AGENDA REPORT

Meeting Date: June 24, 2014

Item Number: F-1

To: Honorable Mayor and City Council

From: Don Rhoads, Director of Administrative Services/Chief Financial Officer
Don Harrison, Budget and Revenue Officer

Subject: **CITY COUNCIL CONSIDERATION AND ADOPTION OF FY 2014/15 BUDGET**

RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS ADOPTING THE ANNUAL APPROPRIATIONS LIMIT FOR THE FISCAL YEAR 2014/2015; AND,

RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS APPROVING THE OPERATING BUDGET AND FINANCIAL POLICIES FOR THE 2014/2015 FISCAL YEAR AND APPROPRIATING FUNDS THEREFOR; AND

RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS APPROVING THE CAPITAL IMPROVEMENT PROGRAM BUDGET FOR THE 2014/2015 FISCAL YEAR AND APPROPRIATING FUNDS THEREFOR.

Attachments:

1. Resolution Adopting the Annual Appropriations Limit
2. Resolution Adopting the Operating Budget and Financial Policies
3. Resolution Adopting the Capital Improvement Program Budget
4. Planning Commission Resolution No. 1719, without Exhibit A

RECOMMENDATION

It is recommended that the City Council adopt the resolutions approving the Fiscal Year 2014/15 Operating Budget and Financial Policies, Capital Improvement Program Budget, and Annual Appropriations Limit.

INTRODUCTION

The Proposed FY 2014/15 budget was provided to the City Council on April 22, 2014. On May 6, 2014, at the first Budget Study Session, staff presented an overview of the economic conditions impacting the budget, the projected year-end results for FY 2013/14 and the proposed FY 2014/15 budget, this study session was followed by subsequent budget study sessions on May 8, May 13, and May 15. In these four budget study sessions, the City Council reviewed:

- Each City Department's budget and enhancement requests,
- Unfunded pension liabilities and opportunities to reduce such unfunded liability,
- Fiscal considerations of the City's parking operations,
- Fiscal considerations of the City's obligations for management of storm water and the Clean Water Fund,
- The Capital Improvement Program budget,
- Considerations for earmarking surplus FY 2014/15 General Funds, and

REVENUES

Beverly Hills continues to enjoy strong revenues. The City's top four revenue sources (property tax, sales tax, transient occupancy tax, and business tax) represent 76% of General Fund revenue and are projected to end 6.1% higher in FY 2013/14 than at year-end FY 2012/13. For FY 2014/15, these top four revenues are conservatively projected to increase by 2.7% over projected year-end FY 2013/14. The table below provides the projected FY 2013/14 year-end revenue and the projected FY 2014/15 revenue for each of these four revenues and all other General Fund revenue.

Revenue Source	FY 2013/14 Projection	FY 2014/15 Projection	% Change
Property Tax	$45,500,000	$46,865,000	3.0%
Sales Tax	29,000,000	29,580,000	2.0%
Transient Occupancy	34,050,000	35,500,000	4.3%
Business Tax	39,700,000	40,300,000	1.5%
Other Revenue	45,806,085	45,872,904	0.0%
Total Revenue	**194,056,085**	**198,117,904**	**2.1%**
Transfers In	306,000	206,000	-32.7%
Total Resources	**$194,362,085**	**$198,323,904**	**2.0%**

In addition to projected General Fund revenues for FY 2014/15 of $198,117,904; $206,000 in transfers into the General Fund will be available. Total 2014/15 revenue for all funds is projected to be $401,563,745 and total transfers in are budgeted at $9,475,542 (these are detailed on page SUM-21 of the Proposed budget).

BUDGET ENHANCEMENTS

Budget enhancements are proposals to increase funding above the base budget for various reasons including:

- Mandates from other levels of government
- City Council's adopted priorities
- Operational needs identified by departments
- Expansion of service
- Increased service levels
- New programs or tools, equipment and systems

After departments submit these requests for consideration, they are reviewed by the budget team and the City Manager makes his recommendations based on the input and analysis of departments and the budget team. These recommended budget enhancements were presented to the City Council in the Proposed Budget and in Budget Study Sessions. Departments discussed their budget enhancement requests during their presentations on the FY 2014/15 budget.

After reviewing these requests and considering the overall budget, the City Council directed staff that it would approve those enhancements which were fully offset, which are mandated by other levels of government, which are funded by special purpose or enterprise funds and do not require use of General Funds, and which contribute to public health and safety. Of the remaining budget enhancement requests, the City Council directed staff to use 80% of the total cost to fund the highest priority enhancements. Some enhancement requests were presented as two or more sub-requests due to their using two or more funds to cover the cost. Given this, some enhancement requests were partially covered by the City Council's approval due to the nature of the funding. It was determined that the cost of the requested enhancements (or sub requests) covered by the Council approval, totals $7.5 million with a net cost after offsets of $5.2 million. The remaining requests were either fully or partially not within the scope of Council's approval have a total cost of $851,628. Applying the 80% funding for these requests results in the necessity to cut $170,326 from the recommended enhancements. To accomplish this five of the recommended enhancement requests are recommended to be cut entirely or partially for a total savings of $174,888 as follows:

Enhancement	**Original Net Request**	**Reduction**
Visioning and City Strategic Planning	$ 100,000	$100,000
Additional funding for Council Installation	13,000	13,000
Valet and attendant assisted operations	100,000	25,000
Implementation/Support of Asset Management System	200,000	33,334
Comm. Services Publicist Upgrade from PT to Full Time	3,554	3,554
Total	**$ 416,554**	**$ 174,888**

There was also a $12,000 enhancement for the Demonstration Garden at Greystone added at the City Council's direction at its May 15, 2014 budget study session. In summary, the total cost of the enhancements which were approved is $8.1 million, which is offset by $2.3 million for a net cost of $5.8 million. The General Fund portion of the direct cost of these enhancements is $3.42 million with offsets of $1.26 million for net cost of $2.16 million. In addition, the General Fund will receive an additional $0.9 million in internal service fund charges resulting from enhancements in those funds. Nearly $1 million of the General Fund net cost is for one-time rather than recurring cost enhancements.

OPERATING BUDGET

The operating budget is organized by department and broken down into operational programs. The capital improvement budget is summarized by fund and presented with project description, timing of progress, funding source(s), and a five year projected financing and expenditure plan.

With the inclusion of the approved budget enhancements, the Recommended Budget provides for General Fund expenditures of $174.7 million, which is $5.2 million or 3.1% higher than the Adopted FY 2013/14 General Fund budget. In addition, the budget provides for $9.0 million in transfers to other funds, a reduction of $4.9 million compared to the FY 2013/14 budget. For all funds combined, the Recommended Operating Budget provides for expenditures of $368.1 million which is $9.6 million or 2.5% less than the FY 2013/14 Adopted Budget and transfers of $9.5 million which is $5 million less than FY 2013/14.

OPERATING SURPLUS

The Proposed Budget provided for available General Fund surplus funds of about $14.6 million. In its budget study session deliberations, the City Council directed that these funds be used to fund budget enhancements as described above, and the following earmarks:

Reduce pension unfunded liability	$ 2,000,000
Reduce retiree medical (OPEB) unfunded liability	1,000,000
Beverly Gardens matching donation incentive	750,000
La Cienega Park improvements	1,000,000
Property acquisition	1,000,000
Additional ground water well	2,000,000
Subway mitigation /revenue sustainability	100,000
Traffic calming or mitigation	650,000
Undergrounding utilities	500,000
Greystone theatre restoration	500,000
Deposit "rainy day funds" in Budget Stabilization Reserve	2,500,000

These earmarks, totaling $12 million, will increase the FY 2014/15 Capital Improvement Budget by $6.5 million, $3 million will be directed to funding unfunded liabilities, and $2.5 million will be moved to the Budget Stabilization Reserve. The remaining approximately $2.6 million in projected surplus will remain in the General Fund available ending balance.

CAPITAL IMPROVEMENT BUDGET

The City annually prepares a five-year projection of its capital improvement requirements. The Capital Improvement Program (CIP) budget is adopted as a preliminary spending plan, identifying priorities and likely timing of capital expenditures. Review of potential future project costs also allows the City Council to choose between competing priorities within this program budget.

Adoption of the CIP budget allows the City to anticipate future needs for capital funds. This, in turn, allows investigation and discussion of alternate sources of funding for such projects. Such early awareness of pending needs allows the City to better balance its limited funds between longer-term (capital) and short-term (operation) needs, reducing the potential for surprises.

In accordance with Government Code Section 65013, the Planning Commission in its capacity as the Planning Agency reviewed the CIP at its May 8, 2014 meeting, and found it to be consistent with the City's General Plan. A copy of Planning Commission Resolution No. 1719 is included here as Attachment 4. The CIP budget was presented to the City Council at the May 15, 2014 Budget Study Session.

Capital initiatives for the coming year include completion of Phase II of the Citywide sidewalk hazard repair project, Southeast area enhancements including replacement of Robertson Boulevard street trees and installation of irrigation, completion of the design and traffic mitigation program for the reconstruction of North Santa Monica Boulevard, and design and testing for a shallow ground water well.

There also are two corrections necessary to FY 2014/15 funding for the Proposed Capital Improvement Budget. CIP # 0197 Hyperion Plant in Fund 84 should be reduced to $1,541,600 from $1,971,000 and CIP # 0553 Storm Drain Compliance in Fund 85 should increase to $700,000 from $50,000. In addition, out years for the Hyperion Plant are projected to increase by $2.9 million but these amounts are only for planning purposes at this time and do not affect the appropriation amounts.

Also of note is that the Public Works Commission recently recommended that the City invest $5 million towards development of ground water wells in the City. The Recommended Capital Improvement budget includes $4 million for this purpose in FY 2014/15 ($2 million earmarked from surplus) and $500,000 each of the remaining four years for a total of $6 million for this purpose.

With the corrections and the inclusion of the earmarks from the General Fund surplus, the Recommended Capital Improvement Budget provides funding of $52.1 million for FY 2014/15 and a plan for funding of $198.8 million over the five years FY2014/15 – FY 2018/19.

FINANCIAL POLICIES

Financial policies are adopted by the City Council annually and establish the framework for the overall fiscal planning and management of the City of Beverly Hills. These policies guide City staff in the management of the City's finances, as well as provide guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. Adherence to adopted financial policies promotes sound financial management, which helps maintain the City's AAA bond

ratings, provides a lower cost of capital and a minimum of unexpected impacts upon taxpayers and users of public services. The areas covered by these policies are:

- Financial Reporting
- Operating Management
- Capital Management
- Debt Management
- Reserve
- Audit

ANNUAL APPROPRIATIONS LIMIT

Article XIIIB of the California Constitution, commonly known as the Gann Limit, specifies that appropriations from the proceeds of taxes received by governmental entities may increase annually as follows: 1) by the calendar year change in City or County population, and 2) by the fiscal year change in California per capita personal income, or the change in non-residential assessed valuation in Beverly Hills. The City Council is required to adopt the adjustment factors used by recorded vote.

Using information provided by the State's Department of Finance on the change in California per capita personal income with the change in the Los Angeles County population, the City's appropriations limit for the Fiscal Year 2014/15 is $194.8 million, as shown on Schedule B. This represents the upper limit on expenditures from proceeds of taxes, as defined in the California Constitution, and does not include other types of revenue. Therefore, the total appropriation amount for funds that receive tax revenue may be greater than $194.8 million when expenditures funded by other types of non-tax revenue are added.

As shown on Schedule C attached to the Appropriations Limit resolution, the appropriations subject to the limit total $160.5 million. The City is projected to continue to be well below the appropriations limit margin through Fiscal Year 2015/16 by approximately $30.7 million.

FISCAL IMPACT

The Recommended Operating Budget includes expenditures and transfers by fund type as indicated below (in $ million):

Operating Expenditures and Transfers Out By Fund Type

	General Fund	Enterprise Funds	Internal Service Funds	All Other Funds	Total
Operating Expenditures	$174.7	$84.4	$99.9	$9.0	$368.1
Transfers Out	$9.0	$0.1	$0.2	$0.2	$9.5
Total	**$183.7**	**$84.5**	**$100.1**	**$9.2**	**$377.6**

The Recommended FY 2014/15 Capital Improvement Program Budget is $52.1 million. As in the past, each individual CIP project will be brought forward for formal City Council review and approval prior to the award of any bids in excess of Council approved purchasing policies.

The total of Operating and Capital Budgets for all funds for FY 2014/15 including the $6.5 million of CIP earmarks is $429.6 million.

Don Harrison
Budget and Revenue Officer
Budget and Revenue Approval

Don Rhoads,
Chief Financial Officer
Approved By

Attachment 1

RESOLUTION NO. 14-R-

RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS ADOPTING THE ANNUAL APPROPRIATIONS LIMIT FOR THE FISCAL YEAR 2014/2015

WHEREAS, the voters of California on November 6, 1979, added Article XIII B to the State Constitution placing various limitations on the appropriations of the State and local governments; and

WHEREAS, Article XIII B provides that the appropriations limit for the Fiscal Year 2014/2015 shall not exceed the appropriations limit for the prior year adjusted for the change in the cost of living and the change in population; and

WHEREAS, "change in the cost of living" is defined as either (A) the percentage change in California per capita personal income from the preceding year, or (B) the percentage change in the local assessment roll from the preceding year due to the addition of local nonresidential new construction; and

WHEREAS, "change in population" is defined as either the change in the City or County population; and

WHEREAS, each entity of local government shall annually select its change in the cost of living and change in population by a recorded vote of the governing body; and

WHEREAS, the information necessary for making these adjustments is attached in Schedules A, B and C.

NOW, THEREFORE, the City Council of the City of Beverly Hills does resolve as follows:

Section 1. The "change in the cost of living" for Fiscal Year 2014/2015 shall be the percentage change in California per capita personal income from the preceding year. The "change in population" shall be the County of Los Angeles population change over the prior year. The City Council reserves the right to recalculate and adopt new limitations on a future date.

Section 2. The appropriations subject to limitation in Fiscal Year 2014/2015 for the City of Beverly Hills shall be $194,780,173.

Section 3. The Mayor shall sign this Resolution and the City Clerk shall certify and attest to the passage and adoption of this Resolution, and thereupon the same shall take effect and be enforced.

Section 4. The City Clerk shall certify to the adoption of this resolution and shall cause this resolution and his certification to be entered in the Book of Resolutions of the Council of this City.

ADOPTED:

LILI BOSSE
Mayor of the City of
Beverly Hills, California

ATTEST:

_____ (SEAL)
BYRON POPE
City Clerk

APPROVED AS TO FORM:

LAURENCE S. WIENER
City Attorney

APPROVED AS TO CONTENT:

_____
JEFFREY C. KOLIN
City Manager

DON RHØADS
Chief Financial Officer

SCHEDULE A

CITY OF BEVERLY HILLS
APPROPRIATIONS SUBJECT TO LIMIT
BASE YEAR 1978-79

FUND NO.	1978/79 APPROPRIATIONS	APPROPRIATED TRANSFERS OR RESERVES	DEDUCT ENTERPRISE & REVOLVING	DEDUCT DEBT SERVICE	DEDUCT UNQUALIFIED TRANSFERS	DEDUCT REAPPROPRIATIONS FROM 1977-78	ADJUSTED TOTAL
01	$ 22,393,762	$ 1,456,000	$ -	$ -	$ (3,127,000)	$ (147,076)	$ 20,575,686
02	765,329	-	-	-		(448,182)	317,147
03	138,776	-	-	-		(41,642)	97,134
04	1,950,000	-	-	-	(1,950,000)	-	-
06	31,154	-	-	-	-	(31,154)	-
07	629,302	-	-	-	-	(418,432)	210,870
08	8,170,335	3,040,205	-		-	(3,194,115)	8,016,425
09	36,085	-	-		-	(10,500)	25,585
10	48,881	-	-		-	(42,055)	6,826
11	87,737	-	-		-	(2,637)	85,100
12	38,000	-	-		-	(38,000)	-
14	30,675	-	-	(30,675)	-	-	-
15	949,000	-	-		-	-	949,000
17	7,383	-	-		-	-	7,383
19	116,044	-	-		-	-	116,044
24	196,325	-	-	(196,325)	-	-	-
26	93,400	-	-	(93,400)	-	-	-
27	63,875	-	-	(63,875)	-	-	-
34	137,668	-	-	-	-	(133,710)	3,958
40	731,228	-	(731,228)	-	-	-	-
43	213,333	-	(213,333)	-	-	-	-
45	720,000	-	(720,000)	-	-	-	-
46	457,000	-	(457,000)	-	-	-	-
50	17,000	-	-	-	-	-	17,000
67	680,117	-	-	-	-	(480,117)	200,000
70	5,000	-	-	-	-	-	5,000
80	7,106,161	-	(7,106,161)	-	-	-	-
81	2,144,496	-	(2,144,496)	-	-	-	-
82	8,572,676		(8,572,676)	-	-	-	-
83	400,375	-	(400,375)	-	-	-	-
84	837,846	-	(837,846)	-	-	-	-
	$ 57,768,963	$ 4,496,205	$ (21,183,115)	$ (384,275)	$ (5,077,000)	$ (4,987,620)	$ 30,633,158

REFERENCE: **78-79 JV 1225** **78-79 JV 215**

CITY OF BEVERLY HILLS
APPROPRIATIONS LIMIT
AS DEFINED IN ARTICLE XIII B
OF THE CALIFORNIA CONSTITUTION

FISCAL YEAR	CPI/PER CAPITA INCOME CHANGE OR NON-RESIDENTIAL ASSESSED VALUE	POPULATION CHANGE - CITY OR LOS ANGELES COUNTY	ADJUSTMENT FACTOR	APPROPRIATIONS LIMIT
1978/79	N/A	N/A	N/A	$ 30,629,160
1979/80	10.170%	0.000%	1.10170	33,744,146
1980/81	12.110%	0.000%	1.12110	37,830,562
1981/82	9.120%	0.000%	1.09120	41,280,709
1982/83	6.790%	0.049%	1.06842	44,105,270
1983/84	2.350%	1.600%	1.03988	45,864,012
1984/85	4.740%	1.190%	1.05986	48,609,618
1985/86	3.740%	-0.290%	1.03439	50,281,377
1986/87	2.300%	1.180%	1.03507	52,044,816
1987/88	3.040%	0.043%	1.03084	53,650,038
1988/89	3.930%	1.120%	1.05094	56,382,979
1989/90	4.980%	-0.108%	1.04867	59,126,925
1990/91	4.210%	0.002%	1.04212	61,617,401
1991/92	4.140%	1.730%	1.05942	65,278,474
1992/93	19.950%	1.490%	1.21737	79,468,223
1993/94	3.060%	0.960%	1.04049	82,686,190
			Adjustment for Refuse Charges	**(2,000,000)**
1993/94 Revised Appropriations Limit				80,686,190
1994/95	0.710%	0.780%	1.01496	81,892,882
1995/96	4.720%	1.000%	1.05767	86,615,809
1996/97	4.670%	1.580%	1.06324	92,093,207
1997/98	4.670%	1.240%	1.05968	97,589,245
1998/99	4.150%	1.390%	1.05598	103,051,983
1999/00	4.530%	1.670%	1.06276	109,519,166
2000/01	4.910%	2.030%	1.07040	117,228,957
2001/02	7.820%	1.930%	1.09901	128,835,710
2002/03	-1.270%	1.450%	1.00162	129,043,889
2003/04	2.310%	1.480%	1.03824	133,978,770
2004/05	3.280%	1.380%	1.04705	140,282,825
2005/06	5.260%	0.710%	1.06007	148,710,099
2006/07	3.960%	0.170%	1.04137	154,861,838
2007/08	4.420%	0.720%	1.05172	162,871,019
2008/09	4.290%	0.860%	1.05187	171,318,966
2009/10	0.620%	0.880%	1.01505	173,898,098
2010/11	-2.540%	0.750%	0.98191	170,752,195
2011/12	2.510%	0.380%	1.02900	175,703,219
2012/13	3.770%	0.380%	1.04164	183,020,074
2013/14	5.120%	0.690%	1.05845	193,718,198
2014/15	-0.230%	0.780%	1.00548	194,780,173
2014/15				**$ 194,780,173**

SCHEDULE C

CITY OF BEVERLY HILLS
ARTICLE XIIIB APPROPRIATIONS LIMIT

TYPE OF TAXES	FY 2013/14 PROJECTED	FY 2014/15 PROPOSED BUDGET	FY 2015/16 PROJECTED
GENERAL FUND			
Property Taxes	$ 45,500,000	$ 46,865,000	$ 48,739,600
Sales Tax	29,000,000	29,580,000	31,147,700
Transient Occupancy Tax	34,050,000	35,500,000	36,920,000
Business Tax	39,700,000	40,300,000	42,435,900
Other Taxes	1,200,000	1,140,000	1,162,800
Subventions/Grants	4,929,956	3,999,000	4,143,000
Interest Earnings	634,438	646,784	811,475
Total General Fund Taxes	155,014,394	158,030,784	165,360,475
OTHER FUND TAXES			
Park & Rec Construction Tax	2,174,800	2,470,000	2,568,800
Park & Rec Tax Interest Earnings	8,938	10,151	10,557
Total Other Funds Taxes	2,183,738	2,480,151	2,579,357
TAXES SUBJECT TO LIMIT	157,198,132	160,510,934	167,939,831
GANN LIMIT PER SCHEDULE B (FUTURE + 2.0%)	193,718,198	194,780,173	198,675,776
(SHORT LIMIT)/OVER LIMIT	**$ (36,520,066)**	**$ (34,269,238)**	**$ (30,735,945)**

Attachment 2

RESOLUTION NO. 14-R-

RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS APPROVING THE OPERATING BUDGET AND FINANCIAL POLICIES FOR THE 2014/2015 FISCAL YEAR AND APPROPRIATING FUNDS THEREFOR

The Council of the City of Beverly Hills does resolve as follows:

Section 1. That certain document entitled "City of Beverly Hills 2014/2015 Fiscal Year Budget", a copy of which is on file in the office of the City Clerk and the Beverly Hills Public Library, which may hereafter be amended by the Council, is hereby approved as the operating budget for the City of Beverly Hills for the Fiscal Year 2014/2015, beginning July 1, 2014.

Section 2. Appropriations in the amount not to exceed $377,547,353.00 are authorized for the purpose of carrying on the business of the City.

Section 3. In adopting the Budget, the City Council hereby gives authority to the City Manager, upon recommendation of the Chief Financial Officer, to re-appropriate all unencumbered Fiscal Year 2013/14 appropriated fund balances and unexpended encumbrances of the Fiscal Year 2013/14 Operating and Capital Improvement Program Budgets.

Section 4. The City Manager, or his designee, upon recommendation of the Chief Financial Officer, may transfer appropriations between and among all funds, as defined in the Fiscal Year 2014/15 budget, up to the amount of $377,547,353.00. A semi-annual report shall be made to the Council describing each transfer between funds and the reason therefore.

Section 5. The Chief Financial Officer may make budget adjustments to accounts within the same fund, provided that the fund is within its approved budget.

Section 6. The City Manager may transfer and appropriate up to $300,000 during the Fiscal Year and the Chief Financial Officer may transfer and appropriate up to $100,000 during the Fiscal Year from all fund balances to any accounts within that fund as long as it meets the purposes of that fund's designation. An annual report shall be made to the Council describing each transfer and the reason therefore.

Section 7. Pursuant to the provisions of Section 37208 of the Government Code, the Council ratifies the prior payment of budgeted demands from those funds which have been certified or approved by the Chief Financial Officer and may appropriate funds for non-budgeted items, and any such appropriation for a non-budgeted item shall constitute an approval to issue a warrant in payment of a proper demand or demands therefore.

Section 8. The City Council hereby adopts the Comprehensive Financial Policies of the City for Fiscal Year 2014/15, as attached to this resolution.

Section 9. In the case of fee-based programs, if the revenues for such programs exceed the amount budgeted, the City Council hereby authorizes the Chief Financial Officer to increase the appropriation of said program in the same amount of the increased revenue.

Section 10. The Chief Financial Officer is authorized to make such other revisions including individual line-item appropriations, changes in summaries, fund totals, grand totals, and other portions of the budget document as necessary to reflect and implement the programs specified in this resolution, and in full accordance with the direction provided by the Council up until the adoption of this resolution.

Section 11. The City Clerk shall certify to the adoption of this resolution and shall cause this resolution and his certification to be entered in the Book of Resolutions of the City Council of this City.

Adopted:

_____
LILI BOSSE
Mayor of the City of Beverly Hills, California

ATTEST:

_____ (SEAL)

BYRON POPE
City Clerk

APPROVED AS TO FORM:

LAURENCE S. WIENER
City Attorney

APPROVED AS TO CONTENT:

JEFFREY C. KOLIN
City Manager

DON RHOADS
Chief Financial Officer

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 credit 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% of operating revenues shall be considered a contingency reserve to cover normal seasonal cash flow variations, as well as unforeseen emergency or catastrophic impacts upon the City. Reserve funds in excess of 25% of operating revenues 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:

- Equipment Replacement Fund (Fund 400)
- Capital Assets Fund (Fund 405)
- Information Technology Fund (Fund 410)

- Cable Television Fund (Fund 420)
- Reprographics/Graphics Fund (Fund 430)
- Employee Benefits Fund (Fund 440)
- Liability Self-Insurance Fund (Fund 450) (only in excess of required reserves)
- Worker's Compensation Self-Insurance Fund (Fund 460) (only in excess of required reserves)
- Vehicle Replacement Fund (Fund 490)

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, Parking Operations, Solid Waste, Wastewater, and Clean Water) 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.

Attachment 3

RESOLUTION NO. 14-R-

RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS APPROVING THE CAPITAL IMPROVEMENT PROGRAM BUDGET FOR THE 2014/2015 FISCAL YEAR AND APPROPRIATING FUNDS THEREFOR

The Council of the City of Beverly Hills does resolve as follows:

Section 1. That certain document entitled "City of Beverly Hills 2014/15 Fiscal Year Capital Improvement Budget," a copy of which is on file in the office of the City Clerk and the Beverly Hills Public Library, which may hereafter be amended by the Council, is hereby approved as the Capital Improvement Program budget for the City of Beverly Hills for the Fiscal Year 2014/2015, beginning July 1, 2014.

Section 2. Appropriations in the amount not to exceed $52,129,411 are authorized in the City's various funds that have capital programs for the purpose of carrying on the Capital Improvement Program of the City.

Section 3. In adopting the Budget, the City Council hereby gives authority to the City Manager, upon recommendation of the Chief Financial Officer, to re-appropriate all Capital Improvement Program unencumbered Fiscal Year 2013/14 appropriated fund balances and unexpended encumbrances of the Fiscal Year 2013/14 Capital Improvement Program.

Section 4. The City Manager or his designee, upon recommendation of the Chief Financial Officer, may transfer appropriations between and among all funds, as defined in the Fiscal Year 2014/15 Capital Improvement Program. A semi-annual report shall be made to the Council describing each transfer and the reason therefore.

Section 5. The Chief Financial Officer may make budget adjustments to accounts within the same project and/or fund, provided that the fund is within its approved budget. Any transfer between projects within different funds must also be authorized by the City Manager.

Section 6. The City Manager may transfer and appropriate up to $300,000 during the Fiscal Year and the Chief Financial Officer may transfer and appropriate up to $100,000 during the Fiscal Year from all fund balances to any accounts within that fund as long as it meets the purposes of that fund's designation. A semi-annual report shall be made to the Council describing each transfer and the reason therefore.

Section 7. Pursuant to the provisions of Section 37208 of the Government Code, the Council ratifies the prior payment of budgeted demands from those funds which have been certified or approved by the Chief Financial Officer and may appropriate funds for non-budgeted items, and any such appropriation for a non-budgeted item shall constitute an

approval to issue a warrant in payment of a proper demand or demands therefore.

Section 8. The Chief Financial Officer is authorized to make such other revisions including individual line-item appropriations, changes in summaries, fund totals, grand totals, and other portions of the budget document as necessary to reflect and implement the programs specified in this resolution, and in full accordance with the direction provided by the Council up until the adoption of this resolution.

Section 9. The City Clerk shall certify to the adoption of this resolution and shall cause this resolution and his certification to be entered in the Book of Resolutions of the City Council of this City.

Adopted:

LILI BOSSE
Mayor of the City of Beverly Hills, California

ATTEST:

(SEAL)

BYRON POPE
City Clerk

APPROVED AS TO FORM:

LAURENCE S. WIENER
City Attorney

APPROVED AS TO CONTENT:

JEFFREY C. KOLIN
City Manager

DON RHOADS
Chief Financial Officer

Attachment 4

RESOLUTION NO. 1719

A RESOLUTION OF THE PLANNING COMMISSION OF THE CITY OF BEVERLY HILLS REPORTING TO THE CITY COUNCIL ON THE CONSISTENCY OF THE PROPOSED 2014/15 CAPITAL IMPROVEMENT PROGRAM WITH THE GENERAL PLAN

The Planning Commission of the City of Beverly Hills hereby resolves as follows:

Section 1. California Government Code Section 65103 (c) requires the planning agency of each city and county to annually review the capital improvement program (hereinafter, "CIP"). Beverly Hills Municipal Code Section 10-1-102 assigns the planning agency function of the CIP annual review to the Planning Commission.

Section 2. On May 8, 2014, the Planning Commission, in its capacity as the Planning Agency, reviewed the City's Capital Improvement Program prepared for Fiscal Year 2014-2015 and covering the five-year period from Fiscal Year 2014-2015 through 2018-2019. The CIP overall advances the goals and objectives of the General Plan, and presents no impediments to achieving the goals and objectives of the General Plan. Additionally, each project in the CIP will be individually evaluated for consistency with the General Plan prior to commencement.

Section 3. The 2014-15 CIP is consistent with the goals, objectives, principles, and standards of the General Plan. The General Plan includes Implementation Program 3.1 "Capital Improvement Program" which calls for the annual budgeting for the provision of services to residents and businesses. These services include improvements to arterial highways, streets, storm drains, parks, water and wastewater systems, and planning programs as well as the

development, maintenance, and operation of public facilities. This program also calls for an annual update of the CIP to outline programming of City capital projects and their funding over time.

Section 4. Based on the foregoing, the Planning Commission hereby finds that the Capital Improvement Program for Fiscal Year 2014-2015 is consistent with the City's General Plan.

Section 5. The Secretary shall forward this Resolution to the City Council for its consideration together with the 2014/15 Capital Improvement Program.

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Section 6. The Secretary shall certify to the adoption of this Resolution, and shall cause this Resolution and his certification to be entered in the Book of Resolutions of the Planning Commission of the City.

Adopted: May 8, 2014

Brian Rosenstein
Chair of the Planning Commission of the
City of Beverly Hills, California

ATTEST:

Secretary

Approved as to form:

David M. Snow
Assistant City Attorney

Approved as to content:

Jonathan Lait, AICP
City Planner

T.T.

Exhibit A – 2014/15 – 2018/19 Capital Improvement Program Summary

STATE OF CALIFORNIA)

COUNTY OF LOS ANGELES) SS.

CITY OF BEVERLY HILLS)

I, JONATHAN LAIT, Secretary of the Planning Commission and City Planner of the City of Beverly Hills, California, do hereby certify that the foregoing is a true and correct copy of Resolution No. 1719 duly passed, approved and adopted by the Planning Commission of said City at a meeting of said Commission on May 8, 2014, and thereafter duly signed by the Secretary of the Planning Commission, as indicated; and that the Planning Commission of the City consists of five (5) members and said Resolution was passed by the following vote of said Commission, to wit:

AYES: Commissioners Shooshani, Block, Corman, Chair Rosenstein.

NOES: None.

ABSTAIN: None.

ABSENT: Vice Chair Fisher.

for

JONATHAN LAIT, AICP
Secretary of the Planning Commission /
City Planner
City of Beverly Hills, California