



STAFF REPORT

Meeting Date: December 6, 2016
To: Honorable Mayor & City Council
From: Don Rhoads, Administrative Services Director/Chief Financial Officer
Don Harrison, Budget & Revenue Officer
Subject: Review of General Fund FY 2015/16 Year-end Available Balance
Attachments: none

INTRODUCTION

In this report staff makes recommendations for the allocation of \$36 million of the currently available \$53.8 million General Fund balance to fund priorities such as land acquisition, the Fiber to the Premise project, unfunded liabilities and a budget stabilization reserve. The City Council's Financial Policies call for one-time funds such as this to be generally used for one-time rather than ongoing expenditures. Should the City Council agree with the recommendation, funds will be earmarked for the projects as noted in this report.

DISCUSSION

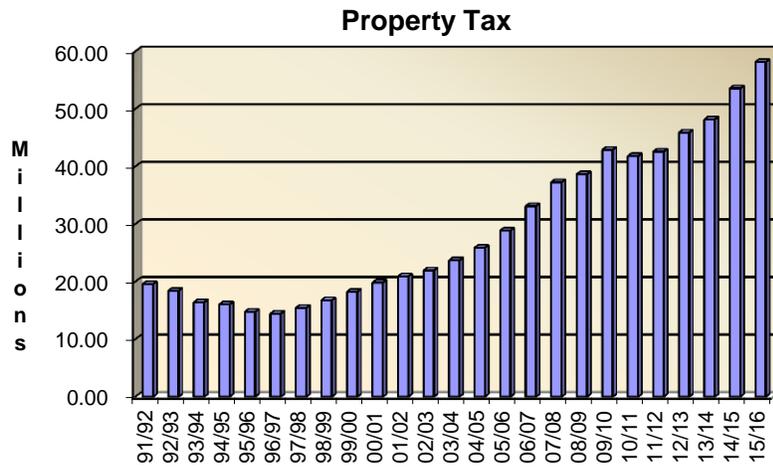
Revenues

Fiscal Year 2015/16 General Fund revenues performed well, increasing 6.7% overall for the year. This is largely the result of increases over the prior year in major revenue sources such as property tax, sales tax, transient occupancy tax and business tax, which account for 79% of all General Fund revenues.

Property Tax

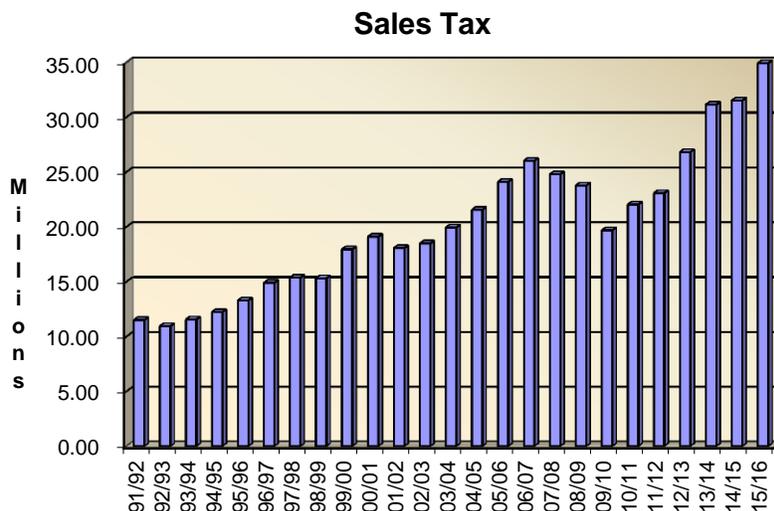
Property taxes are levied based on assessed values, which grew 5.4% this past year. Real estate sales in FY 2015-16 were up as the market continued to gain strength resulting in a \$4.6

million (8.5%) increase in property taxes to a total of \$58.1 million, which was 9% over the budget estimate.



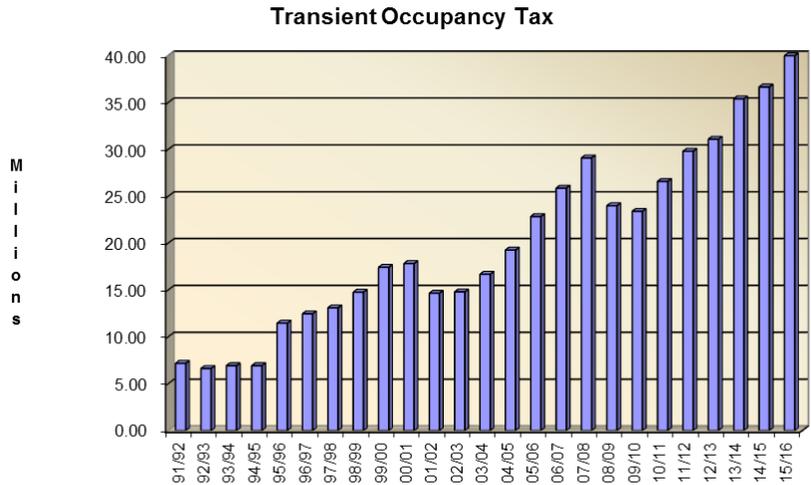
Sales Tax

Sales taxes are a direct reflection of the general economy, though in 2015/16 the City did receive some one-times sales tax funds from the state of California that increased receipts for the year. This contributed to an increase of \$3.4 million (10.8%) to \$34.9 million in 2015-16, which is 7.5% above the budget estimate. A more cautious growth rate is projected for the current fiscal year, 2016/17, in the amount of 0.3% growth over the original projection for 2015/16. This estimate would, however, amount to a 2.4% decrease from the \$34.9 million actually received last fiscal year. Significant new retail development in Century City will provide competition in the near future that could impact sales tax receipts in Beverly Hills.



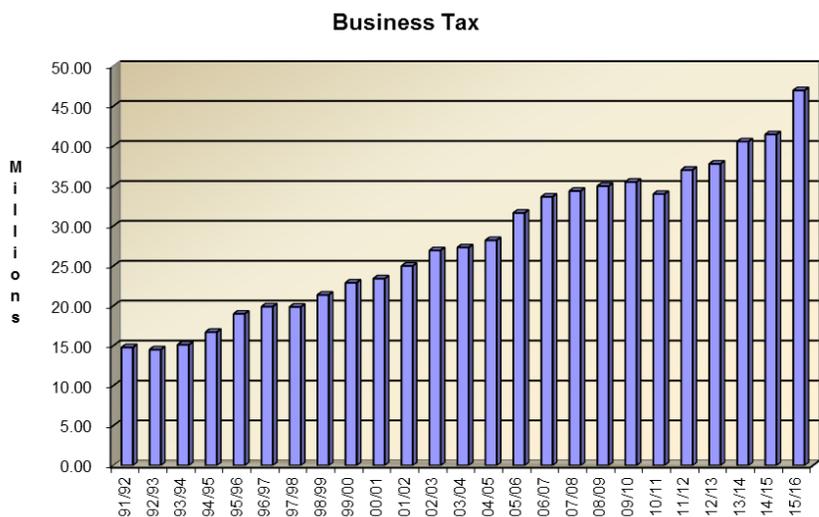
Transient Occupancy Tax

Transient occupancy tax (TOT) revenues increased \$3.3 million (9.1%) from the prior year to \$40 million (2.2% above the budget estimate) as a result of improving economic conditions and some hotels emerging from major renovation projects in the previous year. For the current fiscal year, we forecasted an increase of 3% in transient occupancy revenue over the original projection for 2015/16, with projected year-end revenue of \$39.1 million. This was a conservative projection, however, because actual TOT revenues in 2015/16 were \$40 million.



Business Tax

Business tax revenue reached a new high in FY 2015/16 of \$47 million (6.6% above the budget estimate), growing \$5.5 million (13%). For commercial leasing, retail and certain other categories of businesses, the business tax is computed on gross receipts. As a result, rising occupancy, lease rates and growth in retail sales all contributed to the growth of this revenue. The 2016/17 budget used a very conservative estimate of \$45.5 million for business tax revenue. This will likely need to be reviewed and possibly increased in the current fiscal year.



Altogether, revenues totaled \$228.5 million in 2015-16, which was 6.8%, or \$14.5 million, over the budget estimate. General Fund expenditures and net transfers out totaled \$197.2 million for the fiscal year and was 3.4%, or \$6.9 million, under the revised budget of \$204 million. The schedule below shows the results of 2015/16 General Fund activity. Overall, revenues exceeded expenditures and net transfers by \$31.4 million, resulting in an (unaudited) ending fund balance of \$177.5 million.

General Fund Balance

General Fund Balance - June 30, 2015	<u>\$ 146,187,095</u>
Revenues	228,539,655
Expenditures and net transfers	<u>197,180,110</u>
Net change in Fund Balance	<u>31,359,545</u>
General Fund Balance – June 30, 2016	<u>\$177,546,640</u>

General Fund Available Balance

The available, unallocated portion of General Fund balance as of the end of last fiscal year amounted to \$57.3 million as shown in the schedule below. After allowing for \$3.5 million in appropriations from the General Fund available balance this fiscal year so far to provide funding for programs such as fire department equipment (\$111,000), bond advisory services (\$75,000), and \$3.35 million to augment the Property Acquisition Reserve for the purchase of property on La Cienega Blvd, the current available balance is \$53.8 million.

General Fund Available Balance

General Fund Balance - June 30, 2016	<u>\$ 177,546,640</u>
General Fund reserves	
Economic/Contingency Reserve	91,701,228
Budget stabilization	5,000,000
Cabrillo Reservoir/Non-potable Water	2,443,203
Beverly Gardens Park	1,000,000
Long-term receivables	14,709,108
Encumbrances	865,178
Pension unfunded liabilities	<u>4,500,000</u>
Total funds allocated to reserves	<u>120,218,717</u>
Available Fund Balance - June 30, 2016	57,327,923
2015/16 budget appropriations to date	<u>3,536,000</u>
Current General Fund Available Balance	<u>\$53,791,923</u>

Use of Available General Fund Balance

It is good financial practice to use one-time funds for investments in one-time capital, unfunded liabilities, or working capital for investment such that the use of funds results in future efficiencies or other future expenditure savings or increased revenue. It is also a good practice, and one which is noted by bond rating agencies, to use General Fund excess funds only for general purposes and not for the support of enterprise expenditures, which should be fully supported from enterprise revenues.

Based on previously stated City Council priorities, its prior allocations of surplus revenue, and input from City departments, staff has identified the following areas as recommended uses for these available funds:

Land Acquisition

Staff recommends setting aside \$10 million in funding for property acquisition in case a strategic purchase becomes available. This could be applied to a purchase in the Southeast of town or other areas as deemed appropriate by the City Council. The recent placement into escrow of a property on La Cienega as a potential site for a new well has absorbed all currently budgeted land acquisition funding.

Fiber to the Premise

The funding plan for the Fiber to the Premise project recommends a \$10 million transfer from the General Fund to pay for some of the early capital costs. Once all bids are received on the project (bids are being collected throughout November and December) and a more precise cost of the project is known, staff will return to Council with a full funding plan recommendation. It should be noted that the City Council has already adopted a resolution of intent to issue bonds for this project so this remains an option for consideration, though internal financing is also being considered. At this stage staff recommends earmarking \$10 million, which could be structured as an interfund loan or as a capital contribution to the project.

Increase in Budget Stabilization Reserve

In recent years, the City Council has set aside \$5 million in a Budget Stabilization Reserve to serve as a "Rainy Day" fund for meeting future unexpected revenue shortfalls and allowing for an orderly reduction of spending rather than abrupt cuts to responsibly manage the City's fiscal considerations. It is recommended that the City Council allocate another \$5 million of the surplus to this reserve to provide a cushion against the effect of an economic downturn.

OPEB (Retiree Medical Coverage) Unfunded Liability

Though the City has made great strides in addressing OPEB (Retiree Medical Coverage) actuarial unfunded liability in recent years, there remains an actuarial unfunded liability of \$56.9 million. It is recommended that \$5,000,000 of the surplus be allocated for further reducing this unfunded liability. No funds would move to the trust, however, until Council approves a long-term funding plan for the City's unfunded liabilities. A proposed plan will be brought back to Council in early 2017.

PERS Unfunded Liability Reduction

Staff recommends that the City Council consider allocating \$5.5 million to the \$4.5 million already in reserve for the reduction of the City's pension unfunded liability, which is currently \$211.9 million. Elsewhere on the December 6 agenda is a request to establish a

Section 115 Trust that would be the vehicle for holding these funds. As with the recommended funding for the OPEB liability, this additional allocation would also not be moved until staff returns to Council with a funding plan in early 2017.

Police Department Security

Adding Cameras to Exit Points and Auto Door Openers: \$100,000

The A-Level Parking Improvement Project consist of two major parts. The addition of a security monitor to provided officers exiting the building a street level view of possible hazards in the area surrounding the exit doors. Additionally, this project includes the installation of a proximity sensor to automatically cycle the exit/entrance doors when authorized vehicles approach.

Secure Employee Parking- \$400,000

The Secure Employee Parking Project fortifies and restricts access to the existing bottom two levels of the City Parking structure via keycard access doors and roll-up gates to provide Police Department employees safe and secure parking.

In addition to the above recommendations for allocation of General Fund available balance, in early 2017 staff will bring to the City Council a funding plan for the next phase of Beverly Gardens Park projects. Any additional need for new or matching funds will be included in that plan and discussed with the Council at that time.

There are many advantages to addressing the needs which staff proposes with the one-time funds available. In most instances, the proposed uses of the surplus are for projects which are high City Council priorities or for activities/projects which will be required at some point in the near future so that allocating funds while they are currently available will prevent future disruption through displacing the funding of other activities. Investing in the reduction of unfunded liabilities saves the City future costs of financing these liabilities such as interest costs. The disadvantages of following the recommendations contained in this report are substantially opportunity costs. If the funds are spent for these proposed uses, they will not be available for other unidentified projects which might be of greater value or in much greater need of funding. Use of City funds usually involves a balancing act in that the choices for use of the City's scarce resources inevitably preclude the use of those funds for other worthy uses. As reasonable people can disagree on what may be the best use for a scarce resource, there are nearly always opportunity costs when City resources are allocated.

**Potential Projects to be Funded from
General Fund Available Balance**

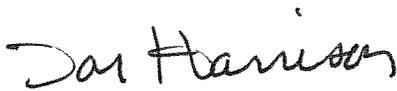
Land acquisition	\$10,000,000
Fiber to the Premise	10,000,000
Budget Stabilization Reserve	5,000,000
Retiree medical unfunded liability	5,000,000
PERS unfunded liability	5,500,000
Police Department Security	<u>500,000</u>
Total	<u>\$36,000,000</u>

FISCAL IMPACT

The allocation of FY 2015/16 General Fund available balance will result in the reservation and/or expenditure of up to \$36 million from available fund balance. If all recommended allocations of General Fund available balance are approved by the City Council, there would still remain \$17.8 million in unallocated funds that could be applied to other Council and community priorities.

RECOMMENDATION

Staff recommends that the City Council allocate FY 2015/16 General Fund available balance and make appropriations for same for one-time activities, reduction of unfunded liabilities and/or retention of available fund balance of up to \$36 million.



Don Harrison

Budget & Revenue Approval



Don Rhoads

Approved By