



AGENDA REPORT

Meeting Date: June 30, 2015
Item Number: G-1
To: Honorable Mayor and City Council
From: Don Rhoads, Director of Administrative Services/Chief Financial Officer
Don Harrison, Budget and Revenue Officer
Subject: **ALLOCATION OF FY 2013/14 YEAR-END GENERAL FUND
AVAILABLE FUND BALANCE**

Attachments: 1. Attachment A – Recommendation for Use of FY 2013/14
Available Fund Balance

RECOMMENDATION

It is recommended that the City Council consider the available General Fund balance and allocate \$6,890,000 of it for the various purposes noted in this report.

INTRODUCTION

This report addresses the available General Fund balance as of the end of FY 2013/14 and provides recommendations for allocating these funds. Ending General Fund balance before application of reserves on June 30, 2014 was \$114,376,749. The 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 for FY 2013/14 were \$202,259,943. Therefore, \$80.9 million of the ending fund balance has been set aside for this reserve. In addition, the budget Stabilization Reserve of \$2 million, long-term receivables of \$19 million, and \$750,000 of Beverly Gardens Park matching funds have been deducted from the ending balance to arrive at Available Fund Balance of \$11.7 million as shown on the following page. These funds are available for allocation and appropriation by the City Council. The City Council's Financial Policies also call for one-time funds such as available fund balance to be used for one-time expenses and not ongoing expenses.



AGENDA REPORT

Meeting Date: June 30, 2015
Item Number: G-2
To: Honorable Mayor and City Council
From: Don Rhoads, Director of Administrative Services/Chief Financial Officer
Don Harrison, Budget and Revenue Officer
Subject: **ALLOCATION OF FY 2013/14 YEAR-END GENERAL FUND
AVAILABLE FUND BALANCE**

Attachments: 1. Attachment A – Recommendation for Use of FY 2013/14
Available Fund Balance

RECOMMENDATION

It is recommended that the City Council consider the available General Fund balance and allocate \$6,890,000 of it for the various purposes noted in this report.

INTRODUCTION

This report addresses the available General Fund balance as of the end of FY 2013/14 and provides recommendations for allocating these funds. Ending General Fund balance before application of reserves on June 30, 2014 was \$114,376,749. The 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 for FY 2013/14 were \$202,259,943. Therefore, \$80.9 million of the ending fund balance has been set aside for this reserve. In addition, the budget Stabilization Reserve of \$2 million, long-term receivables of \$19 million, and \$750,000 of Beverly Gardens Park matching funds have been deducted from the ending balance to arrive at Available Fund Balance of \$11.7 million as shown on the following page. These funds are available for allocation and appropriation by the City Council. The City Council's Financial Policies also call for one-time funds such as available fund balance to be used for one-time expenses and not ongoing expenses.

General Fund Financial Position

	2013/14
	<u>Actual</u>
Ending Fund Balance 6-30-2014	\$114,376,749
General Fund reserves	
Economic/Contingency Reserve	80,903,977
Budget stabilization	2,000,000
Long-term receivables	19,029,646 *
Beverly Gardens Park Matching Funds	<u>750,000</u>
Total Reserves	<u>102,683,623</u>
Available Fund Balance	<u><u>\$11,693,126</u></u>

* Comprised primarily of loans owed by the Parking Authority for the construction of the Beverly Canon Parking Facility, and home loans to executive employees under the Housing Assistance loan Program.

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.

This item was previously brought before the City Council, but due to time constraints and other priorities it was never heard nor acted upon. The recommendation on this item has changed since it appeared on the City Council agenda in April. In recognition of Mayor Gold's formation of a task force to study and make recommendations on the appropriate financing amounts and methodologies of the major infrastructure projects being proposed in the City, it is recommended that only funding of items with an urgency which would likely result in needing the funds within the next six months and for reduction of unfunded liabilities be approved for funding with this available fund balance. It is recommended that the decision on funding other capital projects be deferred until the Mayor's task force has completed its study and provided its recommendations. Below are the recommended uses for this available fund balance:

PERS Unfunded Liability Reduction

At the February 17, 2015 City Council Study Session, the City Council was provided an informational report on the City's unfunded pension liability which recommended that the City Council consider allocating an additional \$2.5 million for the reduction of the City's unfunded PERS pension liability. The recommendation for how to use this funding will be brought back to Council at a later time.

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 available fund balance be allocated for further reducing this unfunded liability.

Subway Litigation

The City Council has allocated funds over the past few years to challenge the Subway Route under Beverly Hills High School. All funds allocated for this effort have been expended and additional funds are needed to fund previously incurred legal expense in this effort. It is recommended that \$525,000 from the available fund balance be allocated to this effort.

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 available fund balance 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 of available fund balance be set aside for this project.

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 available fund balance to match private contributions made for the restoration of the theatre.

Beverly Gardens Restroom Renovation

Additional funds are needed for the replacement of the restroom in Beverly Gardens Park to upgrade the condition of the facility recapture underutilized space and increase restroom capacity. Total cost of this project is \$545,000, of which the CIP allocated \$200,000 from Fund 600 as there were not additional funds available in that Fund. As a result an additional \$345,000 is needed and could be allocated from Available General Fund balance.

Beverly Gardens Park Matching Funds

On three different occasions the City Council has allocated \$750,000 as matching funds to private contributions for the restoration of Beverly Gardens Park. Of the total \$2.25 million allocated to date, approximately \$300,000 remains unmatched. Steve Gordon recently reported that the fundraising for Beverly Gardens has picked up and that

additional matching funds will be necessary to provide continuing incentive for private contributions for this project. It is recommended that the City Council allocate an additional \$1,200,000 at this time for matching future contributions to the restoration project.

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 available fund balance and recent discovery of more immediate need for replacement, the use of these funds for this purpose is recommended at a cost of \$300,000.

Fire Department Equipment Needs

The Fire Department has identified equipment which is needed and which is not included in the FY 2014/15 budget. 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 \$80,000. In addition, the Fire Department is in need of two heavy duty washing machines to will allow for the laundering of firefighter turnout protective fire gear at two fire stations at an approximate cost of \$20,000.

Community Assistance Grants Supplemental Funding

At its May 18th Study Session, the City Council directed staff to use \$40,000 from the year-end FY 2013/14 available General Fund balance to augment the funding of Community Assistance Grants in FY 2015/16 on a one-time basis.

Increase in Budget Stabilization Reserve

In recent years, the City Council has set aside \$4.5 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 \$500,000 of the available fund balance to this reserve. If this is approved, it will bring the total Budget Stabilization Reserve to \$5 million.

Other Possible Uses for Available General Fund Balance

As stated above, staff pared back the list of uses for these funds to allow the mayor’s Task Force to study the infrastructure needs and best financing options prior to the commitment of funds except for those with some urgency. However, other uses which might use these funds include: Dog Park, Land Acquisition, Storm Water Detention/Retention/Treatment facility, and La Cienega Park Community Center.

General Fund Reserve Contribution

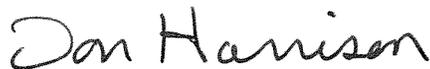
As addressed above, it is a good financial practice to utilize available one-time funds for the reduction of current or future expenses or the generation of additional future revenues. Use of available fund balance or one-time funds for ongoing expenses is not considered good policy as such practice 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. 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 available fund balance 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 June 30, 2014 available General Fund balance will result in the reservation and/or expenditure of up to \$11.7 million. If the City Council accepts staff recommendation to allocate only \$6.9 million, the remaining \$4.8 million would remain in General Fund balance.



Don Harrison

Budget & Revenue Approval



Don Rhoads

Approved By

Attachment 1

Recommendations for Use of June 30, 2014 Available Fund Balance

Available Fund Balance: \$11,693,126

Recommended Allocations

PERS (employee pensions) unfunded liability	2,500,000
OPEB (Retiree Health Coverage) unfunded liability	500,000
Subway Litigation	525,000
Trousdale Traffic Monitoring and Mitigation	300,000
Public Works Yard Alley Pavement	300,000
Greystone Theatre Restoration Donation Match	250,000
Beverly Gardens Restroom Renovation	375,000
Beverly Gardens Park Matching Funds	1,200,000
Civic Center Cooling Tower Replacement	300,000
Active Shooter Protective Equipment and Turnout Washers for Firefighters	100,000
Community Assistance Grants Supplemental Funding	40,000
Budget Stabilization Fund	<u>500,000</u>
Total	\$6,890,000

Unallocated (increase in fund balance) \$ 4,803,126