CITY OF BEVERLY HILLS
STAFF REPORT

Meeting Date: January 24, 2013

To: Honorable Mayor and City Council

From: Noel Marquis, Acting Director of Administrative Services

Subject: Request for a discussion on how funds in the amount of $10,240,000 from Fiscal Year 2011/2012 revenues in excess of expenditures should be utilized

Attachments Comprehensive Financial Policies

INTRODUCTION

As indicated in the November 20, 2012 City Council study secession the end of fiscal year 2011/2012 resulted in revenues over expenditures in excess of budget in the amount of $10,240,000. It has been the practice when revenues substantially exceed budget expectations for staff to present the City Council with its recommendations on which of the City's liabilities need additional funding or replacement of reduced funding. Additionally, if revenues are significant enough, staff also suggests funding Council priorities, such as land acquisition or other capital projects the Council has shown an interest in. These recommendations are consistent with the City's Fiscal Policies which require one-time revenues be designated as a reserve or used for one-time expenditures. At the November 20, 2012 meeting the City Council requested that staff also provide other options on how such funds could be used and an analysis of the pros and cons for each option.

To that end this report presents City staff suggestions and seeks City Council direction on the use of fiscal year 2011/2012 revenues over expenditures in excess of budget.

DISCUSSION

For fiscal year 2011/2012, which ended June 30, 2012, the City adopted a very conservative budget. Throughout the 2011/2012 fiscal year City revenues continued to improve and at fiscal year closing revenues exceeded budget assumptions by $8.9 million. In addition, continued emphasis on cost containment and under filled or vacant positions provided expenditure savings of $6.0 million, providing $14.9 million in revenues in excess of expenditures. After budgeted operating transfers in and out, which included such items as transfers to the Parking Authority and payment of debt service for Capital projects and the ARMP program, there remains revenues in excess of expenditures that may, if not appropriated add to the general fund balance.

For the current fiscal year, 2012/2013, the City again took a very conservative approach and adopted a budget based on assumptions from fiscal year 2011/2012's original adopted budget, the best available information during this year's budget adoption process.

The fiscal year 2012/2013 budget included one-time measures to address a projected budget gap. These reductions included:

- Reducing General Fund charges from the Equipment Fund for small equipment/furniture replacement by $200,000;
- Reducing General Fund charges from the Information Technology fund for equipment replacements by $200,000;
- Reducing General Fund charges by Fund 48 (PAL Fund) by $860,000;
- Reduce General Fund charges from the Vehicles fund for vehicle replacement by $290,000;
- Reducing the intended General Fund contribution to Capital Improvement Projects by $1.5 million, lowering total contributions to capital projects to $8.5 million;
- Budgeting vacant police officer positions at 50% of full cost.

Original Recommendations:

In the November 20, 2012 staff report it was suggested that the first use of the fiscal year 2011/2012 excess of revenues over expenditures be directed to restore reductions related to funding of equipment, vehicle and technology replacement funds that were included in the onetime reduction part of the adopted budget as follows:

- $200,000 for general office equipment replacement (Fund 40)
- $200,000 for information technology replacement (Fund 41)
- $290,000 for vehicle replacement (Fund 49)
    - Pros:
        - Restores funding to the level necessary to maintain the fund's fiscal health.
        - This is consistent with the City's Fiscal Policies as adopted annually.
        - Assures that internal service funds have the fiscal resources to replace the equipment, vehicle or technology systems they provide.
    - Cons:
        - Uses funds that could be allocated for a different purpose.

The second use of funds is suggested for restoration of full funding for budgeted positions. For the fiscal year 2012/2013 budget 16 public safety positions were funded for only 6 months because of retirements and time lapse for hiring.

- $1,200,000 for restoration of General Fund salaries and benefits partially unfunded for vacant police officer positions
    - Pros:
        - Restores appropriate funding for a number of approved positions.
        - Assures that the funds are available for coverage during the vacancy and that proper amounts are in place for future budget consideration.
        - Eliminates the need for increasing next year's salaries budget.
    - Cons:
        - Uses funds that could be allocated for a different purpose.
        - May result in setting aside funds that will not be used in the budgeted period.

The third use of funds that staff is suggesting would be to fund one time expenditures for Capital, reduction of liabilities or one-time operating needs as follows:

- $100,000 for PAL (Fund 48) for City Visioning and Strategic Plan – community survey
  - Pros:
    - Conforms to fiscal policies in providing one-time funding for one-time needs.
  - Cons:
    - Uses funds that could be allocated for a different purpose.

- $1,000,000 for revised NPDES permit requirements for storm water treatment (Fund 85)
  - Pros:
    - Addresses at least partially additional impact as a result of the recently approved MSA permit.
    - Conforms to fiscal policies in providing one-time funding for one-time needs.
  - Cons:
    - Uses funds that could be allocated for a different purpose.

- $5,000,000 for capital assets or land acquisition (Fund 08), this would provide funding for future City Council directed land acquisition or other capital projects.
  - Pros:
    - Restores the original $10 million contribution to the CIP budget
    - Conforms to fiscal policies in providing one-time funding for one-time needs.
    - Provides resources to City Council to purchase land for parking or open spaces.
  - Cons:
    - Uses funds that could be allocated for a different purpose.

- $1,250,000 for reduction of unfunded OPEB liability (Fund 44)
  - Pros:
    - Conforms to fiscal policies in providing funding to reduce City's unfunded liability.
  - Cons:
    - Uses funds that could be allocated for a different purpose.

And finally to set aside some funding for a rainy day staff is suggesting the following:

- $1,000,000 for Budget Stabilization designation
  - Pros:
    - Conforms to fiscal policies in providing funding to increase City's reserves.
  - Cons:
    - Uses funds that could be allocated for a different purpose.

The above suggestions for use of the fiscal year 2011/2012 revenue in excess of expenditures total $10,240,000.

Other opportunities for possible use of funds:

As the policy setting body of the City the City Council is free to direct the excess funding to other uses. Options discussed at the November 20, 2012 meeting include the following:

School District Funding

Provide additional funding to the School District to help offset some or all of the approximately $3.5m anticipated shortfall for the coming year.

The City Council School District Liaison (Mayor Brien and councilmember Gold) met with the School Board President Jacob Manaster and Vice President Noah Margo on January 11, 2013 to discuss ways for financial support to the School District. The group agreed on a framework for providing the district with one-time funding to help close the budget shortfall. Their recommendation to the City Council is as follows:

1) One million two hundred and fifty thousand ($1.25m) dollars from the City's FY11-12 surplus will be provided to the School district as part of expanded use of district facilities by the City for recreational activities. Details on that will be memorialized through a separate agreement that will be brought forth to the City Council for formal consideration and adoption.
2) One million ($1m) dollars from the City" FY11-12 will be provided to the District as an advance against the School fees that will be collected when the building permits for the project on 9900 Wilshire Boulevard are issued in accordance with the Development agreement between the developer and the City.
3) Six hundred thousand ($600,000) dollars of the $1.2m that is currently set aside in escrow for turf replacement in accordance with the JPA would be released for use by the District in general operations. The second $600,000 will be released when the District working with the Education Foundation is able to raise an equivalent amount in donations. Turf replacement when it becomes necessary can be funded through other sources such as Measure E funding.

The total funding for the above noted framework once the $600,000 fund raising is complete is slightly over $4m. That is expected to be adequate to close the anticipated budget shortfall and provide the District with adequate time to develop permanent measures to address any potential future budget gaps. The School Board is expected to be considering this concept at their January 22, 2013 meeting and an update from that will be provided to the City Council at the meeting.

Other Funding Options

- Delays a 7% water rate increase scheduled for July 1, 2013 for one year and provide the necessary funding, $2.1 million, to the Water Enterprise Fund to offset the loss of the rate increase.
    - Pros:
        - This would provide onetime relief to residents and keep their utility costs stable for an additional year.
    - Cons:
        - There could be unintended consequences of this action. In all likelihood as water costs from MWD continue to increase and as water conservation continues to reduce the amount of water resident's use it is entirely likely that an increase of at least the CPI would be needed in fiscal year 2014. Delaying the 7% increase for

one year, to 2014, could impact residents with a double digit increase at that time.
    - Delaying suggested rate increases beyond this fiscal year would only add to the delay in reaching the Water Enterprise Funds reserve levels approved by the City Council.
    - Both the City's Water Enterprise and Wastewater Enterprise have been given AAA ratings by Standard and Poor's. We are the only City we are aware of that has received AAA ratings on both Water and Wastewater Enterprises. A decision to not implement a rate increase could cause the rating agency to review and reduce our rating.

- Provide additional funding for the law suit against the Metropolitan Transit Authority to prohibit the tunneling under Beverly Hills High School.
  - Pros:
    - This would provide additional resources should they be needed for legal actions related to the City's opposition to alignment under Beverly Hills High School.
  - Cons:
    - The School District is the lead partner in the litigation effort and this may duplicate their efforts.

- Provide additional funding for the City's Centennial celebration.
  - Pros:
    - Certainly a very important City event and opportunity to market the City and increase the number of visitors and shoppers.
  - Cons:
    - There are other resources that are available for this purpose including TOT funds from fiscal year 2011/2012 that are in excess of the budgeted amount and will be presented at a later meeting to the City Council.

- Provide additional funding for maintenance of parking facilities.
  - Pros:
    - This item has been addressed and approved through the Capital Projects and additional funding from the General Fund in the amount of $5,000,000.

- Provide matching funding for the Beverly Gardens Park project.
  - Pros:
    - This could stimulate interest in the project and generate more contributions.
  - Cons:
    - The Recreation and Parks Construction Tax Fund would be a more appropriate funding source for this than the general fund
    - Funding by the City could make potential contributors feel their contribution is not needed if the City intends to fund the project.

FISCAL IMPACT

While each of the alternatives to the original recommendations certainly has appealing possible results, they also have the effect of significantly reducing the fiscal health of the City's General Fund. This is even more significant now as we are at a time when the General Fund is being called upon to make significant contributions to other City operations, including helping to sustain the 2 hour parking program of the Parking Authority and funding the operating and capital needs of the Stormwater Fund.

By using the revenues in excess of expenditures in the manner originally recommended the City; 1) restores reductions to funds designed to provide funding for replacement of City vehicles, equipment and technology, allowing funds to be available when replacement of these items is required without impacts to then current budgets; 2) provides proper budget levels for public safety salaries and benefits avoiding potential conflicts in future budgets as positions are filled; 3) funds one time expenditures for Capital, liability reduction and one time operating needs avoiding impact on future operating budgets, and 4) provides a reasonable safety net for future years where economic conditions make reductions necessary.

RECOMMENDATION

Staff presents the following suggestions as a beginning point to assist with discussions leading up to City Council final direction.

Police Staffing and Hiring incentives **$600,000**
(This amount should fund the anticipated personnel costs and incentives for the remainder of the fiscal year. The City Council endorsed this level of funding at the January 8, 2013 meeting. This line item would be increased to full staffing levels or another $600,000 in fiscal year 13/14.)

Internal Service Funds

IT (fund 41)	**$200,000**
Equipment (fund 40)	**$200,000**
Vehicles (fund 49)	**$290,000**

(These funds were loaned to fund the current fiscal year budget and would impact the preparation of the Fiscal Year 13/14 budget if not repaid at this time.)

City Visioning and Strategic Plan Fund 49 **$50,000**

New Paramedic Ambulance **$300,000**

OPEB Contribution (fund 85) **$1,150,000**
(Continued annual contributions to the unfunded liability for OPEB strengthen the City's credit rating.)

Stormwater Enterprise Fund **$500,000**
(Storm Water and NPDES compliance costs are anticipated to increase by a minimum of $500,000 next year and would reduce available general fund resources next fiscal year if they are not set aside.)

Subway Reserve Funds **$250,000**

School District funding **$1,250,000**
School District Advance **$1,000,000**
(In addition the City will release $600,000 from the turf replacement fund immediately and an additional $600,000 when the School District achieves matching funds.)

Budget Stabilization Fund **$700,000**
(This provides for additional reserve levels to address annual revenue fluctuations.)

Water Rate Subsidies **$0**
(Not recommended to use one time funds for ongoing expenses – would delay 7% increase one year and could subject rate payers to double digit increase the following year. An alternative might be to establish a rate stabilization fund.)

Centennial Funding **$0**
(Use excess TOT funds available from prior year.)

Beverly Gardens Park Matching Funds **$750,000**

Land Acquisition (fund 8) **$3,000,000**
(This is a contribution to the fund balance in fund 8 and would require additional approvals by the City Council in order to authorize expenditures.)

Parking Facilities Maintenance **$0**
(This has already been addressed through the Capital Assets Fund and additional contributions from the General Fund in the Amount of $5,000,000.)

The above are suggested only to provide a starting place for discussion and action by the City Council and total $10,240,000.

Noel Marquis, Acting Director of
Administrative Services
Approved By

Attachment 1

City of Beverly Hills
Financial Policies

Section 1. Financial Reporting Policies

The City's accounting and financial reporting systems will be maintained in general conformance with state and federal laws, generally accepted accounting principles (GAAP), and the Government Finance Officers Association (GFOA). Further, the City will make every attempt to implement all changes to governmental accounting practices at the earliest practicable time.

The City's CAFR will be submitted to the GFOA Certification of Achievement for Excellence in Financial Reporting Program. The financial report should be in conformity with GAAP, demonstrate compliance with finance related legal and contractual provisions, disclose thoroughness and detail sufficiency, and minimize ambiguities and potentials for misleading inference.

The City's CAFR will also be submitted to national repositories identified by the City's bond trust agent as a continuing commitment to disclose thoroughness to enable investors to make informed decisions.

The City's Budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units and as a communications device for all significant budgetary issues, trends, and resource choices.

To provide a reasonable basis for making the Chief Financial Officer's (management's) required representations concerning the finances of the City of Beverly Hills, the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. The Chief Financial Officer is given the responsibility and authority to develop and maintain proper internal controls on all financial aspects of the City and maintain all the books of the City for inspection. Because the cost of internal controls should not significantly outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

The Chief Financial Officer shall evaluate the fiscal impact of proposed changes in all salaries or retirement benefits to be provided to any employee or employee association and present to the City Council.

The Chief Financial Officer shall endeavor to maintain cash reserves sufficient to fully fund the net present value of accruing liabilities including self-insurance provisions, obligations to employees for vested payroll and benefits and similar obligations as they are incurred, and to maintain the highest cedit rating possible for the City.

The Chief Financial Officer shall prepare and present to the City Council interim revenue and expenditure trends to allow evaluation of potential discrepancies from budget assumptions.

The City Council shall avoid committing to new spending for operating or capital improvement purposes until an analysis of all current and future cost implications is completed and presented to it by the Chief Financial Officer.

Section 2. Operating Management Policies

The Chief Financial Officer is primarily responsible for the development, implementation, and evaluation of all financial and human resource management policies and procedures. However, all departments will participate in the responsibility of meeting policy goals, budget goals, and ensuring the long-term financial health of the City. Future work plans, program initiatives, and performance indicators will be developed to reflect current policy directives, projected resources, and future service requirements.

The budget process is intended to weigh all competing requests for City resources within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process will be discouraged.

The City will endeavor to avoid budgetary and accounting procedures that balance the current budget at the expense of future budgets.

Budget development will use strategic multi-year fiscal planning, conservative revenue forecasts, and program-based cost accounting that require every program to be justified annually in terms of meeting intended objectives ("effectiveness criteria"). The process will include a diligent review of programs by staff, the Chief Financial Officer, and City Council.

Utilization of a program budget format will provide a basis for evaluation of service and other impacts of potential increases or decreases in funding.

Revenues will not be dedicated for specific purposes, unless required by law or generally accepted accounting practices (GAAP). All non-restricted revenues will be deposited in the General Fund (or other designated fund as approved by the Chief Financial Officer) and appropriated by the City Council.

Current revenues will fund current expenditures and a diversified and stable revenue system will be developed and maintained to protect programs from short-term fluctuations in any single revenue source.

Current operating expenditures for all fund types will include all allocable overhead operating costs. For the most part, these expenses will be charged to individual budget program elements as internal service fund charges. Included within the allocated service charges to Governmental Fund types will be funding adequate to maintain the approved capital program (unless financed through other debt instruments).

City staff shall strive to identify entrepreneurial solutions to recover costs of operating programs.

The City shall strive to avoid returning to the City Council for new or expanded appropriations. Exceptions may include emergencies, unforeseen impacts, mid-year adjustments or new opportunities.

Addition of personnel will only be requested to meet program initiatives and policy directives: after service needs have been thoroughly examined and it is substantiated that additional staffing will result in increased revenue or enhanced operating efficiencies. To the extent feasible, personnel cost reductions will be achieved through attrition or transfer

All non-enterprise user fees and charges will be examined or adjusted every year and undergo a thorough review to determine the 100% direct and indirect cost of service recovery rate at least every four years. The Council will strive to obtain 100% cost recovery rates, but will reserve the right to recover less as appropriate. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council following public review, each year.

Development impact fees, as permitted by state law, for capital expenses attributable to new development will be reviewed annually to ensure that fees recover 100% of direct and indirect development-related expenses and be approved by City Council. Any unfavorable balances in cost recovery will be brought to the City Council's attention by the Chief Financial Officer and affected Department Head, and evaluated from a departmental, program, and goals perspective.

Capital equipment replacement will be accomplished through a life cycle of funding mechanism and in some instances the use of a "rental" rate structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for operation and replacement of vehicles and other capital equipment (fleet, computers, phones, and copier systems). The City shall endeavor to maintain adequate cash reserves to fund 100% replacement of certain capital equipment. Replacement costs will be based upon equipment lifecycle financial analysis developed by each department and approved by the Chief Financial Officer. Non-capital equipment replacement will be set up in a separate fund and will be accomplished through a life cycle funding mechanism developed by each department and implemented and approved by the Chief Financial Officer.

Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternatives are considered.

Balanced revenue and expenditure forecasts will be prepared by the Chief Financial Officer to examine the City's ability to absorb operating costs due to changes in the economy, service demands, and capital improvements. The forecast will be updated annually and include a four or five-year outlook. The Chief Financial Officer will prepare and present these estimates to the City Council at least once a year.

Alternative means of service delivery will be evaluated by the Chief Financial Officer to ensure that quality services are provided to our citizens at the most competitive and economical cost. Departments, in cooperation with the City Manager and Chief Financial Officer, will identify all activities that could be provided by another source and review options/alternatives to current service delivery. The review of service delivery alternatives and the need for the service will be performed annually or on an "opportunity" basis.

Cash and Investment programs will be maintained in accordance with the Government Code and the adopted investment policy and will ensure that proper controls and safeguards are maintained. City funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order. Pursuant to State law, the City Treasurer and the Chief Financial Officer, at least annually, shall recommend necessary revisions to the City Council of a detailed investment policy. In addition to liquidity requirements, the City Treasurer and Chief Financial Officer will also consider the appropriateness of investment decisions vis-à-vis debt management.

The City, through the Chief Financial Officer and the Administrative Services Department, will follow an aggressive, consistent, but sensitive policy of collecting revenues, with proper internal controls, to meet the needs of the City and follow all applicable state and federal laws.

Section 3. Capital Management Policies

A five-year Capital Improvement Plan (CIP) will be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which results in a capitalized asset and having a useful (depreciable) life of two years or more.

The CIP will attempt to include adequate funding to support repair and replacement of deteriorating infrastructure and avoidance of a significant unfunded liability.

Proposed capital projects will be considered through the City budget development process and reviewed and prioritized by a cross-departmental team regarding accurate costing (design, capital, and operating) as well as the Chief Financial Officer for overall consistency with the City's goals and objectives. The City's Chief Financial Officer will then identify financing sources for the highest-ranking projects. Prior to adoption by the City Council, the CIP will be reviewed by the Planning Commission for conformity with the General Plan.

Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.

Pay-as-you-go Capital Improvement Plan financing should account for a minimum of 50 percent of all capital improvement projects for each five-year planning period. Pay-as-you-go financing is defined as all sources of revenue other than City debt issuance, i.e., fund balance contributions, developer contributions, grants, endowments, etc. Pay-as-you-go financing should generally be considered as the

preferred option. However, the potential for debt issuance that provides additional economic and/or strategic values could be considered as recommended by the Chief Financial Officer.

The City shall endeavor to apply restricted funds (i.e., In-lieu Parking, Gas Tax Funds or existing Bond proceeds) to capital projects before using "unrestricted" funds.

Section 4. Debt Management Policies

The Chief Financial Officer will seek to maintain and, if possible, improve the current bond rating(s) in order to minimize borrowing costs and preserve access to credit.

New debt issues, and refinancing of existing debt, must be analyzed for compatibility within the City's overall financial planning and approved by the Chief Financial Officer. The review shall not be limited to cash flow analysis, potential for unexpected revenue surprises, and the maintenance of the City's bond ratings. Annual debt service shall not produce an inordinate impact upon future operations.

The Chief Financial Officer will ensure that City Debt Service costs within the General Fund should not exceed 15% of the City's operating revenue in order to control fixed costs and ensure expenditure flexibility. Improvement District, Enterprise Fund, Parking Authority and general obligation debt service is not included in this calculation because it is paid by district property owners, service users or taxpayers and is not an obligation of future general fund revenues.

General Obligation debt, which is supported by property tax revenue which grows in proportion to the City's assessed valuation and/or property tax rate increases, may be utilized if/when authorized by voters. Other types of debt (e.g., water, sewer, and parking) may also be utilized when they are supported by dedicated revenue sources (e.g., fees and user charges) and recommended by the Chief Financial Officer.

Debt financing should not exceed the useful life of the infrastructure improvement with the average (weighted) bond maturities at or below thirty years, unless otherwise authorized by Council.

A ratio of current assets to current liabilities of at least 2/1 will be maintained to ensure the City's ability to pay short-term obligations.

Utility rates will be set, at a minimum, to ensure the ratio of revenue to debt service meets our bond indenture requirement (generally a minimum of 125% of debt service). In addition, higher revenue to expense rations may be needed to secure the City's bond rating, as determined by the Chief Financial Officer. When calculating debt services coverage for internal purposes, the minimum pay-as-you-go capital expense for each enterprise fund will be considered a part of the operating costs to be covered by pre-debt service revenues. The City goal will be to maintain the required debt service coverage with this additional cost factored into the equation. Use of a 5-year budget projection, including capital project requirements, will provide assurance that all needs are considered by the Chief Financial Officer, the Public Works Commission and City Council as revenue requirements are considered.

Section 5. Reserve Policies

General Fund

All fund designations and reserves will be evaluated annually by the Chief Financial Officer for long-term adequacy and use requirements in conjunction with development of the City's balanced five year financial plan. In adhering to GAAP, the City follows appropriate Governmental Accounting Standards Board (GASB) Statements, one of which No. 54 (GASB 54) addresses Fund Balance Reporting. Compliance with GASB 54 requires use of the terms below to define various components of fund balance. For future reporting of City reserves these terms shall be used to define what comprises the reserve.

a) **Nonspendable fund balance** (inherently nonspendable) include the :
   - Portion of net resources that cannot be spent because of their form, and
   - Portion of net resources that cannot be spent because they must be maintained intact

b) **Restricted fund balance** (externally enforceable limitations on use) include amounts subject to:
   - Limitations imposed by creditors, grantors, contributors, or laws and regulations of other government
   - Limitations imposed by law through constitutional provision or enabling legislation

c) **Committed fund balance** (self imposed limitation set in place prior to the end of the period):
   - Limitation imposed at the highest level of decision making that requires formal action at the same level to remove. For the City, the City Council is the highest level of decision making.
   - Resources accumulated pursuant to stabilization arrangements would fit in this category only if the arrangement is specific regarding the circumstances when spending would be permitted, and those circumstances would need to be of a non-routine nature.

d) **Assigned fund balance** (limitation resulting from intended use)consists of amounts where the:
   - Intended use is established by the body designated for that purpose (City Council),
   - Intended use is established by official designated for that purpose. For the City, the City Manager is the designated official

e) **Unassigned fund balance** (residual net resources) is the:
   - Total fund balance in the general fund in excess of nonspendable, restricted, committed, and assigned fund balance
   - Excess of nonspendable, restricted, and committed fund balance over total fund balance

It is a goal of the City to obtain and maintain a general operating reserve in the form of cash, of at least 40% of operating revenues. The first 25% shall be considered a contingency reserve to cover normal seasonal cash flow variations, as well as unforeseen emergency or catastrophic impacts upon the City. Funds in excess of 25% may be used for short term economic investment in the community when justified by projected financial return to the City and specifically authorized by the City Council, upon recommendation of the Chief Financial Officer.

In addition to cash specifically maintained in the General Fund, we recognize the following cash reserve resources as being available to meet sudden negative fiscal impacts in the short term:

- Capital Assets Fund (Fund 8)
- Equipment Replacement Fund (Fund 40)
- Information Technology Fund (Fund 41)
- Cable Television Fund (Fund 42)
- Reprographics/Graphics Fund (Fund 43)
- Employee Benefits Fund (Fund 44)
- Liability Self-Insurance Fund (Fund 45) (only in excess of required reserves)
- Worker's Compensation Self-Insurance Fund (Fund 46) (only in excess of required reserves)
- Vehicle Replacement Fund (Fund 49)

One-time revenue windfalls should be designated as a reserve or used for one-time expenditures. The funds are not to be used for on-going operations. To the extent such funds are not required for current expenditures, one-time expenditures and/or capital improvements such funds should be maintained as operating reserves or used to reduce debt.

For purposes of this policy, one-time revenue windfalls shall include:

- Lump sum (net present value) savings from debt restructuring
- CalPERS Rebates
- Tax Revenue growth in excess of 5% in a single year
- Sale of city-owned real estate
- Pure unexpected revenues (i.e. litigation settlement)
- Receipts from approved Development Agreements
- Contributions and Gifts
- Any other revenues the City Council may elect to designate as extraordinary

Sufficient reserves shall be maintained in internal service funds to prevent extended disruption of service in the event of natural disasters or other interruptions of revenue collections. Determination of adequate reserves will be reviewed annually by the Chief Financial Officer and guided by the following:

Self-Insurance Reserves (liability, workers' compensation, other) will be maintained at a level, which, together with purchased insurance policies, will adequately cover the City's property, liability, and health benefit risk. A qualified actuarial firm shall be retained and report on a bi-annual basis recommended appropriate funding levels. The City shall endeavor to maintain reserves equal to 90% of the estimated net present value of such liabilities.

Fleet Management, Building, Equipment and Information Technology reserves will be maintained based upon lifecycle replacement plans to ensure adequate fund balance required for systematic replacement of fleet vehicles, building components and systems, computers and related equipment, and operational

contingencies. Operating departments will be charged over the useful life of the asset used. The City shall endeavor to stabilize funding by building reserves equal to the anticipated replacement cost of each asset class at end of useful life.

Enterprise Fund (Water, Solid Waste, Wastewater, and Stormwater) user fees and charges will be examined annually to ensure that they recover all direct and indirect costs of service, provide for capital improvements and maintenance, and maintain adequate reserves. Secondarily, maintenance of cash reserves will provide a de facto rate stabilization plan. Rate increases shall be approved by the City Council following formal noticing and public hearing. Rate adjustments for enterprise operations will be based on five-year financial plans unless a conscious decision is made to the contrary. The target level of operating cash reserves shall be 50% of gross annual user revenues.

Contingency Reserves, to be determined annually by the Chief Financial Officer, will be maintained to offset unanticipated revenue shortfalls and/or unexpected expenditure increases. Contingency reserves may also be used for unanticipated and/or inadequately budgeted events threatening the public health or safety. Use of contingency funds shall be approved at recommendation of the Chief Financial Officer.

Budget Reserves are presented in the Comprehensive Annual Financial Report (CAFR) in the Financial Statement section designated as unreserved fund balance. The City's CAFR is available on the City's website at www.beverlyhills.org.

Section 6. Audit Policies

An annual audit will be performed by an independent public accounting firm with an audit opinion to be included with the City's published Comprehensive Annual Financial Report (CAFR).

The City Council will maintain a standing committee of its members to serve as the Audit Committee to provide oversight and review of the annual and special audits of the City. The Committee will meet at least twice annually with the City's independent auditor, once for a pre-audit meeting, and once for a review of the final audit results.

Internal audit activities are typically identified as work plan items in the operating budget and are approved by the City Council through the annual budget process. The results of these audits are then presented to the City Council Audit Committee for consideration and later reported to the full City Council for its review and consideration. Should conditions necessitate an urgent internal audit of a particular area not included as a work plan item, the Audit Committee will be advised and the results of the audit will be reviewed with the Committee.