



Mahdi Aluzri, City Manager

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

It is my pleasure to present the FY 2016/17 Proposed Budget and advise the City Council and community that the City of Beverly Hills continues to enjoy a good economic climate, and a prosperous business sector, resulting in healthy revenue growth over the past five years. This budget provides for the continuation of current service levels. In addition, City staff is intently focused on public safety, development of greater self-reliance for water; maintaining facilities infrastructure; and, furthering the Water Enterprise Plan and water conservation.

### **Major Projects/ Initiatives**

The City's budget savings and higher actual than budgeted revenues in recent years have allowed for the funding and initiation of various projects of importance to the City, some of longstanding need. Among the major projects that are underway or imminent are: development of a Dog Park; reconstruction of Santa Monica Boulevard; refurbishment of Beverly Gardens Park; the City's Water Enterprise Plan to ensure continued system reliability; citywide Fiber-optics to premises; and, storm water treatment.

### **Bond Rating Confirmation / Cautions**

For over nine years the City has maintained a AAA bonding rating on its underlying credit worthiness. This has allowed the City to borrow for capital projects at extremely low rates. Over the past six years in particular, the City has been able to enjoy great savings in current and future interest costs due to the coupling of the City's excellent bond rating and the interest rate environment over that period. In March, the bond rating agency, Fitch Ratings affirmed AAA rating for the City's water revenue bonds issued in 2008 and 2012. Among the factors that Fitch noted as giving strength to the water revenue bonds was: "disciplined rate setting," adjusting rates as needed to provide strong financial results; "strong financial performance" – strong debt coverage and liquidity; and, the improvements to the aging system as the reason for the water systems high debt burden. Fitch cautioned that the financial performance is expected

to soften over the next couple of years due to State-imposed drought conservation but is unlikely to pressure the rating if the utility continues to adjust rates as needed. It also cautioned that significant additional borrowing that increases an already elevated debt burden could also put downward pressure on the rating.

### **Fiscal Year 2014/15 Year-End Summary**

At the end of the 2014/15 fiscal year, the City's General Fund had available fund balance of \$33 million, after adjusting for necessary reserves, including the 40% reserve required by the City's financial policies. Staff previously submitted recommendations for use of these funds, some of which were earmarked. The remaining 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 2015/16 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 \$217.8 million, expenditures will be \$181.4 million, and net transfers out will be \$12.9 million, for a projected excess of revenues over expenditures of about \$23.5 million. Given the City Council's Reserve Policy, this increase in revenues would require an increase of \$1.8 million in General Fund economic contingency reserve, leaving net funds available of \$21.7 million at the end of FY 2015/16.

At the conclusion of this fiscal year, the City will have many accomplishments. The following are notable examples that I wish to highlight for fiscal year 2015/16:

- Completed environmental review, received approval for and commenced with construction process for the City's Dog Park in the 300 block of north Foothill Road
- Converted to new software module to manage business tax accounts and revenue, providing taxpayers with the ability to renew, pay, and confirm compliance online and via email
- Completed the Fiber optics to the Premises Feasibility Study, received approval to conduct the next phases and commenced design work
- Maintained lowest FBI Part I Crime rate in the Westside sub-region
- Launched Next Beverly Committee to benefit from the ideas of "Next Generation Leaders" to retain the City's excellent standing in the future
- Completed development of a ten-year Water Enterprise Plan to improve the City's water system reliability
- Completed design and award of contract for Santa Monica Boulevard reconstruction
- Applied for and received supplemental reimbursement for emergency medical transport of Medicaid participants through new State/Federal program
- Created and implemented online legislative advocacy form

- Completed and rededicated the historic Electric Fountain at the northeast corner of Wilshire and Santa Monica Boulevards as part of the ongoing citizen-driven renovation of Beverly Gardens Park
- Rolled-out Bicycle Share Program
- Established building inspector ride-along program to educate interested members of the public in the types and level of review/inspection that is involved in the approval of construction in the City
- Adopted a Joint Declaration with the State of Israel on joint innovation, exchanges and cooperation, and coordinated a water summit
- Developed and implemented new financial trend analysis and budget monitoring tools and program to increase efficiencies during the monthly accounting closing and reconciliation process
- Implemented pilot program to capture natural spring water to replace potable water use for street sweeping, sidewalk cleaning, sewer cleaning, and filling the Electric Fountain, reducing potable water use by the City
- Expanded CCTV security system with the addition of 58 cameras at various intersections and city facilities for a new total of 443 cameras, and improved various components of the system
- Deployed twelve new defibrillators on Fire and Paramedic vehicles
- Maintained a less than three minute average response time for police emergency calls and answered 97% of 911 calls in ten seconds or less
- Received conceptual design approval and developed traffic mitigation plan for Santa Monica Boulevard reconstruction project
- Completed environmental review of two shallow groundwater wells and completed drilling one, the second is currently being tested
- Completed negotiations and implemented the terms of new memoranda of understanding (MOU) for seven of the City's nine employee associations
- Created and implemented the Beverly Hills Police Department's first Summer Camp for Kids
- Completed an update of Fire Department Strategic Plan
- The Human Relations Commission updated the Tenant landlord Rights and Responsibilities guide
- Identified and prioritized infrastructure needs and funding through the Mayor's Infrastructure and Finance Task Forces
- Completed a facilities asset inventory and life-cycle assessment to better manage and plan future building improvements
- Received Google eCity Award in recognition of the City's extensive online presence and technology initiatives
- Completed the city's Annual Holiday Décor and Lighting Event, which promoted the city as a destination for shopping and dining during the holiday season.
- Expanded and improved the City's water conservation program

## **Economic Outlook**

The City has enjoyed strong economic growth over the last several years. Though the national economy continues its slow and 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:

- National economic decline - potential slowing if the post-recession economic peak is reached
- Foreign economies – Europe has struggled in recent years and China’s growth has slowed considerably
- 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, terrorism and economic events which might impact tourism or spending

Construction activity in the city remains active with major projects now moving forward. This construction activity should add more strength to the City’s revenue flow.

## **City Council Priorities**

On December 15, 2015, the City Council met to establish its priorities for FY 2016/17 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 2016/17 is included in the Supplemental Information Section of this budget. Below are City Council “A” priorities for FY 2016/17:

- Support for Beverly Gardens Park Restoration Project
- Expand use of technology to improve efficiency in all initiatives
- Santa Monica Blvd. Reconstruction and Traffic Mitigation Plan
- Small Business Task Force
- Southeast Task Force Implementation
- Update City’s 5-Year Economic Sustainability Plan
- Bicycle Master Plan Update
- Public Safety
- Explore options to increase the City’s green space
- Subway Coordination
- Advance Capital Investment in the Community
- Master Plan City Needs at La Cienega Park and Tennis Center Site
- Property Acquisition for parking, open space and other civic uses
- Water Enterprise Plan to ensure continued system reliability
- L.E.D. Streetlight Program

- R-1 Hillside Development Standards
- Reservoir Reconstruction and Water Storage Capacity
- La Cienega Regional Treatment Plant
- Study Options to improve the pedestrian and cyclist experience on South Santa Monica Boulevard
- Coldwater/Cabrillo Reservoirs and Purple Pipe (reclaimed water) distribution

## **Revenues**

Revenue continues to grow for the City. In this current fiscal year, we have seen some periods of reduction or slower growth in transient occupancy tax (TOT), but these were specifically related to hotels performing major renovations which removed rooms from availability. Upon completion of these renovations, we have seen the TOT recover and resume growth. Overall, we are seeing improvement in all major funds except the Water and Storm Water Funds. The Water Fund is burdened with drought-related sales reductions. The Storm Water Fund remains plagued by its classification in State law as a non-utility, without the ability to raise rates except through a citywide vote. Despite this, it is burdened with Federal and State mandates to clean storm water flows before they reach waterways. There appears to be greater movement in Sacramento this year to reclassify storm water utilities similar to water and wastewater utilities, allowing better fiscal management.

For FY 2016/17 General Fund revenues are projected to be \$222.2 million, which amounts to an increase of about 4.1% over the Adopted FY 2015/16 budget. This is largely the result of increases over the FY 2015/16 budget of 9.7% in fees for services, 8.4% in property tax, 4.9% in sales tax, and 3.4% in business tax. Below we address how each revenue is forecast to perform for FY 2016/17.

## **Property Tax**

For secured and unsecured property tax, the 2015 County Assessor's roll provided the City with a 9.1% increase in valuation. Given the increases in property values in the city and the continued construction activity, it is reasonable to project that total property tax revenue will increase by 3.5%, before switching the property tax in lieu of vehicle license fees to the property tax category. Together the revenue for this category is projected to total \$58 million.

## **Sales Tax**

Though we have seen a slowing of the growth of sales tax revenue, we are still seeing growth. Sales tax for FY 2016/17 is projected to be \$34.1 million or 4.9% higher than FY 2015/16 budget. This projection is only about \$100,000 over the projected year-end amount for FY 2015/16. This is due to a one-time payment related to the "wind-down" of the Triple Flip, which will result in the City's receiving about \$2 million in sales tax in lieu revenue for FY 2015/16 that is not ongoing revenue. Sales tax revenue estimates for FY 2016/17 project revenue of \$34.1 million.

## Transient Occupancy Tax (TOT)

Major hospitality consultants forecast that hotel room demand increase will exceed the supply growth in 2016 and 2017. Looking at hospitality forecasts, Smith Travel Research is forecasting that revenue per available room (RevPAR) will increase 5% in 2016 and 4.5% in 2017. PKF Hospitality Research (PKF-HR) forecasts growth in average daily rates (ADR) of 5.5% in 2016 and 5.8% in 2017. Pricewaterhouse Coopers forecasts RevPAR growth of 4.8% for the luxury scale in 2016. This information was weighed against expected construction and traffic impacts over the next year. We conservatively forecast that TOT revenue will be flat next fiscal year compared to the FY 2015/16 budget. In comparison to projected year-end 2015/16 revenue this would be \$1.1 million or 3% increase. We expect TOT to increase significantly when the new Waldorf Astoria Hotel opens in 2017, but have not assumed any of that growth in the FY 2016/17 budget. It is projected that TOT will provide \$39.1 million in revenue in FY 2016/17.

## Business Tax

Business tax revenue will increase by 5.7% in FY 2015/16 to \$45 million. This revenue is substantially dependent on growth of the economy and particularly associated with commercial leasing income in the city. Office vacancy rate for Beverly Hills decreased by 13% between the fourth quarter of 2014 and the fourth quarter of 2015. During this same period, leasing rates for Beverly Hills office space increased by 8.1%. Such indicators would normally result in a robust revenue projection, however, given all of the construction and traffic impacts expected in the city over the next year, we have taken an even more conservative approach to projecting this revenue for FY 2016/17. We project that the business tax will produce about \$45.5 million in revenue for FY 2016/17, an increase of 3.4% over FY 2014/15 budget.

The table below shows the growth that is projected for each General Fund revenue source in FY 2016/17.

### Major General Fund Revenues

Revenue Source	Projected Revenue for FY 2016/17	% Change from FY 2015/16 Adopted
Property Tax *	\$ 58,015,000	16.9%
Sales and Use Tax	34,100,000	4.9%
Transient Occupancy Tax	39,140,000	0.0%
Business Tax	45,500,000	3.4%
Other Revenue *	45,429,576	-5.3%
Total Operating Revenue	222,184,576	4.2%
Transfers In	18,000	-83.0%
Total Inflows	\$ 222,202,576	4.1%

\* Property In-Lieu of Vehicle License Fees is being moved from the Other Revenue category to Property Tax, causing a larger percentage increase in Property Tax and a decrease in Other Revenue.

## **Expenditures**

At the close of fiscal year 2015/16, General Fund expenditures are expected to total \$181.4 million. This is approximately \$3.4 million, or 1.8%, below the funds appropriated by the City Council last June. The FY 2015/16 operating expenditures for all funds are projected to be about \$379.2 million, which represents a savings of \$5 million, or 1.2%, 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 2016/17 provides for expenditures of \$188.2 million, which amounts to an increase of \$3.4 million, or 1.9%, over the FY 2015/16 budget. The operating budget for all funds includes expenditures of \$358.3 million, which represents a decrease of \$25.9 million or 6.7% compared to FY 2015/16 operating expenditures. However, because depreciation is not being budgeted this year, if you removed the depreciation from the FY 2015/16 budget, the operating expenditures budgeted increase by \$1 million or 0.3%. Proposed Capital improvement expenditures for all funds total \$66.2 million, an increase of \$10.7 million over FY 2015/16 and transfers out for all funds total \$14.8 million.

## **InterFund Transfers**

In this proposed budget, the interfund transfers increased by about \$1.4 million due to the new annual transfer of \$1.5 million from the General Fund to pay for use of Water Fund-owned property. Overall, the General Fund will provide net transfers of about \$15.5 million to fund: the payment of \$1.6 million for infrastructure fund debt service; \$7 million for Capital Improvement Program; a \$5.3 million subsidy for the Storm Water Fund; and, the aforementioned \$1.5 million for use of Water Fund property.

Transfers into the General Fund include \$12,000 from Fund 160 (Parks and Recreation Fund) for maintenance of water features in parks, and \$6,000 from Fund 120 (Gas Tax) for City administrative expenses.

## **Budget Enhancements**

This year departments submitted 86 requests for budget enhancements. The amount requested was \$8.9 million. After reviewing the requests I am recommending 69 of them. The recommended enhancements have a total cost for all funds of \$7.6 million and a net cost, after revenue and cost cutting offsets, of \$6 million. 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 2015/16, the Storm Water Fund will require a General Fund subsidy of \$5.3 million. This is down about \$200,000 from last year but is expected to increase in coming years as operations deficits 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 \$7 million to the Infrastructure (Fund 600) and \$3 million to the Capital Assets (Fund 405) from the General Fund and from ISF charges for facility replacement. Proposed Capital Improvement investments this year total over \$66.2 million, versus \$55.4 million in FY 2015/16. Capital initiatives for the coming year include reconstruction of Santa Monica Boulevard, a non-potable water system to irrigate parks, Fiber to the Premises, Police Facility upgrades, and a chlorine injection point into the City’s water system at Greystone. 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.

## **General Fund 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 \$18.5 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 \$3.5 million, leaving available funds of \$15 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. Examples of these include funding Storm Water requirements, sidewalk repairs, and reducing unfunded liabilities. The projected excess of revenue over expenditures 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 that will greatly benefit the City and improve its fiscal position for many years to come.

Respectfully submitted,



Mahdi Aluzri  
City Manager

