



STAFF REPORT

Meeting Date: February 17, 2015
To: Honorable Mayor & City Council
From: Don Rhoads, Administrative Services Director and Chief Financial Officer
Don Harrison, Budget & Revenue Officer
Subject: Discussion of FY 2013/14 Year-End General Fund Surplus of Revenues over Expenditures
Attachments: 1. Attachment A – FY 2013/14 Surplus

INTRODUCTION

This report addresses the year-end surplus of revenues over expenditures from FY 2013/14 and provides recommendations for investing these funds. At the end of FY 2013/14, the unaudited General Fund surplus was \$13.8 million. City Council financial policies require that a General Fund reserve be maintained equal to 40% of the operating revenues of the fund. Year-end revenues exceeded FY 2014/15 budgeted revenues by \$4.4 million. Therefore, \$1.8 million of the surplus has been set aside for this reserve. This results in available surplus of about \$12 million. These funds are available for allocation/ appropriation by the City Council. The City Council's Financial Policies also call for one-time funds such as year-end surplus funds to be used for one-time expenses and not ongoing expenses.

Since this item was first reported to the City Council for the December 2, 2014 Study Session, through early submissions for the FY 2015/16 Capital Improvement Projects (CIP) we have become aware of a potential significant need for funds for capital improvements in the Clean Water Fund (Fund 850). It is currently projected that compliance with the National Pollutant Discharge Elimination System (NPDES) Permit for the Ballona Creek Watershed will require approximately \$16 million over five years for the construction of a treatment /detention/infiltration facility. Of this five year total, Public Works Services has preliminarily estimated that \$3.3 million would be needed next fiscal year (2015/16). To partially address this newly identified need, we have adjusted the recommended allocation of surplus funds to allocate an additional million to this project.

DISCUSSION

Use of Available General Fund Balance

It is a good financial practice to use one-time funds for investments in one-time capital projects, 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 enterprises, 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:

PERS Unfunded Liability Reduction

In the City Council's packet, Item C.11. provides an informational report on the City's unfunded pension liability which recommends that the City Council consider allocating an additional \$2.5 million for the reduction of the City's unfunded liability.

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 a much reduced actuarial unfunded liability of about \$12.5 million. It is recommended that \$500,000 of the surplus be allocated for further reducing this unfunded liability.

Property Acquisition

In recent years, the City Council has allocated \$5.75 million for Property Acquisition with the most likely use for these funds being the purchase of property for use as a future parking facility in the Southeast section of the City, and \$2.15 Million for Southeast Enhancements, all of which remains available for appropriate projects. Given the great cost of property in the City and the great need for additional parking and other improvements in the Southeast portion of the City, it is recommended that the City Council allocate an additional \$2.75 million from available General Fund balance for Property Acquisition.

Subway Litigation

The City Council has allocated funds over the past few years to challenge the Subway Route under Beverly Hills High School. Additional funds are needed to continue this effort. It is recommended that \$525,000 from the surplus be allocated to this effort.

Santa Monica Boulevard Traffic Mitigation Contingency

The reconstruction of Santa Monica Boulevard east of Wilshire is fully funded. However, it is recommended that \$150,000 of the surplus funds be set aside as additional contingency for traffic mitigation measures should such be needed to further minimize traffic impacts of the project which would cause disruption for residents, businesses and shoppers in the community thus impacting sales tax revenue.

Santa Monica Boulevard Reconstruction West of Wilshire

As mentioned above the reconstruction of Santa Monica Boulevard east of Wilshire is fully funded, but additional funds may be needed when it is practical to move forward with reconstruction west of Wilshire Boulevard. It is recommended that \$750,000 of the surplus be set aside as a portion of the funding which might be needed for this project. It is anticipated that a portion of the reconstruction of this section may be funded through private sources as part of the development of the Waldorf Astoria Hotel and 9900 Wilshire.

Trousdale Traffic Management

Traffic Management measures for the Trousdale Estates Area including Automated License Plate Reader (ALPR) Cameras and equipment, traffic management devices (e.g., traffic circles and chicanes) and additional signage. It is recommended that \$300,000 of the surplus be allocated to this effort.

Alley Pavement Project for Portion of 5.2 Acre Foothill Road Site

There is a need to grade, pave, stripe and create storage areas in the eastern sixty foot portion of the City property located on Foothill between Alden and Third Street, 20 feet of which is designated future public right-of-way. A portion of this area has been earmarked for a future decant facility and groundwater well site. Existing CIP funds have been earmarked for the decant facility. However, funds were not earmarked to develop the remaining area. This will maximize the use of the area for additional Public Works Services vehicle and heavy equipment parking as well as equipment storage in the public right of away. It is recommended that \$300,000 surplus be set aside for this project.

Storm Water Detention, Retention, and Treatment Facility

The City is scoping out a detention, retention, and/or treatment facility in response to negotiated terms related to National Pollutant Discharge Elimination System (NPDES) requirements. It is recommended that \$1.5 million of the surplus be used as placeholder funding.

Restoration of Greystone Mansion Theatre

With adoption of the FY 2014/15 budget, the City Council approved \$500,000 through the CIP as seed money for restoration of the Greystone Mansion Theatre. Staff is working on an effort to raise funds to cover the unfunded portion of the Theatre restoration. To "jump-start" this effort, it is proposed that the City set aside \$250,000 of the surplus to match private contributions made for the restoration of the theatre.

Coldwater Park Playground Equipment

The playground equipment and surface below at Coldwater Park is quite aged and somewhat obsolete. Replacement of the equipment and installation of a surface providing greater fall protection is recommended and would cost approximately \$500,000.

La Cienega Park

The CIP includes about \$7 million for a new community center at La Cienega Park. The total cost of a community center is expected to be more than this, though it is also expected that development of large projects in the City in the near future will also generate additional parks and recreation funding. As construction has commenced on the Waldorf Astoria hotel, collection of new Parks and Recreation Tax funds is expected in the near future which may be used to fund this project. It is recommended that the City Council set aside an additional \$1 million for this project which could be freed up if Parks and Recreation funds are available.

Civic Center Cooling Tower Replacement

The cooling tower serving the Central Plant of the civic center complex climate control system is in need of replacement. Public Works Services Department had intended to include this replacement in the CIP considerations for the FY 2015/16 budget, but given the availability of surplus funds and recent discovery of more immediate need for replacement, the use of surplus funds for this purpose is recommended at a cost of \$300,000.

Public Safety Equipment Needs

The Fire Department has identified equipment which is needed and which is not included in the FY 2014/15 budget. Specifically, personal protective equipment and supplies are needed for fire fighters during a situation involving an “active shooter.” This equipment is intended to minimize loss of life through expediting the delivery of critically needed medical care to patients that could otherwise be beyond the reach of traditional EMS providers or otherwise not receive care within the timeframe necessary to save lives and has an approximate cost of \$100,000. Also needed are 14 automated external defibrillators (AEDs) for Police motorcycles. The Defibrillators are needed because the manufacturer of the devices currently on the Police motorcycles will no longer support these devices. The estimated cost to replace the AEDs is \$16,000.

Increase in Budget Stabilization Reserve

In recent years, the City Council has set aside \$2 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 \$500,000 of the surplus to this reserve.

General Fund Reserve Contribution

As addressed above, it is a good financial practice to utilize available one-time funds for the reduction of current or future expenses or the generation of additional future revenues. Use of surplus or one-time funds for ongoing expenses is not considered good policy as such practice will likely lead to ongoing deficits as the ongoing revenues may not provide for the ongoing expenditures. The recommendations above, substantially reduce future expenses through reduction of liability claims, prevention of theft, reduction of future payments and interest on unfunded liabilities, or provide for potential increases in revenue through increased economic development, or provide for needed investment in City facilities on a one-time or limited basis. The Attachment A provides an itemization of the recommendations and amounts recommended herein.

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.

FISCAL IMPACT

The appropriation of FY 2013/14 General Fund surplus will result in the reservation and/or expenditure of up to \$12 million from available fund balance.

RECOMMENDATION

Staff recommends the City Council consider The General Fund Surplus and allocating it for various purposes.



Don Harrison

Budget & Revenue Approval



Don Rhoads

Approved By

Attachment 1

FY 2013/14 Surplus

Est. Amount Available:	\$12,063,400
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Possible Investments

Unfunded liabilities

PERS (employee pensions)	2,500,000
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OPEB (Retiree Health Coverage)	500,000
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Land Acquisition	2,750,000
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Subway Litigation	525,000
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Santa Monica Boulevard Traffic Mitigation Contingency	150,000
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Santa Monica Boulevard (Seed for West of Wilshire)	750,000
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Trousdale Traffic Monitoring and Mitigation	300,000
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Public Works Yard Alley Pavement	300,000
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Storm Water Detention/Retention/Treatment Facility	1,500,000
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Greystone Theatre Restoration Donation Match	250,000
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Coldwater Park Playground	500,000
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La Cienega Park Community Center	1,000,000
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Civic Center Cooling Tower Replacement	300,000
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Active Shooter Protective Equipment for Firefighters	100,000
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Defibrillators for Police Motorcycles	16,000
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Budget Stabilization Fund	<u>500,000</u>
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Total	\$11,941,000
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Unallocated (increase in fund balance)	\$122,400
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