



Mahdi Aluzri, Interim City Manager

Honorable Mayor, City Council Members, and Citizens of Beverly Hills:

It is a pleasure to present the FY 2015/16 Proposed Budget and advise the City Council and community that the City of Beverly Hills continues to enjoy excellent microeconomics and a prosperous business sector. This budget provides for the continuation of current levels of City services in addition to recommendations for increasing service in targeted areas. Targeted increases in service include: handling storm water permit requirements; increased capacity for handling development permitting and monitoring; development of greater self-reliance for water; maintaining facilities infrastructure and implementation of the Water Enterprise Plan and conservation.

Fiscal Year 2013/14 Year-End Summary

At the end of the 2013/14 fiscal year, the City's General Fund had available fund balance of \$11.7 million after adjusting for the 40% reserve required by the City's financial policies. Staff previously submitted recommendations for use of these funds and these recommendations will be revisited in the budget study session to give the City Council an opportunity to determine whether and how these funds should be allocated.

Fiscal Year 2014-15 Summary

Once again, the City's revenues are performing quite well and expenditures are expected to end the fiscal year under budget. We are projecting that, at year-end, General Fund revenues will total \$210.5 million, expenditures will be \$171.7 million, and net transfers out will be \$21 million (including the \$12 million earmarked by the City Council last year) for a projected excess of revenues over expenditures of about \$18 million. Given the City Council's Reserve Policy, this increase in revenues would require an increase of \$3.3 million in General Fund economic contingency reserve, leaving net funds available of \$14.7 million at the end of FY 2014/15.

During this fiscal year, the City has seen many accomplishments; the following are the notable ones I wish to highlight for fiscal year 2014/15:

- Completed Renovation of Roxbury Park Playground and Sports Fields
- Implemented Street Tree Replacement and Sidewalk improvements in the Southeast
- Finalized Recommendations for final design of the Santa Monica Boulevard Reconstruction Project
- Initiated Public Participation Concerning La Cienega Park and Community Center
- Expanded Social Media Program to Include More Platforms and Greater Involvement from City Departments
- Successfully Implemented New Payroll and Electronic Time Card System
- Designated 6 New City Landmarks for a Total of 29 Landmarks on the Local Register of Historic places
- Concluded Centennial Celebration Year
- Developed a Business and Strategic marketing Plan for the Future of Greystone
- Completed Irrigation Upgrades at City Reservoirs Utilizing Best Water Conservation practices (e.g. Drip Irrigation)
- Completed Drafting and Began Implementation of the New 5-Year Strategic Technology Plan
- Updated Housing Element
- Repaved 9 Miles of City Streets
- Completed Electric Fountain Design and Began Construction
- Greystone Mansion was named third in USA Today's list of Top L.A. Park Attractions
- Awarded Contract for Two City Gateways (Olympic at BHHS and Wilshire at San Vicente)
- Completed Sidewalk Repairs at Approximately 9,000 locations Citywide to Eliminate Trip Hazards
- Los Angeles Magazine Named La Cienega Tennis Center as "Best Public Tennis Courts in "Best of Los Angeles" Edition
- Implemented Trousdale Estates Transportation Mitigation Measures
- Park Rangers completed formal Police-Assisted Training to Refine Ranger Conflict Resolution Skills and Learn Best Methods for Mobilizing Staff
- Maintained lowest Part I Crime Rate in the Westside region, based on latest FBI report
- Maintained Less Than Three Minute Average Response Time for Emergency Calls
- Created a New Commercial Enforcement Program to Enforce Tour Bus Regulations and Commercial Vehicle Laws in the Trousdale Estates
- Completed Waterproofing at Nine City Parking Garages Including New Deck Coating and Concrete Repairs
- Issued Permits for the Waldorf Astoria Hotel
- Revised In Lieu Parking ordinance

Economic Outlook

The City has enjoyed excellent economic growth over the last four years. Though the national economy continues its slow steady growth, the Beverly Hills economy has taken off with strong growth. This growth is driven by tourism, retail shopping attraction, strong commercial leasing and low vacancies, and home value appreciation.

There remain risks and uncertainties that could cause our local economy or at least our revenue base to contract. Among these are:

- A slowing housing market
- The Federal Reserve Board's raising its discount rate
- The effect of a strong dollar on tourism attraction and retail spending in the City
- Traffic impacts from various public and private construction projects which could impact visits and retail sales in the City
- Geopolitical and economic events which might impact tourism or spending
- Global growth slowdown

Construction activity in the City remains very active which bodes well for future economic activity in the City. This activity has also stretched our Community Development staffing, which created the need for several budget enhancement requests again this year.

.City Council Priorities

On December 9, 2014, the City Council met to establish its priorities for FY 2015/16 which guided the preparation of the Proposed Budget for next fiscal year. A substantial portion of the budget enhancement requests each year are presented to address City Council priorities: either new priorities or full implementation of programs established in prior years. A complete list of the City Council priorities for FY 2015/16 is included in the Supplemental Information Section of this budget. Below are City Council "A" priorities for FY 2015/16:

- Support for Beverly Gardens Park Restoration Project
- Technology
- Santa Monica Blvd. Reconstruction and Traffic Mitigation Plan
- Small Business Task Force
- Southeast Task Force Implementation
- Community Visioning and Strategic Planning
- Unfunded Liabilities
- Public Safety
- Open Space
- Subway Coordination
- Advance Capital Investment in the Community
- Dog Park
- La Cienega Park and Community Center Master Plan
- Property Acquisition
- Water Enterprise Master Plan
- City Sustainability Plan
- Moreno Traffic Mitigation

Revenues

The City's economy continues to gain strength and revenues are well structured to benefit from that improvement. Overall, we are seeing improvement in all major funds except the Storm Water Fund. There is concern that water conservation may impose burdens on the Water Enterprise Fund and this will be monitored.

For FY 2015/16 General Fund revenues are projected to be \$212.8 million, which amounts to an increase of about 9% over the Adopted FY 2014/15 budget. This is largely the result of increases over the FY 2014/15 budget of 5.9% in property tax, 10.9% in transient occupancy tax (hotel tax), 11% in business tax and 11.8% in sales tax. Below we address how each revenue is forecast to perform for FY 2015/16.

Property Tax

For secured and unsecured property tax, the 2014 County Assessor's roll provided the City with a 5.2% increase in valuation. This growth is excellent considering that the State Constitution under Proposition 13 limits the growth of assessed valuation of properties not sold during the year to not more than 2%. Given the increases in property values in the City and the continued increase in construction activity, it is reasonable to project that total property tax revenue will increase by 3.3% which will generate \$49.6 million.

Sales Tax

Since the end of FY 2010/11, during the three fiscal years FY2011/12, FY2012/13 and FY 2013/14, sales tax revenue increased by a combined 35.2%. Sales tax for FY 2014/15 is projected to be \$31 million or 3.7% higher than FY 2013/14. It should be noted that the FY 2013/14 sales tax revenue was skewed upward by a large "triple-Flip" adjustment which resulted from prior year low revenue estimates by the California Department of Finance. This makes the growth in FY 2014/15 appear less than is actually the case. Sales tax revenue estimates for FY 2015/16 assume an increase of approximately 4.8% and provides sales tax revenue of \$32.5 million.

Transient Occupancy Tax (TOT)

PKF, an international hospitality research and consulting firm, projects that revenue per available room in the U.S. will increase by 6.7% in 2015 and by 5.8% in 2016. It also projects that luxury scale hotels will see 6.4% revenue per available room growth. Staff also consulted with a local hotel general manager to assess the expected impact of construction in the City, the strong dollar and the general economy on Beverly Hills tourism. Based on the information gleaned from the PKF reports, year to date TOT returns, and discussion with the Beverly Hills hotelier, it is projected that TOT will increase by 5.5% in FY 2015/16 providing revenue of \$39.1 million.

Business Tax

Business tax revenue increased by 7.2% in FY 2013/14 generating revenue of \$40.5 million. We project that the business tax will produce about \$43 million in revenue for FY 2014/15, an increase of 6.2% over FY 2013/14 revenue. For commercial leasing, retail, and certain other categories of businesses, the business tax is computed on gross receipts. Competition for office and retail space in Beverly Hills and the West Los Angeles sub region continues to drive leasing rates upward. Taking the City's traditional conservative approach to revenue forecasting, for FY 2015/16 we are projecting that Business Tax will increase by 2.3% which will generate \$44 million in revenue.

The table below shows the growth that is projected for each General Fund revenue source in FY 2015/16.

Major General Fund Revenues

Revenue Source	Projected Revenue for FY 2015/16	% Change from FY 2014/15 Adopted
Property Tax	\$ 49,610,000	5.9%
Sales and Use Tax	32,500,000	11.8%
Transient Occupancy Tax	39,140,000	10.9%
Business Tax	44,000,000	11.0%
Other Revenue	47,568,227	7.4%
Total Operating Revenue	212,818,227	9.0%
Transfers In	106,000	-48.5% *
Total Inflows	\$ 212,924,227	9.0%

* Transfers In from the Parks & Recreation Fund for tree maintenance are being phased out to preserve funds for Parks facilities.

Expenditures

At the close of fiscal year 2014/15, General Fund expenditures are expected to total \$171.7 million. This is approximately \$2.5 million, or 1.4%, below the funds appropriated by the City Council last June. The FY 2014/15 operating expenditures for all funds are projected to be about \$364.1 million, which represents a savings of \$3.9 million, or 1.1%, when compared to appropriations. Much of the expenditure savings is the result of job vacancies, which generates salary and benefits savings.

The Proposed General Fund budget for FY 2015/16 provides for expenditures of \$180.1 million, which amounts to an increase of \$5.9 million, or 3.4%, over the FY 2014/15 budget. The operating budget for all funds includes expenditures of \$374 million, which represents an increase of \$6 million, or 1.6%, compared to the adopted FY 2014/15 budget. Capital improvement expenditures for all funds total \$59.5 million, an increase of \$8.1 million over FY 2014/15 and transfers out for all funds total \$12.5 million.

InterFund Transfers

In this proposed budget, the interfund transfers increased by about \$3.1 million primarily because of the increased subsidy of the Storm Water Fund. This increased subsidy was necessitated by the significant increase in capital improvement expenditures starting next fiscal year to meet the National Pollutant Discharge Elimination System (NPDES) Permit requirements. Overall, the General Fund will provide net transfers of about \$12.2 million to fund: the payment of \$1.7 million for infrastructure fund debt service, \$5 million for Capital Improvement Program, and a \$5.5 million subsidy for the Storm Water fund.

Transfers into the General Fund include \$100,000 from Fund 160 (Parks and Recreation Fund) for tree maintenance and \$6,000 from Fund 120 (Gas Tax) for City administrative expenses.

Budget Enhancements

This year departments submitted 111 requests for budget enhancements. The amount requested was \$11.4 million. After reviewing the requests I am recommending 96 of them, plus 3 additional only if the Water Enterprise plan is approved. The recommended enhancements have a total cost of \$8.3 million and a net cost, after revenue and cost cutting offsets, of \$6.4 million. The three enhancements contingent upon approval of the Water Enterprise Plan have a total and net cost of \$931,107. These requests are included in the Budget modifications sections of your Proposed Budget. This section includes a summary of all budget enhancement requests by department, with notations indicating which enhancements are recommended and which are not. In addition, the request forms are all included and placed in department order.

Enhancement requests will be presented to the City Council during the Budget Study Sessions along with the overall department presentations.

Storm Water Fund

The Storm Water Fund continues to be a troubled enterprise fund for the City. For FY 2014/15, the Storm Water fund will require a General Fund subsidy of \$5.5 million. This is a nearly \$3 million increase from last year and is the result of capital improvements required to treat storm water before reaching the ocean. It is currently anticipated that the capital improvement cost for this fund will be somewhat level over the next several years, but the operations deficit is expected to increase annually. The General Fund will continue to subsidize the Storm Water fund at ever increasing levels for the foreseeable future. State legislative changes are required to allow the Storm Water enterprise to be operated as a utility with rates set by the City Council. Under current State law, any increases in revenue for this fund would be considered a "special tax" and would require the approval by two-thirds of the voters in an election to become effective.

Capital Improvement Plan (CIP)

The Capital Improvement Plan is a part of the proposed budget and designated as Volume 2. Recognizing the need to continue to provide for maintenance and repairs to prolong the lives of City facilities and infrastructure, the City continues its spending program for CIP., The proposed budget includes \$10 million combined contributions of \$5 million each to the Infrastructure (Fund 600) and Capital Assets (Fund 405) from the General Fund and from ISF charges for facility replacement. Proposed Capital Improvement investments this year total over \$59.5 million, versus \$51.4 million in FY 2014/15. Capital initiatives for the coming year include reconstruction of Santa Monica Boulevard, facilities improvements for energy efficiency, LED street light replacement, ground water development and storage as contained in the Water Enterprise Plan, and Storm Water treatment facilities. The CIP has been separated into a second volume of the Budget, as it has been for the past several years, so that the project descriptions, budgets, and timelines can be easily referenced during budget discussions and throughout the year.

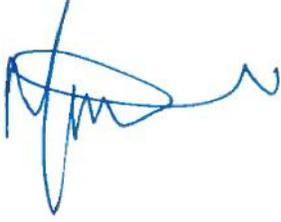
Budget Excess of Revenues Over Expenditures

The proposed budget as presented is projected to result in a General Fund budget excess of revenues over expenditures of approximately \$20.6 million prior to funding any budget enhancements. The required increase in the General Fund reserve, in accordance with the City Council's Reserve Policy, would be about \$1 million, leaving available funds of \$19.6 million. The General Fund portion of all recommended budget enhancement requests is about \$4.7 million. As the City Council is aware, the city has been working to identify means in recent years to address unfunded liabilities and fund significant capital improvements. These efforts benefit the City by complying with mandates, providing for future cost savings or address much needed improvements to the community. The available excess revenue over expenditures funds will greatly assist such efforts. In addition, to these funds, the current forecast for the remainder of this fiscal year indicates end of year available funds of about \$14.7 million.

Conclusion

In conclusion, I am pleased to present this budget to the City Council for its consideration and action. I believe that this budget and the available funds will allow the City Council to take actions will greatly benefit the City and improve its fiscal position for many years to come.

Respectfully submitted,

A handwritten signature in blue ink, appearing to be 'Mahdi Aluzri', written in a cursive style.

Mahdi Aluzri
Interim City Manager