



## CITY OF BEVERLY HILLS STAFF REPORT

**Meeting Date:** November 20, 2012  
**To:** Honorable Mayor and City Council  
**From:** Noel Marquis, Acting Director of Administrative Services  
**Subject:** Report on request to appropriate funds in the amount of \$10,240,000 from Fiscal Year 2011/2012 revenues

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### INTRODUCTION

This report presents City staff suggestions and seeks City Council direction on the use of fiscal year 2011/2012 revenues over expenditures in excess of budget.

Staff is providing recommendations for appropriation of year end revenue in excess of adopted budget projections consistent with past practice to cover the City's liabilities need for additional funding or replacement of reduced funding during the budget adoption process. Additionally, if revenues are significant enough, staff also suggests funding Council priorities, such as capital projects the Council has shown an interest in, such as land acquisition.

### DISCUSSION

For fiscal year 2011/2012, which ended June 30, 2012, the City adopted a very conservative budget. Throughout the year City revenues continued to improve and at fiscal year closing revenues exceeded budget assumptions by \$8.9 million. In addition, continued emphasis on cost containment and under filled or vacant positions provided expenditure savings of \$6.0 million, providing \$14.9 million in revenues in excess of expenditures. After budgeted operating transfers there remains revenues in excess of expenditures that may add to fund balance or be used for City Council directed purposes.

For the current fiscal year, 2012/2013, the City again took a very conservative approach and adopted a budget based on assumptions from fiscal year 2011/2012's original budget, the best available information at the time that the 2012/2013 budget was developed.

As reported in the City Manager's 2012/2013 budget message *"Development of this budget has once again been a significant challenge in that the ongoing revenues do not meet the costs of the desired levels of service. This is not to say that the City's revenues are under performing, as their performance would be the envy of many cities which do not offer the types and level of services that the City of Beverly Hills provides. Rather, the challenge has resulted from an imbalance in the parking authority and the Clean Water Fund revenues and*

*operations. The City's substantial parking system and the requirement to monitor and manage storm water runoff from the city, without adequate revenue from either area to fully fund the services, presents serious challenges to balancing the budget."*

*"Measures taken over the past three years to downsize the City organization and reduce expense while maintaining a high level of quality services have been successful in bringing down structural costs and slowing growth. These measures included cuts of \$4.8 million in FY 2008/09, \$18.4 million in FY 2009/10, \$9.3 million in FY 2010/11, and one-time reductions of \$4.5 million in FY 2011/12. Cuts made in recent years have resulted in a net reduction of 91 full-time positions. Also, among these cuts were some one-time measures that were necessitated by a conservative approach to the budget, which, in some cases, were able to be reversed when revenues outperformed budget projections and spending was held below budgeted amounts. Continuing cost containment efforts include recently concluded employee association negotiations which resulted in a five year memorandum of understanding (MOU) between the City and Police Officers Association which takes significant steps toward reducing future growth by implementing a new, lower tier of pension for newly hired employees and a phase-in of employees paying a portion of the employee share of the PERS payments. Similar terms are expected when a final MOU is reached with the Firemen's Association."*

The City Manager's report continued by outlining the steps that staff was recommending for the fiscal year 2012/2013 budget as follows: *"After compiling all projected revenue, base expenditures, recommended modifications, and the \$6.3 million in transfers required to keep the Parking Authority and the Clean Water Enterprise Fund solvent, we were faced with a General Fund budget gap of \$5.15 million. In developing measures to balance the budget there was consideration of:*

- Fund balances;*
- Capital needs;*
- Past one-time budget reduction measures;*
- Recent end of year adjustments;*
- Projected FY 2011/12 revenues, expenditures and ending budget balance; and*
- Alternatives available.*

*One-time measures included in this proposed budget to address this budget gap are the following:*

- Reduce General Fund accruals for small equipment/furniture replacement by \$200,000;*
- Reduce General Fund accruals for Information Technology equipment replacements by \$200,000;*
- Reduce General Fund charges by Fund 48 (PAL Fund) by \$860,000;*
- Extend the useful lives of underutilized vehicles by one-year and realize General Fund savings of \$290,000;*
- Reduce the intended General Fund contribution to Capital Improvement Projects by \$1.5 million, lowering total contributions to capital projects to last year's level of \$8.5 million;*
- Transfer \$100,000 of Fund 48 fund balance to the General Fund; and*
- Carryover \$2 million of revenue exceeding budget and budget expenditure savings from FY 2011/12."*

*It is important to note that similar one-time measures were taken in both FY 2010/11 and FY 2011/12 to balance those budgets. However, at the end of FY 2010/11, higher than projected revenue and lower than budgeted expenditures allowed for \$3.8 million of the reduced replacement charges to be restored to the appropriate Fund balances."*

Staff is suggesting that the first use of the fiscal year 2011/2012 excess of revenues over expenditures be used to restore reductions related to funding of equipment, vehicle and technology replacement funds that were included in the onetime reduction part of the adopted budget as follows:

- \$200,000 for general office equipment replacement (Fund 40)
- \$200,000 for information technology replacement (Fund 41)
- \$290,000 for vehicle replacement (Fund 49)

The second use of funds is suggested for restoration of full funding for budgeted positions. For the fiscal year 2012/2013 budget 16 public safety positions were funded for only 6 months because of retirements and time lapse for hiring.

- \$1,200,000 for restoration of General Fund salaries and benefits partially unfunded for vacant police officer positions

The third use of funds that staff is suggesting would be to fund one time expenditures for Capital, reduction of liabilities or one time operating needs as follows:

- \$100,000 for PAL (Fund 48) for City Visioning and Strategic Plan – community survey
- \$1,000,000 for revised NPDES permit requirements for storm water treatment (Fund 85)
- \$5,000,000 for capital assets or land acquisition (Fund 08), this would provide funding for future City Council directed land acquisition or other capital projects.
- \$1,250,000 for reduction of unfunded OPEB liability (Fund 44)

And finally to set aside some funding for a rainy day staff is suggesting the following:

- \$1,000,000 for Budget Stabilization designation

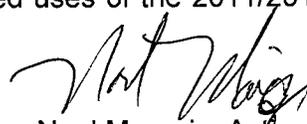
Staff above suggestions for use of the fiscal year 2011/2012 revenue in excess of expenditures totals \$10,240,000.00.

### **FISCAL IMPACT**

By using the revenues in excess of expenditures in this manner the City; 1) restores reductions to funds designed to provide funding for replacement of City vehicles, equipment and technology, 2) provides proper budget levels for public safety salaries and benefits avoiding potential conflicts in future budgets as positions are filled, 3) funds one time expenditures for Capital, liability reduction and one time operating needs avoiding impact on future operating budgets, and 4) provides a reasonable safety net for future years where economic conditions make reductions necessary.

### **RECOMMENDATION**

Staff is seeking City Council direction on suggested uses of the 2011/2012 revenues in excess of expenditures.



Noel Marquis, Acting Director of  
Administrative Services

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Approved By