taxes, Assessments, Fees and Charges. Article XIIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. If such repeal or reduction occurs, the City’s ability to pay debt service on the 2020 Bonds could be adversely affected.

Burden of Proof. Article XIIIC provides that local government “bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Similarly, Article XIIID provides that in “any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance” with Article XIIID.

Judicial Interpretation of Proposition 218. The interpretation and application of Articles XIIIC and XIIID will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination.

Impact on City’s General Fund. The City does not believe that any material source of General Fund revenue is subject to challenge under Proposition 218 or Proposition 26.

The approval requirements of Articles XIIIC and XIIID reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase the taxes, fees, charges or taxes in the future that it may need to meet increased expenditure needs.

Proposition 1A; Proposition 22

Proposition 1A. Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibited the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county had to be approved by two-thirds of both houses of the Legislature.

Proposition 22. Proposition 22, entitled "The Local Taxpayer, Public Safety and Transportation Protection Act," was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Current Constitutional Initiatives Relating to Changes in Property Taxation

There are currently two initiative measures that will be presented to State voters at the November 3, 2020, election that, if passed, will result in certain changes to Article XIII A and other State laws governing property taxation.

- Proposition 15 is a proposed State constitutional amendment entitled the "Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative," commonly known as the "split roll" initiative. If approved by State voters by majority vote, it would amend the State Constitution to change to a "split roll" approach to determine property values for purposes of property taxation, whereby certain commercial and industrial real properties will be reassessed at fair market value every three years (with certain exceptions for small businesses and personal property), overriding the current 2% limitation on annual assessed value increases until a property changes ownership. The resulting increases in property tax revenues would be allocated among local public agencies.

- Proposition 19 is a proposed State constitutional amendment that would change the manner of assessment of property when it is transferred between parents and children. Under current law, reassessment is not triggered by such transfers, but Proposition 19 generally would result in a reassessment.

There can be no assurance that either initiative measure will be approved and enacted. If approved, the City cannot predict the impacts either initiative measure might have on assessed values or property tax revenues in the City, the level of commercial building activity within the City and the relationship of the assessed value between land use types (i.e. residential versus commercial) in the City, or any other impacts on the local economy or the City's financial condition.

Possible Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62, 111, 218 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the 2020 Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any 2020 Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the 2020 Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the 2020 Bonds. There can be no assurance that other considerations will not materialize in the future.

Potential Impact of COVID-19

There can be no assurances that the spread of COVID-19 will not materially impact the local, state and national economies and, accordingly, materially adversely impact the City's General Fund. The COVID-19 public health emergency is altering the behavior of businesses and people in a manner that will have negative impacts on transient occupancy taxes and sales tax revenue, in particular, upon which the City relies significantly. The City's Fiscal Year 2020-21 General Fund budget has been prepared assuming the impacts of COVID-19 will persist through the end of 2020. In addition, in response to COVID-19 the City enacted a series of emergency measures that significantly curtailed public activities, such as: cancellation of large public events; closing of parks, beaches, parking lots and other publicly property; and closing of certain business establishments.

The temporary closures caused by COVID-19 have led to a stark increase in unemployment across the County and the nation. Depending on the length and the breadth of the impacts of COVID-19, the economic costs may be very significant for the City and the region's economy. As more restaurants, retail stores and other non-essential businesses temporarily or permanently close, unemployment figures could continue to remain elevated. According to the State Employment Development Department, the County's unemployment rate was 16.6% in August 2020, down from 18.2% in July 2020. The City's unemployment rate in August 2020 was 8.5%.

No assurance can be given that normal activities will resume in 2021. See "CITY FINANCIAL INFORMATION." The ultimate impact of COVID-19 on the City's operations and finances is unknown.

No Pledge of Taxes

General. The 2020 Bonds are not a debt of the City and are limited obligations of the Authority. The obligation of the City to pay the Lease Payments and Additional Rental Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments and Additional Rental Payments does not constitute a debt or indebtedness of the City, the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

The City is currently liable on other obligations payable from general revenues, which are described above under "CITY FINANCIAL INFORMATION – Outstanding General Fund Debt and Other Obligations."

Limitations on Taxes and Fees. Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIII C and Article XIII D of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments fees and charges may not be approved. The City has assessed the potential impact on its financial condition of the provisions of Article XIII C and Article XIII D of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by the voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the City believes that if the initiative power was exercised so that all local taxes, assessments, fees and charges that may be subject to Article XIII C and Article XIII D of the State Constitution are eliminated or substantially reduced, the financial condition of the City, including its General Fund, could be materially adversely affected.

Although the City does not currently anticipate that the provisions of Article XIII C and Article XIII D of the State Constitution would adversely affect its ability to pay Lease Payments and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIII C and Article XIII D of the State Constitution on the City's finances. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Additional Obligations of the City

Following the issuance of the 2020 Bonds and the concurrent defeasance of the 2015 Bonds, the City will have no long-term lease obligations payable from its General Fund. See "FINANCING PLAN." However, the City is permitted to enter into other obligations which constitute additional charges against its revenues, including General Fund revenues, without the consent of Owners of the 2020 Bonds. To the extent that additional obligations are incurred by the City, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Leased Property, taxes and other governmental charges levied against the Leased Property) are payable from funds lawfully available to the City. If the amounts that the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Lease Payments and Additional Rental Payments, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

No Reserve Fund

No reserve fund will be established and maintained with respect to the 2020 Bonds. As a result, in the event on non-appropriation or non-payment of the Lease Payments in full when due, no other source of funds will be available to make payments of debt service Bonds while remedial actions are taken with respect to such non-appropriation or non-payment.

Default

Whenever any event of default referred to in the Lease happens and continues, the Authority is authorized under the terms of the Lease to exercise any and all remedies available

under law or granted under the Lease. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” for a detailed description of available remedies in the case of a default under the Lease.

If a default occurs, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease. The Trustee is not empowered to sell the Leased Property and use the proceeds of such sale to prepay the 2020 Bonds or pay debt service on the 2020 Bonds.

Any disposition of the Leased Property pursuant to the exercise of remedies under the Lease will be subject in all respects to the provisions of the County Agreement, and no such disposition will have the effect of terminating the County Agreement.

The City will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year’s defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

Abatement

Under certain circumstances related to damage, destruction, condemnation or title defects which cause a substantial interference with the use and possession of the Leased Property, the City’s obligation to make Lease Payments will be subject to full or partial abatement and could result in the Trustee having inadequate funds to pay the principal and interest on the 2020 Bonds as and when due. See “SECURITY FOR THE 2020 BONDS – Abatement” and “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Although the City is required under the Lease to maintain property and liability insurance with respect to the Leased Property, the required insurance coverage is subject to certain conditions and restrictions. See “SECURITY FOR THE 2020 BONDS – Property Insurance.”

In addition, the City is required to use the proceeds of rental interruption insurance maintained under the Lease to make debt service payments on the 2020 Bonds during any period of abatement. See “SECURITY FOR THE 2020 BONDS – Property Insurance.” However, there is no assurance that the City will receive proceeds of rental interruption insurance in time to make debt service payments on the 2020 Bonds when due.

If damage, destruction, title defect or eminent domain proceedings with respect to the Leased Property results in abatement of the Lease Payments related to such Leased Property and if such abated Lease Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain proceeds, if any, are insufficient to make all payments of principal and interest with respect to the 2020 Bonds during the period that the Leased Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease and the Indenture, no remedy is available to the Owners of the 2020 Bonds for nonpayment under such circumstances.

Insurance and Risk Management

The Lease obligates the City to maintain and keep, or cause to be maintained or kept, in force various forms of insurance, subject to deductibles, on the Leased Property for repair or replacement in the event of damage or destruction to such Leased Property caused by certain hazards. The City is also required to maintain, or cause to be maintained, use and occupancy insurance with respect to insured casualty risks. See “SECURITY FOR THE 2020 BONDS — Property Insurance” above. Neither the Authority nor the City makes any representation as to the ability of any insurer to fulfill its obligations under any insurance policy required under the Lease and no assurance can be given as to adequacy of any such insurance to fund necessary repair or replacement or to pay principal and interest with respect to the 2020 Bonds.

The Lease allows the City to self-insure against any or all risks, except use and occupancy, casualty and title defects.

Hazardous Substances

The City knows of no existing hazardous substances which require remedial action on or near the Leased Property. However, it is possible such substances do currently or potentially exist and that the City is not aware of them.

Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not just from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly and adversely affect the operations and finances of the City.

Property Taxes

Levy and Collection. The City does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the City’s property tax revenues, and accordingly, could have an adverse impact on the ability of the City to make Lease Payments. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the City’s ability to pay principal of and interest on the 2020 Bonds when due.

Reduction in Inflationary Rate. Article XIII A of the California Constitution provides that the full cash value base of real property used in determining assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.” Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation a limited number of times.

The City is unable to predict if any adjustments to the full cash value base of real property within the City, whether an increase or a reduction, will be realized in the future.

Appeals of Assessed Values. There are two types of appeals of assessed values that could adversely impact property tax revenues:

Proposition 8 Appeals. Most of the appeals that might be filed in the City would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property must be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

Base Year Appeals. A second type of assessment appeal is called a base year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the “base year” value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the City’s property tax revenues.

Dependence on State for Certain Revenues

The State has announced that its general fund will be materially adversely impacted by the health-related and economic impacts of the COVID-19 pandemic due to significant declines in State revenues and increased expenditures required to manage and mitigate COVID-19’s impact on the State. The State has also disclosed that the COVID-19 pandemic will produce negative impacts for fiscal year 2019-20, fiscal year 2020-21, and likely several fiscal years beyond, depending on the pace of recovery of local, state and national economies.

The City cannot predict the extent of budgetary problems the State will encounter in future fiscal years and it is not clear what measures would be taken by the State to balance its budget,

as required by law. In addition, the City cannot predict the impact that State budgets will have on the City's finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

A number of the City's revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. In the event of a material economic downturn in the State, there can be no assurance that any resulting revenue shortfalls to the State will not reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of the State's efforts to address any such related State financial difficulties.

See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 1A; Proposition 22" above.

Limitations on Remedies Available to Bond Owners

The ability of the City to comply with its covenants under the Lease may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" above. Furthermore, any remedies available to the owners of the 2020 Bonds upon the occurrence of an event of default under the Lease or the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondowner remedies contained in the Lease and the Indenture, the rights and obligations under the 2020 Bonds, the Lease and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the 2020 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

The opinion to be delivered by Bond Counsel, concurrently with the issuance of the 2020 Bonds, will include a qualification that the rights of the owners of the 2020 Bonds and the enforceability of the 2020 Bonds and the Indenture, the Lease and the Site Lease may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases. See "APPENDIX E — FORM OF OPINION OF BOND COUNSEL."

Pension Expenses

Many factors influence the amount of the City's pension benefit liability, including, without limitation, inflationary factors, changes in statutory provisions of Government Code Section et seq., changes in the levels of benefits provided or in the contribution rates of the City, increases or decreases in the number of covered employees, changes in actuarial assumptions or methods, and differences between actual and anticipated investment performance of PERS. Any of these factors could give rise to additional liability of the City to PERS as a result of which the City would be obligated to make additional payments to PERS over the amortization schedule for full funding of the City's obligation to PERS.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the 2020 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2020 Bonds were issued, as a result of future acts or omissions of the City or the City in violation of their respective covenants in the Lease and the Indenture. Should such an event of taxability occur, the 2020 Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Certain Risks Associated with Sales Tax and Other Local Tax Revenues

Sales tax revenues are based upon the gross receipts of retail sales of tangible goods and products by retailers with taxable transactions in the City, which could be impacted by a variety of factors.

For example, in times of economic recession, the gross receipts of retailers often decline, and such a decline would cause the sales tax revenues received by the City to also decline. There has been tremendous volatility in the markets in the United States and globally associated with the COVID-19 outbreak, resulting in significant declines and speculation of a national and global recession.

In addition, changes or amendments in the laws applicable to the City's receipt of sales tax revenues or other local taxes, whether implemented by State legislative action or voter initiative, could have an adverse effect on sales tax revenues received by the City. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 218 – Article XIII C and Article XIII D."

For example, many categories of transactions are exempt from the statewide sales tax, and additional categories could be added in the future. Currently, most sales of food products for human consumption are exempt; this exemption, however, does not apply to liquor or to restaurant meals. The rate of sales tax levied on taxable transactions in the City or the fee charged by the California Department of Tax and Fee Administration for administering the City's sales tax could also be changed.

Cyber Security

The City, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations. As a recipient and provider of personal, private or other sensitive electronic information, the City is potentially subject to multiple cyber threats, including without limitation hacking, viruses, ransomware, malware and other attacks. No

assurance can be given that the City's efforts to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City. The City is also reliant on other entities and service providers in connection with the administration of the 2020 Bonds, including without limitation the County tax collector for the levy and collection of property taxes, and the Trustee. No assurance can be given that the City and these other entities will not be affected by cyber threats and attacks in a manner that may affect the Bond owners.

Potential Impact of Climate Change

City finances may be negatively impacted by future sea level rise or other negative impacts resulting from climate change. These other impacts may include intensity of severe storms, intensity of flooding, and adverse effects on the City's beachfront that are a tourism attraction for visitors to the City. The overall impact of climate change on the City is not definitive, but particular parcels in the City could experience changes to local and regional weather patterns; rising ocean levels; increased risk of flooding; coastal erosion; and water restrictions. Any of these factors may adversely impact property values of homes and businesses in the City and therefore property taxes collected by the City, as well as sales taxes and TOT collected by the City from visitors.

The City's 2017 Local Hazard Mitigation Plan and sea level rise vulnerability assessments include an analysis of how climate change may increase the frequency, severity, and extent of natural hazards such as sea level rise/flooding, severe weather and extreme heat occurring in the future. The Leased Property is not considered to be within a hazard area that may be affected by climate change from severe weather or sea level rise.

Natural Disasters

General. The areas in and surrounding the City, like those in much of California, may be subject to unpredictable seismic activity and other natural disasters. One or more natural disasters could occur and could result in damage to improvements of varying seriousness. The damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost, or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances there could be significant delinquencies in the payment of property taxes and reductions in economic activity within the City.

Seismic Activity. Some level of seismic activity occurs within the State on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and damage to property located at or near the center of such seismic activity. An earthquake along one of the faults in the vicinity, either known or unknown, could cause a number of casualties and extensive property damage.

There are no known earthquake faults within the City. The City's 2017 Local Hazard Mitigation Plan identifies the geographic areas within the City that are subject to liquefaction or landslide. The leased property is not located within any of those identified zones.

Flood Zones. The City's 2017 Local Hazard Mitigation Plan identifies the geographic areas within the City that are within a 100-year flood zone; the Leased Property is not located within a 100-year flood zone.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2020 Bonds or, if a secondary market exists, that any 2020 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service (the “**IRS**”) has a program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2020 Bonds will be selected for audit by the IRS. It is also possible that the market value of such 2020 Bonds might be affected as a result of such an audit of such 2020 Bonds (or by an audit of similar bonds or securities).

Impact of Legislative Proposals, Clarifications of the Tax Code and Court Decisions on Tax Exemption

Future legislative proposals, if enacted into law, clarification of the Tax Code (defined herein) or court decisions may cause interest on the 2020 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent 2020 Bond owners from realizing the full current benefit of the tax status of such interest.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2020 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. The 2020 Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "**Tax Code**"), such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable on the 2020 Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the 2020 Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes, and in order for the 2020 Bonds to be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code. The Authority has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2020 Bonds, or may cause the 2020 Bonds to not be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a 2020 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a 2020 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "bond premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2020 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2020 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2020 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2020 Bonds who purchase the 2020 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2020 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2020 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such 2020 Bonds is sold to the public.

Under the Tax Code, bond premium is amortized on an annual basis over the term of the 2020 Bond (said term being the shorter of the 2020 Bond's maturity date or its call date). The amount of bond premium amortized each year reduces the adjusted basis of the owner of the 2020 Bond for purposes of determining taxable gain or loss upon disposition. The amount of

bond premium on a 2020 Bond is amortized each year over the term to maturity of the 2020 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2020 Bond premium is not deductible for federal income tax purposes. Owners of premium 2020 Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2020 Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the 2020 Bonds is exempt from California personal income taxes.

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2020 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or cause the Bonds to not be “qualified tax-exempt obligations,” or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2020 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2020 Bonds, or as to the consequences of owning or receiving interest on the 2020 Bonds, as of any future date. Prospective purchasers of the 2020 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the 2020 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2020 Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2020 Bonds, the ownership, sale or disposition of the 2020 Bonds, or the amount, accrual or receipt of interest on the 2020 Bonds.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the 2020 Bonds, the form of which is set forth in “APPENDIX E — FORM OF OPINION OF BOND COUNSEL.” Certain legal matters will also be passed upon for the City and the Authority by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California.

LITIGATION

To the best knowledge of the City, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority

pending and notice of which has been served on and received by the City or, to the knowledge of the City, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Lease, the Site Lease or the Indenture, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by the Lease, the Site Lease or the Indenture, or the financial conditions, assets, properties or operations of the City, including but not limited to the payment and performance of the City's obligations under the Lease.

RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("**S&P**"), has assigned its municipal bond rating of "AA+" to the 2020 Bonds.

This rating reflects only the views of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement).

There is no assurance that this rating will continue for any given period of time or that this rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2020 Bonds may have an adverse effect on the market price or marketability of the 2020 Bonds.

CONTINUING DISCLOSURE

The City (on behalf of the Authority and itself) will covenant for the benefit of owners of the 2020 Bonds to provide certain financial information and operating data relating to the City (the "**Annual Report**") by not later than nine months after the end of the City's fiscal year (presently June 30), commencing March 31, 2021, with the report for the fiscal year ending June 30, 2020, and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the "**Rule**"). The specific nature of the information to be contained in the Annual Report or the notices of listed events is set forth in "APPENDIX C — FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The City has entered into a number of prior continuing disclosure undertakings under the Rule in connection with the issuance of long-term obligations, and has provided annual financial information and event notices in accordance with those undertakings. Based on a review of the City's continuing disclosure filings for the prior five years, the City has identified the following instances of noncompliance: with respect to the bonds issued for the City's Assessment District

No. 97-1 and Assessment District No. 97-2, which are no longer outstanding, the City's audited financial statements were posted 85 days late for Fiscal Year 2014-15, 37 days late for Fiscal Year 2015-16, and 15 days late for Fiscal Year 2016-17, and were not posted for Fiscal Year 2017-18. In addition, the City did not file unaudited financials in lieu of the audited financials as required or failure to file notices.

The City has taken steps intended to ensure compliance with its continuing disclosure undertakings going forward.

MUNICIPAL ADVISOR

The City and the Authority have retained NHA Advisors, LLC of San Rafael, California, as municipal advisor (the "Municipal Advisor") in connection with the offering of the 2020 Bonds and the preparation of this Official Statement. The Municipal Advisor assisted in the preparation and review of this Official Statement. All financial and other information presented in this Official Statement has been provided by the City and the Authority from their records, except for information expressly attributed to other sources. The Municipal Advisor takes no responsibility for the accuracy or completeness of the data provided by the City, Authority or others and has not undertaken to make an independent verification or does not assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The fee of the Municipal Advisor is contingent upon the successful closing of the 2020 Bonds.

UNDERWRITING

Stifel, Nicolaus & Company, Incorporated (the "Underwriter"), has entered into a Bond Purchase Agreement with the Authority under which it will purchase the 2020 Bonds at a purchase price of \$_____ (which is equal to the par amount of the 2020 Bonds, less an Underwriter's discount of \$_____, and plus (less) a net original issue premium (discount) of \$_____).

The Underwriter will be obligated to take and pay for all of the 2020 Bonds if any are taken. The Underwriter intends to offer the 2020 Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

PROFESSIONAL SERVICES

In connection with the issuance of the 2020 Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the 2020 Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; NHA Advisors, LLC, San Rafael, California, as municipal advisor to the Authority and the City; and U.S. Bank National Association, as Trustee.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the Board of the Authority and the City Council of the City.

HERMOSA BEACH PUBLIC FINANCING
AUTHORITY

By: _____
Chair

CITY OF HERMOSA BEACH

By: _____
City Manager

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APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Site Lease, the Lease Agreement and the Indenture of Trust relating to the Bonds. Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof.

DEFINITIONS

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary:

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Bond Year” means each twelve-month period extending from November 2 in one calendar year to November 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year commences on the Closing Date and extends to and including November 1, 2021.

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the state in which the Office of the Trustee is located.

“Closing Date” means the date of original issuance of the Bonds.

“County Agreement” means that certain agreement entitled “Agreement for Services by and between the Consolidated Fire Protection District of Los Angeles County and the City of Hermosa Beach” dated October 31, 2017.

“Escrow Agreement” means the Escrow Agreement dated as of October 1, 2020, among the Authority, the City and the U.S. Bank National Association, as escrow agent, relating to the refunding and defeasance of the 2015 Bonds in full.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“Lease Payment Date” means, with respect to any Interest Payment Date, the fifth Business Day immediately preceding such Interest Payment Date.

“Lease Payments” means the amounts payable by the City under the Lease Agreement as rental for the Leased Property, including any prepayment thereof and including any amounts payable upon a delinquency in the payment thereof, but excluding Additional Rental Payments.

“Leased Property” means the real property described in Appendix A to the Lease Agreement, together with all improvements and facilities at any time situated thereon, consisting generally of the land and improvements which constitute the existing civic center of the City.

“Net Proceeds” means amounts derived from any policy of casualty insurance or title insurance with respect to the Leased Property, or the proceeds of any taking of the Leased Property or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

“Office” means such office or offices as the Trustee may designate in writing to the Authority from time to time as the corporate trust office for purposes of the Indenture.

“Owner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond is registered on the Bond registration books of the Trustee.

“Permitted Encumbrances” means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may permit to remain unpaid under Article V of the Lease Agreement; (b) the Site Lease, the Lease Agreement and the Assignment Agreement; (c) any right or claim of any mechanic, laborer, material man, supplier or vendor not filed or perfected in the manner prescribed by law; (d) the County Agreement, (e) the exceptions disclosed in the title insurance policy with respect to the Leased Property issued as of the Closing Date by Stewart Title Guaranty Company; and (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the City certifies in writing will not materially impair the use of the Leased Property for its intended purposes.

“Permitted Investments” means any of the following:

- (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged.

- (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.
- (c) Any direct or indirect obligations of an agency or department of the United States of America whose obligations represent the full faith and credit of the United States of America, or which are rated A or better by S&P.
- (d) Bank deposit products and interest-bearing deposit accounts (including certificates of deposit) in federal or State chartered savings and loan associations or in federal or State of California banks (including the Trustee) which may include the Trustee and its affiliates, provided that: (i) the unsecured obligations of such commercial bank or savings and loan association are rated A or better by S&P; or (ii) such deposits are fully insured by the Federal Deposit Insurance Corporation or are collateralized by Permitted Investments described in clauses (a), (b) or (c) above.
- (e) Commercial paper rated, at the time of purchase, “A-1+” or better by S&P.
- (f) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of “A-1+” or better by S&P.
- (g) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAAM-G, AAAM or AAM, which funds may include funds for which the Trustee, its affiliates, parent or subsidiaries receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise, but excluding funds with a floating net asset value.

“Rental Period” means each period during the Term of the Lease Agreement commencing on and including November 2 in each year and extending to and including the next succeeding November 1, except that the first Rental Period begins on the Closing Date and ends on November 1, 2021.

“Revenues” means: (a) all amounts received by the Authority or the Trustee under or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any additional lease payments described in the Lease Agreement; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established under this Indenture.

“S&P” means S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, of New York, New York, its successors and assigns.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“2015 Bonds” means the Hermosa Beach Public Financing Authority 2015 Lease Revenue Bonds issued by the Authority in the aggregate original principal amount of \$11,600,000.

SITE LEASE

The Site Lease constitutes an amendment and restatement of prior site lease between the City, as lessor, and the Authority, as lessee, under which the City has previously leased the Leased Property to the Authority in connection with the 2015 Bonds. Under the Site Lease, the City continues to lease the Leased Property to the Authority in consideration of the agreement by the Authority to issue the Bonds and apply the proceeds thereof to refund the 2015 Bonds. No further rent payment is due by the Authority for the lease of the Leased Property under the Site Lease. The Site Lease is for a term commencing on the Closing Date and extending to the date on which no Bonds remain outstanding under the Indenture. In the event of any release or substitution of property under the Lease Agreement as described below, the description of the property leased under the Site Lease will be modified accordingly.

LEASE AGREEMENT

Lease of Leased Property; Term

The Lease Agreement constitutes an amendment and restatement of prior lease agreement between the Authority, as lessor, and the City, as lessee, under which the Authority has previously leased the Leased Property back to the Authority in connection with the 2015 Bonds. Under the Lease Agreement, the Authority continues to lease the Leased Property back to the City, in consideration of the agreement by the City to pay the Lease Payments. The Lease Agreement is for a term commencing on the Closing Date and extending to the date on which no Bonds remain outstanding under the Indenture.

Lease Payments

The City agrees to pay semiannual Lease Payments, subject to abatement as described below, as the rental for the use and occupancy of the Leased Property. On each Lease Payment Date, the City is obligated to deposit with the Trustee the full amount of the Lease Payments coming due and payable on the next Interest Payment Date, to the extent required to be paid by the City under the Lease Agreement. Any amount held in the Bond Fund, the Interest Account and the Principal Account on any Lease Payment Date (other than amounts required for payment of past due principal or interest on any Bonds not presented for payment) will be credited towards the Lease Payment then required to be paid.

Source of Payments; Budget and Appropriation

The Lease Payments are payable from any source of available funds of the City, subject to the provisions of the Lease Agreement relating to abatement.

The City covenants to take all actions required to include the Lease Payments in each of its budgets during the Term of the Lease Agreement and to make the necessary appropriations for all Lease Payments and Additional Rental Payments. Such covenant constitutes a duty imposed by law and each and every public official of the City is required to take all actions required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Abatement of Lease Payments

Abatement Due to Eminent Domain. If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement thereupon ceases as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, then:

- (a) the Lease Agreement shall continue in full force and effect with respect thereto and does not terminate by virtue of such taking, and the parties waive the benefit of any law to the contrary; and
- (b) the Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

Abatement Due to Damage or Destruction. The Lease Payments are also subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain which is described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. The Lease Payments are subject to abatement in an amount determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement continues in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction.

Substitution of Property

The City has the option at any time and from time to time, to substitute other real property (the "Substitute Property") for the Leased Property or any portion thereof (the "Former Property"), upon satisfaction of all of the following requirements which are declared to be conditions precedent to such substitution:

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Los Angeles County Recorder sufficient memorialization of, an amendment of the Lease Agreement which adds the legal description of the Substitute Property and deletes therefrom the legal description of the Former Property.
- (c) The City has obtained a CLTA policy of title insurance insuring the City's leasehold estate under the Lease Agreement in the Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated value thereof.
- (d) The City has certified in writing to the Authority and the Trustee that the Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California, and has been determined to serve a governmental function of the City.
- (e) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement.
- (f) The City and the Authority have filed with the Trustee a written certificate stating that (a) based on the estimated value of the Substitute Property, the remaining Lease Payments constitute fair rental value for the use and occupancy of the Substitute Property, taking into consideration various factors set forth in the Lease Agreement, and (b) the useful life of the Substitute Property at least extends to November 1, 2045.
- (g) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of the Lease Agreement will thereupon end as to the Former Property and commence as to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any substitution of property. The Authority and the City will execute, deliver and cause to be recorded all documents required to discharge the Site Lease, the Lease Agreement and the Assignment Agreement of record against the Former Property and to cause the Substitute Property to become subject to all of the terms and conditions of the Site Lease, the Lease Agreement and the Assignment Agreement.

Release of Property

The City has the option at any time and from time to time to release any portion of the Leased Property from the Lease Agreement (the "Released Property") provided that the City has satisfied all of the following requirements which are declared to be conditions precedent to such release:

- (a) No Event of Default has occurred and is continuing.
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the Los Angeles County Recorder sufficient memorialization of, an amendment of the Lease Agreement which removes the Released Property from the Site Lease and the Lease Agreement.
- (c) The City and the Authority have filed with the Trustee a written certificate stating that based on the estimated value of the property which remains subject to this Lease Agreement following such release, the remaining Lease Payments constitute fair rental value for the use and occupancy of such property, taking into consideration certain factors set forth in the Lease Agreement.
- (d) The City has mailed written notice of such release to each rating agency which then maintains a rating on the Bonds.

Upon the satisfaction of all such conditions precedent, the Term of the Lease Agreement will thereupon end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release. The Authority and the City shall execute, deliver and cause to be recorded all documents required to discharge the Site Lease, the Lease Agreement and the Assignment Agreement of record against the Released Property.

Maintenance, Utilities, Taxes and Modifications

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the responsibility of the City, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The City may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority notifies the City that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes,

assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

The City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease Agreement. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements, shall be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements; except that if any such lien is established and the City first notifies or causes to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

Insurance

The Lease Agreement requires the City to maintain or cause to be maintained the following insurance against risk of physical damage to the Leased Property and other risks for the protection of the Bond Owners, the Authority and the Trustee:

Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained throughout the Term of the Lease Agreement, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard commercial general liability insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance must be applied toward extinguishment or satisfaction of the liability with respect to which it has been paid.

If any insurance required pursuant to this provision is provided in the form of self-insurance, the City must file with the Trustee annually, within 90 days following the close of each Fiscal Year, a statement of the risk manager of the City or an independent insurance adviser engaged by the City identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto.

If any such insurance is provided in the form of self-insurance by the City, the City has no obligation to make any payment with respect to any insured event except from those reserves.

Casualty Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, casualty insurance against loss or damage to all buildings situated on the Leased Property, in an amount at least equal to the lesser of (a) 100% of the replacement value of the insured buildings, or (b) 100% of the aggregate principal amount of the Outstanding Bonds. Such insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and shall include earthquake insurance if available at reasonable cost from reputable insurers in the judgment of the City. Such insurance may be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance shall be applied as provided in the Lease Agreement.

Rental Interruption Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any portion of the Leased Property constituting buildings or other improvements as a result of any of the hazards covered in the insurance required by the casualty insurance described above in an amount at least equal to the maximum such Lease Payments coming due and payable during any consecutive two Fiscal Years. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance, if any, must be paid to the Trustee and deposited in the Bond Fund, to be applied as a credit towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

Recordation and Title Insurance. On or before the Closing Date the City shall, at its expense, (a) cause the Site Lease, the Assignment Agreement and the Lease Agreement, or a memorandum thereof or thereof in form and substance approved by Bond Counsel, to be recorded in the office of the Los Angeles County Recorder, and (b) obtain a CLTA title insurance policy from Stewart Title Guaranty Company insuring the City's leasehold estate in the Leased Property, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds. All Net Proceeds received under any such title insurance policy shall be applied towards the prepayment of the remaining Lease Payments under the Lease Agreement.

Assignment; Subleases

The Authority has assigned certain of its rights under the Lease Agreement to the Trustee under the Assignment Agreement. The City may not assign any of its rights in the Lease Agreement. The City may sublease all or a portion of the Property, but only under the conditions contained in the Lease Agreement, including the condition that such

sublease not cause interest on the Bonds to become subject to federal or State of California personal income taxes.

Amendment of Lease Agreement

The Authority and the City may at any time amend or modify any of the provisions of the Lease Agreement, but only: (a) with the prior written consent of the Owners of a majority in aggregate principal amount of the outstanding Bonds; or (b) without the consent of any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

- (a) To add to the covenants and agreements of the City contained in the Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the City.
- (b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease Agreement, to conform to the original intention of the City and the Authority.
- (c) To modify, amend or supplement the Lease Agreement in such manner as to assure that the interest on the Bonds remains excluded from gross income under the Tax Code.
- (d) To amend the description of the Leased Property to reflect accurately the property originally intended to be included therein, or in connection with any substitution or release of property as described above.
- (e) To obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, but only if (A) such additional rent payments are pledged or assigned for the payment of any bonds, notes or other obligations the proceeds of which are applied to finance or refinance the acquisition or construction of any real or personal property for which the City is authorized to expend funds subject to its control, (B) the City has filed with the Trustee a written certificate stating that the estimated value of the Leased Property is, or following the completion of the acquisition and construction of any improvements to be financed from the proceeds of such bonds, notes or other obligations will be, at least equal to the aggregate original principal amount of the Bonds and all such other bonds, notes or other obligations, and (C) the City has filed with the Trustee written evidence that the amendments made under this clause (v) will not of themselves cause a reduction or withdrawal of any rating then assigned to the Bonds. Any amounts of such additional rental will not constitute Revenues which are pledged to the payment of the Bonds.
- (f) In any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond

Counsel, such modifications or amendments do not materially adversely affect the interests of the Owners of the Bonds.

Events of Default

Each of the following constitutes an Event of Default under and as defined in the Lease Agreement:

- (a) Failure by the City to pay any Lease Payment or other payment required to be paid under the Lease Agreement at the time specified therein.
- (b) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding subsection (a), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee. If in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30-day period, the failure will not constitute an Event of Default if the City commences to cure the failure within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (c) Certain events relating to the insolvency or bankruptcy of the City.

Remedies on Default

Upon the occurrence and continuance of any Event of Default, the Authority has the right to terminate the Lease Agreement or, with or without such termination, re-enter, take possession of and re-let the Leased Property. When the Authority does not elect to terminate the Lease Agreement, the City remains liable to pay all Lease Payments as they come due and liable for damages resulting from such Event of Default. Any amounts collected by the Authority from the re-letting of the Leased Property will be credited towards the unpaid Lease Payments. Any net proceeds of re-leasing or other disposition of the Leased Property are required to be applied as set forth in the Indenture. Under the Assignment Agreement, the Authority assigns all of its rights with respect to remedies in an Event of Default to the Trustee, so that all such remedies will be exercised by the Trustee and the Bond Owner as provided in the Indenture.

Notwithstanding the foregoing provisions of the Lease Agreement, any disposition of the Leased Property pursuant to the exercise of remedies under shall be subject in all respects to the provisions of the County Agreement, and no such disposition shall have the effect of terminating the County Agreement.

The Trustee has no right to accelerate Lease Payments and, due to the governmental nature of the Leased Property, it is uncertain whether a court would permit the exercise of the remedies of re-entry, repossession or re-letting.

INDENTURE OF TRUST

Establishment of Funds and Accounts; Flow of Funds

Costs of Issuance Fund. A portion of the proceeds of the Bonds will be deposited by the Trustee in the Costs of Issuance Fund on the Closing Date. The moneys in the Costs of Issuance Fund will be disbursed to pay costs of issuing the Bonds and other related financing costs from time to time upon receipt of written requests of the Authority. On January 1, 2021, or upon the earlier written request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Interest Account and shall thereupon close the Costs of Issuance Fund. Amounts so transferred to the Interest Account shall be applied by the Trustee to pay interest next coming due and payable on the Bonds.

Bond Fund; Deposit and Transfer of Amounts Therein. All Revenues will be deposited by the Trustee in the Bond Fund promptly upon receipt. On or before each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Bond Fund), the following amounts in the following order of priority:

- (a) *Interest Account.* The Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on such date on all outstanding Bonds. All moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it comes due and payable, including accrued interest on any Bonds redeemed prior to maturity.
- (b) *Principal Account.* The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including the principal amount of any Term Bonds which are subject to mandatory sinking fund redemption on such Interest Payment Date. All moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds at the maturity thereof or upon the mandatory sinking fund redemption thereof.

Insurance and Condemnation Fund; Application of Net Proceeds. Any Net Proceeds of insurance or condemnation awards with respect to the Leased Property will be deposited in the Insurance and Condemnation Fund. In the event of an insurance or eminent domain award, the Net Proceeds on deposit in the Insurance and Condemnation Fund will be used, as directed by the City, either:

- (a) to replace, repair, restore, modify or improve the Leased Property if the City determines that such is economically feasible or in the best interests of the City, or

- (b) to the extent not so used, to prepay the Lease Payments and thereby redeem outstanding Bonds.

If the City fails to determine and notify the Trustee in writing of its determination, within 45 days following the date of such deposit, to replace, repair, restore, modify or improve the Leased Property which has been damaged or destroyed, then such Net Proceeds will be applied to the redemption of Bonds on the next available redemption date.

Notwithstanding the foregoing, however, in the event of damage or destruction of the Leased Property in full, the Net Proceeds of such insurance are required to be used by the City to rebuild or replace the Leased Property if such proceeds are not sufficient to redeem outstanding Bonds equal in aggregate principal amount to the unpaid Lease Payments.

Investment of Funds; Determination of Value of Investments

All moneys in any of the funds or accounts held by the Trustee under the Indenture will be invested by the Trustee solely in Permitted Investments as directed by the Authority at least three Business Days in advance of the making of such investments. In the absence of any such directions from the Authority, the Trustee shall hold such funds uninvested. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the Bond Fund. For the purpose of determining the amount in any fund or account established under the Indenture, the value of investments credited to such fund will be calculated at the market value thereof, in accordance with the procedures specified in the Indenture.

Covenants of the Authority

Payment of Bonds. The Authority will punctually pay or cause to be paid the principal of and interest on the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, but only out of the Revenues and other assets pledged for such payment as provided in the Indenture. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are outstanding, except the pledge and assignment created by the Indenture.

Accounting Records and Financial Statements. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries will be made of all transactions relating to the proceeds of the Bonds, the Revenues, the Lease Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account will be available for inspection by the Authority and the City, during regular business hours and upon reasonable prior notice.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness will be issued or incurred which are payable out of the Revenues in whole or in part.

Tax Covenants. The Authority will not take, nor permit nor suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of any of the Bonds which would cause any of the Bonds to be “arbitrage bonds” or “private activity bonds” within the meaning of the Tax Code. The Authority will cause to be calculated annually all excess investment earnings which are required to be rebated to the United States of America under the Tax Code, and will cause all required amounts to be rebated from payments made by the City for such purpose under the Lease Agreement.

Lease Agreement. The Trustee will promptly collect all amounts due from the City pursuant to the Lease Agreement. Subject to the provisions of the Indenture governing the enforcement of remedies upon the occurrence of an Event of Default, the Trustee is required to enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Lease Agreement.

Refunding of 2015 Bonds. The Authority covenants to cause the proceeds of the Bonds to be applied to the payment and redemption of the 2015 Bonds in full in accordance with the provisions of the Escrow Agreement. From and after the Closing Date, the 2015 Bonds shall be fully discharged and satisfied and shall no longer be secured by a pledge of or lien on the Revenues, or any portion thereof.

Amendment of Indenture

The Indenture may be modified or amended at any time by a supplemental indenture with the prior written consents of the Owners of a majority in aggregate principal amount of the Bonds then outstanding. No such modification or amendment may (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal or interest at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

The Indenture may also be modified or amended at any time by a supplemental indenture, without the consent of any Bond Owners, to the extent permitted by law, but only for any one or more of the following purposes:

- (a) To add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority.
- (b) To cure any ambiguity, inconsistency or omission in the Indenture, or correct any defective provision in the Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, so long as such modification or amendment does not materially adversely affect the interests of the Bond Owners in the opinion of Bond Counsel filed with the Trustee.

- (c) To modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute.
- (d) To modify, amend or supplement the Indenture so as to cause interest on the Bonds to remain excludable from gross income under the Tax Code.
- (e) To facilitate the issuance of additional obligations of the City under the Lease Agreement which are payable from additional rental payments described above under "LEASE AGREEMENT - Amendment of Lease Agreement."
- (f) To facilitate the substitution or release of property under the Lease Agreement as described above under "LEASE AGREEMENT - Substitution of Property" and "LEASE AGREEMENT - Release of Property".

Events of Default

Events of Default Defined. The following events constitute events of default under the Indenture:

- (a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.
- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the Authority to observe and perform any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the Authority by the Trustee; *provided, however*, if in the reasonable opinion of the Authority the failure stated in the notice can be corrected, but not within such 30-day period, such failure shall not constitute an Event of Default if the Authority institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (d) The commencement by the Authority of a voluntary case under Title 11 of the United States Code or any substitute or successor statute.
- (e) The occurrence and continuation of any Event of Default under and as defined in the Lease Agreement. See "LEASE AGREEMENT - Events of Default" above.

Remedies. Upon the occurrence and during the continuance of any Event of Default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time outstanding the Trustee shall, in each case, upon receipt of indemnification satisfactory to Trustee against the costs, expenses and liabilities to be incurred in connection with such action, upon notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

No delay or omission to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Application of Revenues and Other Funds After Default. If an Event of Default has occurred and is continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture will be applied by the Trustee as follows and in the following order:

- (a) To the payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its legal counsel including outside counsel and the allocated costs of internal attorneys) incurred in and about the performance of its powers and duties under the Indenture;
- (b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Limitation on Bond Owners' Right to Sue. No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under the Indenture, unless:

- (a) such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;
- (b) the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise its powers under the Indenture;
- (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;
- (d) the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by the Trustee and said tender of indemnity is made to the Trustee; and
- (e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in aggregate principal amount of the Bonds then outstanding.

Discharge of Indenture

The Authority may pay and discharge the indebtedness on any or all of the outstanding Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of and interest on the Bonds, as and when the same become due and payable;
- (b) by irrevocably depositing with the Trustee or an escrow agent, at or before maturity, cash and/or non-callable Federal Securities which, together with the investment earnings to be received thereon, have been verified by an independent accountant to be sufficient to pay such Bonds when and as the same become due and payable; or
- (c) by delivering to the Trustee, for cancellation by it, all of such Bonds.

Upon such payment, and notwithstanding that any Bonds have not been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture with respect to such Bonds, and all other obligations of the Authority under the Indenture with respect to such Bonds, will cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose. Any funds thereafter held by the Trustee, which are not required for said purposes, will be paid over to the Authority.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDING JUNE 30, 2019

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**City of Hermosa Beach,
California**

**Comprehensive
Annual
Financial
Report**

For the Year Ended June 30, 2019

City of Hermosa Beach

Hermosa Beach, California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2019

Prepared by the
Finance Department of Hermosa Beach

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City of Hermosa Beach
Comprehensive Annual Financial Report
For the Year Ended June 30, 2019

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City of Hermosa Beach

Civic Center, 1315 Valley Drive, Hermosa Beach, CA 90254-3885

December 19, 2019

Honorable Mayor and Members of the City Council and Citizens of Hermosa Beach, California:

Introduction

Presented herein is the Comprehensive Annual Financial Report (CAFR) of the City of Hermosa Beach for the fiscal year ended June 30, 2019. The report is intended to update readers on the status of the City's financial position and results of operations for the past fiscal year.

Management's representations concerning the finances of the City of Hermosa Beach are contained herein. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Hermosa Beach has established an internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Hermosa Beach's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Hermosa Beach's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

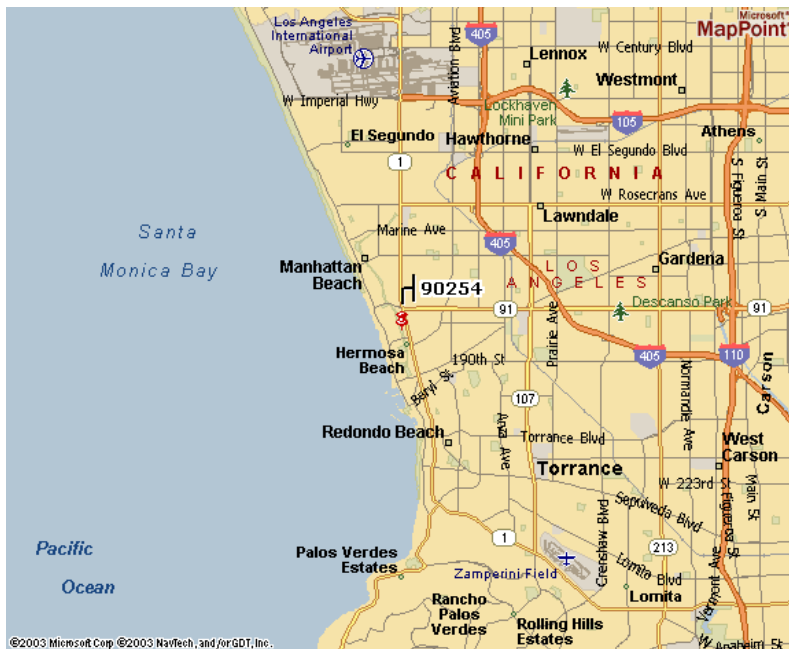
Audit

The City of Hermosa Beach's financial statements have been audited by Gruber and Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Hermosa Beach for the fiscal year ended June 30, 2019, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Hermosa Beach's financial statements for the fiscal year ended June 30, 2019, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis. This letter of transmittal is designed to complement the Management Discussion & Analysis (MD&A) and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditor.

Profile of the Government

The City of Hermosa Beach is a beachfront, bedroom community with a stable population, located four miles south of Los Angeles International Airport. The City occupies 1.4 square miles and serves a population of 19,673, according to the State's latest population estimate. However as a beach city, the City experiences a high visitor population and the associated costs. Due to this high visitor population, the City operates in many ways like a larger city. During the 2018-19 fiscal year, beach attendance ranged from a low of 21,700 in February 2019 to a high of 1,282,200 in July 2018, according to the Los Angeles County Fire Department, Lifeguard Division.



The City of Hermosa Beach, incorporated on January 14, 1907 as a general law city, operates under the Council-Manager form of government. Policy-making and legislative authority are vested in a governing council consisting of five members of the City Council elected on a non-partisan basis at large for a four-year term. Council members serve four-year, staggered terms, with an election every two years. One member is chosen by fellow members to serve as Mayor for a period of nine months; one is chosen to serve as Mayor Pro Tem. The terms of office for those elected in November of 2017 were extended by one year to accommodate the election date change from odd-numbered years to even-numbered years effective November 2022, as approved by the City Council.

The Council is responsible for, among other things, establishing policy, passing ordinances, adopting an annual budget; appointing members to various City Commissions and Boards and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments.

The City offers a full range of municipal services, including police, fire protection (provided by Los Angeles County beginning December 30, 2017), community development (planning and zoning), cultural, recreation and parks, maintenance and construction of public improvements, parking and animal control, and general administration. Financial information for the Lighting and Landscaping District, the Lower Pier Avenue Assessment District and the Myrtle Avenue, Loma Drive, Bayview Drive, and Beach Drive Utility Underground Districts are included in the City's financial statements as required by governmental accounting standards.

Summary information from the *May 2019 Profile of the City of Hermosa Beach*, produced in 2019, with data for 2018, by the Southern California Association of Governments (SCAG), is shown on the following page along with selected information from the U.S. Census. The SCAG report is produced every two years, with the next release in May 2021.

SCAG PROFILE OF THE CITY OF HERMOSA BEACH		
Category	2018 STATISTICAL SUMMARY	2016 STATISTICAL SUMMARY
	Hermosa Beach	Hermosa Beach
Median Age	39.5	39.5
Non-Hispanic White	79.2%	79.0%
Hispanic	9.0%	8.6%
Non-Hispanic Asian	6.0%	6.1%
Non-Hispanic Black	1.2%	1.3%
Non-Hispanic American Indian	1.0%	0.1%
Non-Hispanic All Other	3.6%	4.9%
Homeownership Rate	46.5%	44.7%
Average Household Size	2.1	2.1
Median Household Income	\$124,849	\$104,756
Mean Travel Time to Work	33.2 minutes	34 minutes

U.S. CENSUS BUREAU QUICK FACTS					
Category	Hermosa Beach	California	Category	Hermosa Beach	California
Persons under 5 years, 2010	5.1%	6.8%	Per capita income in the past 12 months (2017 dollars), 2013-2017	\$88,305	\$33,128
Persons under 18 years, 2010	15.9%	25.0%	Persons below poverty level, 2013-2017	4.7%	12.8%
Persons 65 years and over, 2010	9.0%	11.4%	Median value of owner-occupied housing units, 2013-2017	\$1,220,500	\$443,400
Female persons, 2010	47.3%	50.3%	Housing units in multi-unit structures, 2017	43.8%	34.9%
Bachelor's Degree or higher, persons age 25+, 2013-2017	73.8%	32.6%	High School graduate or higher, persons age 25+, 2013-2017	97.9%	82.5%

The U.S. Census Bureau Quick Facts are as of November 2019. Further data regarding the City may be found in the Statistical Section.

The annual budget serves as the foundation for the City of Hermosa Beach’s financial planning and control and is based on the Strategic Plan adopted by the City Council. All departments of the City of Hermosa Beach are required to submit requests for appropriation to the City Manager according to a budget calendar. The City Manager uses these requests as the starting point for developing a proposed budget, which is presented to the City Council for review by May 15. At least one public budget workshop is held prior to the required public hearing, with adoption required no later than June 30. If the City Council fails to adopt a budget by that date, the budget submitted by the City Manager, as

amended by the City Council, if applicable, is the appropriated budget except for capital improvement outlays. The appropriated budget is prepared by fund and department (e.g., Police Department). The City Manager may make transfers of appropriations between departments within each fund; transfers of appropriations between funds, however, require the approval of the City Council. The City Council receives monthly revenue and expenditure reports during the year and a midyear budget review is conducted after the first six months of the fiscal year to ensure estimates are on target. Budget-to-actual comparisons are provided in this CAFR for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and major governmental funds with appropriated annual budgets, this comparison is presented as Required Supplementary Information on pages 85-94. For non-major governmental funds with appropriated annual budgets, this comparison is presented as Supplementary Information, after the Notes to the Financial Statements.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Hermosa Beach operates.

Local economy. Hermosa Beach is a “bedroom community” as evidenced by a household count of +10,000 and an in-city business count of under 1,000 (excluding apartments and home occupations) Hermosa Beach had growth of 6.5% in secured and unsecured assessed valuation, as compared to 6.6% for Los Angeles County. The 6.5% growth was the 19th highest of 88 cities in Los Angeles County. Median home prices in Hermosa Beach as of June 2019 were \$1,722,500, compared to \$618,000 for Los Angeles County. The Hermosa Beach median home price for June 2018 was \$1,740,000, compared to \$615,000 for Los Angeles County. The average median home price for Hermosa Beach for fiscal year 2018-19 was \$1,816,000 and \$2,026,432 for fiscal year 2017-18. Home values adjacent to the beach increased for the ninth year in a row after declining 2009-2011.

As a beach city, the three highest occupations continue to be management, sales, and administrative support, however residents enjoy access to a much more diverse employment base with the close proximity of all of the other cities in Los Angeles County. The unemployment rate in Hermosa Beach is 2.2%, compared with 4.6% for Los Angeles County, and 4.2% for California as of June 2019.

General Fund Secured property taxes increased 6.2% in 2018-19, consistent with growth in assessed values. Historically, property adjacent to the beach has held its value better and has grown faster as compared to property in the other areas. Sales tax receipts for 2018-19 is down less than a percent primarily due to decreases in the Eating/Drinking Places, Building Materials, and Furniture/Appliance categories.

Transient occupancy tax (the tax on hotel stays) decreased 1.3% over 2017-18, however, receipts of almost \$3.3 million continue to be at highest level ever. The TOT tax rate increased from 10% to 12% on January 1, 2016 as a result of an initiative placed on the ballot by residents. Average occupancy for 2018-19 was 79.2% for Hermosa Beach which is slightly lower than last year’s rate of 81.4%. Hermosa Beach has eight hotels and one youth hostel, with rooms capacity ranging from 17 rooms to 96 rooms. Voters passed a measure in November 2019 to increase the TOT rate from 12% to 14% effective January 1, 2020.

Utility user tax (UUT) revenue was down 1.5% last year but is still the fourth highest source of tax revenue at \$2.2 million. The largest source of the decrease was overall phone service.

Historical Note



Since the City was successful in obtaining voter approval (72%) for adoption of a modern UUT ordinance in November 2007, revenue is protected as technology changes occur. The ballot measure was intended to be revenue-neutral, in that the video and telecom rate was reduced from 6% to 5.5% to offset any new revenue received from new technology in those areas. The UUT as a source of revenue has been very reliable.

Accounting changes. In 2014-15 the City implemented Government Accounting Standards Board (GASB) Statement No 68, Accounting and Financial Reporting for Pensions, which required net pension liabilities to be included in the financial statements for the first time, and Statement No 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which was essentially a cleanup provision. Net pension liabilities of \$47,589,484 were recorded in 2018-19 and the unrestricted net position was reduced accordingly. The change in accounting standards impacted only the government-wide financial statement, notes, and required supplemental information. There is no impact to the fund financial statements. See Note 9 for more information.

In 2017-18 the City implemented GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, effective July 1, 2017, which requires net OPEB liabilities to be included in the financial statements for the first time. GASB 75 updates Other Postemployment Benefit (OPEB) accounting and financial reporting standards to be consistent with the pension standard in GASB 68. Similar to GASB 68, the change in accounting standards impacted only the government-wide financial statement, notes, and required supplemental information. There is no impact to the fund financial statements. See Note 10 for more information.

As a matter of record, the following GASB statements are effective for the June 30, 2019 financial statements, but have no impact. GASB Statement 83, Certain Asset Retirement Obligations, establishes criteria for determining the timing and pattern of recognition of a liability associated with the retirement of a tangible capital asset. GASB Statement 88, Certain Disclosures Related to Debt, requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For more information see Note 1, Section Q- Accounting Changes.

National/State Economy. The Council of Economic Advisers indicates that the current economic expansion, which began roughly a decade ago, became the longest in U.S. history as of July 1, 2019, beating the previous record that lasted from March 1991 through March 2001. Given the record length of economic expansion, the positive Gross Domestic Product (GDP) growth points to the economy remaining strong in future quarters. Beacon Economics seems to agree in their Fall 2019 Forecast, in saying that the economy continues to expand at a safe and steady pace, with few of the stressors or imbalances that could cause a major disruption. The longest expansion in U. S. economic history will continue for the foreseeable future.

The November 2019 California's Fiscal Outlook from the Legislative Analyst's Office (LAO) states that California's budget continues to be in a good position. They estimate a \$7 billion surplus available to allocate in the upcoming budget and in addition will build an \$18.3 billion balance in the state's rainy day fund by the end of 2020-21. The LAO cites a consensus among professional economists (according to a collection of forecasts compiled by Moody's Analytics) that the U.S. economy will continue to grow in the coming years, although at a somewhat slower pace than in recent years.

While several sources point to a positive outlook, a cautious approach seems appropriate in such an extended period of expansion.

California Public Employees Retirement System (CalPERS). The preliminary CalPERS investment return as of June 2019 was 6.7% and the funded status of the overall CalPERS fund decreased by 1% from the previous year to 70%. This estimate is based on a 7% discount rate.

On December 20, 2016, the CalPERS Board approved a change in the discount rate from 7.5% to 7% over three years. The change is implemented over a three year period beginning in 2018-19. Lowering the discount rate, also known as the assumed rate of investment return, means that employers will see increase to contribution rates and higher unfunded liability payments. The City's independent actuary indicates however, that the change for the first year will have minimal impact, which is good news. The

City's miscellaneous and safety plans have side funds (which are liabilities that existed in 2003 when CalPERS "pooled" the City's plans with other cities of similar size) that are paying off from 2018-19 to 2019-20 and will help mitigate the rate increases.

In December 2017, the CalPERS Board adopted new actuarial assumptions based on the 2017 CalPERS Experience Study and Review of Actuarial Assumptions, which will impact the 2019-20 required contributions.

The City created a Retirement Stabilization Fund in 2003-04 to plan for anticipated rate increases. This amount now appears as part of the "committed" balance in the General Fund in the amount of \$1,021,575.

Long-term financial planning. The City' adopted financial policies address a range of items including accounting and reporting, internal controls, budget, revenue, debt service and investments. The policies are published in the budget and reviewed annually.

The City Council's adopted financial policies relating to long-term financial planning for specific funds are as follows:

Insurance Fund—Goal of \$3,000,000 in net assets for aberrations in claims reserves and catastrophic losses.

Equipment Replacement Fund—Goal of net assets equal to the accumulated amount calculated for all equipment, based on replacement cost and useful life of equipment.

Contingency—Goal equal to 16% of the General Fund appropriations for economic uncertainties, unforeseen emergencies.

Compensated Absences—Goal equal to 25% funding for accrued liabilities for employee vacation, sick and compensatory time.

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, Capital Improvement Fund, Capital Facility Reserve, and to add to Contingency Funds as needed. The City Council makes changes as necessary to the year-end transfer, depending on the equity in the funds or based on other needs.

The transfer for 2018-19 was \$2,535,936 to the Capital Improvement Fund, per Council direction at the 2019-20 Budget Review. Since the balance of the Insurance Fund is at the adopted goal of \$3,000,000, funds were transferred to the Capital Improvement fund, with half of the transfer (\$1,267,968) assigned to the Capital Facility Reserve.

Historically as part of the budget process, a five year financial forecast is developed and presented with the Preliminary Budget and Three to Five-Year Capital Improvement Program. The Fiscal Health Model is used as part of the forecast to present scenarios depicting the city's ability to fund each scenario. The City is planning to have a revenue workshop to review many sources of revenue in advance of the 2020-21 Budget.

Primary capital projects coming up, (other than street and sewer improvements, which occur every year) include Bus Stop Improvements, PCH Mobility and Traffic Improvement Projects, 8th Street Improvements, Strand Bikeway and Walkway Improvements at 35th Street, 16th Street Storm Drain Trash Capture Box, Herondo Drain Storm Water/Urban Runoff Diversion Project, Fort Lots-Of-Fun Park Improvements, Downtown Lighting Improvements, Downtown Strategic Plan Implementation, New Corporate Yard Facility, Municipal Pier Structural and Electrical Repairs, City Park Restrooms and Renovations, Council Chambers Audiovisual Improvements, Parking Lot D improvements, Emergency Operations Center Renovations, Clark Building Renovations, 14th Street Beach Restroom Construction,

Parking Lot A Improvements, Police Station Basement Restroom Improvements, and ADA Improvements.

Cash management policies and practices. Temporarily idle cash was invested during the year in obligations of the U.S. Treasury, corporate notes, certificates of deposit, the State Treasurer's investment pool and the Los Angeles County pool. The average maturity was 60 months, with an average weighted yield on investments of 2.2%. Investment income includes changes in the fair value of investments. Changes in fair value during the current year, however, do not necessarily represent trends that will continue nor do such amounts necessarily become realized, since the City intends to hold the investments to maturity.

Risk management. The City is self-insured up to \$250,000 for liability claims. Through a blend of self-insurance and reinsurance, the City has excess coverage up to \$40 million is obtained through the Independent Cities Risk Management Authority (ICRMA), a joint powers authority consisting of medium-sized California municipalities. The cost of the insurance depends on both the loss experience of member cities, the loss experience of the City and the City's payroll size.

The City purchases workers' compensation coverage through a self-insured program available through ICRMA. The City maintains a \$500,000 self-insured retention limit and participates in a self-insured risk sharing pool through the ICRMA, with excess coverage through Safety National Casualty Co., providing coverage up to the statutory limits.

Claims defense and settlement are coordinated by third party administrators for both liability and worker's compensation, with oversight by the Human Resources Manager.

Additional information on the City's risk management activity can be found in Note 8 of the notes to the financial statements.

Pension and other post-employment benefits. The City provides pension benefits to safety and non-safety employees through the California Public Employees Retirement System (CalPERS). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City was successful in negotiating two tier rates for new employees in all bargaining units beginning in 2011-12. With the State's pension reform implemented January 1, 2013, the City now has three tiers. As of June 30, 2019, the City has fifty-eight (58) active Tier 1 employees, nineteen (19) active Tier 2 employees and sixty-eight (68) active employees in Tier 3. The City paid employee contributions as a negotiated benefit for many years however in 2012-13 the City negotiated that employees would begin paying the entire share of the employee contribution over three years with an offsetting increase in salaries, which was achieved as of 2014-15. All of these changes enacted reduce pension costs over time. City employer contributions are actuarially determined on an annual basis.

The City also provides post-employment health care benefits for certain retirees. As of the end of the current fiscal year, there were 67 retirees receiving these benefits.

The City established a trust with an outside party to administer these funds in July 2007. The City is contributing the annual required contribution for all employees as determined by an actuarial study in the manner as is done for retirement contributions to CalPERS. The concept of a retirement trust was approved by City Council in June 2018 and funds are set aside in the 2019-20 budget to be placed in the retirement trust.

Additional information on the City of Hermosa Beach's pension arrangements and other post-employment benefits can be found in Notes 9 and 10 in the Notes to the Basic Financial Statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a 2018 Certificate of Achievement for Excellence in Financial Reporting to the City of Hermosa Beach for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2018. This was the twenty-eighth consecutive year that

the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a report must be published that satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would also like to express our appreciation to the City Manager and all of the departments, including the City Clerk and City Treasurer, and to our auditors, Gruber and Associates, for their assistance and support in preparation of the report. Credit also must be given to the Mayor and the City Council for their continuing support for maintaining the highest standards of professionalism in the management of the City of Hermosa Beach's finances.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Viki Copeland". The signature is written in a cursive, flowing style.

Viki Copeland
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Hermosa Beach
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

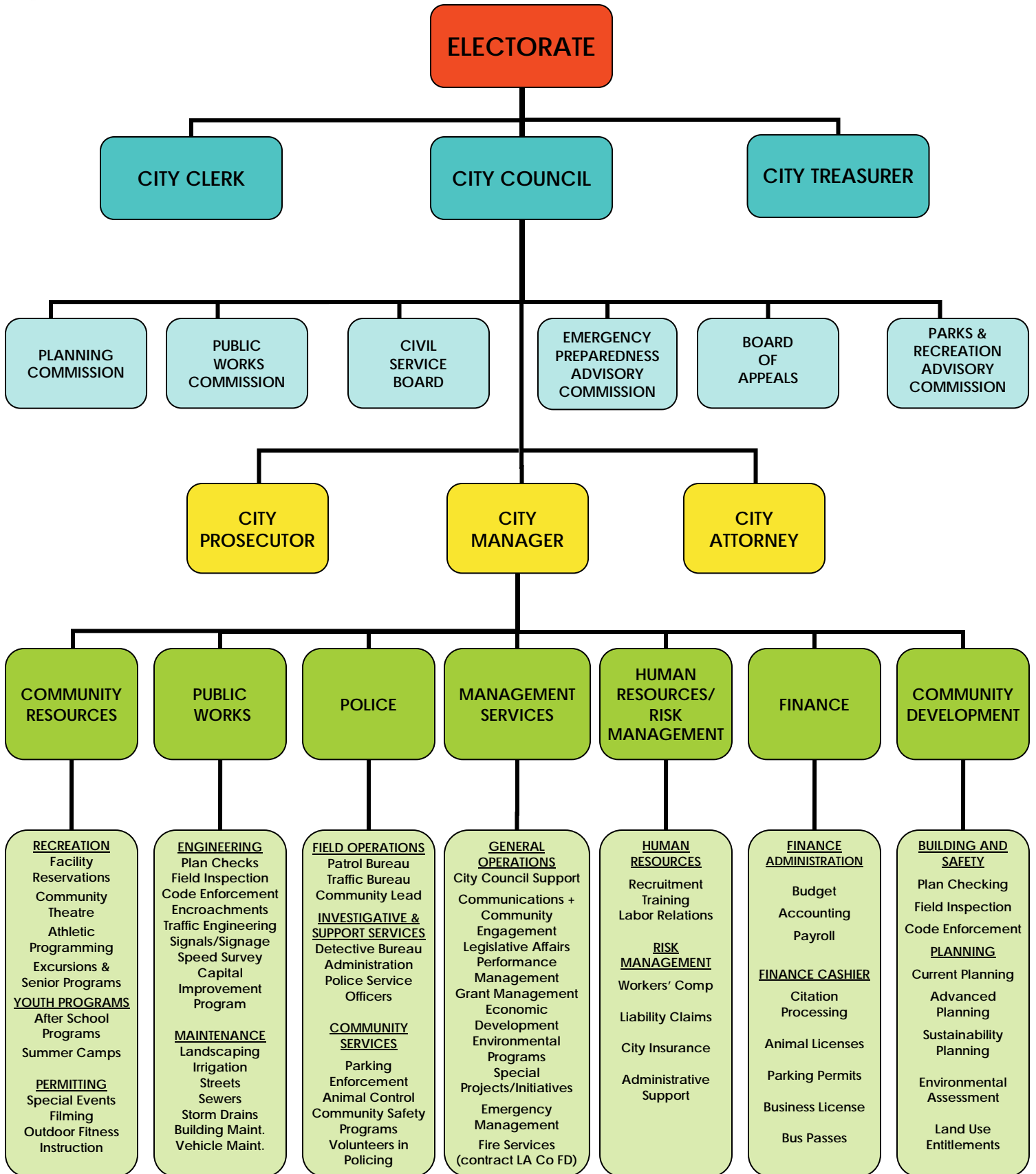
June 30, 2018

Christopher P. Morill

Executive Director/CEO



CITY OF HERMOSA BEACH ORGANIZATIONAL CHART



PRINCIPAL OFFICIALS OF THE CITY OF HERMOSA BEACH, CALIFORNIA

June 30, 2019

Elected and Administrative Officials

City Council

Stacey Armato
Mary Campbell, PhD
Jeff Duclos
Hany Fangary
Justin Massey

Mayor
Mayor Pro Tempore
Councilmember
Councilmember
Councilmember

Other Elected Officials

Karen Nowicki
Elaine Doerfling

City Treasurer
City Clerk

Administrative Officials

Suja Lowenthal
Ken Robertson

Kelly Orta

Viki Copeland
Vanessa Godinez

Sharon Papa
Lucho Rodriguez

City Manager
Community Development
Director
Community Resources
Manager
Finance Director
Human Resources
Manager
Police Chief
Interim Public Works
Director

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An Independent CPA Firm

To the Honorable Mayor and Members of the City Council
of the City of Hermosa Beach
Hermosa Beach, California

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hermosa Beach, California (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described further in Note 1 to the financial statements, during the year ended June 30, 2019, the City implemented GASB Statement Nos. 83 and 88. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule-General Fund, Budgetary Comparison Schedule-Sewer Special Revenue Fund, Budgetary Comparison Schedule-Capital Improvements Capital Projects Fund, Schedule of Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Contributions - Pension, Schedule of Changes in Net OPEB Liability and Related Ratios, and Schedule of City's Contribution - OPEB on pages 7 to 17 and 91 to 96, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Combining and Individual Nonmajor Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, and Statistical Section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual Nonmajor Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Nonmajor Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

To the Honorable Mayor and Members of the City Council
of the City of Hermosa Beach
Hermosa Beach, California
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.

Newport Beach, California
December 19, 2019

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Management's Discussion and Analysis

As management of the City of Hermosa Beach, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Hermosa Beach for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages v - xii of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City of Hermosa Beach exceeded its liabilities and deferred inflows of resources at the close of the last fiscal year by \$60,591,305 (net position). Excluding the \$47,589,484 net pension liability, \$38,747,901 represents unrestricted net position and may be used to meet the government's ongoing obligations.
- The City's net position increased by \$3,787,973.
- As of June 30, 2019, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$33,343,877, an increase of \$1,868,358 in comparison with the prior year. This increase is primarily due to revenue exceeding expenditures by \$2,295,694 in the current year.
- At the end of the current fiscal year, the City of Hermosa Beach's governmental fund balances of \$33,343,877 are comprised of non-spendable funds; \$42,420, restricted; \$5,907,395, committed; \$2,133,229; and assigned; \$25,260,944 to indicate that funds are not available for new spending. Although funds are shown in the committed or assigned category, the City Council still does have discretion over the use of these funds and may change the committed or assigned use. Under that scenario, approximately 82%, or \$27,394,173 of the \$33,343,877 in funds could be redirected at the discretion of the City Council. See Note 11 in the Notes to the Basic Financial Statements.
- After the City Council approved a transfer of \$2,535,936 from the General Fund to the Capital Improvement Fund, the committed and assigned fund balance in the General Fund was \$10,514,092 or 28% of total General Fund expenditures.

Overview of the Financial Statements

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

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

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

position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Hermosa Beach is improving or deteriorating.

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

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

The government-wide financial statements include not only the City of Hermosa Beach itself, but also the Lighting and Landscaping District, the Lower Pier Avenue Assessment District and the Myrtle Avenue, Loma Drive, Bayview Drive and Beach Drive Utility Underground Districts. Although these entities are legally separate, they function for all practical purposes as part of the City, and therefore have been included as an integral part of the primary government.

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

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

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

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

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

- General Fund**
- Proposition A Transit Special Revenue Fund**
- Grant Special Revenue Fund**
- Sewer Special Revenue Fund**
- Capital Improvement Capital Projects Fund**

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

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

The City of Hermosa Beach adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund, Proposition A Special Revenue Fund, Grant Special Revenue Fund, Sewer Special Revenue Fund, and Capital Improvement Capital Projects Fund, in the Required Supplementary Information section to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 25-31 of this report.

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

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

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

The basic proprietary fund financial statements can be found on pages 35-37 of this report.

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

The fiduciary fund financial statements can be found on page 41 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47-83 of this report.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Hermosa Beach's major funds. Required supplementary information can be found on pages 85-94 of this report.

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

following the required supplementary information. Other supplementary information can be found on pages 99-142 of this report

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2019, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$60,591,305. Without the net pension liability of \$47,589,484, the net position would be \$108,180,789.

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

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

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

- Deferred Outflows of Resources- Includes the deferred pension and OPEB contribution, which is equal to the total amount of the 2018-19 contributions. The contributions are deferred to 2019-20 because the net liability balance is one year in arrears. Also includes changes in assumptions, the difference between projected and actual investment earnings and the difference between the employer contributions and the employer's proportionate share of contributions (for pensions).
- Net Pension and Net OPEB Liabilities (recorded in Long-Term Liabilities) - Represents the actuarially valued liabilities Plans as of June 30, 2018.
- Deferred Inflows of Resources- Includes changes in assumptions, the difference between the expected and actual earnings on investments (amortized on a straight-line basis over five years), changes in employer's proportion (for pensions), and differences between employer contributions and the employer's proportionate share of contributions (for pensions).

Net Position			
June 30, 2019			
(dollars in thousands)			
<u>Governmental Activities</u>			
	2019	2018	
Current and Other Assets	\$ 55,809	\$ 51,549	
Capital Assets	64,376	62,161	
Total Assets	120,185	113,710	
Deferred Outflows of Resources	15,595	18,175	
Current Liabilities	8,877	6,414	
Noncurrent Liabilities:			
Net Pension Liability	47,589	49,465	
Net OPEB Liability	-	591	
Long-term Liabilities- Other	15,921	16,643	
Total Liabilities	72,387	73,113	
Deferred Inflows of Resources	2,802	1,969	
Net Position:	60,591	56,803	
Net Invested in Capital Assets*	64,376	62,161	
Restricted	5,057	7,279	
Unrestricted	(8,842)	(12,637)	
Total Net Position	60,591	56,803	
	-	-	
Restated Net Position	\$ 60,591	\$ 56,803	

*See Note 14 for prior period adjustment.

The largest portion of the City of Hermosa Beach's net position, \$64,375,911 reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The City of Hermosa Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

A portion of the City of Hermosa Beach's net position \$5,056,977 represents resources that are subject to external restrictions on how they may be used.

Compliance with GASB 68 and GASB 75 require that the City's net pension and OPEB liabilities are recorded on the Statement of Net Position, which reduces unrestricted net position and creates a negative unrestricted net position or deficit of (\$8,841,583). Excluding the \$47,589,484 net pension liability \$38,747,901 is available to meet the City's ongoing obligations to residents.

At June 30, 2019, the City is able to report positive balances in all categories of net position for the government as a whole except for unrestricted due to the implementation of GASB 68 and the inclusion of the net pension liability, which will likely remain a long-term liability for several decades. The following is the condensed Statement of Activities and Changes in Net Position for the fiscal years ending June 30, 2019 and June 30, 2018.

Governmental Activities. Governmental activities increased the City of Hermosa Beach's net position by \$3,787,973. Significant elements of this change are as follows:

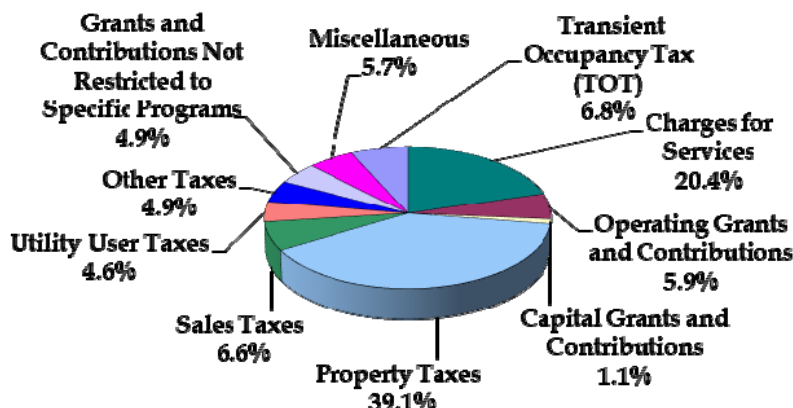
Changes in Net Positions		
June 30, 2019		
(dollars in thousands)		
	Governmental Activities	
	2019	2018
Revenues:		
Program Revenues:		
Charges For Services	\$ 9,750	\$ 12,709
Operating Grants and Contributions	2,806	712
Capital Grants and Contributions	526	28
General Revenues:		
Property Taxes	18,640	17,098
Other Taxes	10,940	11,029
Grants and Contributions Not		
Restricted to Specific Programs	2,347	2,093
Other	2,702	1,890
Total Revenues	47,711	45,559
Expenses:		
Legislative and Legal	1,741	1,870
General Government	4,762	4,129
Public Safety	23,866	25,496
Community Development	2,298	2,264
Culture and Recreation	1,755	1,770
Public Works	9,125	9,176
Interest and Fiscal Charges	376	
Total Expenses	43,923	44,705
Increase (Decrease) in Net Position	3,788	854
Net Position	\$ 56,803	\$ 60,121
Impact of Prior Period Adjustment*		(4,172)
Net Position - Ending	\$ 60,591	\$ 56,803

*See Note 14 for prior period adjustment.

Revenue for Governmental Activities

- Total program revenues decreased by \$367,261 or 2.7% over the prior year. In 2018-19, there was a change in program revenue categorization for several accounts between Charges for Services and Operating Grants and Contributions.
- Property tax revenue increased \$1,542,591 or 9%, which is in line with continued growth in property values.
- Sales Tax revenue decreased by \$17,896 or .6%. Sales tax is slightly lower primarily due to decreases in the Eating/Drinking Places, Building Materials, and Furniture/Appliance categories.
- Transient Occupancy Tax (TOT) revenue decreased \$43,858 or 1%. Reported occupancy rates were down 2.2%, from 81.4% for 2017-18 to 79.2% in 2018-19.
- Utility User Tax was down by \$34,091 or 1.5%
- Real property Transfer Tax was up \$394,629 or 121%.

Revenue by Source - Government Activities



Revenues:	2019	2018
Property Taxes	\$ 18,640,303	\$ 17,097,712
Charges for Services	9,749,950	12,708,868
Transient Occupancy Tax (TOT)	3,251,349	3,295,207
Sales Taxes	3,133,311	3,151,207
Operating Grants & Contributions	2,805,669	712,612
Miscellaneous	2,701,560	1,890,404
Other Taxes	2,359,952	2,353,287
Grants & Contributions not Restricted to Specific Programs	2,346,524	2,093,173
Utility Users Taxes	2,195,815	2,229,906
Capital Grants & Contributions	526,421	27,821
Total Revenues	\$ 47,710,854	\$ 45,560,197

Expenses for Governmental Activities

Expenses for Governmental Activities decreased by 1.8%

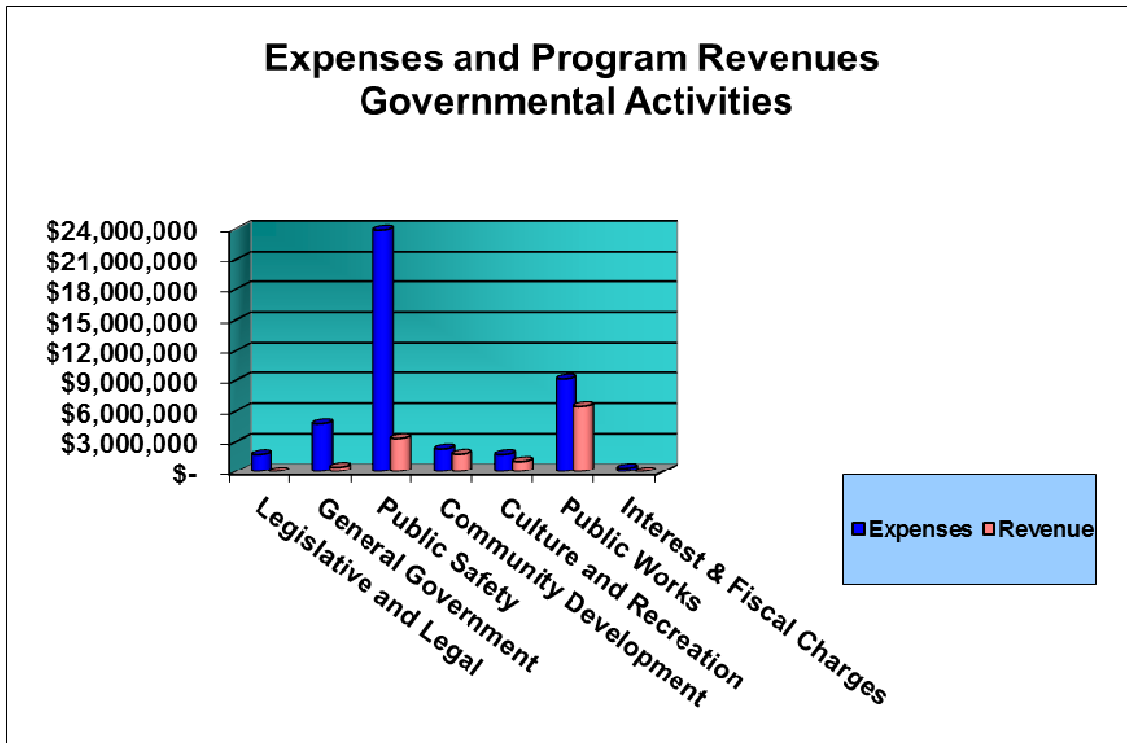
Legislative and Legal expenses decreased by \$128,728 or 6.9%. The decrease is primarily due to the GASB 68 and 75 recording of the department's share of the pension and OPEB obligation adjustments. See Notes 9 and 10 for further information. Legal fees were up in 2018-19 due increased public records requests, the North School Environmental Impact Report, City Manager recruitment and litigation not covered by the City's Insurance.

General Government expenses increased by \$633,194 or 15.3%. The City started contracting ambulance transport services at the end of December 2017, when the City started contracted out fire services with Los Angeles County Fire Department. 2018-19 had a full 12 months of the contract expense. In 2018-19 there was also a new state mandated emergency medical transport fee paid by the City to the Department of Healthcare Services. Human Resources had increased expenditures related to recruitments and executive coaching. Additionally, the Finance Cashier Supervisor position was vacant in 2017-18 and filled in 2018-19.

Public Safety expenses decreased by \$1,630,948 or 6.4%. The decrease is primarily due to the GASB 68 and 75 recording of the department's share of the pension and OPEB obligation adjustments. Without these adjustments, the public safety expenses would have been \$135,440 higher than the prior year, which is due in part to increased dispatch service expenses.

The remaining functional expense categories had minor changes over the prior year. Community Development expenses increased by \$34,386 or 1.5%. Culture and Recreation expenses decreased by \$15,133 or .9%. Public Works expenses decreased by \$51,398 or .6%.

The category of interest and fiscal charges was added in 2018-19 in the amount of \$375,815.



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Hermosa Beach's governmental funds reported combined ending fund balances of \$33,343,877, an increase of \$1,868,358 in comparison with the prior fiscal year. See Note 11 for more information. The total fund balances of the governmental funds consist of the following:

- Non-spendable fund balance of \$42,420 represents prepaid items.
- Restricted fund balance of \$5,907,395 which have restrictions imposed by external parties or enabling legislation. Funds in this category include Lighting District Funds, Proposition A and C Transportation Funds, Measure R and M Funds, Asset Forfeiture Funds, Supplemental Law Enforcement Funds (COPS), and Storm Drain Funds.

- Committed fund balance of \$2,133,229 which includes retirement stabilization funds and reserves for capital outlay and future renovations.
- Assigned fund balance of \$25,260,944 which includes the amounts to be used for specific purposes of the City, but do not meet the criteria to be classified as restricted or committed. Funds in this category include Contingency funds (“rainy day” funds), Compensated Absences funds, Capital Projects, Capital Improvements, Capital Facilities Reserve, and Sewer funds.
- Unassigned fund balance of (\$111), which is from a due to other funds liability account.

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

The General Fund balance increased in 2018-19 by \$939,317. While the fund balance decreased for prepaid items due to the timing of the payment to Los Angeles County Fire in 2017-18, there was an increase in funds assigned for contingencies, the addition of \$700,000 in Proposition A exchange funds assigned for additional engineering staff costs, and the addition of \$200,000 assigned for future Capital Improvement Projects.

Overall General Fund revenue increased by 7.5%. The increase is a result of the following: additional property tax revenue of 6.1%; a decrease in other tax revenue of 1.1%, an increase in licenses and permits of 7.9%; an increase in fines and forfeitures of 7.9%; an increase in use of money and property of 123%; a decrease in intergovernmental revenues of 2.3%; a decrease in charges for services of 1.1%, an increase in miscellaneous revenue of 135%; and an increase in interest earned on investments of 618%.

General Fund expenditures show an increase of 5%. The increase is primarily due to Public Works, Public Safety, General Government, and Legislative and Legal for the aforementioned reasons.

General Fund Budgetary Highlights

The final amended budget for revenue other than transfers increased 4.5% over the Adopted budget. Actual revenue exceeded the final budget by \$608,221 or 1% for the following reasons:

- Licenses and Permits were under budget by \$262,780 or -24% due to timing of building permit payments.
- Fines and Forfeitures were up by \$234,565 or 11% due to the implementation of enforcement of late night hours, increased productivity, and the resolution of previous staffing issues.
- Use of Money and Property was up \$91,940 or 6% due to increased film permits and unrealized gains on investments.
- Interest earned on investments was up \$263,302 or 125% due to recording of unrealized gains on investments, which are not budgeted.
- Other Revenue was up by \$274,685 or 193% primarily due to \$194,799 in prior year sales tax being allocated to 2018-19. There was a change in the sales tax remittance methodology at the end of 2017-18 and the May, June and clean-up payments were allocated according to the old methodology and split between fiscal years.

The final amended budget for appropriations other than Transfers Out increased over the original budget by less than 2%. The increase was primarily due to capital improvement projects and other one-time expenditures carried forward from prior year and midyear budget adjustments for legal fees.

Actual expenditures other than Transfers Out were less than the final appropriations by 8% primarily due to staffing vacancies and capital improvement projects not completed in 2018-19.

Capital Asset and Debt Administration

Capital assets. The City of Hermosa Beach's net investment in capital assets for its governmental activities as of June 30, 2019, amounts to \$64,375,911 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, park facilities, roads, highways, and monuments. A prior period adjustment was made to write off infrastructure additions under \$100,000, machinery and equipment under \$5,000 and adjust depreciation for items that were under depreciated. See Note 14.

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

Governmental Activities

- Street Improvements (including Hermosa Avenue) of \$2,590,060.
- ADA Sidewalk Improvements on PCH of \$109,106.
- Community Center General Improvements of \$162,122.
- Sewer Improvements of \$165,603.
- Purchase of 9 vehicles.

Additional information on the City of Hermosa Beach's capital assets can be found in Note 6 on page 63 of this report.

Insurance Fund

The City's established goal for net position in the Insurance Fund is \$3,000,000. The balance at June 30, 2019 was \$3,839,616 due to a midyear transfer of \$427,335 from the General Fund, lower liability claim settlements, and a reduction to the actuarially determined case reserves.

Economic Factors and Next Year's Budgets and Rates

- On April 25, 2017, the City Council voted to contract fire services in Hermosa Beach with the Los Angeles County Consolidated Fire District. The 2019-20 Budget includes the second full year with the County, equipment conversion costs, and payments for the renovation of the Fire Department facility. The 2019-20 Budget also includes the following:
 - \$6,271,557 is committed for Contingency in the General Fund, which is 16% of operating expenditures and in line with our financial policy and the Council goal for a "Financially Sound City Government".
 - \$789,863 is transferred from the General Fund for the 2015 Lease Revenue Bonds debt service.

- \$20.1 million of Capital Improvement Projects are funded, which includes \$7.5 million in new funding.
- The City's Five Year Forecast for 2020-21 to 2024-25 projects retirement costs to decline in year one due to the Miscellaneous side fund pay off. 2019-20 is the first year without the Police side fund. The side funds were created by CalPERS for any unfunded liability that existed when the city was pooled with other cities in 2003. Years two through five show increases due to CalPERS lowering the discount rate (which increases employer rates). Council approved utilizing the savings from the side fund payoffs toward stabilizing the retirement rates.
- Healthcare benefits are assumed to increase 9% for medical and 5% for dental. The actual rates are typically lower than the assumed increase.

Revenue Trends and Assumptions

The 2019-20 Budget demonstrates continued strength in the local economy and a balanced budget, with funds appropriated for design and Phase 1 construction for the new City Yard, purchase of four (4) vehicles, purchase of one hundred (100) smart parking meters to replace meters posted on Hermosa Avenue and adjoining streets, \$150,000 for preparation of a Request for Proposal for the Solid Waste Management Franchise, transportation planning and traffic engineering services related to school projects, update of the Zoning Ordinance and update of the Local California Environmental Quality Act Implementation Guides, purchase of new Christmas decorations, update of the Emergency Operations Plan, technology upgrades, new drinking fountains on the Greenbelt, purchase of a solar powered speed sign, a message board/speed trailer and drone services for the Police Department, and funding for \$20.1 million in capital improvement projects, which includes funding for street improvements, sewer improvements, construction on the aforementioned new city Yard, and several studies. Added personnel include four (4) new full-time permanent positions – one (1) Deputy City Manager, two (2) Assistant Engineers and one (1) Police Service Officer. The budget also added one (1) part-time temporary Public Works Intern position. The ballot measure for the November 2019 election to convert the elected City Clerk position to an appointed City Clerk did pass. Additionally nine (9) full-time permanent positions were reclassified and one (1) full-time permanent position was eliminated.

Hermosa Beach continues to have ongoing revenues exceed ongoing expenses. Revenue growth of 3.6% is anticipated in the 2019-20 Budget. Property tax is estimated to increase by 4.5%. Sales Tax and Transient occupancy tax, and utility users tax is estimated to continue at the 2018-19 level. Licenses and Permits are estimated to increase by 9% primarily due to building permit activity. Fines and Forfeitures revenue is estimated to be consistent with the 2018-19 Budget.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF HERMOSA BEACH

Statement of Net Position

June 30, 2019

	<u>Primary Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 50,597,301
Accounts receivable	3,558,427
Property taxes receivable, net	722,450
Reimbursable grants receivable	348,257
Interest receivable on investments	27,560
Other assets	<u>555,563</u>
Total current assets	<u>55,809,558</u>
Noncurrent assets:	
Capital assets:	
Non-depreciable	26,452,976
Depreciable, net	<u>37,922,935</u>
Total capital assets	<u>64,375,911</u>
Total noncurrent assets	<u>64,375,911</u>
Total assets	<u>120,185,469</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows of resources	13,459,742
OPEB net asset	648,042
OPEB related deferred outflows of resources	<u>1,486,916</u>
Total deferred outflows of resources	<u>15,594,700</u>

See accompanying notes to the basic financial statements.

CITY OF HERMOSA BEACH
Statement of Net Position (Continued)
June 30, 2019

	Primary Government
	Governmental Activities
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	3,593,704
Accrued salaries and benefits payable	907,654
Due to other governments	734,085
Refundable deposits	592,521
Unearned revenue	72,901
Interest payable	53,702
Workers' compensation claims payable - due within one year	876,329
General liability claims payable - due within one year	175,875
Compensated absences - due within one year	1,380,181
Long-term debt - due within one year	490,384
Total current liabilities	8,877,336
Noncurrent liabilities:	
Workers' compensation claims payable - due in more than one year	4,176,347
General liability claims payable - due in more than one year	362,257
Compensated absences - due in more than one year	1,333,915
Long-term debt	10,047,508
Aggregate net pension liability	47,589,484
Total noncurrent liabilities	63,509,511
Total liabilities	72,386,847
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred inflows of resources	2,555,366
OPEB related deferred inflows of resources	246,651
Total deferred inflows of resources	2,802,017
NET POSITION	
Net investment in capital assets	64,375,911
Restricted for:	
Capital projects	635,804
Street and sewer purposes	1,660,860
Transportation purposes	1,346,632
Public works	124,356
Public safety	895,500
Cultural and recreation	381,719
Undergrounding districts	12,106
Total restricted	5,056,977
Unrestricted (Deficit)	(8,841,583)
Total net position	\$ 60,591,305

See accompanying notes to the basic financial statements.

CITY OF HERMOSA BEACH

Statement of Activities

For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenue
Primary Government:					
Governmental activities:					
Legislative and legal	\$ 1,740,871	\$ -	\$ -	\$ -	\$ -
General government	4,762,463	476,403	5,494	2,942	484,839
Public safety	23,865,450	5,153,551	148,974	26,456	5,328,981
Community development	2,298,401	1,735,699	51,127	-	1,786,826
Cultural and recreation	1,754,760	974,306	55,474	30,000	1,059,780
Public works	9,125,121	1,409,991	2,544,600	467,023	4,421,614
Interest and fiscal charges	<u>375,815</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 43,922,881</u>	<u>\$ 9,749,950</u>	<u>\$ 2,805,669</u>	<u>\$ 526,421</u>	<u>\$ 13,082,040</u>

See accompanying notes to the basic financial statements.

CITY OF HERMOSA BEACH
Statement of Activities (Continued)
For the Year Ended June 30, 2019

Functions/Programs	Net (expense) Revenue and Changes in Net Position
Primary Government:	
Governmental activities:	
Legislative and legal	\$ (1,740,871)
General government	(4,277,624)
Public safety	(18,536,469)
Community development	(511,575)
Cultural and recreation	(694,980)
Public works	(4,703,507)
Interest and fiscal charges	<u>(375,815)</u>
Total governmental activities	<u>(30,840,841)</u>
General revenues:	
Taxes:	
Property taxes	18,640,303
Sales taxes	3,133,311
Real property transfer tax	272,138
Franchise fees	720,853
Transient occupancy tax	3,251,349
Business license	1,107,723
Utility users tax	2,195,815
½ cent sales tax for public safety	244,252
Other taxes	<u>14,986</u>
Total taxes	29,580,730
Grants and contributions not restricted to specific programs	2,346,524
Miscellaneous	<u>2,701,560</u>
Total general revenues	<u>34,628,814</u>
Change in net position	3,787,973
Net position - beginning of year, as restated	<u>56,803,332</u>
Net position - end of year	<u>\$ 60,591,305</u>

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

GOVERNMENTAL FUND FINANCIAL STATEMENTS

The Governmental Funds of the City are outlined below:

General Fund - The General Fund accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government which are not accounted for in the other funds. In Hermosa Beach, these services include general government, safety, community development, culture and recreation and public works.

Proposition "A" Transit Special Revenue Fund - Transit revenue consists primarily of Proposition A fund (the 1/2 cent sales tax for Los Angeles County transportation purposes). The City currently operates a Dial-a-Ride program for seniors, a taxi voucher program, a commuter bus, special event and after school program shuttles and subsidizes bus passes for senior citizens and students.

Grants Special Revenue Fund - This fund is used to support eligible public service agencies.

Sewer Special Revenue Fund - This fund is used to account for funds derived from a portion of the 6% utility user tax and miscellaneous services charges. Funds are spent on the Sewer/Storm Drain Department and capital sewer projects.

Capital Improvement Capital Projects Fund - Funds set aside for capital improvement projects.

Nonmajor Governmental Funds - Nonmajor Governmental Funds is the aggregate of all the nonmajor governmental funds.

CITY OF HERMOSA BEACH

Balance Sheet

Governmental Funds

June 30, 2019

	Major Funds		
	General	Proposition "A" Transit Special Revenue Fund	Grants Special Revenue Fund
ASSETS			
Cash and investments	\$ 11,068,234	\$ 1,374,258	\$ 957,648
Accounts receivable	3,236,406	-	29,698
Property taxes receivable, net	699,026	-	-
Reimbursable grants receivable	-	-	348,257
Interest receivable on investments	11,830	979	-
Other assets	549,870	-	-
Due from other funds	26,808	-	-
Total assets	\$ 15,592,174	\$ 1,375,237	\$ 1,335,603
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,543,701	\$ 1,152,406	\$ 94,756
Accrued wages and benefits payable	827,667	227	-
Due to other governments	-	-	734,085
Refundable deposits	592,521	-	-
Unearned revenues	50,401	-	-
Due to other funds	-	-	-
Compensated absences, due within one year	1,364,766	-	47
Total liabilities	4,379,056	1,152,633	828,888
Deferred Inflows of Resources:			
Unavailable revenue	699,026	-	-
Total deferred inflows of resources	699,026	-	-
Fund Balances:			
Nonspendable	40,110	-	-
Restricted	345,902	222,604	506,715
Committed	1,108,275	-	-
Assigned	9,019,805	-	-
Unassigned	-	-	-
Total fund balances	10,514,092	222,604	506,715
Total liabilities, deferred inflows of resources and fund balances	\$ 15,592,174	\$ 1,375,237	\$ 1,335,603

See accompanying notes to the basic financial statements.

CITY OF HERMOSA BEACH

Balance Sheet (Continued)

Governmental Funds

June 30, 2019

	Major Funds			Total
	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	
ASSETS				
Cash and investments	\$ 6,743,371	\$ 9,629,319	\$ 6,112,642	\$ 35,885,472
Accounts receivable	75,919	-	207,392	3,549,415
Property taxes receivable, net	15,034	-	8,390	722,450
Reimbursable grants receivable	-	-	-	348,257
Interest receivable on investments	5,258	5,720	3,773	27,560
Other assets	728	-	2,310	552,908
Due from other funds	-	-	-	26,808
Total assets	\$ 6,840,310	\$ 9,635,039	\$ 6,334,507	\$ 41,112,870
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 42,029	\$ 133,761	\$ 390,523	\$ 3,357,176
Accrued wages and benefits payable	4,912	35,291	14,774	882,871
Due to other governments	-	-	-	734,085
Refundable deposits	-	-	-	592,521
Unearned revenues	-	-	22,500	72,901
Due to other funds	-	-	26,808	26,808
Compensated absences, due within one year	3,545	-	11,823	1,380,181
Total liabilities	50,486	169,052	466,428	7,046,543
Deferred Inflows of Resources:				
Unavailable revenue	15,034	-	8,390	722,450
Total deferred inflows of resources	15,034	-	8,390	722,450
Fund Balances:				
Nonspendable	-	-	2,310	42,420
Restricted	-	-	4,832,174	5,907,395
Committed	-	-	1,024,954	2,133,229
Assigned	6,774,790	9,465,987	362	25,260,944
Unassigned	-	-	(111)	(111)
Total fund balances	6,774,790	9,465,987	5,859,689	33,343,877
Total liabilities, deferred inflows of resources and fund balances	\$ 6,840,310	\$ 9,635,039	\$ 6,334,507	\$ 41,112,870

See accompanying notes to the basic financial statements.

CITY OF HERMOSA BEACH

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position

June 30, 2019

Total Fund Balances - Total Governmental Funds		\$ 33,343,877
<p>Amounts reported for governmental activities in the Statement of Net Position were reported differently because:</p>		
<p>Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet.</p>		
Nondepreciable, net of Internal Service Fund of \$195,245	\$ 26,257,731	
Depreciable, net of Internal Service Fund of \$3,464,448	<u>34,458,487</u>	
Total capital assets		60,716,218
<p>Internal Service Funds were used by management to charge the costs of certain activities, such as insurance and equipment replacement to individual funds. The assets and liabilities of the Internal Service Funds were included in the governmental activities in the Government-wide Statement of Net Position.</p>		
Insurance Fund	3,839,616	
Equipment Replacement Fund	<u>8,667,990</u>	
Total Internal Service Funds		12,507,606
<p>Revenues in the Government-wide Statement of Activities that do not provide current financial resources and are not reported as revenue in the governmental funds.</p>		
		722,450
<p>Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position:</p>		
Lease revenue bonds and premium	(10,537,892)	
Interest payable	(53,702)	
Compensated absences, net of \$23,464 reported in Internal Service fund and \$1,1380,181 reported in accrued payroll	<u>(1,310,451)</u>	(11,902,045)
<p>Deferred amounts relates to pension not available for current expenditures and are not reported in the governmental fund financial statements:</p>		
Pension related deferred outflows of resources		13,459,742
Pension related deferred inflows of resources		(2,555,366)
<p>Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.</p>		
		(47,589,484)
<p>Deferred amounts relates to other postemployment benefits not available for current expenditures and are not reported in the governmental fund financial statements:</p>		
OPEB related deferred outflows of resources		1,486,916
OPEB related deferred inflows of resources		(246,651)
<p>Net OPEB asset is not due and payable in the current period and therefore is not reported in the governmental funds.</p>		
		<u>648,042</u>
Net position of governmental activities		<u>\$ 60,591,305</u>

See accompanying notes to the basic financial statements.

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CITY OF HERMOSA BEACH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	Major Funds		
	General	Proposition "A" Transit Special Revenue Fund	Grants Special Revenue Fund
REVENUES:			
Property taxes	\$ 18,110,645	\$ -	\$ -
Other taxes	10,225,084	393,813	-
Licenses and permits	850,059	-	-
Fines and forfeitures	2,361,403	-	-
Use of money and property	1,580,582	-	-
Intergovernmental	115,015	-	31,680
Charges for services	7,088,925	5,418	-
Miscellaneous	417,118	-	193,399
Interest earned on investments	473,737	62,434	92
Total revenues	<u>41,222,568</u>	<u>461,665</u>	<u>225,171</u>
EXPENDITURES:			
Current:			
Legislative and legal	1,499,065	-	-
General government	4,190,782	8,188	25,000
Public safety	21,946,780	55,704	29,069
Community development	2,019,366	4,415	39,721
Culture and recreation	1,523,233	77,286	-
Public works	5,442,726	-	3,390
Capital outlay	439,417	1,406,089	935,776
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>37,061,369</u>	<u>1,551,682</u>	<u>1,032,956</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>4,161,199</u>	<u>(1,090,017)</u>	<u>(807,785)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	533,887	-	83,018
Transfers out	(3,755,769)	-	-
Total other financing sources (uses)	<u>(3,221,882)</u>	<u>-</u>	<u>83,018</u>
NET CHANGE IN FUND BALANCE	939,317	(1,090,017)	(724,767)
Fund balances, beginning of year	9,574,775	1,312,621	1,231,482
Fund balances, end of year	<u>\$ 10,514,092</u>	<u>\$ 222,604</u>	<u>\$ 506,715</u>

See accompanying notes to the basic financial statements.

CITY OF HERMOSA BEACH

Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)

Governmental Funds

For the Year Ended June 30, 2019

	Major Funds			Total
	Sewer Special Revenue Fund	Capital Improvements Capital Projects Fund	Nonmajor Governmental Funds	
REVENUES:				
Property taxes	\$ -	\$ -	\$ 455,151	\$ 18,565,796
Other taxes	-	-	1,687,670	12,306,567
Licenses and permits	-	-	-	850,059
Fines and forfeitures	-	-	12,029	2,373,432
Use of money and property	-	-	372,359	1,952,941
Intergovernmental	21,314	-	894,425	1,062,434
Charges for services	933,813	-	275,373	8,303,529
Miscellaneous	-	-	23,597	634,114
Interest earned on investments	282,128	317,333	244,288	1,380,012
Total revenues	1,237,255	317,333	3,964,892	47,428,884
EXPENDITURES:				
Current:				
Legislative and legal	-	-	-	1,499,065
General government	-	-	50,773	4,274,743
Public safety	-	-	55,828	22,087,381
Community development	-	-	-	2,063,502
Culture and recreation	-	-	-	1,600,519
Public works	383,543	-	927,114	6,756,773
Capital outlay	166,492	494,883	2,616,053	6,058,710
Debt service:				
Principal	-	-	460,000	460,000
Interest and fiscal charges	-	-	332,497	332,497
Total expenditures	550,035	494,883	4,442,265	45,133,190
REVENUES OVER (UNDER) EXPENDITURES	687,220	(177,550)	(477,373)	2,295,694
OTHER FINANCING SOURCES (USES):				
Transfers in	-	2,535,936	1,002,960	4,155,801
Transfers out	-	(83,018)	(744,350)	(4,583,137)
Total other financing sources (uses)	-	2,452,918	258,610	(427,336)
NET CHANGE IN FUND BALANCE	687,220	2,275,368	(218,763)	1,868,358
Fund balances, beginning of year	6,087,570	7,190,619	6,078,452	31,475,519
Fund balances, end of year	\$ 6,774,790	\$ 9,465,987	\$ 5,859,689	\$ 33,343,877

See accompanying notes to the basic financial statements.

CITY OF HERMOSA BEACH
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Governmental-wide Statement of Activities
For the Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ 1,868,358
Governmental activities in the Statement of Activities were reported differently because:	
Governmental Funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. The amount of capital assets recorded in the current period is listed below.	
Total capital outlay expenditures reported in governmental funds	\$ 6,791,285
Less: repair and maintenance expenditures	<u>(19,216)</u>
Total capital outlay (net of \$1,187,410 reported in internal service fund)	6,772,069
The net effect on disposal of capital assets.	(2,984,143)
Depreciation expense of capital assets is reported in the Government-wide Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds except for the Internal Service fund amount listed below.	
Total depreciation reported in Government-wide Statement of Activities	(2,763,120)
Less: depreciation reported in the Internal Service Fund	<u>519,812</u>
Total	(2,243,308)
Earned but unavailable revenues reported in the governmental funds balance sheet as deferred inflows of resources should be recognized in the Government-wide Statement of Activities as revenue regardless of availability.	74,507
Certain pension expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(2,167,319)
Certain other postemployment benefit expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	1,220,307
Compensated absences were reported in the Government-wide Statement of Activities, but they did not require the use of current financial resources. Therefore, compensated absences were not reported as expenditures in the governmental funds.	(224,534)
The issuance of long-term debt provides current financial resources to governmental funds. However, the repayment reduces long-term liabilities in the governmental activities Statement of Net Position.	460,000
Amortization of premium does not use current financial resources and therefore not reported as expenditures in the governmental funds.	(43,318)
Internal Service Funds are used by management to charge the costs of certain activities, such as insurance and equipment replacement, to individual funds. The net revenue of the Internal Service Funds is reported in governmental activities.	<u>1,055,354</u>
Change in net position of governmental activities	<u>\$ 3,787,973</u>

See accompanying notes to the basic financial statements.

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PROPRIETARY FUND FINANCIAL STATEMENTS

Internal Service Funds - To account for the costs associated with the City's insurance and for funding equipment replacement.

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CITY OF HERMOSA BEACH

Statement of Net Position

Proprietary Funds

June 30, 2019

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
ASSETS	
Current assets:	
Cash and investments	\$ 14,711,829
Account receivables	9,012
Other assets	<u>2,655</u>
Total current assets	<u>14,723,496</u>
Noncurrent assets:	
Nondepreciable capital assets	195,245
Depreciable capital assets, net of accumulated depreciation	<u>3,464,448</u>
Total noncurrent assets	<u>3,659,693</u>
Total assets	<u>18,383,189</u>
LIABILITIES	
Current liabilities:	
Accounts payable	236,528
Accrued wages and benefits payable	24,783
Workers' compensation claims payable - due within one year	876,329
General liability claims payable - due within one year	175,875
Compensated absences - due within one year	<u>23,464</u>
Total current liabilities	<u>1,336,979</u>
Long-term liabilities:	
Workers' compensation claims payable - due in more than one year	4,176,347
General liability claims payable - due in more than one year	<u>362,257</u>
Total long-term liabilities	<u>4,538,604</u>
Total liabilities	<u>5,875,583</u>
NET POSITION	
Net investment in capital assets	3,659,693
Unrestricted	<u>8,847,913</u>
Total net position	<u>\$ 12,507,606</u>

See accompanying notes to the basic financial statements.

CITY OF HERMOSA BEACH
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the year ended June 30, 2019

	Governmental Activities
	Internal Service Funds
OPERATING REVENUES:	
Charges for services	\$ 4,334,212
Miscellaneous revenue	<u>101,664</u>
Total operating revenues	<u>4,435,876</u>
OPERATING EXPENSES:	
Salaries and wages	397,936
Contract services	1,968,651
Supplies	378,193
Claims expense	535,420
Depreciation	<u>519,812</u>
Total operating expenses	<u>3,800,012</u>
OPERATING INCOME	<u>635,864</u>
NON-OPERATING REVENUES (EXPENSES):	
Loss on disposal of capital assets	<u>(7,846)</u>
Total non-operating revenues (expenses)	<u>(7,846)</u>
INCOME BEFORE TRANSFERS	628,018
Transfers in	<u>427,336</u>
Total transfers	<u>427,336</u>
Change in net position	1,055,354
Net position, beginning of year, as restated	<u>11,452,252</u>
Net position, end of year	<u>\$ 12,507,606</u>

See accompanying notes to the basic financial statements.

CITY OF HERMOSA BEACH

Statement of Cash Flows

Proprietary Funds

For the year ended June 30, 2019

	Governmental Activities
	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for services from other funds	\$ 4,228,413
Cash received from insurance recovery	275
Cash payments to suppliers for goods and services	(947,661)
Cash payments to employees for services	(395,177)
Cash payments for insurance premiums and claims	<u>(2,319,888)</u>
Net cash provided (used by) operating activities	<u>565,962</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Interest paid	-
Transfers in	427,336
Transfers out	<u>-</u>
Net cash provided (used by) non-capital financing activities	<u>427,336</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(1,197,710)
Proceeds from sale of capital assets	<u>-</u>
Net cash provided (used by) capital and related financing activities	<u>(1,197,710)</u>
Net increase (decrease) in cash and cash equivalents	(204,412)
Cash and equivalents, beginning of year	<u>14,916,241</u>
Cash and equivalents, end of year	<u>\$ 14,711,829</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED BY) OPERATING ACTIVITIES:	
Operating income (loss)	\$ 635,864
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	519,812
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	42,083
(Increase) decrease in other assets	46,633
Increase (decrease) in accounts payable	(133,463)
Increase (decrease) in accrued wages and benefits payable	2,289
Increase (decrease) in workers' compensation claims payable	(45,300)
Increase (decrease) in general liability claims payable	(502,306)
Increase (decrease) in compensated absences	<u>350</u>
Total adjustments	<u>(69,902)</u>
Net cash provided (used) by operating activities	<u>\$ 565,962</u>

See accompanying notes to the basic financial statements.

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FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds- are used to account for assets held by the City in the capacity of agent for individuals. Agency Fund spending is controlled primarily through legal agreements and applicable State and Federal laws. The Agency Funds of the City were established to account for transactions related to payments for limited obligation bonds for the Bayview Drive, the Lower Pier Avenue Assessment District, the Beach Drive Assessment District, the Myrtle Avenue Utility Undergrounding Assessment District, and the Loma Drive Utility Undergrounding Assessment District.

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CITY OF HERMOSA BEACH

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2019

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 337,654
Interest receivable	265
Other receivable	<u>2,156</u>
Total assets	<u><u>\$ 340,075</u></u>
LIABILITIES	
Assessment:	
Installment account	\$ 327,075
Reserve requirement	<u>13,000</u>
Total Liabilities	<u><u>\$ 340,075</u></u>

See accompanying notes to the basic financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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City of Hermosa Beach
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For the Year Ended June 30, 2019

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City of Hermosa Beach
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City of Hermosa Beach
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the City of Hermosa Beach, California, (the “City”) have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the City’s significant policies:

A. Financial Reporting Entity

The City was incorporated on January 14, 1907, under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety (police, crossing guards and fire), maintenance and construction of public improvements, cultural, recreation, community development (planning and zoning), and general administrative services.

The basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization’s governing body and either the City is able to impose its will on that organization or there is a potential for the organization to provide financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City’s financial statement to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the City’s operations and data from these units are combined with data of the City.

Management determined that the following entities should be reported as blended component units based on the criteria above. Each blended component unit has a June 30 year-end, has a governing board that is substantially the same as the City’s, there is a financial benefit or burden relationship between the City and the blended component unit, and the City is financially accountable for each of the blended component units.

Hermosa Beach Street Lighting and Landscaping District – The Hermosa Beach Street Lighting and Landscaping Assessment District was created for street lighting/median maintenance purposes pursuant to Street and Highway Code Sections 22500-22679.

Lower Pier Avenue Assessment District – The Lower Pier Avenue Assessment District was created for improvement of the assessment district in November 1997 pursuant to Street and Highway Code Section 10000.

Myrtle Avenue Underground Utility District – The Myrtle Avenue Underground Utility District was created in October 1999 pursuant to Street and Highway Code Section 10000.

Loma Drive Underground Utility District – The Loma Drive Underground Utility District was created in October 1999 pursuant to Street and Highway Code Section 10000.

Beach Drive Assessment District – The Beach Drive Assessment District was created in July 2004 pursuant to Street and Highway Code Section 10000.

Bayview Drive Underground District – The Bayview Drive Underground District was created in February 2005 pursuant to Street and Highway Code Section 10000.

Hermosa Beach Public Financing Authority – The Hermosa Beach Public Financing Authority was created on July 14, 2015 to authorize the issuance and sale of 2015 Lease Revenue Bonds.

The above component units do not issue separate financial statements.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Government-Wide Financial Statements

The government-wide financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Fiduciary activities of the City are not included in these statements.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated. In the statement of activities, internal service fund transactions have been included in the governmental activities. The following interfund activities have been eliminated:

- Due from and to other funds, which are short-term loans within the primary government
- Transfers in and out, which are flows of assets between funds without the requirement for repayment

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus

(Continued) Governmental Fund Financial Statements

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) which are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, intergovernmental revenues and other taxes. Sales tax is received on a monthly basis. Business license fees are recorded as received, except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The City recognizes business license revenue collected within 60 days as revenue at June 30. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliations of the fund financial statements to the government-wide financial statements are provided to explain the differences.

The City reports the following major governmental fund:

General Fund – The General Fund is the City’s principal operating fund. It accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government except those required to be accounted for in another fund.

Sewer Special Revenue Fund – This fund is used to account for funds derived from a portion of the 6% utility user tax and miscellaneous services charges. Funds are spent on the Sewer/Storm Drain Department and capital sewer projects.

Capital Improvement Capital Projects Fund – This fund is set aside for capital improvement projects.

Proprietary Fund Financial Statements

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Proprietary Fund Financial Statements (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Internal service funds are the only funds presented in the proprietary fund financial statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements. The internal service funds are used to account for equipment replacement and insurance provided to other City departments on a cost-reimbursement basis.

Fiduciary Fund Financial Statements

The City's fiduciary funds represent agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The fiduciary funds are accounted for using the accrual basis of accounting. The City maintains seven fiduciary funds which represent assets resulting from assessments to the property owners in four utility undergrounding districts, two reserve funds for utility undergrounding districts and a downtown improvement district (Lower Pier Avenue). The assets are used to repay bonds secured by the private property in the district.

C. Cash and Investments

The City's cash and cash equivalents are comprised of cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. All cash and investments of proprietary funds are held in the City's investment pool. These cash pools have the general characteristics of a demand deposit account, therefore, all cash and investments in the proprietary funds are considered cash and cash equivalents for statement of cash flows purposes.

D. Fair Value Measurement

Investments, unless otherwise specified, recorded at fair value in the financial statements, are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

The three levels of the fair value measurement hierarchy are described below:

- Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.
- Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Property Taxes Receivable

Property taxes attach as an enforceable lien on property as of January 1 each year. The property tax year runs from July 1 to June 30. Property is taxed as of January 1 for payment in the following fiscal year. Taxes are payable in two installments: December 10 and April 10 of each year. The County of Los Angeles, California (the “County”) bills and collects the property taxes and remits them to the City according to a payment schedule established by the County. City property tax revenues are recognized, net of estimated refunds and uncollectible amounts, in the period for which the taxes are levied. The City recognizes available taxes, or those collected within 60 days, as revenue at June 30.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the assessed valuation no more than 2% per year. The City receives a share of this basic levy, or .203 cents of each \$1.00, proportionate to what it received during the years 1976 to 1978.

F. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds” (i.e., current portion of interfund loans).

G. Capital Assets

In the government-wide financial statements, capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g., roads, sidewalks, and similar items), are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets, donated works of art or similar items, and capital assets received in a service concession arrangement are reported at acquisition value on the date donated rather than fair value. City policy has set the capitalization threshold for reporting capital assets at \$5,000 and infrastructure at \$100,000.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewers and storm drains, parking meters and monuments. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights and landscaping. These subsystems were not delineated in the basic financial statements. The Finance Department, with the assistance of the appropriate operating department, maintains information regarding the subsystems.

Interest incurred during capital assets construction, if any, is capitalized for the proprietary funds as part of the asset cost.

For all infrastructure systems, the City elected to use the “Basic Approach” and depreciate over its estimated useful life.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. The lives used for depreciation purposes are as follows:

Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	3-20 years
Infrastructure	15-50 years

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

H. Unearned and Unavailable Revenue

In the government-wide and fund financial statements, unearned revenue is reported for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the government-wide financial statements are cell phone site license lease payments received in advance, prepaid charges for services, facility rentals paid in advance, and quarterly encroachment fees, and advance registration for recreation classes.

In the governmental fund financial statements, unavailable revenue is reported when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City reports an unavailable revenue when an asset is reported in governmental fund financial statements but the revenue is not available.

I. Claims Payable

The City records a liability to reflect an actuarial estimate of ultimate uninsured losses for both general liability claims (including property damage claims) and workers' compensation claims. The estimated liability for workers' compensation claims and general liability claims includes "incurred but not reported" ("IBNR") claims. There is no fixed payment schedule to pay these liabilities.

J. Compensated Absences Payable

City employees have vested interest in varying levels of vacation, sick leave and compensatory time based on their length of employment. It is the policy of the City to pay all accumulated vacation pay and all or a portion of sick pay when an employee retires or terminates. The long-term amount is included as a liability in the governmental activities of the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. All of the liability for compensated absences applicable to proprietary funds is reported in those funds. The City's goal is to accumulate 25% of the funding for the accrued liability for compensated absences in the assigned fund balance for compensated absences. Compensated absences are liquidated principally by the General Fund.

K. Pensions

For purposes of measuring the aggregate net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 9). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

CalPERS

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

L. Other Postemployment Benefits (“OPEB”)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the plan (Note 10). For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The following timeframes are used for OPEB reporting:

<u>OPEB</u>	
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over 5 years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

M. Net Position

In the government-wide financial statements and proprietary fund financial statements, net position is classified as follows:

Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation.

Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted - This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

N. Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Nonspendable fund balances include amounts that cannot be spent because they are not in a spendable form, such as inventory or prepaid items, or because resources legally or contractually must remain intact.

Restricted – Restricted fund balances are the portion of fund balance that have externally enforceable limitations on their usage through legislation or limitations imposed by creditors, grantor, laws and regulations of other governments or enabling legislation.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

N. Fund Balances (Continued)

Committed – Committed fund balances are self-imposed limitations by the highest level of decision-making authority, namely the City Council, prior to the end of the reporting period. City Council adoption of a resolution is required to commit resources or to rescind the commitment.

Assigned – Assigned fund balances are limitations imposed by management based on the intended use of the funds. Modifications or rescissions of the constraints can be removed by the same type of action that limited the use of the funds. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the Finance Director for that purpose.

Unassigned – Unassigned fund balances represent the residual net resources in excess of the other classifications. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental fund other than general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

O. Spending Policy

Government – Wide Financial Statements and Proprietary Fund Financial Statements

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the City’s policy is to apply restricted component of net position first, then the unrestricted component of net position as needed.

Governmental Fund Financial Statements

When expenditures are incurred for purposes for which restricted, committed, assigned and unassigned fund balances are all available, the City’s policy is to use these balances in the following order unless an ordinance specifies the fund balance to be used: restricted, committed, assigned and unassigned.

Long-term financial planning

The City Council’s adopted financial policies relating to long-term financial planning for specific purposes are as follows:

Insurance Fund - Goal of \$3,000,000 in net position for claims reserves and catastrophic losses.

Equipment Replacement Fund - Goal of net position equal to the accumulated amount calculated for all equipment, based on replacement cost and useful life of equipment.

Contingency - Goal equal to 16% of the General Fund appropriations for economic uncertainties, unforeseen emergencies.

Compensated Absences - Goal equal to 25% funding for accrued liabilities for employee vacation, sick and compensatory time.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Spending Policy (Continued)

Long-term financial planning (Continued)

The City also has a financial policy of transferring funds unspent in the General Fund at year-end to the Insurance Fund, Equipment Replacement Fund, and Capital Improvement Capital Projects Fund and to add to Contingency funds. The City Council makes changes as necessary to the year-end transfer, depending on the equity in the funds or based on other needs.

P. Use of Estimates

The preparation of the basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Q. Accounting Changes

The City adopted Statement on Governmental Accounting Standards (GASB Statement) No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88 *Certain Disclosures Related to Debt*. These statements did not have a significant impact on the City's financial statements for the year ended June 30, 2019.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 2 – Cash and Investments

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds.

The City had the following cash and investments at June 30, 2019:

	Government-Wide Statement of Net Position Governmental Activities	Statement of Fiduciary Net Position	Total
Cash and investments	\$ 50,597,301	\$ 337,654	\$ 50,934,955

The City’s cash and investments at June 30, 2019 in more detail:

Cash and cash equivalents:	
Demand deposits	\$ 14,703,694
Petty cash	2,000
Total cash and cash equivalents	14,705,694
Investments:	
Local Agency Investment Fund	10,062,538
Los Angeles County Pooled Investments Funds	16,400,855
Negotiable Certificates of Deposit	9,266,288
U.S. Government Sponsored Enterprise Securities	499,580
Total investments	33,229,261
Total cash and investments	\$ 50,934,955

A. Deposits

The carrying amounts of the City’s demand deposits were \$14,703,694 at June 30, 2019. Bank balances at that date were \$15,212,990, the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the City’s name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City’s name.

The market value of pledged securities must equal at least 110% of the City’s cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City’s total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (“FDIC”). The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures, if applicable. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances, however, interest is not allocated to funds created to advance costs for utility undergrounding districts, reimbursable grant funds or internal service funds.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 2 – Cash and Investments (Continued)

B. Investments

Under the provisions of the City’s investment policy, the City’s investments are limited to those authorized by the California Government Code, except as follows:

- There is no maximum amount or maximum maturity period of the City’s idle funds that may be invested with the Local Agency Investment Fund (“LAIF”) or the Los Angeles County Pooled Investment Fund (“LACPIF”)
- Negotiable Certificates of Deposit shall not exceed 30 percent of the City’s surplus money and mature in 5 years or less.
- Medium-term corporate notes shall have a Moody or Standard & Poor’s rating of at least AA and mature in 5 years or less

The City is a participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City’s investments with LAIF at June 30, 2019 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities, which included the following:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities: generally, mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, collateralized mortgage obligations), or credit card receivables.

As of June 30, 2019, the City had \$10,062,538 invested in LAIF, which had invested 1.78% of the pool investment funds in Structured Notes and Asset-Backed Securities. The fair value of the City’s investment in this pool is reported in the accompanying financial statements at amounts based upon the City’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

C. Investment in Los Angeles County Investment Pool

The City is a voluntary participant in the Los Angeles County Investment Pool pursuant to Government Code Section 53684. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Los Angeles County Investment Pool’s Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of \$1 million. Projections are to be performed no less than semi-annually. In accordance with Government Code Section 27136, all requests for withdrawal of funds for the purpose of investing or depositing the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants. As of June 30, 2019, the City had \$16,400,855 invested in the Los Angeles County Investment Pool.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 2 – Cash and Investments (Continued)

D. Fair Value Measurement

At June 30, 2019, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within fair value hierarchy in which the fair value measurements fall at June 30, 2019:

Investment Type	Value	Level 2	Uncategorized
Local Agency Investment Fund	\$ 10,062,538	\$ -	\$ 10,062,538
Los Angeles County Pooled Investments Fund	16,400,855	16,400,855	-
Negotiable Certificates of Deposit	9,266,288	9,266,288	-
U.S. Government Sponsored Enterprise Securities	499,580	499,580	-
Total	\$ 36,229,261	\$ 26,166,723	\$ 10,062,538

E. Risk Disclosures

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments to a maximum maturity of five years.

At June 30, 2019, the City had the following investment maturities:

Investment Type	Fair value	Investment Maturities (in Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5
Local Agency Investment Fund	\$ 10,062,538	\$ 10,062,538	\$ -	\$ -	\$ -	\$ -
Los Angeles County Pooled Investments Fund	16,400,855	16,400,855	-	-	-	-
Negotiable Certificates of Deposit	9,266,288	-	1,484,578	1,930,729	1,732,864	4,118,117
U.S. Government Sponsored Enterprise Securities	499,580	-	499,580	-	-	-
Total	\$ 36,229,261	\$ 26,463,393	\$ 1,984,158	\$ 1,930,729	\$ 1,732,864	\$ 4,118,117

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. It is the City's policy to limit its investments in these investment types to the top rating issued by Standard & Poor's and Moody's Investor Service. At June 30, 2019, the City's credit risks, expressed on a percentage basis, were as follows:

Credit Quality Distribution for Securities with Credit Exposure as a Percentage of Total Investments			
Investment Type	Moody's Credit Rating	S&P's Credit Rating	% of Investments with Interest Rate Risk
Local Agency Investment Fund (LAIF)	Not Rated	Not Rated	27.77%
Los Angeles County Pooled Investments Fund	Not Rated	Not Rated	45.27%
Negotiable Certificates of Deposits	Not Rated	Not Rated	25.58%
U.S. Government Sponsored Enterprise Securities:			
Federal Home Loan Mortgage Corporation	Aaa	AA+	1.38%
Total			100.00%

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 2 – Cash and Investments (Continued)

E. Risk Disclosures (Continued)

Custodial Risk – For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of credit risk – The City’s investment policy does not allow for investments in any one institution that is in excess of 5% of the City’s total portfolio, except for LAIF and LACIPIF, where there is no limit. The City is in compliance with the investment policy related to the concentration of credit risk for the year ended June 30, 2019.

Note 3 - Receivables

A. Government-Wide Financial Statements

At June 30, 2019, the government-wide financial statements show the following receivables, net of allowances for uncollectible amounts, if any:

	Government-Wide Statement of Net Position Governmental Activities	Statement of Fiduciary Net Position	Total
Accounts receivable	\$ 3,558,427	\$ -	\$ 3,558,427
Property taxes receivable, net	722,450	-	722,450
Reimbursable grants receivable	348,320	-	348,320
Interest receivable on investments	27,497	265	27,762
Other receivables	-	2,156	2,156
Total	\$ 4,656,694	\$ 2,421	\$ 4,659,115

B. Fund Financial Statements Receivables

Receivables consisted of amounts accrued in the ordinary course of operations. The total amount of receivables for each major and nonmajor funds in the aggregate as of June 30, 2019, were as follows:

Governmental funds:	
General Fund	\$ 3,947,262
Proposition “A” Transit Special Revenue Fund	979
Grants Special Revenue Fund	377,955
Sewer Special Revenue Fund	96,211
Capital Improvements Capital Projects Fund	5,720
Nonmajor Funds	219,555
Total governmental funds	4,647,682
Total accounts receivable	\$ 4,647,682

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 3 – Receivables (Continued)

B. Fund Financial Statements

(Continued) Taxes Receivable

At June 30, 2019, the City had property taxes receivable, net of allowance for delinquent property taxes receivables, in the following major fund and nonmajor funds in the aggregate:

	Property taxes	Allowance for delinquent tax receivables	Property taxes, net of allowance
Governmental Funds:			
General Fund	\$ 1,050,375	\$ (351,349)	\$ 699,026
Sewer Special Revenue Fund	33,671	(18,637)	15,034
Nonmajor funds	18,043	(9,653)	8,390
Total	\$ 1,102,089	\$ (379,639)	\$ 722,450

Reimbursable Grants Receivable

Grants receivable consists of a variety of reimbursable grants from other agencies. The total amount of reimbursable grants receivable as of June 30, 2019 was as follows:

Governmental Funds:	
Grants	\$ 348,257
Total reimbursable grants receivable	\$ 348,257

Note 4 – Lease Revenues

In February 2001, a 50-year lease for the retail space located in front of the North Pier Parking Structure was initiated. The City receives a monthly lease payment in the amount of \$2,985. The lease includes a negotiated increase to the monthly lease payment to be calculated every 60 months based on the consumer price index. In February 2016, the lease was increased to \$3,235.

In February 2004, the City entered into a 5-year lease agreement with Sprint, a cellular telephone company, for placement of an antenna on the North Pier Parking Structure. The lease includes a provision for 5 lease extensions with a 5-year term for each. In February 2009, the lease was extended through January 31, 2015. In February 2016, the lease was extended through January 31, 2020. The City received a monthly lease payment in the amount of \$2,984 to January 2018 and \$3,074 from February 2018.

In June 2005, the City purchased property adjacent to City Hall that is used as a self - storage facility. The existing lease for the storage facility was transferred to the City as a condition of the sale. The original lease term was through January 31, 2009, and was extended beginning February 1, 2009 to April 30, 2015 through various amendments. In April, 2015, the lease was amended to extended extend the term to April 30, 2020 and that lease can be terminated without cause at any time after April 2017 with one year of written notice to the City. The City receives a monthly lease payment in the amount of \$15,000.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 4 – Lease Revenues (Continued)

In February 2014, the City entered into a 5-year lease agreement with Verizon wireless, a cellular telephone company, for the placement of 12 panel antennas and 6 remote radio units at the Municipal Parking Facility. The annual lease rate is expected to increase at a rate of 3% with base monthly payment amount of \$2,400. The City received a monthly lease payment in the amount of \$2,546 to February 2018 and \$2,623 from March 2018.

All of the above leases are accounted for as operating leases by the City.

The future minimum rental revenues under these leases are as follows:

Year ending June 30,	Amounts
2020	262,931
2021	65,849
2022	42,075
2023	42,075
2024	42,075
2025-2029	222,726
2030-2034	241,404
2035-2039	261,648
2040-2044	283,590
2045-2049	307,371
2020-2051	94,403
Total	\$ 1,866,147

Lease revenue for the year ended June 30, 2019 was \$316,317.

Note 5 – Interfund Transactions

Due From/To Other Funds – At June 30, 2019, the City had the following due from/to other funds:

Due To Other Funds	Due From Other Funds
	General Fund
Nonmajor Governmental funds	\$ 26,808
Total	\$ 26,808

The above amount resulted from the time lag between the dates that reimbursable expenditures occur and payments are received from other agencies.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 5 – Interfund Transactions (Continued)

Transfers

During the year ended June 30, 2019, the City had the following transfers:

	Transfers in					Total
	General Fund	Grants Special Revenue Fund	Capital Improvement Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	
General Fund	\$ -	\$ -	\$ 2,535,936	\$ 792,497	\$427,336	\$3,755,769
Capital Improvement Capital Projects Fund	-	83,018	-	-	-	83,018
Nonmajor Governmental Funds	533,887	-	-	210,463	-	744,350
Total	<u>\$ 533,887</u>	<u>\$ 83,018</u>	<u>\$ 2,535,936</u>	<u>\$ 1,002,960</u>	<u>\$427,336</u>	<u>\$4,583,137</u>

In general, transfers are used to 1) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 2) to transfer to the General Fund to fund administration services.

General Fund transferred \$792,497 to the 2015 Lease Revenue Bond Fund for debt service payment.

General Fund transferred \$427,336 to Insurance Internal Service Fund to fund reserves.

Non-major Governmental Funds transferred \$210,463 for Lighting/Landscaping administration, street maintenance and traffic safety operations, parks maintenance allocation and agency administration.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 6 – Capital Assets

The following is a summary of changes in capital assets for the governmental activities for the year ended June 30, 2019:

	Balance July 1, 2018 *	Additions	Deletions	Reclassifications	Balance June 30, 2019
<i>Capital assets not being depreciated:</i>					
Land	\$ 22,740,168	\$ 2454	\$ -	\$ -	\$ 22,742,622
Construction in progress	3,202,335	3,486,644	-	(2,978,625)	3,710,354
Total capital assets not being depreciated	25,942,503	3,489,098	-	(2,978,625)	26,452,976
<i>Capital assets being depreciated:</i>					
Buildings and structures	13,612,362	-	-	-	13,612,362
Improvements other than buildings	15,362,907	-	-	-	15,362,907
Machinery and equipment	5,391,479	1,054,170	(37,896)	-	6,407,753
Vehicles	3,844,164	313,3900	(136,526)	-	4,021,028
Infrastructure	48,460,694	140,000	-	2,978,625	51,579,319
Total capital assets being depreciated	86,851,606	1,507,560	(174,422)	2,978,625	91,163,369
Less accumulated depreciation for:					
Buildings and structures	(5,465,825)	(259,808)	-	-	(5,725,633)
Improvements other than buildings	(12,642,989)	(366,17)	-	-	(13,009,166)
Machinery and equipment	(3,671,987)	(401,554)	31,590	-	(4,041,951)
Vehicles	(2,083,143)	(251,037)	123,963	-	(2,210,217)
Infrastructure	(26,768,924)	(1,484,543)	-	-	(28,253,467)
Total accumulated depreciation	(50,632,868)	(2,763,119)	155,553	-	(53,240,434)
Total capital assets being depreciated, net	36,218,738	(1,255,559)	(18,869)	2,978,625	37,922,935
Total governmental activities	\$ 62,161,241	\$ 2,233,539	\$ (18,869)	\$ -	\$ 64,375,911

* - Beginning balances as of July 1, 2018 have been restated, see note 14.

Depreciation expense was charged to functions/programs of governmental activities for the year ended June 30, 2019 as follows:

General government	\$ 321,118
Public safety	1,659,196
Community development	155,009
Culture and recreation	120,230
Public works	507,567
Total depreciation expense	\$ 2,763,120

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 7 – Long-Term Liabilities

Summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2019 is as follows:

	Balance			Classification		
	July 1, 2018	Additions	Deletions	June 30, 2019	Due within One Year	Due in more than One Year
2015 Lease revenue bond	\$ 10,830,000	\$ -	\$ (460,000)	\$ 10,370,000	\$ 480,000	\$ 9,890,000
Bonds Premium	178,286	-	(10,384)	167,892	10,384	157,508
Compensated absences	2,551,967	1,101,352	(939,223)	2,714,096	1,380,181	1,333,915
	<u>\$ 13,560,253</u>	<u>\$ 1,101,352</u>	<u>\$ (1,409,617)</u>	<u>\$ 13,251,988</u>	<u>\$ 1,870,565</u>	<u>\$ 11,381,423</u>

2015 Lease Revenue Bonds

On July 14, 2015, the PFA issued \$11,600,000 Hermosa Beach Public Financing Authority 2015 Lease Revenue Bonds to (i) make certain payments under an agreement entered into for the purpose of settling certain claims made against the City, and (ii) pay the costs of issuing the 2015 Bonds. Interest rate ranges from 2.00% to 5.00% is payable semiannually on May 1 and November 1 of each year, commencing November 1, 2016. The outstanding balance at June 30, 2019 was \$10,370,000.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2020	\$ 480,000	\$ 790,213	\$ 1,270,213
2021	500,000	785,713	1,285,713
2022	510,000	778,113	1,288,113
2023	520,000	777,813	1,297,813
2024	535,000	782,263	1,317,263
2025-2029	2,890,000	1,029,321	3,919,321
2030-2034	3,405,000	556,146	3,961,146
2035-2036	1,530,000	54,075	1,584,075
	<u>\$ 10,370,000</u>	<u>\$ 5,553,657</u>	<u>\$15,923,657</u>

Note 8 – Risk Management

The City maintains an internal service fund to account for the City’s general liability and workers’ compensation claims, automobile, property, and unemployment insurance.

The City is self-insured for each general liability claim up to \$250,000. The City is insured above the self-insured retention for general liability insurance coverage, up to a maximum of \$20,000,000 per occurrence, as a member of the Independent Cities Risk Management Authority (“ICRMA”).

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 8 – Risk Management (Continued)

The City purchases workers' compensation coverage through a self-insured program available through ICRMA. The City maintains a \$500,000 self-insured retention limit and participates in a self-insured risk sharing pool through the ICRMA of coverage up to statutory limits.

ICRMA is a joint exercise of powers authority organized and operating pursuant to the California Government Code. ICRMA was formed in 1980 pursuant to joint exercise of power agreements for insurance and risk management purposes, which, as amended, enable ICRMA to provide programs of risk sharing, insurance and risk management services in connection with liability, property, and workers' compensation claims.

ICRMA's annual budget is based on estimated actuarially determined member losses within the risk sharing layer, administrative expenses and excess insurance.

The City's premiums to ICRMA in the amount of \$978,317 for the fiscal year 2018-2019 are in accordance with formulas established by ICRMA. The City is liable for possible additional assessments and withdrawal costs under terms of the membership agreement; however, there has never been an additional assessment since the pool was formed.

The City has entered into contracts with third party administrators who supervise and administer the City's general liability and workers' compensation insurance program. Claim loss estimates are determined by the third party administrator based on the nature of an individual claim. The loss estimates include amounts for future compensation, medical, legal and administrative fees. The City also includes estimated claims incurred but not reported ("IBNR") provided by an actuary. Reimbursement requests are submitted to the City on a monthly basis as claims are paid.

The workers' compensation and general liability claims payable of \$5,590,808 reported at June 30, 2019 includes the liability for claims in which it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the City's claims liability amounts were as follows:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability	Amounts Due within One Year	Amounts Due in more than One Year
<i><u>Workers' Compensation</u></i>						
2016-2017	\$4,676,650	\$1,114,765	\$ (880,606)	\$4,910,809	\$749,469	\$4,161,340
2017-2018	4,910,809	1,127,793	(940,350)	5,098,252	795,327	4,302,925
2018-2019	5,098,252	1,971,923	(2,017,449)	5,052,676	876,329	4,176,347
<i><u>General Liability</u></i>						
2016-2017	\$ 700,570	\$ 459,706	\$ (12,510)	\$1,147,766	\$502,887	\$644,879
2017-2018	1,147,766	2,017,449	(2,124,777)	1,040,438	339,112	701,326
2018-2019	1,040,438	625,487	(1,127,793)	538,132	175,875	362,257

Detailed financial information may be obtained from the ICRMA Program Administrator located at 18201 Von Karman, Suite 200, Irvine, CA 92612.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Defined Benefit Pension Plans

The following is a summary of net pension liabilities, related deferred outflows and inflows of resources as of June 30, 2019 and pension expenses for the year then ended June 30, 2019:

	Miscellaneous	Safety	Total
Deferred outflows of resources:			
Pension contribution after measurement date	\$ 1,682,561	\$ 3,878,196	\$ 5,560,757
Difference between expected and actual experience	536,317	722,194	1,258,511
Changes of assumptions	1,593,551	3,297,858	4,891,409
Difference between projected and actual earning on pension plan investments	69,104	227,564	296,668
Adjustment due to differences in proportions	103,263	-	103,263
Difference between City contributions and proportionate share of contributions	-	1,349,134	1,349,134
Total deferred outflows of resources	\$ 3,984,796	\$ 9,474,946	\$ 13,459,742
Aggregate Net pension liabilities:			
Aggregate Net pension liabilities	\$ 13,978,150	\$ 33,611,333	\$ 47,589,484
Total net pension liabilities	\$ 13,978,150	\$ 33,611,333	\$ 47,589,484
Deferred inflows of Resources:			
Difference between expected and actual experience	\$ 182,505	\$ 2,740	\$ 185,245
Changes of assumptions	390,548	444,940	835,488
Adjustment due to differences in proportions	294,692	1,149,536	1,444,228
Difference between City contributions and proportionate share of contributions	90,405	-	90,405
Total deferred inflows of Resources	\$ 958,150	\$ 1,597,216	\$ 2,555,366
Pension expenses:	\$ 1,704,884	\$ 6,023,191	\$ 7,728,075

General Information about the Pension Plan

Plan Description

The City contributes to the California Public Employees’ Retirement System (“CalPERS”), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the CalPERS annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

The City contracted with Los Angeles County for Fire Services (Fire District) on 12/30/2017. The City will continue to be responsible for paying the retirement costs for fire employees related to the value of past service benefits, referred to as the unfunded actuarial liability.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Employees Covered by Benefit Terms

At June 30, 2017, the following employees were covered by the benefit terms:

	Plans					
	Fire Tier 1	Fire Tier 2	Fire PEPRA	Police Tier 1	Police Tier 2	Police PEPRA
Active employees	12	1	2	22	4	10
Transferred and terminated employees	5	-	1	7	1	1
Separated	4	1	1	4	1	1
Retired Employees and Beneficiaries	55	-	-	94	1	-
Total	<u>76</u>	<u>2</u>	<u>4</u>	<u>127</u>	<u>7</u>	<u>12</u>

	Plans		
	Misc. Tier 1	Misc. Tier 2	Misc. PEPRA
Active employees	46	20	50
Transferred and terminated employees	55	6	10
Separated	52	1	11
Retired Employees and Beneficiaries	125	1	-
Total	<u>278</u>	<u>28</u>	<u>71</u>

Benefit Provided

CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Classic and PEPRA Safety CalPERS member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. PEPRA miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay.

Following are the benefit provisions for each plan:

- Fire Tier 1: 3% (at age 55) of the average final 12 months compensation (effective prior to 7/1/11)
- Fire Tier 2: 2% (at age 50) of the average final 12 months compensation (effective 7/1/11)
- Fire PEPRA: 2.7% (at age 57) of the average final 36 months compensation (effective 1/1/13)
- Police Tier 1: 3% (at age 50) of the average final 12 months compensation (effective prior to 7/1/11)
- Police Tier 2: 2% (at age 50) of the average final 12 months compensation (effective 7/1/11)
- Police Tier PEPRA: 2.7% (at age 57) of the average final 36 months compensation (effective 1/1/13)
- Miscellaneous Tier 1: 2% (at age 55) of the average final 12 months compensation (effective prior to 7/1/11)
- Miscellaneous Tier 2: 2% (at age 60) of the average final 12 months compensation (effective 7/1/11)
- PEPRA Miscellaneous: 2% (at age 62) of the average final 36 months compensation (effective 1/1/13)

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Benefit Provided (Continued)

Participant is eligible for non-industrial disability retirement if becomes disabled and has at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the City to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2 percent.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The Public agency cost-sharing plans covered by either the Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the fiscal year ended June 30, 2019, the contributions recognized as part of pension expense for the plan totaled \$7,728,075. For the measurement period ended June 30, 2018 (the measurement date), the average contribution rate were as follows:

Plans	Active Employee Contribution Rate	Employer Contribution Rate
Fire Tier 1	9.000%	67.633%
Fire Tier 2	9.000%	0.000%
Fire PEPRA	12.250%	12.815%
Police Tier 1	9.000%	93.564%
Police Tier 2	9.000%	17.492%
Police PEPRA	12.250%	12.791%
Misc. Tier 1	7.000%	34.845%
Misc. Tier 2	7.000%	7.750%
Misc. PEPRA	6.250%	6.565%

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2017 valuation was rolled forward to determine June 30, 2018 total pension liability based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment rate of return	7.65% net of pension plan investment expenses, includes inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Discount Rate (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2017.

<u>Asset Class</u>	<u>New Strategic Allocation-%</u>	<u>Real Return Years 1-10¹-%</u>	<u>Real Return Years 11+²-%</u>
Global Equity	50.00	4.80	5.98
Global Fixed Income	28.00	1.00	2.62
Inflation Assets	0.00	77.00	1.81
Private Equity	8.00	6.30	7.23
Real Assets	13.00	3.75	4.93
Liquidity	1.00	0.00	-0.92

¹An expected inflation of 2.0% used for this period

²An expected inflation of 2.92% used for this period.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate + 1% (8.15%)</u>
Miscellaneous	<u>\$ 21,394,662</u>	<u>\$ 13,978,150</u>	<u>\$ 7,855,941</u>
Safety	<u>\$ 49,718,547</u>	<u>\$ 33,611,333</u>	<u>\$ 20,414,356</u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Pension Plan Fiduciary Net Position

Detail information about the plan’s fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS’ website under Forms and Publications.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period:

	Increase (Decrease)		
	Plan Total Pension	Plan Fiduciary Net	Net Pension
	Liability	Position	Liability/(Asset)
Miscellaneous			
Balance at: 6/30/17 (Valuation date)	\$ 53,460,032	\$ 38,917,320	\$ 14,542,712
Balance at: 6/30/18 (Measurement date)	\$ 54,826,994	\$ 40,848,844	\$ 13,978,150
Net Changes during 2017-2018	\$ 1,366,962	\$ 1,931,524	\$ (564,562)
Safety			
Balance at: 6/30/17 (Valuation date)	\$ 112,703,903	\$ 77,782,101	\$ 34,921,802
Balance at: 6/30/18 (Measurement date)	\$ 116,840,514	\$ 83,229,181	\$ 33,611,333
Net Changes during 2017-2018	\$ 4,136,611	\$ 5,447,080	\$ (1,310,469)

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2017). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2018). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2018 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2016-2017).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan’s share of the actuarial accrued liability. FNP is allocated based on the rate plan’s share of the market value assets.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense is allocate based on the City’s share of contributions during measurement period.

The City’s proportionate share of the net pension liability was as follows:

	<u>Miscellaenous</u>	<u>S7272afety</u>
June 30, 2018	0.36891%	0.58445%
June 30, 2019	0.37090%	0.57283%
Change - Increase (Decrease)	0.00199%	-0.01161%

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

For the year ended June 30, 2019, the City recognized pension expense as follows:

Miscellaneous	\$	1,704,884
Safety		6,023,191
	\$	<u>7,728,075</u>

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2017-2018 measurement period is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired).

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous	
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 1,682,561	\$ -
Difference between expected and actual experience	536,317	(182,505)
Changes of assumptions	1,593,551	(390,548)
Difference between projected and actual earning on pension plan investments	69,104	-
Adjustment due to differences in proportions	103,263	(294,692)
Difference between City contributions and proportionate share of contributions	-	(90,405)
	-	(90,405)
Total	\$ 3,984,796	\$ (958,150)

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Defined Benefit Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (Continued):

	Safety	
	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 3,878,196	\$ -
Difference between expected and actual experience	722,194	(2,740)
Changes of assumptions	3,297,858	(444,940)
Difference between projected and actual earning on pension plan investments	227,564	-
Adjustment due to differences in proportions	-	(1,149,536)
Difference between City contributions and proportionate share of contributions	1,349,134	-
Total	\$ 9,474,946	\$ (1,597,216)

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (Continued):

Deferred outflows of resources related to pensions resulting from the City’s contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period Ended June 30,	Deferred Outflows/ (Inflows) of Resources	
	Miscellaneous	Safety
2018	\$ 1,290,668	\$ 3,336,937
2019	688,522	1,896,533
2020	(509,382)	(1,001,126)
2021	(125,723)	(232,810)
2022	-	-
Thereafter	-	-
	\$ 1,344,085	\$ 3,999,534

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 10 – Other Postemployment Benefit Plan

General Information about the Plan

On June 12, 2007, the City Council adopted a resolution authorizing participation in a post retirement health care plan trust to be administered by Public Agency Retirement Services (“PARS”) and Union Bank of California. In July 2007, the City signed an agreement with Public Agency Retirement Services to create and administer an irrevocable trust fund for the payment of other postemployment benefits for city employees. Funds in the amount of \$1,401,000 that were previously set aside were forwarded to Union Bank pursuant to the agreement to establish the trust during the year ended June 30, 2008. Contributions are made on a monthly basis.

Plan Description

The City participates in a post retirement health care plan trust (“Plan”) administered by PARS and Union Bank of California. The Plan provides medical insurance benefits to eligible retirees, which is a single-employer defined benefit plan. PARS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by contacting the City at 1315 Valley Drive, Hermosa Beach, CA 90254.

The Plan is comprised of employees and retirees from several bargaining units, including General and Supervisory; Professional and Administrative Employees Association; Hermosa Beach Management Association; Police Management Association; Police Officers Association and Firefighters Association.

The range of monthly benefits to be paid by the City ranges from \$40 to \$556 per month based on years of service from 10 years to 20 years provided to the City.

The monthly benefits paid by the City are subject to change with increases provided based on age at retirement and years of service.

Post-Retirement Health Care Coverage for Fire Employees

The City contracted with Los Angeles County for Fire Services (“Fire District”) on 12/30/2017. Fire District employees are provided post-retirement health coverage. The current vesting period is 10 years of Fire District service. Service with the City does not count towards coverage, only time actually worked in Fire District service counts towards the vesting period. Hermosa Beach Fire Association (HBFA) members who transfer to the Fire District and who take a service retirement before reaching 10 years of Fire District service are ineligible for the Fire District's retiree health benefit.

For those HBFA members who have 19 plus years of service with the City at the time of transfer to Fire District employment and who take a service retirement from the Fire District prior to vesting in the Fire District's retiree health plan, the City agrees to create a new Tier to the City's retiree health program as follow: the retired HBFA member will be eligible to receive from the City the \$ 350 per month benefit set forth in Article 42(D) of the MOU. This benefit is limited to the first four HBFA members who qualify for the benefit.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 10 – Other Postemployment Benefit Plan (Continued)

General Information about the Plan (Continued) Eligibility

All of the Plan’s employees became participants in accordance with negotiated Memorandum of Understanding (“MOU”) as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU. Participants of the Plan as of June 30, 2019 were as follows:

Participants	Total
Active employees	126
Retirees	67
Retirees not receiving benefits	4
Total	197

Net OPEB Liability

The City’s net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018.

Actuarial Assumptions

The total OPEB liability, measured as of June 30, 2018, was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.00% Pre-funded in PARS Moderate Strategy
Inflation	2.75% per annum
Salary Increases	3.00% Aggregate
	Merit: 1997-2015 CalPERS Experience Study
Investment Rate of Return	6.00%
Healthcare Trend Rate	Non-Medicare: 7.5% in 2019, to 4.0% in 2076 and thereafter
	Medicare: 6.5% in 2019 to 4.0% in 2076 and thereafter
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 Experience Study
Service Requirement	100% at 20 Years of Service
Participation Rate	Currently covered: 100%

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2016 through June 30, 2017.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 10 – Other Postemployment Benefit Plan (Continued)

Net OPEB Liability (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation PARS-Moderate	Expected Real Rate of Return
Global Equity	48.00%	4.820%
Fixed Income	45.00%	1.470%
REIs	2.00%	3.760%
Cash	5.00%	0.060%
	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00 percent. The actuarial assumptions used to determine the discount rate was based on the current funding practice and assumed the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2018:

Plan's OPEB Liability/(Asset)		
Discount Rate - 1%	Current Discount	Discount Rate + 1%
(5.00%)	Rate (6.00%)	(7.00%)
\$ 708,139	\$ (648,042)	\$ (1,786,276)

Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the total OPEB liability would be if it were calculated using a health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates, for the measurement period ended June 30, 2018:

Plan's OPEB Liability/(Asset)		
Healthcare		
-1.00%	Trend Rate	+1.00%
\$ (1,611,329)	\$ (648,042)	\$ 510,807

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 10 – Other Postemployment Benefit Plan (Continued)

Change in Net OPEB Liability

	Total OPEB Liability (Asset)	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2017 (Valuation Date)	\$ 10,441,000	\$ 9,850,000	\$ 591,000
Changes Recognized for the Measurement Period:			
Service Cost	317,540	-	317,540
Interest on the total OPEB liability	631,597	-	631,597
Changes of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions from the employer	-	1,569,307	(1,569,307)
Contributions from employees	-	-	-
Net investment income, net of administrative expense	-	645,729	(645,729)
Benefit payments, including refunds of employee contributions	(463,831)	(463,831)	-
Administrative Expense	-	(26,857)	26,857
Net Changes during July 1, 2017 to June 30, 2018	<u>485,306</u>	<u>1,724,348</u>	<u>(1,239,042)</u>
Balance at June 30, 2018 (Measurement Date)	<u>\$ 10,926,306</u>	<u>\$ 11,574,347</u>	<u>\$ (648,042)</u>

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2019, OPEB expense in the amount of \$266,916 is included in the accompanying statement of activities.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of resources	Deferred Inflows of resources
Employer contribution after measurement date	\$ 1,486,916	\$ -
Difference between projected and actual earning on plan investments	-	(246,651)
	<u>\$ 1,486,916</u>	<u>\$ (246,651)</u>

The \$1,486,916 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB asset in the year June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30	Amount
2020	\$ (80,413)
2021	(80,413)
2022	(82,413)
2023	(3,412)
2024	-
Thereafter	-
Total	<u>\$ (246,651)</u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 11 – Classification of Fund Balances

At June 30, 2019, fund balances are classified in the governmental funds as follows:

	General Fund	Proposition "A" Transit Special Revenue Fund	Grants Special Revenue Fund	Sewer Special Revenue Fund	Capital Improvements Capital Projects	Nonmajor Governmental Funds	Total
Nonspendable							
Prepaid items	\$ 40,110	\$ -	\$ -	\$ -	\$ -	\$ 2,310	\$ 42,420
Total nonspendable	<u>40,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,310</u>	<u>42,420</u>
Restricted							
Verizon PEG Grant General Plan	130,780	-	-	-	-	-	130,780
Maintenance Fees Chamber Sign Donation	115,122	-	-	-	-	-	115,122
Chamber Christmas Decorations Donations	50,000	-	-	-	-	-	50,000
Lighting District	-	-	-	-	-	28,195	28,195
Gas Tax	-	-	-	-	-	401,184	401,184
Source Reduction /Recycling	-	-	-	-	-	77,916	77,916
Proposition "A" Open Space	-	-	-	-	-	34,917	34,917
Parks/Rec Facility Projects	-	-	-	-	-	346,802	346,802
Undergrounding Districts	-	-	-	-	-	12,217	12,217
Prop A, C and Measure R Transit Projects	-	222,604	-	-	-	1,100,980	1,323,584
Air Quality Improvement Projects	-	-	-	-	-	18,245	18,245
Supplemental Law Enforcement Services Funds	-	-	-	-	-	287,956	287,956
Asset Forfeiture – Drug Enforcement and Education	-	-	-	-	-	545,249	545,249
Fire Protection	-	-	-	-	-	59,985	59,985
Community Development Block Grant	-	-	-	-	-	4,971	4,971
Grants	-	-	506,715	-	-	-	506,715
Measure M	-	-	-	-	-	23,048	23,048
RTI Undersea Cable	-	-	-	-	-	387,779	387,779
RTI Undersea Cable Tidelands	-	-	-	-	-	248,025	248,025
Storm Drain	-	-	-	-	-	1,254,705	1,254,705
Total restricted	<u>345,902</u>	<u>222,604</u>	<u>506,715</u>	<u>-</u>	<u>-</u>	<u>4,832,174</u>	<u>5,907,395</u>
Committed							
In Lieu Fee- Parking Facilities	86,700	-	-	-	-	-	86,700
Tyco & Tyco Tidelands Retirement Rate Stabilization	-	-	-	-	-	1,024,954	1,024,954
Total committed	<u>1,021,575</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,021,575</u>
	<u>1,108,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,024,954</u>	<u>2,133,229</u>
Assigned							
Debt Service	-	-	-	-	-	362	362
Capital Projects	677,458	-	-	-	8,198,019	-	8,875,477
Capital Facility Reserve	-	-	-	-	1,267,968	-	1,267,968
Sewers and Storm Drains	-	-	-	6,774,790	-	-	6,774,790
Reappropriations- Non-CIP	505,192	-	-	-	-	-	505,192
Contingencies	6,316,558	-	-	-	-	-	6,316,558
Compensated absences	267,712	-	-	-	-	-	267,712
Community events	36,466	-	-	-	-	-	36,466
Prop A Exchange	700,000	-	-	-	-	-	700,000
TOT Revenues for Fire Services	516,419	-	-	-	-	-	516,419
Total assigned	<u>9,019,805</u>	<u>-</u>	<u>-</u>	<u>6,774,790</u>	<u>9,465,987</u>	<u>362</u>	<u>25,260,944</u>
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(111)</u>	<u>(111)</u>
	<u>\$10,514,092</u>	<u>\$ 222,604</u>	<u>\$ 506,715</u>	<u>\$ 6,774,790</u>	<u>\$ 9,465,987</u>	<u>\$ 5,859,689</u>	<u>\$ 33,343,877</u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 12 – Non-City Obligations

At June 30, 2019, the following special assessment bonds are payable from the proceeds of the special assessment levied and collected on all real property within the special districts. The City is in no way obligated to repay the debt in the event of default and the debt is not recorded in the accompanying financial statements.

1999 Myrtle Utility Underground District Special Assessment Bonds

In October 1999, limited obligation improvement bonds in the amount of \$1,159,114 were issued for the Myrtle Avenue Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2020	\$ 80,000	\$ 2,300	\$ 82,300
Total	\$ 80,000	\$ 2,300	\$ 82,300

1999 Loma Utility Underground District Special Assessment Bonds

In October 1999, limited obligation improvement bonds in the amount of \$1,324,653 were issued for the Loma Drive Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2020	\$ 90,000	\$ 2,587	\$ 92,587
Total	\$ 90,000	\$ 2,587	\$ 92,587

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 12 – Non-City Obligations (Continued)

2004 Beach Drive Utility Underground Assessment District Special Assessment Bonds

In July 2004, limited obligation improvement bonds in the amount of \$404,341 were issued for the Beach Drive Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2020	24,137	6,302	30,439
2021	25,296	5,115	30,411
2022	26,510	3,992	30,502
2023	27,783	2,929	30,712
2024	29,116	1,684	30,800
2025	30,514	732	31,246
	<u>\$ 163,356</u>	<u>\$ 20,754</u>	<u>\$ 184,110</u>

2005 Bayview Drive Utility Underground Assessment District Improvement Bonds

In February 2005, limited obligation improvement bonds in the amount of \$951,667 were issued for the Bayview Drive Utility Underground Assessment District for the undergrounding of utilities within the district. The City is not financially obligated for payment of the bonds, which are secured by private property in the district. The bonds will be repaid from assessments to the property owners as part of their annual property tax bill.

The annual debt service requirements by year are as follows:

Year ending June 30,	Principal	Interest	Total
2020	43,492	14,194	57,686
2021	45,765	12,297	58,062
2022	48,135	10,301	58,436
2023	50,606	8,203	58,809
2024	53,181	5,998	59,179
2025-2026	114,530	4,927	119,457
Total	<u>\$ 355,709</u>	<u>\$ 55,920</u>	<u>\$ 411,629</u>

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 13 – Commitments and Contingencies

A. Commitments

The City had several outstanding or planned construction and other projects as of June 30, 2019. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent to Date	Commitment Remaining
Permit Software Upgrade and Integration Project	\$ 298,416	\$ 271,834
Fire Department Facility and Equipment Conversion	246,429	1,787,242
Total	\$ 544,845	\$ 2,059,076

Of the commitments listed above, \$1,636,524 represents commitments in the General Fund, \$271,834 represents commitments in internal service funds, and \$150,718 represents commitments in Special Revenue funds.

In January 2000, the North Pier Parking Structure was completed. The parking structure contains 400 parking spaces and was funded in part by a downtown developer in exchange for the use of 100 spaces in the structure. The remainder of the funding was provided by the City’s former Downtown Enhancement Enterprise Fund and Prop A Open Space funding contributed by the Los Angeles County Department of Beaches and Harbors (“County”). In consideration of the County contribution, 50% of the annual net income derived from the parking structure must be shared with the County each year by September 1. The payment made to the County for fiscal year 2018-2019 is \$321,551.

B. Contingencies

The City is a defendant in a number of lawsuits, which have arisen in the normal course of business. While substantial damages are alleged in some of these actions, their outcome cannot be predicted with certainty.

C. Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of noncompliance were disclosed by the audit of the financial statements or single audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

City of Hermosa Beach
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 14 – Prior Period Adjustment

The following schedule summarizes the effects of the prior period adjustment to the Government-wide Statements.

Government-wide:

	<u>Governmental Activities</u>
Net position at June 30, 2018, as previously reported	\$60,975,161
Adjustment to write off previously reported capital assets and correct depreciation	<u>(4,171,829)</u>
Net position as July 1, 2018, as restated	<u>\$56,803,332</u>

Fund Financial Statements:

	<u>Proprietary Funds</u>
Net position at June 30, 2018, as previously reported	\$12,045,006
Adjustment to write off previously reported capital assets and correct depreciation	<u>(592,754)</u>
Net position as July 1, 2018, as restated	<u>\$11,452,252</u>

Note 15 – Subsequent Events

Management has evaluated subsequent events through December 19, 2019 which is the date the financial statements were available to be issued, and has determined that there are no transactions that will have a significant impact on the City.

**REQUIRED SUPPLEMENTARY
INFORMATION (UNAUDITED)**

CITY OF HERMOSA BEACH
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Fund balance, July 1, 2018	\$ 9,574,775	\$ 9,574,775	\$ 9,574,775	\$ -
Revenues (inflows):				
Property taxes	17,728,952	18,050,915	18,110,645	59,730
Other taxes	10,193,661	10,299,605	10,225,084	(74,521)
Licenses and permits	1,143,059	1,112,839	850,059	(262,780)
Fines and forfeitures	2,126,838	2,126,838	2,361,403	234,565
Use of money and property	753,205	1,488,642	1,580,582	91,940
Intergovernmental	131,609	131,950	115,015	(16,935)
Charges for services	6,886,026	7,047,786	7,088,925	41,139
Miscellaneous	111,670	142,433	417,118	274,685
Interest earned on investments	189,008	210,435	473,737	263,302
Transfers in	538,739	536,791	533,887	(2,904)
Amount available for appropriations	<u>39,802,767</u>	<u>41,148,234</u>	<u>41,756,455</u>	<u>608,221</u>
Charges to appropriations (outflows):				
Legislative and legal	1,251,781	1,578,037	1,499,065	78,972
General government	4,698,770	5,043,307	4,190,782	852,525
Public safety	23,072,215	22,845,939	21,946,780	899,159
Community development	2,284,360	2,307,050	2,019,366	287,684
Culture and recreation	1,434,762	1,434,762	1,523,233	(88,471)
Public works	5,878,211	5,879,976	5,442,726	437,250
Capital outlay	999,153	923,131	439,417	483,714
Transfers out	1,262,432	1,689,767	3,755,769	(2,066,002)
Total charges to appropriations	<u>40,881,684</u>	<u>41,701,969</u>	<u>40,817,138</u>	<u>884,831</u>
Fund balance, June 30, 2019	<u>\$ 8,495,858</u>	<u>\$ 9,021,040</u>	<u>\$ 10,514,092</u>	<u>\$ (276,610)</u>

CITY OF HERMOSA BEACH

Required Supplementary Information (Unaudited) (Continued)

**Budgetary Comparison Schedule - Proposition "A" Transit Special Revenue Fund
For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Fund balance, July 1, 2018	<u>\$ 1,312,621</u>	<u>\$ 1,312,621</u>	<u>\$ 1,312,621</u>	<u>\$ -</u>
Revenues (inflows):				
Other taxes	383,939	383,939	393,813	9,874
Charges for services	5,400	5,200	5,418	218
Interest earned on investments	<u>28,266</u>	<u>37,980</u>	<u>62,434</u>	<u>24,454</u>
Amount available for appropriations	<u>417,605</u>	<u>427,119</u>	<u>461,665</u>	<u>34,546</u>
Charges to appropriations (outflows):				
General government	16,500	16,500	8,188	8,312
Public safety	76,000	76,000	55,704	20,296
Community development	38,714	38,714	4,415	34,299
Culture and recreation	89,200	89,200	77,286	11,914
Capital outlay	<u>59,000</u>	<u>1,592,668</u>	<u>1,406,089</u>	<u>186,579</u>
Total charges to appropriations	<u>279,414</u>	<u>1,813,082</u>	<u>1,551,682</u>	<u>261,400</u>
Fund balance, June 30, 2019	<u><u>\$ 1,450,812</u></u>	<u><u>\$ (73,342)</u></u>	<u><u>\$ 222,604</u></u>	<u><u>\$ (226,854)</u></u>

CITY OF HERMOSA BEACH

Required Supplementary Information (Unaudited) (Continued)
Budgetary Comparison Schedule - Grants Special Revenue Fund
For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Fund balance, July 1, 2018	<u>\$ 1,231,482</u>	<u>\$ 1,231,482</u>	<u>\$ 1,231,482</u>	<u>\$ -</u>
Revenues (inflows):				
Intergovernmental	1,435,226	1,721,262	31,680	(1,689,582)
Miscellaneous	1,627,246	1,572,423	193,399	(1,379,024)
Interest earned on investments	-	-	92	92
Transfers in	<u>-</u>	<u>-</u>	<u>83,018</u>	<u>83,018</u>
Amount available for appropriations	<u>3,062,472</u>	<u>3,293,685</u>	<u>308,189</u>	<u>(2,985,496)</u>
Charges to appropriations (outflows):				
Legislative and legal	-	2,364	-	2,364
General government	30,000	30,000	25,000	5,000
Public safety	357,235	45,369	29,069	16,300
Community development	98,152	105,825	39,721	66,104
Public works	5,300	115,792	3,390	112,402
Capital outlay	<u>4,334,321</u>	<u>4,813,837</u>	<u>935,776</u>	<u>3,878,061</u>
Total charges to appropriations	<u>4,825,008</u>	<u>5,113,187</u>	<u>1,032,956</u>	<u>4,080,231</u>
Fund balance, June 30, 2019	<u>\$ (531,054)</u>	<u>\$ (588,020)</u>	<u>\$ 506,715</u>	<u>\$ (7,065,727)</u>

CITY OF HERMOSA BEACH

Required Supplementary Information (Unaudited) (Continued)

Budgetary Comparison Schedule - Sewer Special Revenue Fund

For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Fund balance, July 1, 2018	<u>\$ 6,087,570</u>	<u>\$ 6,087,570</u>	<u>\$ 6,087,570</u>	<u>\$ -</u>
Revenues (inflows):				
Intergovernmental	13,400	13,400	21,314	7,914
Charges for services	1,130,101	1,130,605	933,813	(196,792)
Interest earned on investments	<u>123,863</u>	<u>158,231</u>	<u>282,128</u>	<u>123,897</u>
Amount available for appropriations	<u>1,267,364</u>	<u>1,302,236</u>	<u>1,237,255</u>	<u>(64,981)</u>
Charges to appropriations (outflows):				
Public works	437,004	455,124	383,543	71,581
Capital outlay	<u>1,370,000</u>	<u>1,390,377</u>	<u>166,492</u>	<u>1,223,885</u>
Total charges to appropriations	<u>1,807,004</u>	<u>1,845,501</u>	<u>550,035</u>	<u>1,295,466</u>
Fund balance, June 30, 2019	<u><u>\$ 5,547,930</u></u>	<u><u>\$ 5,544,305</u></u>	<u><u>\$ 6,774,790</u></u>	<u><u>\$ (1,360,447)</u></u>

City of Hermosa Beach
Required Supplementary Information (Unaudited) (Continued) Notes to the Budgetary Comparison
Schedule For the Year Ended June 30, 2019

Budgetary Control and Accounting Policy

Budgets are annually adopted for all governmental and proprietary fund types on a basis consistent with generally accepted accounting principles. The City is required by its municipal code to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts become the “*annual appropriated budget.*”

The appropriated budget is prepared by fund, department and division. The City Council may amend the budget by motion during the fiscal year. Expenditures may not legally exceed appropriations at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within the same fund; however, any transfers between funds or revisions that alter total appropriations of any fund require City Council approval. The legal level of control is therefore at the fund level.

Supplemental appropriations, which increase appropriations, were made during the fiscal year, therefore, “final” budgeted revenue and appropriation amounts shown in the financial statements represent the original budget, modified for adjustments during the year. Appropriations lapse at the end of the fiscal year.

Encumbrances - Under encumbrance accounting, purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Unexpended appropriations lapse at year-end.

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CITY OF HERMOSA BEACH
Required Supplementary Information (Unaudited) (Continued)
Schedule of City's Proportionate Share of the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2019

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

	June 30, 2018 ¹ Fiscal Year 2018-19	June 30, 2017 ¹ Fiscal Year 2017-18	June 30, 2016 ¹ Fiscal Year 2016-17	June 30, 2015 ¹ Fiscal Year 2015-16	June 30, 2014 ¹ Fiscal Year 2014-15
City's Proportion of the Net Pension Liability/(Asset)	0.37090%	0.14664%	0.14882%	0.15099%	0.16331%
City's Proportionate share of the Net Pension Liability/(Asset)	\$ 13,978,150	\$ 14,452,712	\$ 12,877,883	\$ 10,364,015	\$ 10,161,668
City's Covered payroll	\$ 7,402,032	\$ 6,785,443	\$ 6,540,869	\$ 5,700,485	\$ 5,355,599
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its covered payroll	188.84%	214.32%	196.88%	181.81%	189.74%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	74.50%	72.80%	73.59%	78.00%	78.34%

California Public Employees' Retirement System ("CalPERS") Safety Plan

	June 30, 2018 ¹ Fiscal Year 2018-19	June 30, 2017 ¹ Fiscal Year 2017-18	June 30, 2016 ¹ Fiscal Year 2016-17	June 30, 2015 ¹ Fiscal Year 2015-16	June 30, 2014 ¹ Fiscal Year 2014-15
City's Proportion of the Net Pension Liability/(Asset)	0.57283%	0.35213%	0.37217%	0.40019%	0.42012%
City's Proportionate share of the Net Pension Liability/(Asset)	\$ 33,611,333	\$ 34,921,802	\$ 32,204,127	\$ 27,469,000	\$ 26,141,972
City's Covered payroll	\$ 5,320,583	\$ 5,597,657	\$ 5,342,937	\$ 5,492,822	\$ 5,065,109
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its covered payroll	631.72%	623.86%	602.74%	500.09%	516.12%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	71.23%	69.01%	68.78%	72.40%	74.24%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable. The Measurement date 2014 was the first year of implementation, therefore only five year are presented.

CITY OF HERMOSA BEACH
Required Supplementary Information (Unaudited) (Continued)
Schedule of City's Contributions - Pensions
For the Year Ended June 30, 2019

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14 ¹
Actuarially determined contribution ²	\$ 575,931	\$ 527,115	\$ 518,722	\$ 469,656	\$ 883,493	\$ 799,637
Contributions in relation to the actuarially determined contributions ²	<u>\$(1,682,561)</u>	<u>\$(1,516,745)</u>	<u>\$(1,379,151)</u>	<u>\$(1,245,120)</u>	<u>\$(883,493)</u>	<u>\$(799,637)</u>
Contribution deficiency (excess)	<u>\$(1,106,630)</u>	<u>\$(989,630)</u>	<u>\$(860,429)</u>	<u>\$(775,464)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ²	\$ 7,192,641	\$ 7,402,032	\$ 6,785,443	\$ 6,540,869	\$ 5,700,485	\$ 5,355,599
Contributions as a percentage of covered employee payroll	23.39%	20.49%	20.33%	19.04%	15.50%	14.93%

California Public Employees' Retirement System ("CalPERS") Safety Plan

	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14 ¹
Actuarially determined contribution ²	\$ 804,633	\$ 1,016,858	\$ 1,029,129	\$ 1,033,371	\$ 2,842,420	\$ 1,923,392
Contributions in relation to the actuarially determined contributions ²	<u>\$(3,878,196)</u>	<u>\$(4,226,782)</u>	<u>\$(3,921,179)</u>	<u>\$(3,698,115)</u>	<u>\$(2,842,420)</u>	<u>\$(1,923,392)</u>
Contribution deficiency (excess)	<u>\$(3,073,563)</u>	<u>\$(3,209,924)</u>	<u>\$(2,892,050)</u>	<u>\$(2,664,744)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ²	\$ 4,108,280	\$ 5,320,583	\$ 5,597,651	\$ 5,342,937	\$ 5,492,822	\$ 5,065,109
Contributions as a percentage of covered employee payroll	94.40%	79.44%	70.05%	69.22%	51.75%	37.97%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable. The fiscal year 2014 was the first year of implementation, therefore only six years are presented.

² Covered Payroll represented above is based on pensionable earnings provided by the employer.

Notes to Schedule

None.

CITY OF HERMOSA BEACH
Required Supplementary Information (Unaudited) (Continued)
Schedule of Changes in the Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2019

Last Ten Fiscal Years

For the Measurement Period:	2017-18	2016-17
Total OPEB Liability		
Service cost	\$ 317,540	\$ 326,000
Interest on the total OPEB Liability	631,597	624,000
Actual and expected experience difference	-	-
Changes in assumptions	-	-
Changes in benefit terms	-	(381,000)
Benefit payments	(463,831)	(399,000)
Net change in total OPEB liability	485,306	170,000
Total OPEB liability - beginning	10,441,000	10,271,000
Total OPEB liability - ending (a)	<u>\$ 10,926,306</u>	<u>\$ 10,441,000</u>
 Plan Fiduciary Net Position		
Contribution - employer	\$ 1,569,307	\$ 1,050,000
Net investment income	645,729	906,000
Benefit payments	(463,831)	(399,000)
Administrative expense	(26,857)	(23,000)
Net change in plan fiduciary net position	1,724,348	1,534,000
Plan fiduciary net position - beginning	9,850,000	8,316,000
Plan fiduciary net position - ending (b)	<u>11,574,348</u>	<u>\$ 9,850,000</u>
 Net OPEB liability (asset) - ending (a)-(b)	<u>\$ (648,042)</u>	<u>\$ 591,000</u>
 Fiduciary net position as a % of total OPEB liability	105.90%	94.34%
 Covered payroll	11,551,135	11,551,135
 Net OPEB liability as a percentage of payroll	-5.61%	5.12%

* 2018 is the first year of implementation, therefore only two years are available for the required 10-year schedule.

CITY OF HERMOSA BEACH
Required Supplementary Information (Unaudited) (Continued)
Schedule of City's Contributions - OPEB
For the Year Ended June 30, 2019

Last Ten Fiscal Years

For the Measurement Period:	2018-19	2017-18	2016-17
Actuarially determined contributions	\$ 324,000	\$ 818,000	\$ 818,000
Contributions in relation to the actuarially determined contribution	(1,486,916)	(1,569,000)	(1,050,000)
Contribution deficiency (excess)	\$ (1,162,916)	\$ (751,000)	\$ (232,000)
Covered payroll	\$ 10,461,266	\$ 11,551,135	\$ 10,955,041
Contributions as a percentage of covered payroll	14.21%	13.58%	9.58%

* 2018 is the first year of implementation, therefore only three years are available for the required 10-year schedule.

SUPPLEMENTARY INFORMATION

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NON MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

Lighting and Landscaping District Fund - This fund is used to account for the Lighting Assessment District, which was created for street lighting/median maintenance purposes pursuant to Street and Highway Code 22500-22679.

State Gas Tax Fund - This fund is used to account for the City's share of state gasoline tax, which is restricted for use on public streets. Restricted Transportation Development Act funds from Los Angeles County Transportation Commission for the Strand Walkway Project and Bicycle Path Project are also accounted for in this fund.

AB 939 Fund - This fund is used to account for the fees collected in connection with solid waste collection. The fees are used to implement a Source Reduction and Recycling Element and a Household Waste Element.

Prop A Open Space Fund - This fund is used to account for funds generated by passage of the L.A. County Safe Neighborhood Parks Bond Act by County voters for the purpose of improving parks and recreational facilities.

Tyco Fund - This fund is used to account for funds received from an easement granted for construction of a transpacific, submarine fiber optic cable system originating in Japan with a landing in Hermosa Beach. The project will provide additional capacity.

Tyco Tidelands Fund - This fund is used to account for the portion of the funds specific to the tidelands and submerged lands received from an easement granted for construction of a transpacific, submarine fiber optic cable system originating in Japan with a landing in Hermosa Beach that were set aside to build one new restroom and rehabilitate three existing restrooms at the beach.

Parks/Recreation Facilities Tax Fund - This fund is used to account for revenue from subdivision fees and park or recreation facility tax fees on new dwellings. Generally, the funds are to be used for acquisition, improvements and expansion of park or recreational facilities.

Bayview Drive Administrative Expense Fund - This fund is used to account for all administrative expenditures required for the Bayview Utility Underground Special Assessment District.

Myrtle District Administrative Expense Fund - This fund is used to account for all administrative expenditures required for the Myrtle Avenue Utility Underground Special Assessment District.

Loma District Administrative Expense Fund - This fund is used to account for all administrative expenditures required for the Loma Drive Utility Underground Special Assessment District.

Beach Drive Assessment District Administrative Expense Fund - This fund is used to account for all administrative expenditures required for the Loma Drive Utility Underground Special Assessment District.

Proposition "C" Fund - This is a fund which was added during 1992 to account for funds allocated from the voter-approved 1/2 cent sales tax. Funds must be used for transit purposes.

NON MAJOR GOVERNMENTAL FUNDS (Continued)

Special Revenue Funds (Continued):

Measure "R" Fund - This is a fund which was added July 1, 2009 to account for a 1/2 cent sales tax approved by Los Angeles County voters in November 2008 to meet the transportation needs of Los Angeles County. The program is to be used for transportation projects that have been approved by the Los Angeles County Metropolitan Transit Authority.

Air Quality Management District Fund - This fund is used to account for funds distributed by the South Coast Air Quality Management district. The revenues are restricted to programs which promote reduction in air pollution from motor vehicles.

Supplemental Law Enforcement Services Fund - This fund is used to account for funds received from the Citizen Option for Public Safety ("COPS") program, established by the State Legislature in fiscal year 1996-1997. Funds must be used for front line municipal police services and must supplement and not supplant existing funding.

Asset Seizure and Forfeiture Fund - This fund is used to account for property seized as a result of illegal activity and forfeited to the Police Department. Funds must be used for law enforcement purposes to supplement, not replace or decrease, existing appropriations.

Fire Protection Fund - This fund is used to account for fire flow fees which are used to upgrade and enhance the fire flow capabilities of the fire protection system in the City and for upgrades to fire facilities.

Community Development Block Grant (CDBG) Fund - This fund is used to track the costs related to community development block grant.

Measure "M" Fund - This fund is used to account for voter-approved 1/2 cent sales tax for a Los Angeles County Traffic Improvement Plan to improve freeway traffic flow/safety; repair potholes/sidewalks; repave local streets; earthquake-retrofit bridges; synchronize signals; keep senior/disabled/student fares affordable; expand rail/subway/bus systems; improve job/school/airport connections; and create jobs.

RTI Undersea Cable Fund - This fund is used to account for funds received from an easement granted for construction of a transpacific, submarine fiber optic cable system with a landing in Hermosa Beach. The project will provide additional capacity for global voice and data transmission and global access to planned and existing land-based communication networks in the

RTI Undersea Cable Tidelands Fund - This fund is used to account for funds set aside according to the MC Global (now RTI-I) easement agreement for easement within tidelands and submerged lands.

Storm Drain Special Revenue Fund - This fund is used to account for maintenance of the City's storm drains. This includes administration of the national Pollution Discharge Elimination System Program.

Debt Service Fund:

2015 Lease Revenue Bond - This fund is used to account for 2015 Lease Revenue Bond.

CITY OF HERMOSA BEACH

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2019

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
ASSETS				
Cash and investments	\$ 81,354	\$ 324,644	\$ 93,516	\$ -
Accounts receivable	12,141	76,248	4,097	61,614
Property taxes receivable, net	8,390	-	-	-
Interest receivable	63	292	72	-
Other assets	-	-	-	-
Total assets	\$ 101,948	\$ 401,184	\$ 97,685	\$ 61,614
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 50,398	\$ -	\$ 18,500	\$ -
Accrued wages and benefits payable	7,214	-	1,116	-
Unearned revenues	-	-	-	-
Due to other funds	-	-	-	26,697
Compensated absences, due within one year	7,751	-	153	-
Total liabilities	65,363	-	19,769	26,697
Deferred inflows of resources:				
Unavailable revenue	8,390	-	-	-
Total deferred inflows of resources	8,390	-	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	28,195	401,184	77,916	34,917
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	28,195	401,184	77,916	34,917
Total liabilities, deferred inflows and fund balances	\$ 101,948	\$ 401,184	\$ 97,685	\$ 61,614

CITY OF HERMOSA BEACH
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds			
	Tyco	Tyco Tidelands	Parks/ Recreation Facilities Tax	Bayview Drive Administrative Expense
ASSETS				
Cash and investments	\$ 1,042,716	\$ 606	\$ 348,347	\$ 3,435
Accounts receivable	-	-	-	-
Property taxes receivable, net	-	-	-	-
Interest receivable	792	-	268	3
Other assets	-	-	-	-
Total assets	\$ 1,043,508	\$ 606	\$ 348,615	\$ 3,438
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 18,565	\$ 595	\$ 1,813	\$ 380
Accrued wages and benefits payable	-	-	-	-
Unearned revenues	-	-	-	-
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
Total liabilities	18,565	595	1,813	380
Deferred inflows of resources:				
Unavailable revenue	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	-	346,802	3,058
Committed	1,024,943	11	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	1,024,943	11	346,802	3,058
Total liabilities, deferred inflows and fund balances	\$ 1,043,508	\$ 606	\$ 348,615	\$ 3,438

CITY OF HERMOSA BEACH
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds			
	Myrtle District Administrative Expense	Loma District Administrative Expense	Beach Drive Assessment District Admin Expense	Proposition "C"
ASSETS				
Cash and investments	\$ -	\$ 6,220	\$ 3,285	\$ 720,712
Accounts receivable	-	-	-	-
Property taxes receivable, net	-	-	-	-
Interest receivable	-	5	3	141
Other assets	-	-	-	-
Total assets	\$ -	\$ 6,225	\$ 3,288	\$ 720,853
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 354	\$ 7,368
Accrued wages and benefits payable	-	-	-	1
Unearned revenues	-	-	-	-
Due to other funds	111	-	-	-
Compensated absences, due within one year	-	-	-	-
Total liabilities	111	-	354	7,369
Deferred inflows of resources:				
Unavailable revenue	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	6,225	2,934	713,484
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	(111)	-	-	-
Total fund balances	(111)	6,225	2,934	713,484
Total liabilities, deferred inflows and fund balances	\$ -	\$ 6,225	\$ 3,288	\$ 720,853

CITY OF HERMOSA BEACH
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds			
	Measure "R"	Air Quality Management District	Supplemental Law Enforcement Services	Asset Seizure and Forfeiture
ASSETS				
Cash and investments	\$ 624,372	\$ 5,184	\$ 287,765	\$ 544,826
Accounts receivable	10,000	13,380	-	-
Property taxes receivable, net	-	-	-	-
Interest receivable	707	4	226	423
Other assets	-	-	2,310	-
Total assets	\$ 635,079	\$ 18,568	\$ 290,301	\$ 545,249
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 247,395	\$ -	\$ 35	\$ -
Accrued wages and benefits payable	-	323	-	-
Unearned revenues	-	-	-	-
Due to other funds	-	-	-	-
Compensated absences, due within one year	188	-	-	-
Total liabilities	247,583	323	35	-
Deferred inflows of resources:				
Unavailable revenue	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances:				
Nonspendable	-	-	2,310	-
Restricted	387,496	18,245	287,956	545,249
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	387,496	18,245	290,266	545,249
Total liabilities, deferred inflows and fund balances	\$ 635,079	\$ 18,568	\$ 290,301	\$ 545,249

CITY OF HERMOSA BEACH
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds			
	Fire Protection	CDBG	Measure "M"	RTI Undersea Cable
ASSETS				
Cash and investments	\$ 59,938	\$ -	\$ 30,184	\$ 409,960
Accounts receivable	-	29,912	-	-
Property taxes receivable, net	-	-	-	-
Interest receivable	47	-	215	319
Other assets	-	-	-	-
Total assets	\$ 59,985	\$ 29,912	\$ 30,399	\$ 410,279
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ 24,941	\$ 7,351	\$ -
Accrued wages and benefits payable	-	-	-	-
Unearned revenues	-	-	-	22,500
Due to other funds	-	-	-	-
Compensated absences, due within one year	-	-	-	-
Total liabilities	-	24,941	7,351	22,500
Deferred inflows of resources:				
Unavailable revenue	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	59,985	4,971	23,048	387,779
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	59,985	4,971	23,048	387,779
Total liabilities, deferred inflows and fund balances	\$ 59,985	\$ 29,912	\$ 30,399	\$ 410,279

CITY OF HERMOSA BEACH
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds		Debt Service Fund	
	RTI Undersea Cable Tidelands	Storm Drain	2015 Lease Revenue Bonds	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	\$ 247,832	\$ 1,277,384	\$ 362	\$ 6,112,642
Accounts receivable	-	-	-	207,392
Property taxes receivable, net	-	-	-	8,390
Interest receivable	193	-	-	3,773
Other assets	-	-	-	2,310
Total assets	\$ 248,025	\$ 1,277,384	\$ 362	\$ 6,334,507
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ 12,828	\$ -	\$ 390,523
Accrued wages and benefits payable	-	6,120	-	14,774
Unearned revenues	-	-	-	22,500
Due to other funds	-	-	-	26,808
Compensated absences, due within one year	-	3,731	-	11,823
Total liabilities	-	22,679	-	466,428
Deferred inflows of resources:				
Unavailable revenue	-	-	-	8,390
Total deferred inflows of resources	-	-	-	8,390
Fund Balances:				
Nonspendable	-	-	-	2,310
Restricted	248,025	1,254,705	-	4,832,174
Committed	-	-	-	1,024,954
Assigned	-	-	362	362
Unassigned	-	-	-	(111)
Total fund balances	248,025	1,254,705	362	5,859,689
Total liabilities, deferred inflows and fund balances	\$ 248,025	\$ 1,277,384	\$ 362	\$ 6,334,507

CITY OF HERMOSA BEACH
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2019

	Special Revenue Funds			
	Lighting and Landscaping District	State Gas Tax	AB 939	Prop A Open Space
REVENUES:				
Property taxes	\$ 455,151	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	765,527	-	55,474
Charges for services	-	-	61,996	-
Miscellaneous	-	-	-	-
Interest earned on investments	2,607	12,578	3,466	-
Total revenues	<u>457,758</u>	<u>778,105</u>	<u>65,462</u>	<u>55,474</u>
EXPENDITURES:				
Current:				
General government	-	-	32,750	-
Public safety	-	-	-	-
Public works	662,191	-	-	-
Capital outlay	-	201,075	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>662,191</u>	<u>201,075</u>	<u>32,750</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(204,433)</u>	<u>577,030</u>	<u>32,712</u>	<u>55,474</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	210,463	-	-	-
Transfers out	(11,054)	(489,707)	-	(20,557)
Total other financing sources (uses)	<u>199,409</u>	<u>(489,707)</u>	<u>-</u>	<u>(20,557)</u>
CHANGE IN FUND BALANCES	(5,024)	87,323	32,712	34,917
Fund balances, beginning of year	33,219	313,861	45,204	-
Fund balances (deficits), end of year	<u>\$ 28,195</u>	<u>\$ 401,184</u>	<u>\$ 77,916</u>	<u>\$ 34,917</u>

CITY OF HERMOSA BEACH

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Nonmajor Governmental Funds

For the Year Ended June 30, 2019

	Special Revenue Funds			
	Tyco	Tyco Tidelands	Parks/ Recreation Facilities Tax	Bayview Drive Administrative Expense
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	14,986	-
Fines and forfeitures	-	-	-	-
Use of money and property	327,358	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	197,117	-
Miscellaneous	-	-	-	4,500
Interest earned on investments	45,154	11	13,827	143
Total revenues	372,512	11	225,930	4,643
EXPENDITURES:				
Current:				
General government	-	-	-	1,531
Public safety	-	-	-	-
Public works	-	-	-	-
Capital outlay	72,130	-	57,769	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	72,130	-	57,769	1,531
REVENUES OVER (UNDER) EXPENDITURES	300,382	11	168,161	3,112
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(210,463)	-	-	(2,307)
Total other financing sources (uses)	(210,463)	-	-	(2,307)
CHANGE IN FUND BALANCES	89,919	11	168,161	805
Fund balances, beginning of year	935,024	-	178,641	2,253
Fund balances (deficits), end of year	\$ 1,024,943	\$ 11	\$ 346,802	\$ 3,058

CITY OF HERMOSA BEACH

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Nonmajor Governmental Funds

For the Year Ended June 30, 2019

	Special Revenue Funds			
	Myrtle District Administrative Expense	Loma District Administrative Expense	Beach Drive Assessment District Admin Expense	Proposition "C"
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	326,657
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous	-	-	3,500	-
Interest earned on investments	58	387	138	39,173
Total revenues	58	387	3,638	365,830
EXPENDITURES:				
Current:				
General government	5,048	5,382	1,442	-
Public safety	-	-	-	-
Public works	-	-	-	3,231
Capital outlay	-	-	-	796,102
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	5,048	5,382	1,442	799,333
REVENUES OVER (UNDER) EXPENDITURES	(4,990)	(4,995)	2,196	(433,503)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(2,661)	(5,710)	(1,891)	-
Total other financing sources (uses)	(2,661)	(5,710)	(1,891)	-
CHANGE IN FUND BALANCES	(7,651)	(10,705)	305	(433,503)
Fund balances, beginning of year	7,540	16,930	2,629	1,146,987
Fund balances (deficits), end of year	\$ (111)	\$ 6,225	\$ 2,934	\$ 713,484

CITY OF HERMOSA BEACH

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Nonmajor Governmental Funds

For the Year Ended June 30, 2019

	Special Revenue Funds			
	Measure "R"	Air Quality Management District	Supplemental Law Enforcement Services	Asset Seizure and Forfeiture
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	245,063	-	124,732	-
Fines and forfeitures	-	-	-	12,029
Use of money and property	-	-	-	-
Intergovernmental	-	48,483	-	-
Charges for services	-	-	-	-
Miscellaneous	15,597	-	-	-
Interest earned on investments	35,602	427	11,624	23,381
Total revenues	<u>296,262</u>	<u>48,910</u>	<u>136,356</u>	<u>35,410</u>
EXPENDITURES:				
Current:				
General government	-	4,620	-	-
Public safety	-	-	18,328	-
Public works	-	-	-	-
Capital outlay	878,929	38,531	78,701	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>878,929</u>	<u>43,151</u>	<u>97,029</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(582,667)</u>	<u>5,759</u>	<u>39,327</u>	<u>35,410</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCES	<u>(582,667)</u>	<u>5,759</u>	<u>39,327</u>	<u>35,410</u>
Fund balances, beginning of year	<u>970,163</u>	<u>12,486</u>	<u>250,939</u>	<u>509,839</u>
Fund balances (deficits), end of year	<u>\$ 387,496</u>	<u>\$ 18,245</u>	<u>\$ 290,266</u>	<u>\$ 545,249</u>

CITY OF HERMOSA BEACH

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Nonmajor Governmental Funds

For the Year Ended June 30, 2019

	Special Revenue Funds			
	Fire Protection	CDBG	Measure "M"	RTI Undersea Cable
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	276,232	-
Fines and forfeitures	-	-	-	-
Use of money and property	-	-	-	45,001
Intergovernmental	-	24,941	-	-
Charges for services	16,260	-	-	-
Miscellaneous	-	-	-	-
Interest earned on investments	2,835	-	7,223	13,181
Total revenues	19,095	24,941	283,455	58,182
EXPENDITURES:				
Current:				
General government	-	-	-	-
Public safety	37,500	-	-	-
Public works	-	-	-	-
Capital outlay	-	24,941	467,875	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	37,500	24,941	467,875	-
REVENUES OVER (UNDER) EXPENDITURES	(18,405)	-	(184,420)	58,182
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
CHANGE IN FUND BALANCES	(18,405)	-	(184,420)	58,182
Fund balances, beginning of year	78,390	4,971	207,468	329,597
Fund balances (deficits), end of year	\$ 59,985	\$ 4,971	\$ 23,048	\$ 387,779

CITY OF HERMOSA BEACH

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Nonmajor Governmental Funds

For the Year Ended June 30, 2019

	Special Revenue Funds		Debt Service Fund	
	RTI Undersea Cable Tidelands	Storm Drain	2015 Lease Revenue Bonds	Total Nonmajor Governmental Funds
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ 455,151
Other taxes	-	700,000	-	1,687,670
Fines and forfeitures	-	-	-	12,029
Use of money and property	-	-	-	372,359
Intergovernmental	-	-	-	894,425
Charges for services	-	-	-	275,373
Miscellaneous	-	-	-	23,597
Interest earned on investments	8,315	24,158	-	244,288
Total revenues	8,315	724,158	-	3,964,892
EXPENDITURES:				
Current:				
General government	-	-	-	50,773
Public safety	-	-	-	55,828
Public works	-	261,692	-	927,114
Capital outlay	-	-	-	2,616,053
Debt service:				
Principal	-	-	460,000	460,000
Interest and fiscal charges	-	-	332,497	332,497
Total expenditures	-	261,692	792,497	4,442,265
REVENUES OVER (UNDER) EXPENDITURES	8,315	462,466	(792,497)	(477,373)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	792,497	1,002,960
Transfers out	-	-	-	(744,350)
Total other financing sources (uses)	-	-	792,497	258,610
CHANGE IN FUND BALANCES	8,315	462,466	-	(218,763)
Fund balances, beginning of year	239,710	792,239	362	6,078,452
Fund balances (deficits), end of year	\$ 248,025	\$ 1,254,705	\$ 362	\$ 5,859,689

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Lighting and Landscaping District Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 33,219	\$ 33,219	\$ -
Revenues (inflows):			
Property taxes	455,926	455,151	(775)
Interest earned on investments	487	2,607	2,120
Transfers in	<u>210,463</u>	<u>210,463</u>	<u>-</u>
Amount available for appropriations	<u>666,876</u>	<u>668,221</u>	<u>1,345</u>
Charges to appropriations (outflows):			
Public works	666,890	662,191	4,699
Transfers out	<u>11,054</u>	<u>11,054</u>	<u>-</u>
Total charges to appropriations	<u>677,944</u>	<u>673,245</u>	<u>4,699</u>
Fund balance, June 30, 2019	<u>\$ 22,151</u>	<u>\$ 28,195</u>	<u>\$ (3,354)</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

State Gas Tax Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 313,861	\$ 313,861	\$ -
Revenues (inflows):			
Intergovernmental	732,451	765,527	33,076
Interest earned on investments	<u>5,666</u>	<u>12,578</u>	<u>6,912</u>
Amount available for appropriations	<u>738,117</u>	<u>778,105</u>	<u>39,988</u>
Charges to appropriations (outflows):			
Capital outlay	562,271	201,075	361,196
Transfers out	<u>489,707</u>	<u>489,707</u>	<u>-</u>
Total charges to appropriations	<u>1,051,978</u>	<u>690,782</u>	<u>361,196</u>
Fund balance, June 30, 2019	<u>\$ -</u>	<u>\$ 401,184</u>	<u>\$ (321,208)</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

AB 939 Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 45,204	\$ 45,204	\$ -
Revenues (inflows):			
Charges for services	58,632	61,996	3,364
Interest earned on investments	<u>1,444</u>	<u>3,466</u>	<u>2,022</u>
Amount available for appropriations	<u>60,076</u>	<u>65,462</u>	<u>5,386</u>
Charges to appropriations (outflows):			
General government	<u>35,674</u>	<u>32,750</u>	<u>2,924</u>
Total charges to appropriations	<u>35,674</u>	<u>32,750</u>	<u>2,924</u>
Fund balance, June 30, 2019	<u>\$ 69,606</u>	<u>\$ 77,916</u>	<u>\$ 2,462</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Prop A Open Space Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ -	\$ -	\$ -
Revenues (inflows):			
Intergovernmental	<u>20,557</u>	<u>55,474</u>	<u>34,917</u>
Amount available for appropriations	<u>20,557</u>	<u>55,474</u>	<u>34,917</u>
Charges to appropriations (outflows):			
Transfers out	<u>20,557</u>	<u>20,557</u>	<u>-</u>
Total charges to appropriations	<u>20,557</u>	<u>20,557</u>	<u>-</u>
Fund balance, June 30, 2019	<u>\$ -</u>	<u>\$ 34,917</u>	<u>\$ 34,917</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Tyco Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 935,024	\$ 935,024	\$ -
Revenues (inflows):			
Use of money and property	318,845	327,358	8,513
Interest earned on investments	<u>25,213</u>	<u>45,154</u>	<u>19,941</u>
Amount available for appropriations	<u>344,058</u>	<u>372,512</u>	<u>28,454</u>
Charges to appropriations (outflows):			
Capital outlay	520,678	72,130	448,548
Transfers out	<u>210,463</u>	<u>210,463</u>	<u>-</u>
Total charges to appropriations	<u>731,141</u>	<u>282,593</u>	<u>448,548</u>
Fund balance, June 30, 2019	<u><u>\$ 547,941</u></u>	<u><u>\$ 1,024,943</u></u>	<u><u>\$ (420,094)</u></u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Tyco Tidelands Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u> Final	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Fund balance, July 1, 2018	\$ -	\$ -	\$ -
Revenues (inflows):			
Interest earned on investments	-	11	11
Amount available for appropriations	-	11	11
Charges to appropriations (outflows):			
Capital outlay	-	-	-
Total charges to appropriations	-	-	-
Fund balance, June 30, 2019	<u>\$ -</u>	<u>\$ 11</u>	<u>\$ 11</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Park/Recreation Facilities Tax Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 178,641	\$ 178,641	\$ -
Revenues (inflows):			
Other taxes	14,986	14,986	-
Charges for services	157,361	197,117	39,756
Interest earned on investments	<u>6,103</u>	<u>13,827</u>	<u>7,724</u>
Amount available for appropriations	<u>178,450</u>	<u>225,930</u>	<u>47,480</u>
Charges to appropriations (outflows):			
Capital outlay	<u>259,769</u>	<u>57,769</u>	<u>202,000</u>
Total charges to appropriations	<u>259,769</u>	<u>57,769</u>	<u>202,000</u>
Fund balance, June 30, 2019	<u><u>\$ 97,322</u></u>	<u><u>\$ 346,802</u></u>	<u><u>\$ (154,520)</u></u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Bayview Drive Administrative Expense Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Fund balance, July 1, 2018	\$ 2,253	\$ 2,253	\$ -
Revenues (inflows):			
Miscellaneous	4,500	4,500	-
Interest earned on investments	<u>74</u>	<u>143</u>	<u>69</u>
Amount available for appropriations	<u>4,574</u>	<u>4,643</u>	<u>69</u>
Charges to appropriations (outflows):			
General government	1,350	1,531	(181)
Transfers out	<u>2,307</u>	<u>2,307</u>	<u>-</u>
Total charges to appropriations	<u>3,657</u>	<u>3,838</u>	<u>(181)</u>
Fund balance, June 30, 2019	<u><u>\$ 3,170</u></u>	<u><u>\$ 3,058</u></u>	<u><u>\$ 250</u></u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Myrle District Administrative Expense Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Fund balance, July 1, 2018	\$ 7,540	\$ 7,540	\$ -
Revenues (inflows):			
Miscellaneous	9,000	-	(9,000)
Interest earned on investments	<u>201</u>	<u>58</u>	<u>(143)</u>
Amount available for appropriations	<u>9,201</u>	<u>58</u>	<u>(9,143)</u>
Charges to appropriations (outflows):			
General government	5,585	5,048	537
Transfers out	<u>5,264</u>	<u>2,661</u>	<u>2,603</u>
Total charges to appropriations	<u>10,849</u>	<u>7,709</u>	<u>3,140</u>
Fund balance (deficit), June 30, 2019	<u><u>\$ 5,892</u></u>	<u><u>\$ (111)</u></u>	<u><u>\$ (12,283)</u></u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Loma District Administrative Expense Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 16,930	\$ 16,930	\$ -
Revenues (inflows):			
Miscellaneous	10,000	-	(10,000)
Interest earned on investments	<u>455</u>	<u>387</u>	<u>(68)</u>
Amount available for appropriations	<u>10,455</u>	<u>387</u>	<u>(10,068)</u>
Charges to appropriations (outflows):			
General government	5,740	5,382	358
Transfers out	<u>5,710</u>	<u>5,710</u>	<u>-</u>
Total charges to appropriations	<u>11,450</u>	<u>11,092</u>	<u>358</u>
Fund balance, June 30, 2019	<u><u>\$ 15,935</u></u>	<u><u>\$ 6,225</u></u>	<u><u>\$ (10,426)</u></u>

CITY OF HERMOSA BEACH

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Beach Drive District Administrative Expense Special Revenue Fund
For the Year Ended June 30, 2019**

	<u>Budgeted Amounts Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Fund balance, July 1, 2018	\$ 2,629	\$ 2,629	\$ -
Revenues (inflows):			
Miscellaneous	3,500	3,500	-
Interest earned on investments	<u>81</u>	<u>138</u>	<u>57</u>
Amount available for appropriations	<u>3,581</u>	<u>3,638</u>	<u>57</u>
Charges to appropriations (outflows):			
General government	1,453	1,442	11
Transfers out	<u>1,891</u>	<u>1,891</u>	<u>-</u>
Total charges to appropriations	<u>3,344</u>	<u>3,333</u>	<u>11</u>
Fund balance, June 30, 2019	<u>\$ 2,866</u>	<u>\$ 2,934</u>	<u>\$ 46</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Proposition "C" Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 1,146,987	\$ 1,146,987	\$ -
Revenues (inflows):			
Other taxes	318,467	326,657	8,190
Interest earned on investments	<u>35,174</u>	<u>39,173</u>	<u>3,999</u>
Amount available for appropriations	<u>353,641</u>	<u>365,830</u>	<u>12,189</u>
Charges to appropriations (outflows):			
Public works	3,231	3,231	-
Capital outlay	<u>796,102</u>	<u>796,102</u>	<u>-</u>
Total charges to appropriations	<u>799,333</u>	<u>799,333</u>	<u>-</u>
Fund balance, June 30, 2019	<u>\$ 701,295</u>	<u>\$ 713,484</u>	<u>\$ 12,189</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Measure "R" Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 970,163	\$ 970,163	\$ -
Revenues (inflows):			
Other taxes	238,856	245,063	6,207
Miscellaneous	399,922	15,597	(384,325)
Interest earned on investments	<u>26,079</u>	<u>35,602</u>	<u>9,523</u>
Amount available for appropriations	<u>664,857</u>	<u>296,262</u>	<u>(368,595)</u>
Charges to appropriations (outflows):			
Capital outlay	<u>1,635,020</u>	<u>878,929</u>	<u>756,091</u>
Total charges to appropriations	<u>1,635,020</u>	<u>878,929</u>	<u>756,091</u>
Fund balance, June 30, 2019	<u><u>\$ -</u></u>	<u><u>\$ 387,496</u></u>	<u><u>\$ (1,124,686)</u></u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Air Quality Management District Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 12,486	\$ 12,486	\$ -
Revenues (inflows):			
Intergovernmental	47,966	48,483	517
Interest earned on investments	<u>1,073</u>	<u>427</u>	<u>(646)</u>
Amount available for appropriations	<u>49,039</u>	<u>48,910</u>	<u>(129)</u>
Charges to appropriations (outflows):			
General government	26,525	4,620	21,905
Capital outlay	<u>35,000</u>	<u>38,531</u>	<u>(3,531)</u>
Total charges to appropriations	<u>61,525</u>	<u>43,151</u>	<u>18,374</u>
Fund balance, June 30, 2019	<u>\$ -</u>	<u>\$ 18,245</u>	<u>\$ (18,503)</u>

CITY OF HERMOSA BEACH

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Supplemental Law Enforcement Services Special Revenue Fund
For the Year Ended June 30, 2019**

	<u>Budgeted Amounts Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Fund balance, July 1, 2018	\$ 250,939	\$ 250,939	\$ -
Revenues (inflows):			
Other taxes	100,000	124,732	24,732
Interest earned on investments	<u>6,254</u>	<u>11,624</u>	<u>5,370</u>
Amount available for appropriations	<u>106,254</u>	<u>136,356</u>	<u>30,102</u>
Charges to appropriations (outflows):			
Public safety	58,456	18,328	40,128
Capital outlay	<u>182,192</u>	<u>78,701</u>	<u>103,491</u>
Total charges to appropriations	<u>240,648</u>	<u>97,029</u>	<u>143,619</u>
Fund balance, June 30, 2019	<u>\$ 116,545</u>	<u>\$ 290,266</u>	<u>\$ (113,517)</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Asset Seizure and Forfeiture Special Revenue Fund

For the Year Ended June 30, 2019

	Budgeted Amounts	Actual Amounts	Variance with Final Budget
	Final		
Fund balance, July 1, 2018	\$ 509,839	\$ 509,839	\$ -
Revenues (inflows):			
Fines and forfeitures	11,529	12,029	
Interest earned on investments	13,952	23,381	9,429
Amount available for appropriations	25,481	35,410	9,429
Charges to appropriations (outflows):			
Public safety	6,222	-	6,222
Capital outlay	4,600	-	4,600
Total charges to appropriations	10,822	-	10,822
Fund balance, June 30, 2019	\$ 524,498	\$ 545,249	\$ (1,393)

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Fire Protection Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 78,390	\$ 78,390	\$ -
Revenues (inflows):			
Charges for services	48,751	16,260	(32,491)
Interest earned on investments	<u>2,058</u>	<u>2,835</u>	<u>777</u>
Amount available for appropriations	<u>50,809</u>	<u>19,095</u>	<u>(31,714)</u>
Charges to appropriations (outflows):			
Public safety	<u>56,596</u>	<u>37,500</u>	<u>19,096</u>
Total charges to appropriations	<u>56,596</u>	<u>37,500</u>	<u>19,096</u>
Fund balance, June 30, 2019	<u>\$ 72,603</u>	<u>\$ 59,985</u>	<u>\$ (50,810)</u>

CITY OF HERMOSA BEACH

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2019**

	<u>Budgeted Amounts Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Fund balance, July 1, 2018	\$ 4,971	\$ 4,971	\$ -
Revenues (inflows):			
Intergovernmental	<u>270,000</u>	<u>24,941</u>	<u>(245,059)</u>
Amount available for appropriations	<u>270,000</u>	<u>24,941</u>	<u>(245,059)</u>
Charges to appropriations (outflows):			
Capital outlay	<u>270,000</u>	<u>24,941</u>	<u>245,059</u>
Total charges to appropriations	<u>270,000</u>	<u>24,941</u>	<u>245,059</u>
Fund balance, June 30, 2019	<u>\$ 4,971</u>	<u>\$ 4,971</u>	<u>\$ (490,118)</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Measure "M" Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 207,468	\$ 207,468	\$ -
Revenues (inflows):			
Other taxes	270,697	276,232	5,535
Interest earned on investments	<u>5,941</u>	<u>7,223</u>	<u>1,282</u>
Amount available for appropriations	<u>276,638</u>	<u>283,455</u>	<u>6,817</u>
Charges to appropriations (outflows):			
Capital outlay	<u>484,106</u>	<u>467,875</u>	<u>16,231</u>
Total charges to appropriations	<u>484,106</u>	<u>467,875</u>	<u>16,231</u>
Fund balance, June 30, 2019	<u>\$ -</u>	<u>\$ 23,048</u>	<u>\$ (9,414)</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

RTI Undersea Cable Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 329,597	\$ 329,597	\$ -
Revenues (inflows):			
Use of money and property	45,000	45,001	1
Interest earned on investments	<u>8,832</u>	<u>13,181</u>	<u>4,349</u>
Amount available for appropriations	<u>53,832</u>	<u>58,182</u>	<u>4,350</u>
Charges to appropriations (outflows):			
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2019	<u>\$ 383,429</u>	<u>\$ 387,779</u>	<u>\$ 4,350</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

RTI Undersea Cable Tidelands Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Fund balance, July 1, 2018	\$ 239,710	\$ 239,710	\$ -
Revenues (inflows):			
Interest earned on investments	<u>6,424</u>	<u>8,315</u>	<u>1,891</u>
Amount available for appropriations	<u>6,424</u>	<u>8,315</u>	<u>1,891</u>
Charges to appropriations (outflows):			
Capital outlay	<u>240,000</u>	<u>-</u>	<u>240,000</u>
Total charges to appropriations	<u>240,000</u>	<u>-</u>	<u>240,000</u>
Fund balance, June 30, 2019	<u>\$ 6,134</u>	<u>\$ 248,025</u>	<u>\$ (238,109)</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Storm Drains Special Revenue Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Fund balance, July 1, 2018	\$ 792,239	\$ 792,239	\$ -
Revenues (inflows):			
Other taxes	700,000	700,000	-
Interest earned on investments	<u>23,654</u>	<u>24,158</u>	<u>504</u>
Amount available for appropriations	<u>723,654</u>	<u>724,158</u>	<u>504</u>
Charges to appropriations (outflows):			
Public works	331,703	261,692	70,011
Capital outlay	<u>666,917</u>	<u>-</u>	<u>666,917</u>
Total charges to appropriations	<u>998,620</u>	<u>261,692</u>	<u>736,928</u>
Fund balance, June 30, 2019	<u>\$ 517,273</u>	<u>\$ 1,254,705</u>	<u>\$ (736,424)</u>

CITY OF HERMOSA BEACH

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

2015 Lease Revenue Bond Debt Service Fund

For the Year Ended June 30, 2019

	<u>Budgeted Amounts Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Fund balance, July 1, 2018	\$ 362	\$ 362	\$ -
Revenues (inflows):			
Transfers in	<u>632,432</u>	<u>792,497</u>	<u>160,065</u>
Amount available for appropriations	<u>632,432</u>	<u>792,497</u>	<u>160,065</u>
Charges to appropriations (outflows):			
Principal	460,000	460,000	-
Interest and fiscal charges	<u>333,712</u>	<u>332,497</u>	<u>1,215</u>
Total charges to appropriations	<u>793,712</u>	<u>792,497</u>	<u>1,215</u>
Fund balance, June 30, 2019	<u><u>\$ (160,918)</u></u>	<u><u>\$ 362</u></u>	<u><u>\$ 158,850</u></u>

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INTERNAL SERVICE FUNDS

Insurance Fund - This fund was created to account for costs associated with the City's insurances: liability, workers' compensation, unemployment, auto, property and officials' bonds and settlement losses.

Equipment Replacement Fund - This fund was created to provide ongoing funds to replace assets at the end of the assets' useful life.

CITY OF HERMOSA BEACH
Combining Statement of Net Position
All Internal Service Funds
June 30, 2019

	<u>Insurance Fund</u>	<u>Equipment Replacement Fund</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 9,468,072	\$ 5,243,757	\$ 14,711,829
Account receivables	-	9,012	9,012
Other assets	-	2,655	2,655
Total current assets	<u>9,468,072</u>	<u>5,255,424</u>	<u>14,723,496</u>
Noncurrent assets:			
Nondepreciable capital assets	-	195,245	195,245
Depreciable capital assets, net of accumulated depreciation	-	3,464,448	3,464,448
Total noncurrent assets	<u>-</u>	<u>3,659,693</u>	<u>3,659,693</u>
Total assets	<u>9,468,072</u>	<u>8,915,117</u>	<u>18,383,189</u>
LIABILITIES			
Current liabilities:			
Accounts payable	19,739	216,789	236,528
Accrued wages and benefits payable	10,638	14,145	24,783
Workers' compensation claims payable - due within one year	876,329	-	876,329
General liability claims payable - due within one year	175,875	-	175,875
Compensated absences - due within one year	7,271	16,193	23,464
Total current liabilities	<u>1,089,852</u>	<u>247,127</u>	<u>1,336,979</u>
Long-term liabilities:			
Workers' compensation claims payable - due in more than one year	4,176,347	-	4,176,347
General liability claims payable - due in more than one year	362,257	-	362,257
Total long-term liabilities	<u>4,538,604</u>	<u>-</u>	<u>4,538,604</u>
Total liabilities	<u>5,628,456</u>	<u>247,127</u>	<u>5,875,583</u>
NET POSITION			
Net investment in capital assets	-	3,659,693	3,659,693
Unrestricted	3,839,616	5,008,297	8,847,913
Total net position	<u>\$ 3,839,616</u>	<u>\$ 8,667,990</u>	<u>\$ 12,507,606</u>

CITY OF HERMOSA BEACH

Combining Statement of Revenues, Expenses, and Changes in Net Position

All Internal Service Funds

For the year ended June 30, 2019

	<u>Insurance Fund</u>	<u>Equipment Replacement Fund</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$ 2,610,232	\$ 1,723,980	\$ 4,334,212
Miscellaneous revenue	<u>274</u>	<u>101,390</u>	<u>101,664</u>
Total operating revenues	<u>2,610,506</u>	<u>1,825,370</u>	<u>4,435,876</u>
OPERATING EXPENSES:			
Salaries and wages	126,505	271,431	397,936
Contract services	1,052,437	916,214	1,968,651
Supplies	25	378,168	378,193
Claims expense	535,420	-	535,420
Depreciation	<u>-</u>	<u>519,812</u>	<u>519,812</u>
Total operating expenses	<u>1,714,387</u>	<u>2,085,625</u>	<u>3,800,012</u>
OPERATING INCOME	<u>896,119</u>	<u>(260,255)</u>	<u>635,864</u>
NON-OPERATING REVENUES (EXPENSES):			
Loss on disposal of capital assets	<u>-</u>	<u>(7,846)</u>	<u>(7,846)</u>
Total non-operating revenues (expenses)	<u>-</u>	<u>(7,846)</u>	<u>(7,846)</u>
INCOME BEFORE TRANSFERS	896,119	(268,101)	628,018
Transfers in	<u>427,336</u>	<u>-</u>	<u>427,336</u>
Total transfers	<u>427,336</u>	<u>-</u>	<u>427,336</u>
Change in net position	1,323,455	(268,101)	1,055,354
Net position, beginning of year, as restated	<u>2,516,161</u>	<u>8,936,091</u>	<u>11,452,252</u>
Net position, end of year	<u>\$ 3,839,616</u>	<u>\$ 8,667,990</u>	<u>\$ 12,507,606</u>

CITY OF HERMOSA BEACH
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2019

	Insurance Fund	Equipment Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for services from other funds	\$ 2,610,232	\$ 1,618,181	\$ 4,228,413
Cash received from insurance recovery	275	-	275
Cash payments to suppliers for goods and services	(45,002)	(902,659)	(947,661)
Cash payments to employees for services	(123,746)	(271,431)	(395,177)
Cash payments for insurance premiums and claims	(2,319,888)	-	(2,319,888)
Net cash provided (used by) operating activities	<u>121,871</u>	<u>444,091</u>	<u>565,962</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers in	427,336	-	427,336
Net cash provided (used by) non-capital financing activities	<u>427,336</u>	<u>-</u>	<u>427,336</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	-	(1,197,710)	(1,197,710)
Net cash provided (used by) capital and related financing activities	<u>-</u>	<u>(1,197,710)</u>	<u>(1,197,710)</u>
Net increase (decrease) in cash and cash equivalents	549,207	(753,619)	(204,412)
Cash and equivalents, beginning of year	8,918,865	5,997,376	14,916,241
Cash and equivalents, end of year	<u>\$ 9,468,072</u>	<u>\$ 5,243,757</u>	<u>\$ 14,711,829</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED BY) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 896,119	\$ (260,255)	\$ 635,864
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	-	519,812	519,812
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	-	42,083	42,083
(Increase) decrease in other assets	-	46,633	46,633
Increase (decrease) in accounts payable	(229,520)	96,057	(133,463)
Increase (decrease) in accrued wages and benefits payable	2,804	(515)	2,289
Increase (decrease) in workers' compensation claims payable	(45,576)	276	(45,300)
Increase (decrease) in general liability claims payable	(502,306)	-	(502,306)
Increase (decrease) in compensated absences	350	-	350
Total adjustments	<u>(774,248)</u>	<u>704,346</u>	<u>(69,902)</u>
Net cash provided (used) by operating activities	<u>\$ 121,871</u>	<u>\$ 444,091</u>	<u>\$ 565,962</u>

FIDUCIARY FUND FINANCIAL STATEMENTS

The Agency Funds of the City were established to account for transactions related to payments for limited obligation bonds for the Bayview Drive, the Lower Pier Avenue Assessment District, the Beach Drive Assessment District, the Myrtle Avenue Utility Undergrounding Assessment District, and the Loma Drive Utility Undergrounding Assessment District.

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CITY OF HERMOSA BEACH
Combining Statement of Fiduciary Net Position
All Agency Funds
June 30, 2019

	Bayview Drive Redemption	Bayview Drive Reserve	Lower Pier Avenue Assessment District Redemption	Beach Drive Assessment District Redemption
ASSETS				
Cash and investments	\$ 127,462	14,719	3,150	63,444
Interest receivable	100	11	2	50
Other accounts receivable	973	-	-	308
Total assets	\$ 128,535	14,730	3,152	63,802
LIABILITIES				
Installment account	\$ 128,535	4,730	3,152	63,802
Reserve requirement	-	10,000	-	-
Total liabilities	\$ 128,535	14,730	3,152	63,802

CITY OF HERMOSA BEACH

Combining Statement of Fiduciary Net Position (Continued)

All Agency Funds

June 30, 2019

	Beach Drive Assessment District Reserve	Myrtle Avenue Utility Undergrounding Assessment District	Loma Drive Utility Undergrounding Assessment District	Total
ASSETS				
Cash and investments	\$ 4,508	42,275	82,096	337,654
Interest receivable	3	34	65	265
Other accounts receivable	-	478	397	2,156
Total assets	<u>\$ 4,511</u>	<u>42,787</u>	<u>82,558</u>	<u>340,075</u>
LIABILITIES				
Installment account	\$ 1,511	42,787	82,558	327,075
Reserve requirement	3,000	-	-	13,000
Total liabilities	<u>\$ 4,511</u>	<u>42,787</u>	<u>82,558</u>	<u>340,075</u>

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Hermosa Beach's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

Contents	Pages
Financial Trends	145-150
These schedules contain trend information to help the reader understand how the government's financial performance and well being have changed over time.	
Revenue Capacity	151-157
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	158-165
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future. ¹	
Demographic and Economic Information	166-169
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	170-174
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

¹ Since the City of Hermosa Beach has no debt, the following schedules are not included in the Statistical Section:

Ratios of Outstanding Debt by Type
Ratios of General Bonded Debt Outstanding
Pledged-Revenue Coverage

CITY OF HERMOSA BEACH
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2010	2011	2012	2013	2014
Governmental activities:					
Net investment in capital assets	\$ 56,599,591	\$ 56,693,499	\$ 65,518,736	\$ 64,135,741	\$ 64,828,005
Restricted	4,518,727	1,968,275	3,860,192	4,050,722	4,476,554
Unrestricted	10,768,025	14,122,551	10,589,507	17,294,405	22,988,231
Total governmental activities net assets	\$ 71,886,343	\$ 72,784,325	\$ 79,968,435	\$ 85,480,868	\$ 92,292,790
Business-type activities:					
Net investment in capital assets	\$ 9,926,861	\$ 9,998,669	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Unrestricted	(1,074,651)	(838,749)	-	-	-
Total business-type activities net assets	\$ 8,852,210	\$ 9,159,920	\$ -	\$ -	\$ -
Primary government:					
Net investment in capital assets	\$ 66,526,450	\$ 66,692,168	\$ 65,518,736	\$ 64,135,741	\$ 64,828,005
Restricted	4,518,727	1,968,275	3,860,192	4,050,722	4,476,554
Unrestricted	9,693,374	13,283,802	10,589,507	17,294,405	22,988,231
Total primary government net assets	\$ 80,738,551	\$ 81,944,245	\$ 79,968,435	\$ 85,480,868	\$ 92,292,790

¹ The Downtown Enhancement Fund was combined with the General Fund at the end of June 30, 2012.

CITY OF HERMOSA BEACH
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting) (Continued)

	Fiscal Year				
	2015	2016	2017	2018	2019
Governmental activities:					
Net investment in capital assets	\$ 66,733,301	\$ 66,933,796	\$ 66,417,072	\$ 66,333,070	\$ 64,375,911
Restricted	4,188,404	3,774,552	5,260,908	5,584,794	5,056,977
Unrestricted	(24,869,037)	(18,769,530)	(13,287,058)	(10,942,703)	(8,841,583)
Total governmental activities net assets	\$ 46,052,668	\$ 51,938,818	\$ 58,390,922	\$ 60,975,161	\$ 60,591,305
Business-type activities:					
Net investment in capital assets	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Unrestricted	-	-	-	-	-
Total business-type activities net assets	\$ -	\$ -	\$ -	\$ -	\$ -
Primary government:					
Net investment in capital assets	\$ 66,733,301	\$ 66,933,796	\$ 66,417,072	\$ 66,333,070	\$ 64,375,911
Restricted	4,188,404	3,774,552	5,260,908	5,584,794	5,056,977
Unrestricted	(24,869,037)	(18,769,530)	(13,287,058)	(10,942,703)	(8,841,583)
Total primary government net assets	\$ 46,052,668	\$ 51,938,818	\$ 58,390,922	\$ 60,975,161	\$ 60,591,305

¹ The Downtown Enhancement Fund was combined with the General Fund at the end of June 30, 2012.

CITY OF HERMOSA BEACH
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2010	2011	2012	2013	2014
Expenses:					
Governmental activities:					
Legislative and legal	\$ 980,157	\$ 972,979	\$ 4,677,233	\$ 881,556	\$ 1,076,211
General government	2,409,611	3,102,761	2,376,929	2,458,548	2,827,895
Public safety	17,841,984	17,698,263	18,179,929	16,431,962	16,856,166
Community development	1,243,490	1,223,581	1,235,058	1,260,996	1,519,632
Culture and recreation	1,252,037	1,133,467	1,037,790	1,087,000	1,068,388
Public works	7,823,275	6,725,147	7,239,076	7,529,499	7,420,724
Interest and fiscal charges	-	-	-	-	-
Total governmental activities expenses	<u>31,550,554</u>	<u>30,856,198</u>	<u>34,746,015</u>	<u>29,649,561</u>	<u>30,769,016</u>
Business-type activities:					
Downtown Enhancement	997,138	878,021	906,244	-	-
Parking	- ²	- ²	-	-	-
Proposition "A" Transit	- ¹	- ¹	-	-	-
Proposition "C" Transit	- ¹	- ¹	-	-	-
Total business-type activities expenses	<u>997,138</u>	<u>878,021</u>	<u>906,244</u>	<u>-</u>	<u>-</u>
Total primary government expenses	<u>32,547,692</u>	<u>31,734,219</u>	<u>35,652,259</u>	<u>29,649,561</u>	<u>30,769,016</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government	543,259	546,793	555,607	2,275,297	2,323,797
Public safety	4,674,410	4,646,663	5,112,011	5,282,223	5,455,694
Community development	650,962	797,248	860,158	1,125,637	1,641,773
Culture and recreation	856,135	975,469	957,989	1,271,845	1,425,451
Public works	840,740	1,025,008	938,822	989,656	892,784
Operating grants and contributions	543,531	700,691	828,722	702,873	1,106,254
Capital grants and contributions	1,817,638	902,506	759,889	255,996	260,844
Total governmental activities program revenues:	<u>9,926,675</u>	<u>9,594,378</u>	<u>10,013,198</u>	<u>11,903,527</u>	<u>13,106,597</u>
Business-type activities:					
Charges for services:					
Downtown Enhancement	1,026,185	1,409,952	1,649,197	-	-
Parking	- ²	- ²	-	-	-
Proposition A Transit	- ¹	- ¹	-	-	-
Proposition C Transit	- ¹	- ¹	-	-	-
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues:	<u>1,026,185</u>	<u>1,409,952</u>	<u>1,649,197</u>	<u>-</u>	<u>-</u>
Total primary government program revenues:	<u>10,952,860</u>	<u>11,004,330</u>	<u>11,662,395</u>	<u>11,903,527</u>	<u>13,106,597</u>

CITY OF HERMOSA BEACH
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting) (Continued)

	Fiscal Year				
	2010	2011	2012	2013	2014
Net revenues (expenses):					
Governmental activities	(21,623,879)	(21,261,820)	(24,732,817)	(17,746,034)	(17,662,419)
Business-type activities	29,047	531,931	742,953	-	-
Total net revenues (expenses)	<u>(21,594,832)</u>	<u>(20,729,889)</u>	<u>(23,989,864)</u>	<u>(17,746,034)</u>	<u>(17,662,419)</u>
General revenues and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	11,407,964	11,518,645	11,598,615	12,151,229	12,910,426
Sales tax	2,112,971	2,209,559	2,474,651	2,598,752	2,653,631
Other taxes	5,962,978	6,060,992	6,461,065	6,638,189	6,924,202
Grants and contributions not restricted to specific programs	1,242,064	1,666,460	1,121,380	1,156,589	1,222,808
Investment income	135,423	91,910	109,571	130,709	141,794
Other general revenues	473,559	352,723	237,670	582,999	621,480
Transfers	4,356	259,513	9,913,975	-	-
Settlement (Note 14)	-	-	-	-	-
Total governmental activities	<u>21,339,315</u>	<u>22,159,802</u>	<u>31,916,927</u>	<u>23,258,467</u>	<u>24,474,341</u>
Business-type activities:					
Investment income	5,609	4,679	6,418	-	-
Other general revenues	-	-	-	-	-
Miscellaneous	1,550	30,613	4,684	-	-
Transfers	(4,356)	(259,513)	(9,913,975)	-	-
Total business-type activities	<u>2,803</u>	<u>(224,221)</u>	<u>(9,902,873)</u>	<u>-</u>	<u>-</u>
Total primary government	<u>21,342,118</u>	<u>21,935,581</u>	<u>22,014,054</u>	<u>23,258,467</u>	<u>24,474,341</u>
Changes in net assets					
Governmental activities:	(284,564)	897,982	7,184,110	5,512,433	6,811,922
Business-type activities:	31,850	307,710	(9,159,920)	-	-
Total primary government	<u>\$ (252,714)</u>	<u>\$ 1,205,692</u>	<u>\$ (1,975,810)</u>	<u>\$ 5,512,433</u>	<u>\$ 6,811,922</u>

¹Transit operations were transferred to special revenue funds in fiscal year 2005.

²The Parking Fund was combined with the General Fund in fiscal year 2006.

CITY OF HERMOSA BEACH
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting) (Continued)

	Fiscal Year				
	2015	2016	2017	2018	2019
Expenses:					
Governmental activities:					
Legislative and legal	\$ 1,293,214	\$ 2,083,297	\$ 2,043,740	\$ 1,869,599	\$ 1,740,871
General government	3,078,044	2,262,107	3,598,512	4,129,246	4,762,463
Public safety	16,737,044	20,034,932	18,911,734	25,496,398	23,865,450
Community development	1,710,563	1,347,087	1,787,364	2,264,015	2,298,401
Culture and recreation	1,257,311	1,108,749	1,310,740	1,769,893	1,754,760
Public works	6,985,762	9,131,490	7,957,044	9,176,521	9,125,121
Interest and fiscal charges	-	-	-	-	375,815
Total governmental activities expenses	<u>31,061,938</u>	<u>35,967,662</u>	<u>35,609,134</u>	<u>44,705,672</u>	<u>43,922,881</u>
Business-type activities:					
Downtown Enhancement	-	-	-	-	-
Parking	-	-	-	-	-
Proposition "A" Transit	-	-	-	-	-
Proposition "C" Transit	-	-	-	-	-
Total business-type activities expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government expenses	<u>31,061,938</u>	<u>35,967,662</u>	<u>35,609,134</u>	<u>44,705,672</u>	<u>43,922,881</u>
Program revenues:					
Governmental activities:					
Charges for services:					
General government	2,582,857	2,414,955	2,433,987	2,538,028	476,403
Public safety	5,398,329	5,254,859	4,993,104	4,957,188	5,153,551
Community development	1,679,400	1,996,538	1,664,132	1,691,752	1,735,699
Culture and recreation	1,522,417	1,178,323	1,341,455	1,223,789	974,306
Public works	1,085,165	2,217,610	2,374,774	2,292,254	1,409,991
Operating grants and contributions	983,628	755,650	601,816	517,244	2,805,669
Capital grants and contributions	328,649	203,033	327,534	27,821	526,421
Total governmental activities program revenues:	<u>13,580,445</u>	<u>14,020,968</u>	<u>13,736,802</u>	<u>13,248,076</u>	<u>13,082,040</u>
Business-type activities:					
Charges for services:					
Downtown Enhancement	-	-	-	-	-
Parking	-	-	-	-	-
Proposition A Transit	-	-	-	-	-
Proposition C Transit	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
Total business-type activities program revenues:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government program revenues:	<u>13,580,445</u>	<u>14,020,968</u>	<u>13,736,802</u>	<u>13,248,076</u>	<u>13,082,040</u>

¹ Transit operations were transferred to special revenue funds in fiscal year 2005.

² The Parking Fund was combined with the General Fund in fiscal year 2006.

CITY OF HERMOSA BEACH
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting) (Continued)

	Fiscal Year				
	2015	2016	2017	2018	2019
Net revenues (expenses):					
Governmental activities	(17,481,493)	(21,946,694)	(21,872,332)	(31,457,596)	(30,840,841)
Business-type activities	-	-	-	-	-
Total net revenues (expenses)	<u>(17,481,493)</u>	<u>(21,946,694)</u>	<u>(21,872,332)</u>	<u>(31,457,596)</u>	<u>(30,840,841)</u>
General revenues and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	13,739,648	15,317,458	15,714,094	17,097,712	18,640,303
Sales tax	2,768,225	2,895,794	2,816,289	3,151,207	3,133,311
Other taxes	7,179,945	7,527,467	7,930,375	7,878,400	7,807,116
Grants and contributions not restricted to specific programs	1,246,419	1,369,042	1,304,880	1,315,223	2,346,524
Investment income	510,668	455,234	-	-	-
Other general revenues	489,740	267,849	564,798	982,343	2,701,560
Transfers	-	-	-	-	-
Settlement (Note 14)	(14,000,000)	-	-	-	-
Total governmental activities	<u>11,934,645</u>	<u>27,832,844</u>	<u>28,330,436</u>	<u>30,424,885</u>	<u>34,628,814</u>
Business-type activities:					
Investment income	-	-	-	-	-
Other general revenues	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Transfers	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government	<u>11,934,645</u>	<u>27,832,844</u>	<u>28,330,436</u>	<u>30,424,885</u>	<u>34,628,814</u>
Changes in net assets					
Governmental activities:	(5,546,848)	5,886,150	6,458,104	(1,032,711)	3,787,973
Business-type activities:	-	-	-	-	-
Total primary government	<u>\$ (5,546,848)</u>	<u>\$ 5,886,150</u>	<u>\$ 6,458,104</u>	<u>\$ (1,032,711)</u>	<u>\$ 3,787,973</u>

¹ Transit operations were transferred to special revenue funds in fiscal year 2005.

² The Parking Fund was combined with the General Fund in fiscal year 2006.

CITY OF HERMOSA BEACH
Governmental Activities Tax Revenues By Source
Last Ten Years
(accrual basis of accounting)

Fiscal year ended June 30	Property tax	Sales tax	Real property transfer tax	Franchise fees	1/2 cent sales tax extension for public safety	Transient occupancy tax	Utility user's tax	Business license	Total
2010	11,407,964	2,112,971	162,562	650,115	168,103	1,559,048	2,559,369	863,781	19,483,913
2011	11,518,645	2,209,559	178,912	698,622	165,627	1,689,356	2,520,720	807,755	19,789,196
2012	11,639,960	2,474,650	177,555	730,953	180,493	1,884,020	2,495,895	950,803	20,534,329
2013	12,151,229	2,598,752	233,412	752,586	192,175	1,996,174	2,503,265	950,526	21,378,119
2014	12,910,426	2,653,631	290,379	788,694	182,608	2,204,420	2,443,285	1,006,478	22,479,921
2015	13,739,648	2,768,225	312,416	785,935	229,824	2,349,750	2,442,575	1,059,445	23,687,818
2016	15,317,458	2,895,795	320,731	776,316	212,511	2,762,444	2,388,825	1,058,663	25,732,743
2017	15,714,094	2,886,298	345,603	720,338	218,092	3,237,026	2,302,024	1,098,421	26,521,896
2018	17,097,712	3,151,207	326,224	722,316	233,291	3,295,207	2,229,906	1,061,130	28,116,993
2019	18,640,303	3,133,311	272,138	720,853	244,252	3,251,349	2,195,815	1,107,723	29,565,744

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CITY OF HERMOSA BEACH
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2010	2011	2012	2013	2014
General Fund:					
Reserved	\$ 447,426				
Unreserved	253,005				
Non-spendable		\$ 35,613	\$ 14,271	\$ 21,589	\$ 10,603
Restricted		172,021	255,200	391,504	410,289
Committed		10,592	10,592	10,592	28,900
Assigned		5,635,231	5,776,500	6,555,423	7,655,210
Unassigned		-	-	-	-
Total general fund	<u>\$ 700,431</u>	<u>\$ 5,853,457</u>	<u>\$ 6,056,563</u>	<u>\$ 6,979,108</u>	<u>\$ 8,105,002</u>
All other governmental funds:					
Reserved	\$ 3,060,042				
Unreserved, reported in:					
Special revenue funds	6,965,596				
Non-spendable			\$ 1,500		\$ 1,600
Restricted			3,604,992	\$ 3,659,218	4,083,450
Committed			117,415	137,166	432,606
Assigned		\$ 4,216,497	961,251	847,266	2,831,179
Unassigned					
Total all other governmental funds	<u>\$ 10,025,638</u>	<u>\$ 4,216,497</u>	<u>\$ 4,685,158</u>	<u>\$ 4,643,650</u>	<u>\$ 7,348,835</u>
Total governmental funds	<u>\$ 10,726,069</u>	<u>\$ 10,069,954</u>	<u>\$ 10,741,721</u>	<u>\$ 11,622,758</u>	<u>\$ 15,453,837</u>

Note: GASB 54 was implemented in year ended June 30, 2011; prior years have no comparable data.

CITY OF HERMOSA BEACH
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting) (Continued)

	Fiscal Year				
	2015	2016	2017	2018	2019
General Fund:					
Reserved					
Unreserved					
Non-spendable	\$ 19,444	\$ 21,261	\$ 66,700	\$ 478,479	\$ 40,110
Restricted	460,304	329,890	158,149	170,336	345,902
Committed	28,900	28,900	1,115,600	1,144,500	1,108,275
Assigned	10,005,040	8,529,250	8,322,103	7,781,460	9,019,805
Unassigned	-	-	-	-	-
Total general fund	<u>\$ 10,513,688</u>	<u>\$ 8,909,301</u>	<u>\$ 9,662,552</u>	<u>\$ 9,574,775</u>	<u>\$ 10,514,092</u>
All other governmental funds:					
Reserved					
Unreserved, reported in:					
Special revenue funds					
Non-spendable	-	\$ 5,835	\$ 7,083	\$ 9,280	\$ 2,310
Restricted	\$ 3,728,100	3,430,617	5,102,759	7,677,889	5,561,493
Committed	431,716	1,305,276	879,008	1,144,884	1,024,954
Assigned	7,646,948	11,348,565	12,706,958	13,068,691	16,241,139
Unassigned	-	(24,138)	-	-	(111)
Total all other governmental funds	<u>\$ 11,806,764</u>	<u>\$ 16,066,155</u>	<u>\$ 18,695,808</u>	<u>\$ 21,900,744</u>	<u>\$ 22,829,785</u>
Total governmental funds	<u>\$ 22,320,452</u>	<u>\$ 24,975,456</u>	<u>\$ 28,358,360</u>	<u>\$ 31,475,519</u>	<u>\$ 33,343,877</u>

Note: GASB 54 was implemented in year ended June 30, 2011; prior years have no comparable data.

CITY OF HERMOSA BEACH
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2010	2011	2012	2013	2014
Revenues:					
Property taxes	\$ 11,863,846	\$ 11,978,616	\$ 12,056,548	\$ 12,618,579	\$ 13,368,615
Other taxes	8,760,988	9,023,359	9,722,036	10,076,591	10,492,906
Licenses and permits	556,737	627,056	668,405	783,121	971,336
Fines and forfeitures	2,075,759	2,219,052	2,475,311	2,416,031	2,781,240
Use of money and property	622,847	653,752	815,367	1,102,797	1,077,154
Intergovernmental	2,578,807	1,678,980	1,555,097	896,216	1,350,674
Charges for services	4,080,450	4,005,420	4,301,971	6,312,731	6,722,773
Miscellaneous	301,179	538,098	198,858	469,725	630,271
Interest earned on investments	135,423	91,913	109,186	131,749	137,909
Total revenues	<u>30,976,036</u>	<u>30,816,246</u>	<u>31,902,779</u>	<u>34,807,540</u>	<u>37,532,878</u>
Expenditures					
Current:					
Legislative and legal	976,862	960,365	1,170,820	893,460	1,093,518
General government	2,350,692	3,001,906	2,293,402	2,550,162	2,806,176
Public safety	17,251,686	16,516,892	16,604,695	16,926,014	17,768,720
Community development	1,229,909	1,189,993	1,177,696	1,279,999	1,548,185
Culture and recreation	1,201,057	1,044,131	989,265	1,110,456	1,132,849
Public works	4,158,945	3,907,921	3,852,318	4,946,423	5,216,430
Capital outlay	4,176,566	3,044,697	2,414,507	1,813,990	2,774,016
Debt service:					
Principal	n/a	n/a	n/a	n/a	n/a
Interest	n/a	n/a	n/a	n/a	n/a
Total expenditures	<u>31,345,717</u>	<u>29,665,905</u>	<u>28,502,703</u>	<u>29,520,504</u>	<u>32,339,894</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(369,681)</u>	<u>1,150,341</u>	<u>3,400,076</u>	<u>5,287,036</u>	<u>5,192,984</u>
Other financing sources (uses)					
Proceeds from sale of assets			2,360	-	-
Transfers in	2,316,998	2,239,196	1,911,100	1,381,842	3,905,349
Transfers out	<u>(2,993,912)</u>	<u>(4,045,652)</u>	<u>(4,641,769)</u>	<u>(5,787,841)</u>	<u>(5,267,254)</u>
Total other financing sources (uses)	<u>(676,914)</u>	<u>(1,806,456)</u>	<u>(2,728,309)</u>	<u>(4,405,999)</u>	<u>(1,361,905)</u>
Net change in fund balances	<u>\$ (1,046,595)</u>	<u>\$ (656,115)</u>	<u>\$ 671,767</u>	<u>\$ 881,037</u>	<u>\$ 3,831,079</u>
Debt service as a percentage of noncapital expenditures					
	0.0%	0.0%	0.0%	0.0%	0.0%

CITY OF HERMOSA BEACH
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting) (Continued)

	Fiscal Year				
	2015	2016	2017	2018	2019
Revenues:					
Property taxes	\$ 14,198,054	\$ 15,113,479	\$ 16,209,008	\$ 17,530,492	\$ 18,565,796
Other taxes	10,992,377	11,302,910	11,821,528	12,248,900	12,306,567
Licenses and permits	916,073	1,111,366	967,956	1,055,631	850,059
Fines and forfeitures	2,652,193	2,412,554	2,122,335	2,809,367	2,373,432
Use of money and property	1,087,758	965,738	1,047,084	1,340,018	1,952,941
Intergovernmental	1,290,849	949,255	1,031,191	358,523	1,062,434
Charges for services	7,318,409	8,130,681	8,412,322	9,259,210	8,303,529
Miscellaneous	688,047	679,937	540,021	249,152	634,114
Interest earned on investments	244,026	445,260	6,175	152,359	1,380,012
Total revenues	<u>39,387,786</u>	<u>41,111,180</u>	<u>42,157,620</u>	<u>45,003,652</u>	<u>47,428,884</u>
Expenditures					
Current:					
Legislative and legal	1,170,229	1,958,940	1,448,509	1,313,261	1,499,065
General government	3,040,426	3,458,191	3,722,659	3,751,020	4,274,743
Public safety	18,142,958	21,272,474	21,392,637	21,468,409	22,087,381
Community development	1,722,513	1,806,130	1,869,018	2,034,235	2,063,502
Culture and recreation	1,246,532	1,291,808	1,395,915	1,446,996	1,600,519
Public works	5,317,541	6,622,698	6,106,648	6,343,525	6,756,773
Capital outlay	3,620,185	2,953,123	1,644,253	2,164,817	6,058,710
Debt service:					
Principal	n/a	-	335,000	434,992	460,000
Interest	n/a	233,425	375,332	355,738	332,497
Total expenditures	<u>34,260,384</u>	<u>39,363,364</u>	<u>38,289,971</u>	<u>39,312,993</u>	<u>45,133,190</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,127,402</u>	<u>1,747,816</u>	<u>3,867,649</u>	<u>5,690,659</u>	<u>2,295,694</u>
Other financing sources (uses)					
Proceeds from sale of assets	-	11,799,905	-	-	-
Transfers in	6,911,913	5,733,408	1,942,014	1,271,842	4,155,801
Transfers out	(5,172,700)	(16,392,700)	(2,356,750)	(3,915,326)	(4,583,137)
Total other financing sources (uses)	<u>1,739,213</u>	<u>1,140,613</u>	<u>(414,736)</u>	<u>(2,643,484)</u>	<u>(427,336)</u>
Net change in fund balances	<u>\$ 6,866,615</u>	<u>\$ 2,888,429</u>	<u>\$ 3,452,913</u>	<u>\$ 3,047,175</u>	<u>\$ 1,868,358</u>
Debt service as a percentage of noncapital expenditures					
	0.0%	0.6%	2.0%	2.2%	1.8%

CITY OF HERMOSA BEACH
General Government Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal year ended June 30	Property tax	Sales tax	Real property transfer tax	Franchise fees	Transient occupancy tax	Utility user's tax	Other	Total
2010	11,863,846	2,112,971	162,562	650,115	1,559,048	2,559,369	1,716,923	20,624,834
2011	11,978,616	2,209,559	178,912	698,622	1,689,356	2,520,720	1,726,190	21,001,975
2012	12,056,548	2,474,650	177,555	730,954	1,884,020	2,495,895	1,958,962	21,778,584
2013	12,618,579	2,598,752	233,412	752,586	1,996,174	2,503,265	1,992,402	22,695,170
2014	13,368,615	2,653,631	290,379	788,694	2,204,420	2,443,285	2,112,497	23,861,521
2015	14,198,054	2,768,225	312,416	785,935	2,349,750	2,442,575	2,333,476	25,190,431
2016	15,113,479	2,895,794	320,731	776,316	2,762,444	2,388,824	2,290,061	26,547,649
2017	16,209,008	2,886,298	345,603	720,338	3,237,026	2,302,024	2,330,238	28,030,538
2018	17,530,492	3,151,207	326,224	722,316	3,295,207	2,229,906	2,524,040	29,779,392
2019	18,565,796	3,133,311	272,138	720,853	3,251,349	1,495,815	3,433,101	30,872,363

CITY OF HERMOSA BEACH
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(In Thousands)

Fiscal year ended June 30	Residential property	Commercial property	Industrial property	Other	Less exemptions	Total taxable assessed value	Total direct tax rate	Estimated actual taxable value	Percentage increase
2010	4,350,467	378,930	12,442	128,227	(46,338)	4,823,728	1.00	4,870,066	3.03%
2011	4,422,662	397,297	12,412	76,659	(46,807)	4,862,224	1.00	4,909,030	0.80%
2012	4,479,178	407,825	11,156	92,987	(46,205)	4,944,941	1.00	4,991,146	1.70%
2013	4,608,192	422,855	11,853	96,628	(46,338)	5,093,190	1.00	5,139,528	3.00%
2014	4,883,870	437,214	10,379	95,294	(47,030)	5,379,750	1.00	5,332,719	5.63%
2015	5,181,815	455,035	12,635	104,834	(43,278)	5,711,045	1.00	5,667,767	6.16%
2016	5,522,546	484,979	13,186	111,635	(43,260)	6,089,089	1.00	6,045,828	6.62%
2017	5,994,296	508,160	13,921	120,700	(43,295)	6,593,784	1.00	6,550,489	8.29%
2018	6,432,195	532,168	14,242	145,238	(41,125)	7,082,716	1.00	7,041,591	7.42%
2019	6,837,257	566,389	15,437	162,374	(41,043)	7,540,415	1.00	7,499,372	6.46%

NOTE:

In 1978, the voters of the State of California passed Proposition 13 which limited taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%). With few exceptions, property is only reassessed as a result of new construction activity or at the time it is sold to a new owner. At that point, the property is reassessed based upon the added value of the construction or at the purchase price (market value) or economic value of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: Los Angeles County Auditor-Controller

Note: Assessed valuations available from the County of Los Angeles are based on 100% of full value per Section 135 of the California Revenue and Taxation Code.

CITY OF HERMOSA BEACH
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Fiscal Year	City	Overlapping rates					Total
	direct rate	Hermosa Beach School District	El Camino Community College District	Los Angeles County	Flood Control District	Metropolitan Water District	
2010	1.000000	0.017250	0.014868	-	-	0.004300	1.036418
2011	1.000000	0.018067	0.016140	-	-	0.003700	1.037907
2012	1.000000	0.016904	0.016884	-	-	0.003700	1.037488
2013	1.000000	0.018550	0.018490	-	-	0.003500	1.040540
2014	1.000000	0.017970	0.017498	-	-	0.003500	1.038968
2015	1.000000	0.014729	0.017422	-	-	0.003500	1.035651
2016	1.000000	0.015746	0.017447	-	-	0.003500	1.036693
2017	1.000000	0.014928	0.022942	-	-	0.003500	1.041370
2018	1.000000	0.040245	0.021199	-	-	0.003500	1.064944
2019	1.000000	0.025942	0.022229	-	-	0.003500	1.051671

* The Basic rate for all years is comprised of the following:

- 0.2774 - Los Angeles County
- 0.2030 - Tax District # 1
- 0.1602 - Educational Augmentation Fund Impound
- 0.0849 - Educational Revenue Augmentation Fund
- 0.0541 - Hermosa Beach City School District
- 0.0526 - Redondo Beach Unified School District
- 0.0281 - Development Center Handicapped Minor - Redondo Beach
- 0.0275 - El Camino Community College District
- 0.0264 - Manhattan Beach Unified School District
- 0.0210 - Los Angeles County Library
- 0.01410 - Development Center Handicapped Minor - Manhattan Beach
- 0.01203 - South Bay Cities Sanitation District Operating
- 0.00861 - Los Angeles County Flood Control Maintenance
- 0.00859 - County School Service Fund - Hermosa Beach
- 0.00827 - Beach Cities Hospital District
- 0.00637 - Los Angeles County FFW
- 0.00258 - Childrens Instil. Tuition Fund
- 0.00152 - Los Angeles Flood Drain Improvement District Maintenance
- 0.00130 - County School Services
- 0.00094 - Development Center Handicapped Minor - Hermosa Beach C
- 0.00019 - Los Angeles County West Vector Control District
- 0.00016 - Water Replenishment District of Southern California
- 0.00010 - Los Angeles County Accumulated Capital Outlay
- 1.0000000

Note: In 1978 California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. The 1.00% is shared by all taxing agencies wherein the subject property resides. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.

Source: Los Angeles County Auditor-Controller

CITY OF HERMOSA BEACH
Principal Property Tax Payers
Current Year and Ten Years ago

Taxpayer	2019	
	Taxable assessed value	Percent of total city taxable assessed value
Crico of Fountain Place Limited Partnership (1)	\$ 82,366,830	1.09%
EQR Gallery Apartments Limited Partnership (1)	74,005,748	0.98%
South Bay LLC (8)	28,061,847	0.37%
1601 PCH LP (1)	25,897,648	0.34%
Stand and Pier Hermosa Parent LLC (5)	24,732,335	0.33%
Hermosa Hotel Investments LLC (1)	19,652,449	0.26%
IWF Hotel Hermosa LP (1)	17,654,630	0.23%
Kathy Ishii Trust (2)	17,421,621	0.23%
Bagnard Company LLC (8)	17,203,226	0.23%
Reg8 Plaza Hermosa LLC (7)	16,189,354	0.21%
	\$ 323,185,688	4.26%

Taxpayer	2010	
	Taxable assessed value	Percent of total city taxable assessed value
Crico of Fountain Place Limited Partnership (1)	\$ 73,026,747	1.51%
EQR Gallery Apartments Limited Partnership (1)	67,128,838	1.39%
Diana Albergate Trust (5)	24,906,150	0.52%
Barbara K Robinson (5)	20,798,407	0.43%
Hermosa Hotel Investments LLC (1)	16,463,287	0.34%
Reg8 Plaza Hermosa LLC (7)	14,304,448	0.30%
Time Warner Cable (1)	12,351,868	0.26%
Beta Group (2)	12,351,698	0.26%
Robert J & Renae Desantis Trust (1)	11,935,338	0.25%
Sepulveda Blvd Properties LLC (5)	11,765,700	0.24%
	\$ 265,032,481	5.49%

Source: HdL Coren & Cone, Los Angeles County Assessor Combined Tax Rolls
Numbers in parentheses represent the number of parcels owned by the tax payer.

CITY OF HERMOSA BEACH
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal year ended June 30	Taxes levied for the fiscal year	Collected within the fiscal year of levy		Collections in subsequent years	Total collections to date	
		Amount	Percent of levy		Amount	Percent of levy
2010	10,210,015	9,165,388	89.77%		9,165,388	89.77%
2011	10,298,644	9,789,691	95.06%		9,789,691	95.06%
2012	10,477,164	9,971,097	95.17%		9,971,097	95.17%
2013	10,761,548	10,422,088	96.85%		10,422,088	96.85%
2014	11,124,112	10,798,615	97.07%		10,798,615	97.07%
2015	12,081,959	11,805,592	97.71%		11,805,592	97.71%
2016	12,879,664	12,577,259	97.65%		12,577,259	97.65%
2017	13,875,400	13,547,393	97.64%		13,547,393	97.64%
2018	14,957,019	14,575,846	97.45%		14,575,846	97.45%
2019	15,894,003	15,455,825	97.24%		15,455,825	97.24%

Source: Los Angeles County Auditor-Controller

CITY OF HERMOSA BEACH
Construction Value and Property Value
Last Ten Fiscal Years

Fiscal year ended June 30	Residential		Commercial		Total assessed value
	Number of permits	Valuation	Number of permits	Valuation	
2010	377	9,596,415	64	2,454,027	4,823,727,991
2011	486	16,079,850	81	2,599,656	4,862,223,524
2012	410	15,944,064	82	3,597,461	4,944,940,538
2013	462	24,241,397	56	2,710,750	5,093,189,582
2014	468	36,787,127	69	3,946,450	5,379,750,286
2015	457	39,058,181	52	1,947,535	5,711,045,616
2016	554	44,224,105	68	9,283,387	6,089,089,031
2017	448	37,467,738	40	4,791,924	6,593,783,921
2018	475	30,748,372	44	6,234,344	7,082,716,558
2019	422	40,170,245	38	2,785,223	7,540,414,646

Source: City of Hermosa Beach Community Development Department
Los Angeles County Auditor-Controller

CITY OF HERMOSA BEACH
Direct and Overlapping Debt
June 30, 2019

City assessed valuation	\$ 7,540,414,646	
Redevelopment agency incremental valuation	-	
Total assessed valuation	<u>\$ 7,540,414,646</u>	
	<u>Percentage applicable</u>	<u>Outstanding debt 6/30/19</u>
		<u>Estimated share of overlapping debt</u>
 Overlapping debt repaid with property taxes:		
West Basin Water District debt service	0.620%	23,317,224
Hermosa Beach School District debt service 2005 refunding	100.000%	4,991,748
Hermosa Beach School District debt service 2016 S-A	100.000%	24,135,000
El Camino Community College District 2002 series 2012C	6.791%	177,350,103
El Camino Community College District 2012 refunding	6.791%	30,935,000
El Camino Community College District 2012 series 2016 A	6.791%	90,750,000
El Camino Community College District 2016 refunding	6.791%	71,165,000
El Camino Community College District 2012 series 2018B	6.791%	<u>50,000,000</u>
 Total overlapping debt repaid with property taxes		 <u>\$ 472,644,075</u>
 City direct debt:		
2015 Lease Revenue Bonds (including premiums)		<u>\$ 10,537,892</u>
Total City direct debt		<u>10,537,892</u>
 Total direct and overlapping debt		 <u>\$ 68,344,921</u>
 Direct Debt	0.140%	
Overlapping Debt	0.770%	
Total Debt	0.900%	

Source: HdL Coren & Cone
Los Angeles County Assessor's Office

The percentage of overlapping debt applicable is estimated by using taxable assessed values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

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CITY OF HERMOSA BEACH
Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year				
	2010	2011	2012	2013	2014
Assessed valuation	\$ 4,823,727,991	\$ 4,862,223,524	\$ 4,944,940,538	\$ 5,093,189,582	\$ 5,379,750,286
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 1,205,931,998	\$ 1,215,555,881	\$ 1,236,235,135	\$ 1,273,297,396	\$ 1,344,937,572
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 180,889,800	\$ 182,333,382	\$ 185,435,270	\$ 190,994,609	\$ 201,740,636
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	\$ 180,889,800	\$ 182,333,382	\$ 185,435,270	\$ 190,994,609	\$ 201,740,636
Total debt applicable to the limit as a percentage of debt limit	0%	0%	0%	0%	0%

California Government Code section 43605 provides for a legal debt limit of 15' valuation. This provision was enacted when assessed valuation was based on 25% of market value. Effective fiscal year 1981-82, each parcel was assessed based on 100% of market value as of the most recent change in ownership. The computations shown above convert the assessed valuation data for each fiscal year from the full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted.

Source: City of Hermosa Beach Finance Department
County of Los Angeles, Auditor-Controller

**CITY OF HERMOSA BEACH
Legal Debt Margin Information
Last Ten Fiscal Years (Continued)**

	Fiscal Year				
	2015	2016	2017	2018	2019
Assessed valuation	\$ 5,711,045,616	\$ 6,089,089,031	\$ 6,593,783,921	\$ 7,082,716,558	\$ 7,540,414,646
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	\$ 1,427,761,404	\$ 1,522,272,258	\$ 1,648,445,980	\$ 1,770,679,140	\$ 1,885,103,662
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 214,164,211	\$ 228,340,839	\$ 247,266,897	\$ 265,601,871	\$ 282,765,549
Total net debt applicable to limit	\$ -	\$ -	\$ 11,265,000	\$ 10,830,000	\$ 10,370,000
Legal debt margin	\$ 214,164,211	\$ 228,340,839	\$ 236,001,897	\$ 254,771,871	\$ 272,395,549
Total debt applicable to the limit as a percentage of debt limit	0%	0%	4.7%	4.3%	3.8%

California Government Code section 43605 provides for a legal debt limit of 15% of gross assessed valuation. This provision was enacted when assessed valuation was based on 25% of market value. Effective fiscal year 1981-82, each parcel was assessed based on 100% of market value as of the most recent change in ownership. The computations shown above convert the assessed valuation data for each fiscal year from the full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted.

Source: City of Hermosa Beach Finance Department
County of Los Angeles, Auditor-Controller

CITY OF HERMOSA BEACH
Demographic and Economic Statistics
Last Ten Calendar Years

Calendar Year	Population (1)	Personal income (in thousands) (2)	Per capita personal income (2)	City per capita personal income (3)	Unemployment rate (4)	School enrollment (5)
2010	19,599	-	-	-	5.5%	1,278
2011	19,510	420,913,463	42,564	-	5.5%	1,420
2012	19,574	420,913,463	42,564	-	4.9%	1,608
2013	19,653	420,913,463	42,564	-	4.5%	1,710
2014	19,750	466,098,988	46,530	-	3.6%	1,764
2015	19,772	499,767,889	49,400	-	3.1%	1,827
2016	19,801	544,324,900	53,521	-	2.2%	1,765
2017	19,616	563,907,868	55,624	-	1.9%	1,672
2018	19,673	593,741,110	58,419	-	2.2%	1,576
2019	19,847	628,808,732	62,224	-	2.2%	1,568

Source:

- (1) State of California Department of Finance.
- (2) U.S. Department of Commerce, Bureau of Economic Analysis (data shown is for Los Angeles County), which was last updated in 2018.
- (3) Personal Income figures for 2008 are from the Internal Revenue Service individual income tax statistics by zip code and for Internal Revenue Service figures are not an ongoing statistical project therefore all years are not available. Census information is available every 10 years, however 2010 information is not yet available.
- (4) State of California Employment Development Department.
- (5) State of California Department of Education.

CITY OF HERMOSA BEACH
Principal Employers
Current Year and Ten Years Ago

Employer	2019	
	Number of employees	Percent of total employment
City of Hermosa Beach	179	4.23%
Von's Companies	123	2.91%
Intensive Behavior Intervention Consultants	120	2.84%
First Steps for Kids, Inc.	92	2.18%
Hermosa Beach School District	91	2.15%
Trader Joe's	86	2.03%
Hennessey's	75	1.77%
24 Hour Fitness	68	1.61%
Sunrise Assisted Living	66	1.56%
Comedy & Magic Club	63	1.49%

Employer	2010	
	Number of employees	Percent of total employment
24 Hour Fitness	185	4.12%
City of Hermosa Beach	176	3.92%
Von's Companies	118	2.63%
Shorewood Realtors, Incorporated	87	1.94%
Hermosa Beach School District	74	1.65%
Ralph's Grocery	74	1.65%
Intensive Behavior Intervention Consultants	59	1.32%
Patrick Molloy's	58	1.29%
Comedy & Magic Club	52	1.16%
Floyd's 99 Barbershop	52	1.16%

Source: City of Hermosa Beach Finance Department

CITY OF HERMOSA BEACH
Full-time and Part-time City Employees by Function
Last Ten Fiscal Years

<u>Function</u>	Full-time employees as of June 30									
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
General government	16	16	13	17	18	20	20	21	21	20
Public safety	95	72	74	74	75	81	82	76	63 ¹	64
Community development	8	9	8	8	8	8	10	11	12	11
Culture and recreation	2	3	3	2	2	3	4	4	4	4
Public works	20	16	17	15	20	17	23	23	21	20
Total	<u>141</u>	<u>116</u>	<u>115</u>	<u>116</u>	<u>123</u>	<u>129</u>	<u>139</u>	<u>135</u>	<u>121</u>	<u>119</u>

<u>Function</u>	Part-time employees as of June 30									
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
General government	-	-	-	-	3	4	6	4	5	10
Public safety	13	26	12	24	13	6	14	5	3 ¹	3
Community development	-	1	1	1	2	3	2	3	2	4
Culture and recreation	22	20	19	26	21	25	27	29	25	40
Public works	-	-	1	2	-	3	1	3	2	3
Total	<u>35</u>	<u>47</u>	<u>33</u>	<u>53</u>	<u>39</u>	<u>41</u>	<u>50</u>	<u>44</u>	<u>37</u>	<u>60</u>

Source: City of Hermosa Beach Finance Department

¹ Beginning 12/30/17, Fire Services are now provided by Los Angeles Co. Fire Department.

CITY OF HERMOSA BEACH
Operating Indicators by Function
Last Ten Fiscal Years

	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public safety										
Police:										
Physical arrests	665	795	781	857	945	732	739	615	589	536
Traffic citations issued	2,798	1,593	2,290	1,819	3,421	2,406	1,966	1,826	1,408	1,154
Parking citations issued	47,620	63,010	68,193	70,678	74,228	65,783	62,957	56,398	57,206	66,029
Fire:										
Number of emergency calls ¹	2,162	2,149	2,487	2,488	2,386	2,467	2,678	2,427	1,965	1,549
Inspections ²	908	436	559	495	657	1,061	540	611	227	-
Community development:										
Building permits issued	441	567	492	462	537	509	622	488	519	460
Culture and recreation:										
Number of recreation classes	165	172	169	129	134	514	526	498 ³	617 ³	422 ³
Total enrollment	3,776	3,798	4,327	4,982	5,464	4,247	4,947	4,817	5,271	5,109
Public works:										
Graffiti removal	540	468	383	408	212	209	200	112	201 ⁴	148 ⁴
Permits issued	611	564	718	736	819	904	1,406	1,496	1,617	1,615

Source: Various city departments.

Note:

¹ Beginning 12/30/17, Fire Services are now provided by Los Angeles Co. Fire Department

² Fire Department Inspections were done by the City from 7/1/17 through 12/29/17. As of 12/30/17, these inspections are no longer provided by the City.

³ A new software program was used for recreation classes after the 2013-14 fiscal year and classes are now counted by date and time rather than grouped.

⁴ Beginning in 2017-18, Graffiti removal reflects the number of services calls due to a change in reporting software. All prior fiscal years reflect graffiti removal hours.

CITY OF HERMOSA BEACH
Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Public safety										
Police:										
Police stations	1	1	1	1	1	1	1	1	1	1
Parking meters	1,663	1,663 ¹	1,663	1,663	1,565	1,553	1,553	1,557	1,558	1,558
Fire:										
Fire stations	1	1	1	1	1	1	1	1	1	1
Culture and recreation										
Community centers	1	1	1	1	1	1	1	1	1	1
Community theatres	1	1	1	1	1	1	1	1	1	1
Public works:										
Beach (acres)	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5	36.5
Greenbelt (acres)	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Parks	20	20	20	20	20	20	20	20	20	20
Parks (acres)	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7
Sanitary sewers (miles)	34	34	34	34	40	40	40	40	40	40
Streets (miles)	40	40	40	40	40	40	40	40	40	40
Streetlights	392	392	392	392	400	400	400	400	400	400
Storm drains (miles)	1	1	1	1	2	2	2	2	2	2
Traffic Signals	18	18	19	19	19	19	19	19	19	19
Infiltration (miles) ²		0.6	0.6	0.6	0.6	0.2	0.2	0.2	0.2	0.2

Source: City of Hermosa Beach Finance Department

¹The City purchased 24 pay-by-space meters in fiscal year 2011. Fourteen of the machines are installed in City parking lots (which are reflected in this figure), with the remaining ten meters being returned for singled head meter for on-street parking.

²This is a system for monitoring the water quality before it reached the Pacific Ocean. The project was funded by a Federal ARRA Grant passed through the California State Water Control Board. Grant approval required the submission on an ongoing monitoring plan that was accepted by the grantor. The project received an award from the American Public Works Association in 2010.

CITY OF HERMOSA BEACH
Ratios of Outstanding Debt by Type
Last Ten Calendar Years

Fiscal Year Ended June 30	<u>Governmental Activities</u>		Total Primary Government	Percentage of Personal Income ¹	Per Capita Debt ²
	Lease Revenue Bonds	Total Government Activities			
			-	N/A	-
2010	-	-	-	N/A	-
2011	-	-	-	N/A	-
2012	-	-	-	N/A	-
2013	-	-	-	N/A	-
2014	-	-	-	N/A	-
2015	-	-	-	N/A	-
2016	\$ 11,600,000	\$ 11,600,000	\$ 11,600,000	0.96%	586
2017	\$ 11,265,000	\$ 11,265,000	\$ 11,265,000	0.99%	574
2018	\$ 10,830,000	\$ 10,830,000	\$ 10,830,000	1.12%	551
2019	\$ 10,370,000	\$ 10,370,000	\$ 10,370,000	1.20%	522

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements

¹ This ratio is calculated using the median household income for the prior calendar year.

² This ratio is calculated using the population total as of January 1 of the calendar year.

CITY OF HERMOSA BEACH
Ratios of General Bonded Debt Outstanding
Last Ten Calendar Years
(In thousands, except per capita)

Outstanding General Bonded Debt						
Fiscal Year Ended June 30	Lease Revenue Bonds		Total		Percent Assessed Value¹	Per Capita
					-	-
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	\$ 11,600,000	\$ 11,600,000	\$ 11,600,000	52.49%	586	
2017	\$ 11,265,000	\$ 11,265,000	\$ 11,265,000	58.53%	574	
2018	\$ 10,830,000	\$ 10,830,000	\$ 10,830,000	65.40%	551	
2019	\$ 10,370,000	\$ 10,370,000	\$ 10,370,000	72.71%	522	

Note: General bonded is debt payable with government fund resources and general obligation bonds recorded in enterprise funds (of which, the City has none).

¹ Assessed value has been used because actual value of taxable property is not readily available in the State of California.

CITY OF HERMOSA BEACH
Pledged-Revenue Coverage
Last Ten Calendar Years
(In thousands)

Fiscal Year Ended June 30	Outstanding General Bonded Debt					
	Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal ¹	Interest	
2010	31,049	27,169	3,880	-	-	-
2011	30,816	26,621	4,195	-	-	-
2012	31,903	25,997	5,906	-	-	-
2013	34,808	27,707	7,101	-	-	-
2014	37,533	29,566	7,967	-	-	-
2015	39,388	30,640	8,748	-	-	-
2016	41,111	36,404	4,707	-	270	17.43
2017	42,088	35,936	6,152	335	375	8.58
2018	45,004	36,356	8,648	435	356	10.93
2019	47,429	38,282	9,147	460	332	11.55

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

¹ There was no principal payment due in the 15/16 fiscal year.

OTHER REPORTS

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An Independent CPA Firm

Honorable Mayor and City Council
City of Hermosa Beach
Hermosa Beach, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hermosa Beach, California as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Hermosa Beach's basic financial statements, and have issued our report thereon dated December 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hermosa Beach's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hermosa Beach's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hermosa Beach's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Honorable Mayor and City Council
City of Hermosa Beach
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hermosa Beach's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.
Newport Beach, California
December 19, 2019

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

\$ _____
HERMOSA BEACH PUBLIC FINANCING AUTHORITY
2020 Refunding Lease Revenue Bonds

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the City of Hermosa Beach (the “City”), on behalf of the Hermosa Beach Public Financing Authority (the “Authority”) and itself, in connection with the issuance by the Authority of the bonds captioned above (the “Bonds”). The Bonds are being issued under an Indenture of Trust dated as of October 1, 2020 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of itself and the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means March 31 of each year.

“*Dissemination Agent*” means Willdan Financial Services, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement dated _____, 2020, executed by the City and the Authority in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2021, with the report for the 2019-20 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) a notice to the MSRB, in a timely manner, in an electronic format as prescribed by the MSRB.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the City prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following information with respect to the City for the Fiscal Year to which the Annual Report relates, which information may be provided by its inclusion in the audited financial statements of the City for the prior Fiscal Year described in subsection (a) above:

(i) The principal amount of Bonds outstanding, including principal amounts and years of maturity of Bonds, if any, called for redemption in advance of maturity;

(ii) A table in the form of Table 4 in the Official Statement, entitled General Fund Tax Revenues By Source, updated for the most recently completed Fiscal Year.

(iii) A table in the form of Table 5 in the Official Statement, entitled Assessed Valuation, updated for the then-current Fiscal Year.

(iv) A table in the form of Table 6 in the Official Statement, entitled Top Twenty Local Secured Taxpayers, updated for the then-current Fiscal Year.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Listed Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.

- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes (without any obligation to provide any notices of changes in the outlook assigned to or associated with any rating).
- (12) Bankruptcy, insolvency, receivership or similar event of the City.
- (13) The consummation of a merger, consolidation, or acquisition involving the City, or the sale of all or substantially all of the assets of the City (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional Trustee or the change of name of the Trustee, if material.
- (15) Incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material.
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

(b) Upon the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 Business Days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14), and (a)(15) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Upon occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers

in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(e) For purposes of Section 5(a)(15) and (16), “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be Willdan Financial Services. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer: Hermosa Beach Public Financing Authority
c/o City of Hermosa Beach
1315 Valley Drive
Hermosa Beach, California 90254-3885

To the Dissemination Agent Willdan Financial Services
27368 Via Industria, Suite 200
Temecula, California 92590

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2020

CITY OF HERMOSA BEACH

By: _____
City Manager

AGREED AND ACCEPTED:
Willdan Financial Services,
as Dissemination Agent

By: _____
Title: _____

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APPENDIX D

GENERAL INFORMATION ABOUT THE CITY OF HERMOSA BEACH AND THE COUNTY OF LOS ANGELES

The following information concerning the City of Hermosa Beach (the “City”) and the County of Los Angeles (the “County”) is included only for the purpose of supplying general information regarding the area in and around the City. The 2020 Bonds are not a debt of the City, the County, the State of California (the “State”) or any of its political subdivisions (other than the Authority), and none of the City, the County, the State or any of its political subdivisions (other than the Authority) is liable therefor.

General

City of Hermosa Beach. The City encompasses 1.4 square miles located within the southwest portion of the County on the Santa Monica Bay. Neighboring cities include Manhattan Beach (adjacent to the north), the City of Redondo Beach (adjacent to the south and east), Los Angeles (about 16 miles), Long Beach (about 18 miles), Santa Monica (about 18 miles) and Anaheim (about 29 miles).

The climate in the City is mild, tempered by cool sea breezes and typified by short, mild winters and long, dry summers. Fog is a common occurrence during the early summer. Temperatures average 70 degrees Fahrenheit in the summer and 58 degrees Fahrenheit in the winter; the annual average is 62 degrees Fahrenheit.

The City is a general law city, incorporated in January 14, 1907. The City Council consists of five members who are elected at large. Council members serve four-year, staggered terms, with an election every two years. One member is chosen by fellow members to serve as Mayor for a period of nine months; one is chosen to serve as Mayor Pro tem. The City Manager and City Attorney are hired by the City Council and the City Manager is responsible for the day-to-day operations of the city.

Los Angeles County. Located along the southern coast of California, the County covers about 4,080 square miles. It measures approximately 75 miles from north to south and 70 miles from east to west. The County includes Santa Catalina and San Clemente Islands and is bordered by the Pacific Ocean and Ventura, San Bernardino and Orange Counties. Almost half of the County is mountainous and some 14 percent is a coastal plain known as the Los Angeles Basin. The low Santa Monica mountains and Hollywood Hills run east and west and form the northern boundary of the Basin and the southern boundary of the San Fernando Valley. The San Fernando Valley terminates at the base of the San Gabriel Mountains whose highest peak is over 10,000 feet. Beyond this mountain range the rest of the county is a semi dry plateau, the beginning of the vast Mojave Desert. According to the Los Angeles County Regional Planning Commission, the 86 incorporated cities in the county covered about 1,344 square miles or 27 percent of the total county. About 16 percent of the land in the county is devoted to residential use and over two thirds of the land is open space and vacant.

Population

The table below shows population estimates for the cities in the County and the State for the last five years, as of January 1.

LOS ANGELES COUNTY AND THE STATE OF CALIFORNIA Population Estimates - Calendar Years 2016 through 2020

<u>Area</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
City of Hermosa Beach	19,796	19,687	19,650	19,641	19,614
Los Angeles County	10,158,196	10,193,753	10,209,676	10,184,378	10,172,951
State of California	39,131,307	39,398,702	39,586,646	39,695,376	39,782,870

Source: State Department of Finance, Demographic Research.

Employment and Industry

The seasonally adjusted unemployment rate in the County decreased over the month to 16.1% in August 2020, from a revised 17.9% in July 2020, and was above the rate of 4.3% one year ago. Civilian employment increased by 85,000 to 4,134,000 in August 2020, while unemployment decreased by 87,000 to 795,000. The civilian labor force decreased by 2,000 over the month to 4,929,000 in August 2020. (All of the above figures are seasonally adjusted.) The unadjusted unemployment rate for the County was 16.6% in August 2020.

The California seasonally adjusted unemployment rate was 11.4% in August 2020, 13.5% in July 2020, and 3.9% a year ago in August 2019. The comparable estimates for the nation were 8.4% in August 2020, 10.2% in July 2020, and 3.7% a year ago.

The table below lists employment by industry group for the County for the past five years for which data is available.

LOS ANGELES-LONG BEACH-GLENDALE MD (LOS ANGELES COUNTY) Annual Average Civilian Labor Force, Employment and Unemployment, Employment by Industry (March 2019 Benchmark)

	2015	2016	2017	2018	2019
Civilian Labor Force	4,980,300	5,030,500	5,084,000	5,095,500	5,121,600
Employment	4,650,700	4,765,900	4,841,900	4,860,300	4,894,300
Unemployment	329,600	264,600	242,200	235,200	227,300
Unemployment Rate	6.6%	5.3%	4.8%	4.6%	4.4%
<u>Wage and Salary Employment: ⁽¹⁾</u>					
Agriculture	5,000	5,300	5,700	4,600	4,500
Mining and Logging	2,900	2,400	2,000	1,900	1,900
Construction	126,100	134,000	138,700	146,300	149,300
Manufacturing	368,200	360,800	349,000	341,200	339,200
Wholesale Trade	222,400	222,100	221,500	223,200	220,500
Retail Trade	422,200	424,600	426,100	424,800	417,300
Trans., Warehousing, Utilities	177,600	188,900	198,200	203,600	213,800
Information	207,600	229,400	214,900	216,400	217,300
Financial and Insurance	135,600	138,100	137,500	136,500	135,500
Real Estate, Rental & Leasing	80,000	81,700	84,100	86,700	88,400
Professional and Business Services	593,800	603,000	612,100	630,400	642,800
Educational and Health Services	745,900	772,700	800,600	821,300	843,600
Leisure and Hospitality	486,600	510,000	524,600	536,500	544,700
Other Services	151,000	153,300	155,700	158,800	158,400
Federal Government	47,400	47,700	48,000	47,300	47,400
State Government	87,400	89,900	92,500	91,700	92,500
Local Government	433,700	439,100	445,600	451,600	454,300
Total All Industries ⁽²⁾	4,293,500	4,403,000	4,456,700	4,522,700	4,571,400

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) May not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

The table below lists the larger employers in the County. Major private employers in the Los Angeles area include those in aerospace, health care, entertainment, electronics, retail and manufacturing. Major public sector employers include public universities and schools, the State, and the County.

LOS ANGELES COUNTY Major Employers August 2020

Employer Name	Location	Industry
AHMC Healthcare Inc	Alhambra	Health Care Management
All Nations Church	Sylmar	Churches
Cedar-Sinai Medical Ctr	West Hollywood	Hospitals
Infineon Technologies Americas	El Segundo	Semiconductor Devices (mfrs)
JET Propulsion Laboratory	Pasadena	Research Service
Kaiser Permanente Los Angeles	Los Angeles	Hospitals
La County Office of Education	Downey	Educational Service-Business
LAC & Usc Medical Ctr	Los Angeles	Hospitals
Long Beach City Hall	Long Beach	Government Offices-City/Village & Twp
Longshore Dispatch	Wilmington	Nonclassified Establishments
Los Angeles County Sheriff	Monterey Park	Government Offices-County
Los Angeles Intl Airport-Lax	Los Angeles	Airports
Los Angeles Medical Ctr	Los Angeles	Pathologists
Los Angeles Police Dept	Los Angeles	Police Departments
National Institutes of Health	Pasadena	Physicians & Surgeons
Northrop Grumman	Whittier	Engineers
Security Industry Specialist	Culver City	Security Systems Consultants
Six Flags Magic Mountain	Valencia	Amusement & Theme Parks
Sony Pictures Entertainment	Culver City	Motion Picture Producers & Studios
Space Exploration Tech Corp	Hawthorne	Aerospace Industries (mfrs)
University of Ca Los Angeles	Los Angeles	Schools-Universities & Colleges Academic
University of Ca Los Angeles	Los Angeles	University-College Dept/Facility/Office
Vxi Global Solutions	Los Angeles	Call Centers
Walt Disney Co	Burbank	Water Parks
Water Garden Management	Santa Monica	Office Buildings & Parks

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2020 1st Edition.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the median household effective buying income for the City, the County, the State and the United States for the period 2016 through 2020.

CITY OF HERMOSA BEACH AND LOS ANGELES COUNTY
Effective Buying Income
Median Household
2016 through 2020

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2016	City of Hermosa Beach	\$1,139,195	\$83,307
	Los Angeles County	231,719,110	48,950
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	City of Hermosa Beach	\$1,260,253	\$89,382
	Los Angeles County	243,502,324	50,236
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2018	City of Hermosa Beach	\$1,371,732	\$97,812
	Los Angeles County	261,119,300	54,720
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	City of Hermosa Beach	\$1,485,081	\$101,497
	Los Angeles County	271,483,825	56,831
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841
2020	City of Hermosa Beach	\$1,455,277	\$101,028
	Los Angeles County	281,835,290	60,174
	California	1,243,564,816	65,870
	United States	9,487,165,436	55,303

Source: The Nielsen Company (US), Inc for years 2016 through 2018; Claritas, LLC for 2019 and 2020.

Commercial Activity

Summaries of historic taxable sales within the City and the County during the past five years in which data is available are shown in the following tables.

Total taxable sales during calendar year 2019 in the City were reported to be \$263,126,807, a 1.5% decrease over the total taxable sales of \$265,920,080 reported during calendar year 2018.

CITY OF HERMOSA BEACH
Taxable Transactions
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2015 ⁽¹⁾	718	\$216,242	1,041	\$241,455
2016	714	216,758	1,059	245,582
2017	664	238,202	1,019	262,464
2018	675	246,328	1,051	265,920
2019	660	239,577	1,048	263,127

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Department of Tax and Fee Administration.

Total taxable sales during calendar year 2019 in the County were reported to be \$171,776,327,181, a 3.46% increase over the total taxable sales of \$166,023,795,826 reported during calendar year 2018.

LOS ANGELES COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2015 ⁽¹⁾	112,657 ⁽¹⁾	\$108,147,021	310,063	\$151,033,781
2016	196,929	109,997,043	311,295	154,208,333
2017	197,452	113,280,347	313,226	159,259,356
2018	200,603	119,145,054	328,047	166,023,796
2019	206,732	122,137,664	342,359	171,776,327

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Department of Tax and Fee Administration.

Construction Activity

Provided below are the building permits and valuations for the City and the County during the past five years in which data is available.

CITY OF HERMOSA BEACH
Total Building Permit Valuations
(Valuations in Thousands)
Calendar Years 2015 through 2019

	2015	2016	2017	2018	2019
<u>Permit Valuation</u>					
New Single-family	\$25,092.1	\$25,569.2	\$17,520.0	\$35,068.6	\$18,367.5
New Multi-family	5,807.3	5,621.9	1,985.4	4,488.4	2,372.2
Res. Alterations/Additions	<u>10,594.9</u>	<u>10,793.2</u>	<u>7,076.1</u>	<u>8,525.4</u>	<u>7,102.4</u>
Total Residential	41,494.30	41,984.30	26,581.50	48,082.40	27,842.10
New Commercial	853.0	5,992.3	1,580.1	0.0	13.0
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	749.7	1,704.2	737.1	743.5	389.4
Com. Alterations/Additions	<u>2,494.1</u>	<u>2,942.4</u>	<u>1,352.6</u>	<u>5,109.8</u>	<u>1,609.3</u>
Total Nonresidential	4,096.8	10,638.90	3,669.80	5,853.3	2,011.7
<u>New Dwelling Units</u>					
Single Family	43	49	29	56	31
Multiple Family	<u>15</u>	<u>15</u>	<u>5</u>	<u>9</u>	<u>4</u>
TOTAL	58	64	34	65	35

Source: Construction Industry Research Board, Building Permit Summary.

LOS ANGELES COUNTY
Total Building Permit Valuations
(Valuations in Thousands)
Calendar Years 2015 through 2019

	2015	2016	2017	2018	2019
<u>Permit Valuation</u>					
New Single-family	\$1,897,829.7	\$2,162,018.2	\$2,352,614.8	\$2,277,101.5	\$1,967,219.3
New Multi-family	2,843,749.2	2,774,294.3	3,257,833.4	3,222,530.3	2,961,257.4
Res. Alterations/Additions	<u>1,641,457.3</u>	<u>1,639,294.3</u>	<u>1,757,904.1</u>	<u>1,941,369.5</u>	<u>1,625,839.3</u>
Total Residential	6,383,036.1	6,575,607.5	7,368,352.3	7,441,001.3	6,554,316.0
New Commercial	1,695,869.8	1,728,443.4	2,196,089.2	2,844,173.0	2,675,678.8
New Industrial	85,937.1	138,408.6	134,534.3	101,201.3	63,727.8
New Other	1,157,838.0	791,078.1	563,679.3	952,347.7	446,182.7
Com. Alterations/Additions	<u>2,705,727.5</u>	<u>2,880,916.6</u>	<u>3,143,200.2</u>	<u>2,796,375.3</u>	<u>3,404,012.4</u>
Total Nonresidential	5,645,372.4	2,657,930.1	6,037,503.0	6,694,097.3	6,589,601.7
<u>New Dwelling Units</u>					
Single Family	4,487	4,780	5,456	6,070	5,738
Multiple Family	<u>18,405</u>	<u>15,589</u>	<u>17,023</u>	<u>17,152</u>	<u>15,884</u>
TOTAL	22,892	20,369	22,479	23,222	21,622

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

The County maintains more than 4,700 miles of major roads and local streets; operates and maintains hundreds of traffic control devices; administers and manages public transit services, such as shuttle buses and dial-a-ride services, in unincorporated areas; and owns and operates five local airports: Brackett Field Airport, Compton/Woodley Airport, San Gabriel Valley Airport, General Wm. J. Fox Airfield, Whiteman Airport and Department of Public Works - Los Angeles County Airports.

Los Angeles County Metropolitan Transportation Authority (Metro) is unique among the nation's transportation agencies. It serves as transportation planner and coordinator, designer, builder and operator for one of the Country's largest, most populous counties. More than 9.6 million people – nearly one-third of California's residents – live, work, and play within its 1,433-square-mile service area. Many of these transit services are provided in conjunction with the adjacent cities to expand the service areas. Metro provides bus stop amenities including shelters, benches, and trash receptacles at bus stops.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

October __, 2020

Hermosa Beach Public Financing Authority
1315 Valley Drive
Hermosa Beach, California 90254

OPINION: \$ _____
Hermosa Beach Public Financing Authority
2020 Refunding Lease Revenue Bonds

Members of the Authority:

We have acted as bond counsel to the Hermosa Beach Public Financing Authority (the "Authority") in connection with the issuance by the Authority of its Hermosa Beach Public Financing Authority 2020 Refunding Lease Revenue Bonds in the aggregate principal amount of \$ _____ (the "Bonds"), under an Indenture of Trust dated as of October 1, 2020 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee, and under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Sections 53570 and 53580 of said Code (the "Bond Law"). The Bonds are secured by Revenues as defined in the Indenture, including certain lease payments made by the City of Hermosa Beach (the "City") under an Amended and Restated Lease Agreement dated as of October 1, 2020 (the "Lease Agreement") between the Authority as lessor and the City as lessee. We have examined the Indenture, the Lease Agreement, the Bond Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority and the City contained in the Indenture, the Lease Agreement and in the certified proceedings, and upon other certifications furnished to us, without undertaking to verify the same by independent investigation. Based upon our examination, we are of the opinion, under existing law, as follows:

1. The Authority is a joint exercise of powers agency duly organized and existing under the laws of the State of California, with power to enter into the Indenture and the Lease Agreement, to perform the agreements on its part contained therein and to issue the Bonds.
2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable against the Authority in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture and the Lease Agreement have been duly approved by the Authority and constitute the legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms.

4. The Indenture establishes a valid first and exclusive lien on and pledge of the Revenues (as that term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

5. The City is a municipal corporation duly organized and existing under the laws of the State of California, with power to enter into the Lease Agreement and to perform the agreements on its part contained therein. The Lease Agreement has been duly approved by the City Council of the City and constitutes a legal, valid and binding obligation of the City enforceable in accordance with its terms.

6. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Authority and the City have made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

7. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the 2020 Bonds, payment of principal, interest and other payments on the 2020 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the 2020 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the 2020 Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the 2020 Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2020 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2020 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2020 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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APPENDIX G
INVESTMENT POLICY

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RESOLUTION NO. 16-7025

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH, CALIFORNIA, ACKNOWLEDGING THE RECEIPT, FILING AND APPROVAL OF THE ANNUAL STATEMENT OF INVESTMENT POLICY

SECTION 1. The Investment Policy attached hereto and incorporated herein by reference is hereby adopted as the investment policy for the City of Hermosa Beach.

SECTION 2. This Investment Policy rescinds Resolution No. 14-6920.


SECTION 3. This Resolution shall take effect immediately upon its passage and adoption. The City Clerk shall certify to the passage and adoption of this Resolution, shall enter the same in the book of original Resolutions of said city; and shall make a minute of the passage and adoption thereof in the records of the proceedings of the City Council at which the same is passed and adopted.

PASSED, APPROVED AND ADOPTED this 10th day of May, 2016.



PRESIDENT of the City Council and **MAYOR** of the City of Hermosa Beach, California

ATTEST:



City Clerk

APPROVED AS TO FORM:



City Attorney


STATE OF CALIFORNIA
COUNTY OF LOS ANGELES
CITY OF HERMOSA BEACH

I, Elaine Doerfling, City Clerk of the City of Hermosa Beach, California, do hereby certify that the foregoing Resolution No. 16-7025 was duly and regularly passed, approved and adopted by the City Council of the City of Hermosa Beach at a Regular Meeting of said Council at the regular place thereof on May 10, 2016.

The vote was as follows:

AYES: Armato, Duclos, Massey, Fangary, Mayor Petty
NOES: None
ABSTAIN: None
ABSENT: None

Dated May 10, 2016



Elaine Doerfling, City Clerk



HERMOSA BEACH INVESTMENT POLICY

Policy

This policy is intended to provide guidelines for the prudent investment of funds of the City of Hermosa Beach (referred to throughout as 'the City') and to outline the policies for maximizing the efficiency of the City's cash management. The ultimate goal is to enhance the economic status of the City consistent with the prudent protection of the City's investments. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, *et seq.*

Scope

It is intended that this policy cover all funds and investment activities of the City except for the proceeds of certain capital project finance programs, which would be invested in accordance with provisions of their specific bond indentures. These funds would be defined and accounted for in the City's audited annual Basic Financial Statements Report and includes any new funds created unless specifically excluded by the City's Staff and Council.

Prudent Investor Standard

The City operates its investment portfolio under the Prudent Investor Standard (California Government Code Section 53600.3) which states, that "when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated need of the City, that a prudent person in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City".

This standard shall be applied in the context of managing the overall portfolio. Investment officers, acting in accordance with written procedures and this investment policy and exercising the above standard of diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.



Investment Objectives

When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing the City's funds,

- (a) The primary objective is to safeguard the principal of the funds.
- (b) The secondary objective is to meet the liquidity needs of the City.
- (c) The third objective is to achieve a maximum return on invested funds without compromising (a) or (b).

Safety of Principal

Safety of principal is the foremost objective of the City. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they arise from securities defaults, institution default, broker-dealer default, or erosion of market value of securities. The City shall mitigate the risk to the principal of invested funds by limiting credit and interest rate risks. Credit Risk is the risk that the issuer will default (i.e. fail to pay) on an obligation. Interest Rate Risk is the risk that the market value of the City's portfolio will fall due to an increase in general interest rates.

Credit risk

Credit Risk will be mitigated by:

- (a) Limiting investments to only the most credit worthy types of securities.
- (b) By pre-qualifying the financial institutions with which the City will do business.
- (c) By diversifying the investment portfolio so that the potential failure of any one issue or issuer will not place an undue financial burden on the City.

Interest rate risk

Interest rate risk will be mitigated by structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing obligations, thereby reducing the possible need to sell securities on the open market at a loss prior to their maturity to meet those requirements.

Liquidity

Availability of sufficient cash to pay for current expenditures shall be maintained in local government investment pools that offer daily liquidity, or short-term securities that can easily be converted into cash because they have secondary markets.



Rates of Return

Yield on investments shall be considered only after the basic requirements of safety and liquidity have been met. The investment portfolio shall be designed to attain a market average rate of return throughout economic cycles, taking into account the City's risk constraints, the composition and cash flow characteristics of the portfolio, and applicable laws.

Delegation of Authority and Safeguards

Authority to manage City's investment program is derived from the California Government Code Sections 41001 – 41007 and 53600 - 53900. The City Manager, Finance Director, and the City Council hereby delegate management responsibility for implementing the investment program to the City Treasurer, according to the procedures set forth, and consistent with this investment policy. Such procedures shall authorize the City Treasurer to execute investment transactions subject to the written approval of either the City Manager or Finance Director. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established and approved by either the Finance Director or City Manager.

Procedures as stated in City Resolution No. 12-6822

- (a) The City's funds are currently managed in a safe and prudent manner, with numerous safeguards in place to assure that City funds cannot be misdirected or misappropriated.
- (b) Existing safeguards include dual controls on all wired transfers and all City checks.
- (c) Contractual relationships with any brokerage entities to be engaged by the City to invest City funds shall be subject to the prior review and approval of the City Council.
- (d) All investment transactions must be authorized by the City Manager or Finance Director prior to their execution.
- (e) The sole authorized signators on City banking and brokerage accounts shall be the City Manager, the Finance Director and Accounting Supervisor.
- (f) In the event of the mental or physical incapacity of the City Treasurer, the functions of the City Treasurer shall be performed by the Finance Director under the direct supervision of the City Manager.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial



investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this City, and they shall further disclose any large personal financial / investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment preferences to those of the City, particularly with regard to the timing of transactions, and shall avoid transactions that might impair public confidence.

Authorized Financial Dealers and Institutions

The City Treasurer with the assistance of the Deputy Treasurer will establish and maintain a list of the financial institutions and broker/dealers authorized to provide investment and depository services to the City, will perform a review of the financial condition and registrations of the qualified institutions, and require audited financial statements to be on file for each approved institution, at least every two years. At that time, the City shall send a copy of their current Investment Policy and Questionnaire to all financial institutions and broker/dealers approved to do business with the City. Receipt of the Investment Policy including confirmation that it has been received and reviewed by the person(s) handling the City's account, shall be acknowledged in writing within thirty (30) days.

Depositories

In selecting depositories, the credit worthiness of institutions shall be considered and the City Treasurer and the Finance Director shall jointly conduct a comprehensive review of prospective depositories' credit characteristics and financial history.

Any institution meeting the City's required criteria will be eligible for placement of public deposits by the City, subject to approval by the City Council. Any institution falling below the City's established minimum criteria shall be removed from the approved list, no new deposits may be placed with that institution and all funds remaining shall be withdrawn as the deposits mature.

Brokers and Dealers

All brokers and dealers that desire to become qualified bidders for investment transactions with the City must respond to our "Broker Dealer Questionnaire" and submit related documents relative to eligibility. This includes a current audited financial statement, proof of state registration, proof of FINRA (Financial Industry Regulatory Authority) registration and a certification they have received and reviewed the City's Investment Policy and agree to comply with the provisions outlined in the Investment Policy. The City Treasurer may establish any additional criteria deemed appropriate to evaluate and approve any financial services provider. The selection process for broker-dealers shall be open to both "primary dealers" and "secondary/regional dealers" that qualify under Securities and Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule), and the provider's representative must be experienced in institutional trading practices and familiar with the California Government Code as it relates to investments by a public entity.



Authorized and Suitable Investments

The City is provided a broad spectrum of eligible investments under California Government Code Section 53600 et seq. The City may choose to restrict its permitted investments to a smaller list of securities that more closely fits the City's cash flow needs and requirements for liquidity. If a type of investment is added to California State Code 53600, it will not be added to the City's Authorized Investment List until this policy is amended and approved by the City Council. If a type of investment permitted by the City should be removed from California Government Code 53600, it will be deemed concurrently removed from the City's Authorized Investment List, but existing holdings may be held until they mature if it is in the best interest of the City and recommended by the Treasurer and approved by the City Manager or Finance Director.

Credit criteria listed in this Policy refers to the credit rating of the issuing organization at the time the security is purchased. The City may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed by this Policy, the Treasurer will recommend an appropriate plan of action to the City Manager and Finance Director no less frequently than quarterly.

Within the context of these limitations, the following investments are authorized:

PERMITTED INVESTMENTS/ DEPOSITS	City of Hermosa Beach % of TOTAL LIMITS/ MATURITY LIMITS	State 53600- % of TOTAL LIMITS/ MATURITY LIMITS
Government Investment Pools		
LAIF (Local Agency Investment Fund) California State Treasurer's Office)	No maximum, no maturity limit	No maturity limit \$50 million max
CAL Trust (Investment Trust of California JPA)	Maximum permitted by Sec 53601, no maturity limit	No maturity limit No max %
LACPIF (Los Angeles County Pooled Investment Fund)	No maximum, no maturity limit	No maturity limit No max %
Securities of the U.S. Government including U.S. Government Agencies and Instrumentalities **	Unlimited % of total portfolio, 5 years	No % limit, 5 Years



Registered State Warrants or Treasury Notes or Bonds of the State Of California **	No % limit 5 years	No % limit, 5 Years
Bonds, notes, warrants, or other evidences of indebtedness of any local Agency within the State of California **	No % limit 5 years	No % limit, 5 Years
Bankers Acceptances	20%, 5% per issuer, 180 days	40% max, 30% per issuer
Commercial Paper **	25%, 5% per issuer, 180 Days	25% max, 10% per issuer, 270 days
Negotiable Certificates of Deposit	30%, 5% per issuer, 5 Years	30%, 5 years
Time Certificates of Deposit	50%, 5 Years	No % limit, 5 years
Medium Term Corporate Notes AA or Better	30%, 5 Years "AA" or higher, 5% max per issuer A or AA	30%, 5 years "AA" or higher
Money Market / Passbook Savings/Demand Deposits **	20 percent, no maturity limit	20 %, no maturity limit

One of the purposes of this Investment Policy is to define what investments are permitted. If a type of security is not specifically authorized by this policy, it is not a permitted investment.

** Appendix A, attached hereto and incorporated herein by reference, sets forth a more detailed description of the authorized investments listed above, along with additional restrictions.

Master Repurchase Agreement

The City may invest (Government Code Section 53601(i)) in overnight and term repurchase agreements with Primary Dealers of the Federal Reserve Bank of New York rated "AA" or better by Moody's Investors Service or Standard & Poor's Corporation with which the City has entered into a Master Repurchase Agreement.

All collateral used to secure this type of transaction is to be delivered to a third



party prior to release of funds. The third party will have an account in the name of the City of Hermosa Beach. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis and will not be permitted to fall below a minimum of 102 percent of the value of the repurchase agreement. Collateral shall not have maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.

In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government and Agency securities as permitted under this policy. The City will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counter party.

Investment Pools

A thorough investigation of any investment pool, money market or mutual fund is required prior to investing and on a continual basis. The purpose of this investigation is to determine the suitability of a pool or fund and evaluate the risk of placing funds with that pool or fund. The investigation will, at a minimum, obtain the following information:

- (a) A description of interest calculations and how it is distributed, and how gains and losses are distributed.
- (b) A description of how securities are safeguarded (including the settlement process) and how often the securities are marked to market and how often an audit is conducted.
- (c) A description of who may invest in the program, how often, what size deposits and withdrawals are permitted.
- (d) A schedule for receiving statements and portfolio listings.
- (e) Does the pool/fund maintain a reserve or retain earnings or is all income after expenses distributed to participants?
- (f) A fee schedule that discloses when and how fees are assessed.
- (g) Determining if the pool or fund is eligible for bond proceeds and/or will it accept such proceeds.

Collateralization of Uninsured Time Deposits

Uninsured Time Deposits (that exceed FDIC's limits per Institution) with banks and savings and loans shall be collateralized and monitored in the manner prescribed by state law for depositories accepting investment funds from public governmental entities.

Safekeeping and Custody of all Securities

All securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement



executed by the bank and the City. All securities will be received and delivered using standard delivery versus payment (DVP) procedures. The third party bank trustee agreement must comply with Section 53608 of the California Government Code. No outside broker/dealer or advisor may have access to City funds, accounts or investments and any transfer of funds must be approved by the City Manager or Finance Director.

Diversification and Risk

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. To minimize the City's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments and maturities. The City Treasurer shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this policy. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. Risk shall also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by matching investments with cash flow requirements. In the event of a default by a specific issuer, the Treasurer shall evaluate the liquidation of securities having comparable credit risks. Diversification strategies shall be established and reviewed by the City Manager and Finance Director.

Maximum Maturities

Every effort will be made to match investment maturities to cash flow needs. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, no more than 50% of the investment portfolio may be invested with maturities greater than 3 years. Unless matched to a specific requirement and approved by the City Council, no investment may be made with a maturity greater than 5 years.

Investment Policy Adoption

The City's Investment Policy shall be adopted by resolution of the City Council. The policy shall be reviewed periodically by the City Manager and Finance Director. Modifications or changes to this policy are to be recommended by the City Manager and Finance Director for approval by the City Council. The City Treasurer shall submit this Investment Policy annually to the City Council for review and approval.

The external auditors shall review annually the investments and general activities associated with the investment program to ensure compliance with this Investment Policy. This review will provide internal control by assuring compliance with policies and procedures established by this Investment Policy.

Performance Standards

The investment portfolio will be managed in accordance with the standards established within this Investment Policy and will attempt to achieve a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, cash flow needs and maturities of the investments.



The basis to determine whether market yields are being achieved shall be the total return of the portfolio.

Reporting

The City Treasurer shall submit an investment report to the City Council every 30 days, and shall include information about the investment of all funds in the custody of the City. This report shall include all items listed in Section 53646(b) of the Government Code. These reports will include the following information about the investment of all funds:

- (a) A list of individual securities held at the end of the reporting period.
- (b) Dollar weighted yield to maturity of the City's investments.
- (c) Maturity schedule by type, of each of the City's investments
- (d) Market value, book value, par value and cost basis of all investments

Appendix "A"

Description of Authorized Investments and Restrictions

The following descriptions of authorized investments are included here to assist in the administration of this policy.

(a) Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a special fund in the California State Treasury created and governed pursuant to Government Code Sections 16429.1 et seq. This law permits the City with the consent of the City Council, to remit money not required for the City's immediate need, to the State Treasurer for deposit in this special fund for the purpose of investment. LAIF currently limits investments to \$50 million from any one public agency. Principal may be withdrawn on one day's notice. The fees charged by LAIF are limited by statute (Legal Authority- Government Code Section 16429.1)

(b) Securities of the U.S. Government including U.S. Government Agencies and Instrumentalities

These obligations can be classified either as "Treasuries" or "Agencies" (Legal Authority- Government Code Sections 53601(b) and 53635 (b)). Treasury securities are obligations of the United States Treasury backed by the "full faith and credit" of the Federal government and can be of three types bills, notes, and bonds. There is no percentage limitation of the portfolio that can be invested in this category, though a five-year maturity limitation is applicable.

The City can invest in obligations issued by the Federal Government agencies such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC).. Such securities are obligations of the



agencies themselves, but there is also an implied guarantee by the United States Government. All such obligations qualify as legal instruments and are acceptable as security for City deposits. (Legal Authority - Government Code Sections 53601 (e) and 53635 (e)).

(c) Registered State warrants or Treasury Notes or Bonds of the State of California

These include bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. (Legal Authority - Government Code Sections 53601 (c) and 53635 (c)).

(d) Bonds, Notes, Warrants, or Other Evidences of Indebtedness of Any Local Agency within the State of California

These include bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by a California local agency, or by a department, board, agency or authority of such a local agency. (Legal Authority-Government Code Sections 36301 (d) and 53635 (d)).

(e) Bankers Acceptances

The City may invest in Bankers Acceptances limited to banks rated a minimum of "A" by Moody's Investors Service and Standard & Poor's Corporation. The maximum investment maturity will be restricted to 270 days as per Government Code Section 53601(f). (Legal Authority-Government Code Sections 36301 (b) and 53635 (f)).

(f) Commercial Paper

Commercial Paper is issued by leading industrial and financial firms to raise working capital. The City shall only buy Commercial Paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investor Service, Inc. or Standard and Poor's Corporation (A1/P1 or higher). Eligible paper shall also be further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "AA" or higher rating for the issuer's debt, other than commercial paper, if any, as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation.

(g) Negotiable Certificates of Deposit

Investments are limited to deposits issued by a nationally or state-chartered bank or a state or federal association or by a federally or state-licensed branch of a foreign bank (Government Code Section 53601(h)). A minimum IDC rating of 165 (Excellent) is required. Purchases of Negotiable Certificates of Deposit shall not exceed 30 percent of the City's surplus money, which may be invested pursuant to this policy. All purchases shall not exceed the FDIC insured limit. The current FDIC Negotiable CD Insured Limit is \$250,000 (principal and Interest). Maximum investment maturity is restricted to five years. Investments in Negotiable Certificates of Deposit prohibited by Government Code Section 53635 (h) shall not be made. (Legal Authority-Government Code Section 53601 (h) and 53635 (h)).



(h) Time Certificates of Deposit

The City may invest in collateralized certificates of deposits issued by commercial banks and savings and loans (Government Code Sections 53601(h) and 53635(h)). A written depository contract is required with all institutions that hold City deposits. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the City, even though they are permitted in Government Code Section 53651(m). All banks are required to provide the City with a regular statement of pooled and market value, plus an accountability of the total amount of deposits secured by the pool.

In the event that a bank does not meet the minimum ratings, a tri-party collateral arrangement may be substituted in lieu of a rating lower than "A". The third party institution must be acceptable to the City and have an account in the name of the City of Hermosa Beach. The market value of the collateral in the account must not fall below 110 percent of the value of the deposit(s) at any time. The securities in the account must conform to Government Code Section 53651 with the exception that real estate mortgages are not acceptable collateral. The City will maintain a first perfected security interest in the securities pledged against the deposit and shall have a contractual right to liquidation of pledged securities upon the bankruptcy, insolvency or other default of the counter party.

Deposits of up to \$250,000 are allowable in any institution that insures its deposits with the Federal Deposit Insurance Corporation, regardless of Moody's Investors Service or Standard and Poor's Corporation ratings. As per section 53638 of the California Government Code, any deposit shall not exceed that total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

(i) LACPIF (Los Angeles County Pooled Investment Funds)

LACPIF is a pooled investment fund which is invested under the authority of Los Angeles County Treasurer and Tax Collector. Funds held and managed for the benefit of school districts, community college districts, and municipal agencies solely within the County. Decisions on investments of funds in the Pool are made by the County Investment Officer, under the policy direction of the County Treasurer. The funds invested are highly liquid, and mostly mirror the same vehicles permitted in Government Code 53601 for municipalities to invest in.

(j) Medium Term Notes

Medium-term notes are obligations of a domestic corporation or depository institution having a rating of "AA" or better by a nationally recognized rating service. (Legal Authority-Government Code Sections 536010) and 53635(j)).

(k) Money Market / Passbook Savings / Demand Deposits

These are authorized by Government Code Section 53637 and must be insured by FDIC, FSLIC or collateralized as required by State law.



Appendix "B" Glossary of Investment Terms

Because the Investment Policy of the City of Hermosa Beach is available to the public, related terminology is included as a part of this policy.

Accrued Interest- Interest earned but not yet received.

Active Deposits - Funds that are immediately required for disbursement.

Amortization - An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Asked Price -The price a broker dealer offers to sell securities.

Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Banker's Acceptance - A high quality, short-term money market instrument used to finance international trade. There has never been an instance of a failure to pay a banker's acceptance in full at its maturity date.

Basis Point- One basis point is one hundredth of one percent (.01% or 0.0001). Bid Price - The price a broker dealer offers to purchase securities.

Bond - A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Broker - Someone who brings buyers and sellers together and is compensated for his/her service.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk- The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase -A transaction that calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit – A deposit of funds for a specified period of time that earns interest at a specific rate. Commonly known as "CDs". Maturities range from a few weeks to several years. Interest rates are set by the competitive market place.

Collateral - Securities, evidence of deposit or pledges to secure repayment of a loan.



Also refers to securities pledged by a bank to secure deposit of public moneys.
Commercial Paper - Short-term, negotiable unsecured promissory notes of corporations.

Comprehensive Annual Financial Report (CAFR) - The official annual financial report for the City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

Credit Analysis - A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield - The interest paid on an investment expressed as a percentage of the current price of the security.

Custodian - A bank or other financial institution that keeps custody of stock certificates and other assets.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Diversification - Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fannie Mae - Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$250,000) per account.

Federal Reserve System - The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Freddie Mac - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae - Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.



Government Accounting Standards Board {GASB) - A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

Government Securities - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Inactive Deposits {Idle Funds) - Funds not immediately needed for disbursement.

Interest Rate -The annual yield earned on an investment, expressed as a percentage.

Interest Rate Risk - The risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Investment-grade Obligations - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating City.

Liquidity - An asset that can easily and rapidly be converted into cash without significant loss of value.

Local Agency Investment Fund {LAIF) - A pooled investment vehicle for local agencies in California sponsored by the State of California and administered by the State Treasurer.

Los Angeles County Pooled Investment Fund {LACPIF) The Treasurer and Tax Collector of Los Angeles County has delegated the authority to invest funds on deposit in the County Treasury which are held for local agencies including school districts community colleges, and discretionary depositors such as cities within the county.

Market Risk – The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - Current market price of a security. The price at which a security is trading and could presumably be purchased or sold.

Maturity - The date upon which the principal or stated value of an investment becomes due and payable.

Medium Term (also known as Mid-Term) - Maturities of two to 1- years.



Moody's - Moody's Investment Service, Inc. One of the three best-known rating agencies in the United States, the others being Standard and Poor's Corporation (S&P) and Fitch IBCA, Inc. (Fitch).

FINRA (The Financial Industry Regulatory Authority)- A self-regulatory organization (SRO) of brokers and dealers in the securities business. Its regulatory mandate includes authority over all security firms that purchase, distribute, inventory and broker mutual fund shares, stocks, and all forms of debt securities issued for investment to the public. This organization answers to the SEC, Any individual of a securities firm the City chooses to execute investment transactions with must be licensed under FINRA..

Negotiable Certificate of Deposit-A large denomination certificate of deposit which can be sold in the open market prior to maturity.

New Issue- Term used when a security is originally "brought" to market.

Note - A written promise to pay a specified amount to a certain entity on demand or on a specified date.

Par Value- The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

Portfolio - Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Premium - The amount by which the price paid for a security exceeds the security's par value.

Primary Dealer - A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal - The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Purchase Date - The date in which a security is purchased for settlement on that or a later date.

Rate of Return - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Risk - Degree of uncertainty of return on an asset.



Safekeeping- Holding of assets (e.g., securities) by a financial institution

Safekeeping Service - Offers storage and protection of assets provided by an institution serving as an agent.

Sallie Mae - Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Securities and Exchange Commission (SEC) - The federal District responsible for supervising and regulating the securities industry.

Settlement Date -The date on which a trade is cleared by delivery of securities against funds.

Standard and Poor's Corporation (S&P) - One of the three best-known rating agencies in the United States, the others being Moody's Investment Service, Inc. and Fitch IBCA, Inc. (Fitch).

Tax and Revenue Anticipation Notes (TRANS) - Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

Time Certificate of Deposit-A non-negotiable certificate of deposit that cannot be sold prior to maturity.

Total Return – The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. $(\text{Price Appreciation}) + (\text{Dividends paid}) + (\text{Capital gains}) = \text{Total Return}$

Treasury Bonds(also known as T-bonds)- U.S. Treasury long-term obligations, direct obligations of the U.S. Government, generally mature in 10 years or more.

Trustee or trust company or trust department of a bank - A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

U.S. Government Agencies – the term used to describe the instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular Agency.

U.S. Treasury Obligations - Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes, and Bonds. Bills are short term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. Notes are obligations that mature between 1 year and 10 years. Bonds are long-term obligations that generally mature in 10 years or more.



Weighted Average Maturity (WAM) – The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield -The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity - The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION

Investment Policy Certification



Issued on 1/12/2015

City of Hermosa Beach

The California Municipal Treasurers Association certifies that the investment policy of the City of Hermosa Beach complies with the current State statutes governing the investment practices of local government entities located within the State of California.



Michelle Duggz
President

January 15, 2015
Date