

CITY OF MANHATTAN BEACH FINANCIAL POLICIES



Adopted by City Council on June 6, 2023

STATEMENT OF PURPOSE

The financial integrity of our City government is of utmost importance. To discuss, write, and adopt a set of financial policies is a key element to maintaining this integrity. Our City has developed a variety of financial policies that can be found on the City's website (www.manhattanbeach.gov). The set of policies within this document, adopted concurrently each year with our budget, serves as a central reference point of the most important of our policies, which are critical to the continued financial health of our local government.

Written, adopted financial policies have many benefits, such as assisting the elected officials and staff in the financial management of the City, saving time and effort when discussing financial matters, facilitating financial transparency, and providing continuity over time as elected officials and staff members change. While these policies will be amended periodically, they will provide the foundation and framework for many of the issues and decisions facing the City. They will promote sound financial management and assist in the City's fiscal stability, efficiency and effectiveness.

The Financial Policies are divided into nine general categories for ease of reference. These categories include:

1. General Policies;
2. Accounting, Auditing, and Financial Reporting Policies;
3. Fund Balance Policies;
4. Debt Policies;
5. Revenue Policies;
6. Capital Improvement Policies;
7. Capitalization & Depreciation Policies;
8. Cash Management & Investment Policies; and
9. Operating Budget Policies.

The Financial Policies also reference the following City Policies, which are also available on the City's website at www.ManhattanBeach.gov/FinancialPolicies:

- o Budget Policy
- o Debt Management and Disclosure Policy
- o Investment Policy
- o Pension Policy

1 - GENERAL POLICIES

The City will:

- o manage its financial assets in a sound and prudent manner;
- o maintain and further develop programs to ensure its long-term ability to pay all costs necessary to provide the level and quality of service required by its citizens;
- o implement performance measurements as part of an ongoing effort to ensure high-quality and efficient services;
- o establish and maintain appropriate cash reserves;
- o establish and maintain investment policies that are in accordance with State laws; and
- o maintain long-term fiscal sustainability through conservative forecasting and proactive efforts to achieve structurally balanced operating budgets where recurring revenues equal or exceed recurring expenditures.

2 - ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES

FINANCIAL INFORMATION

It is the policy of the City of Manhattan Beach to provide all financial information in a thorough and timely fashion, and in a format that is easy for City Council, residents, and staff to understand and utilize.

ACCOUNTING STANDARDS

The City's accounting of financial systems shall be maintained in accordance with Generally Accepted Accounting Principles (GAAP), standards of the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA).

ANNUAL AUDIT

An independent public accounting firm will perform an annual audit and its opinions will be included in the Annual Comprehensive Financial Report.

The independent audit firm will be reviewed and selected at least once every five years. The contract will be for a period of no more than five years. The Finance Subcommittee, City Manager and Finance Director will review the qualifications of prospective firms and make a recommendation to the City Council. The audit contract will be awarded by the City Council.

An Annual Comprehensive Financial Report shall be prepared within six months of the close of the previous fiscal year. It will be reviewed with the Finance Subcommittee, and presented to the City Council and community at a public meeting no later than February 1 of the following year.

It is the City's goal to maintain accounting records, processes and procedures in such a manner as to receive an unmodified audit opinion and to maintain a Certificate of Achievement for Excellence in Financial Reporting from the GFOA.

3 - FUND BALANCE POLICIES

The City utilizes a variety of accounting funds for recording revenues and expenditures. Fund balance is defined as the difference between the assets and liabilities within a fund. At each fiscal year-end, budgeted/appropriated expenditure authority lapses with the exception of capital project spending, and operating expenses that have been incurred but not paid (encumbered). The remaining dollars left in each fund that are Unassigned constitute available funds of the City. The Unassigned fund balance shall include the City's Financial Policy components. The City Council authorizes the City Manager or Director of Finance to make assignment of funds. Where City Council has not established a formal policy, the Governmental Accounting Standards Board Statement 54 will be operative.

GENERAL FUND

The General Fund Unassigned Fund Balance will be maintained in an amount equal to at least 20 percent of the annual General Fund expenditure budget. These funds are designed to be used in the event of significant financial emergency.

City Council may, at its discretion, set aside additional policy reserve funds above the 20% minimum. The City currently has funds set aside in an Economic Uncertainty reserve to be used at City Council's discretion.

Additional amounts may be allocated for specific purposes, such as capital projects or known significant future cost items. Any residual balance from these commitments shall be returned to the General Fund Unassigned Fund Balance for general operational working capital uses.

ENTERPRISE FUNDS

The City's Enterprise Funds (Water, Stormwater, Wastewater, Parking, County Parking Lots, and Pier) will maintain reserves equal to four months or 33% of operating expenses. If reserves in any Enterprise Fund are anticipated to be less than this policy, then it shall be noted in the City's Budget document and a plan will be developed by Finance staff to address the reserve level.

FLEET MANAGEMENT FUND

Using the Fleet Management Fund, the City will annually budget sufficient funds to provide for the orderly maintenance, repair and replacement of the City's vehicles. This Fund is supported by charges to user departments, which are adjusted annually, based on the department's proportionate share of estimated fleet management expenses. Sufficient working capital will be maintained in the fund to provide for the scheduled replacement of fleet vehicles at the end of their useful lives.

INFORMATION TECHNOLOGY FUND

Using the Information Technology Fund, the City will annually budget sufficient funds to provide for the orderly maintenance, repair and replacement of the City's technology infrastructure. This Fund is supported by charges to user departments, which are adjusted annually, based on departments' proportionate share of estimated expenses. Such share may be determined based upon the departments' number of devices supported by the Information Technology Department. Sufficient reserves will be maintained in the Fund for department operations and equipment replacements as appropriate.

INSURANCE RESERVE FUND

The City maintains a self-insurance fund for property, liability, and workers' compensation expenses. This fund pays insurance premiums, benefit and settlement payments up to the Self-Insured Retention (SIR), and administrative and operating expenses. The Insurance Reserve Fund is supported by charges to other City funds for the services it provides. These annual charges for service shall be established to approximately equal the annual expenses of the fund, plus any additional charges to maintain reserves.

Reserves shall be maintained for current and long-term general liability and workers' compensation liability. Current liability is determined monthly by analyzing the current case reserves and determining the amount the City is liable for up to the SIR. The long-term liability reserves shall be at minimum 50% of the Incurred But Not Reported (IBNR) as determined by a biennial actuarial report. If the reserves fall below policy, then Finance staff will develop a long-term plan to raise reserves up to the policy.

TRUST AND AGENCY FUNDS

The City maintains funds on a trustee basis for a number of purposes. These funds shall be segregated from the City's general funds.

- Other Post-Employment Benefits (OPEB): This account was established to track payments for post-employment benefits. The City has a retiree medical program that pays a portion of the employee's medical costs if certain criteria are met. Additionally, the City also

funds ongoing PEMHCA contributions. These OPEB benefits are reimbursed with funds held by the California Employees' Retirement Benefit Trust (CERBT) administered by CalPERS.

- Section 115 Pension Trust: The purpose of this account is to track the funds deposited in the City's Section 115 pension trust. This trust is used to set aside monies to meet future pension contributions or liabilities.

Utility Underground Assessment District (UUAD) Projects: When a UUAD is formed, the City establishes an account to track the bond proceeds and expenditures for each project. Additionally, revenues from direct assessments are deposited into these accounts and later used to pay debt service payments on bonds as well as other administrative fees.

4 - DEBT POLICIES

ISSUANCE OF DEBT

The City will not use long-term debt to pay for current operations. A Debt Management and Disclosure Policy was adopted by the City Council on January 16, 2018, to establish guidelines and parameters for the effective governance, management and administration of debt.

The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements. The term of the debt shall not extend beyond the useful life of the improvements to be financed.

The use of pension obligation bonds (POBs) may be used to extinguish accrued actuarial pension liabilities if market conditions prove the debt issuance to be advantageous to the City's long-term fiscal sustainability. Issuance of POBs and payments will be in accordance with the Unfunded Pension Liability Policy adopted by the City Council on March 2, 2021, to provide guidance on the development and adoption of funding plans for the City's defined benefit pension plans.

CREDIT RATING

It is the City's goal to maintain our AAA credit rating from one or more rating agencies. The factors that contribute to our high rating include the City's strong financial management, low debt levels, budgetary and fiscal controls, and accountability. To support this policy, the City will continue to maintain its position of full financial disclosure and proactive fiscal planning.

LEASE-PURCHASE

The City may lease-purchase equipment if necessary because of funding availability, or if lease rates are more favorable than the rate attained from investment return. Equipment may also be leased if the lease terms compare favorably when reviewing the total life cycle cost of the equipment. In no case shall the City lease-purchase equipment with a useful life less than the term of the lease.

5 - REVENUE POLICIES

GENERAL FUND REVENUE

The City will strive to develop and maintain diversified and reliable revenue streams to avoid becoming overly dependent on any single type of revenue. Efforts will be directed to optimize existing revenue sources while periodically reviewing potential new revenue sources.

Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the State, other governmental agencies or reliable economic forecasters when available.

If revenues from "one-time" or limited duration sources are used to balance the City's annual operating budget, it is to be fully disclosed and explained at the time the budget is presented. It is the City's goal to not rely on these types of revenues to balance the operating budget.

The City will pursue revenue collection and auditing to assure that moneys due the City are accurately received in a timely manner.

The City will seek reimbursement for State and Federal mandated costs whenever possible.

GRANTS

The City shall actively pursue Federal, State and other grant opportunities when deemed appropriate. Before accepting any grant, the City shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.

ENTERPRISE FUND CHARGES

The City will set user fees for each enterprise fund at a rate that fully covers direct and indirect costs of providing the service, as well as planned capital improvements.

PARKS AND RECREATION FEES

All Parks and Recreation department expenses and revenues will flow through the General Fund (except those transactions related to Proposition "A" transit funds). The goal of the Parks and Recreation Department shall be to generate General Fund revenue equal to at least 35 percent of the total General Fund expenditures of the department.

Recreation fees for such activities as classes and room rentals shall be established and reviewed periodically. The purpose of these fees is to recover the direct cost of the program, and to generate additional revenues to support the overall operation of the Parks and Recreation department and programs. As appropriate within the marketing of the recreation programs, higher non-resident fees are charged, as well as priority registration procedures for Manhattan Beach residents.

COST RECOVERY FEES

A user fee is a cost recovery charge for a service provided by a governmental agency to a public citizen or group. In accordance with State laws and government codes, such fees will recover the cost of providing the service, including all direct and indirect costs, administrative overhead, depreciation, etc.

The City conducts a user fee study and comprehensive cost allocation plan (CAP) to determine reasonable amounts to charge. The fees are reviewed periodically, but not less than every four years, to ensure that full cost recovery levels are identified and aligned with current salary and benefit rates as approved in employee labor group agreements. By policy, City Council may direct certain fees to be lowered for particular purposes. Waivers of user fees will be presented for City Council approval as appropriate.

The CAP study also determines appropriate administrative charge-outs for the support each fund receives from other funds. Additionally, engineering support is charged out directly by determining the amount of time each engineer works on a specific project or program.

Fees such as parking meter rates, fines, facility rentals, recreation class fees, etc. are based upon market conditions and are not subject to the limitations of cost recovery. These fees may be adjusted periodically by the City Council.

6 - CAPITAL IMPROVEMENT POLICIES

DEDICATED CIP FUNDING SOURCES

Most of the City's infrastructure has a designated revenue source to pay for its upgrade or replacement as appropriate. For example, water/wastewater rates fund utility infrastructure needs; gas tax revenues fund street needs; and storm drainage needs are paid for with related fees and assessments. However, our public buildings and our park system are the primary beneficiaries of the City's Capital Improvement Fund (CIP). Specific revenue sources have been designated to provide permanent funding in support of general operational infrastructure. In particular, the City has dedicated:

- 15% of the base (10%) hotel, motel and short-term rental transient occupancy tax;
- Fifty cents of the per hour charge for all on-street City parking meter collections; and
- \$4 of each parking citation (with the exception of expired meter citations).

Transfers into the CIP Fund will be processed by the Finance Department on a monthly basis and recorded as such in the annual adopted budget.

FIVE YEAR CAPITAL IMPROVEMENT PROGRAM (CIP)

The City shall annually prepare a capital improvement spending program that projects capital needs for a five-year period. This CIP shall address all of the City's funds.

The first year of the Five Year CIP will be consistent with, and adopted as a component of, the annual operating budget.

In the development of the Capital Improvement Program, operating costs associated with capital projects will be estimated and considered in conjunction with the CIP and operating budget as appropriate.

ENTERPRISE FUND CAPITAL IMPROVEMENTS

Capital Improvements funded from the Enterprise Funds shall be paid for in combination of "pay-as-you-go" financing and the use of long-term debt. The City shall periodically review its enterprise capital needs and establish capital spending plans that are appropriate and reflect a combination of debt and "pay-as-you-go," while attempting to keep our rates competitive with those in the surrounding area.

7 - CAPITALIZATION & DEPRECIATION POLICIES

The City shall capitalize equipment and facilities within the following parameters:

- Fixed Asset Equipment \$5,000 or more per unit
- Capital Projects - \$100,000 or more

Minor equipment that falls below the \$5,000 threshold, but is subject to shrinkage, such as cellular telephones and computers, shall have a non-numbered City of Manhattan Beach property tag affixed when placed into City service.

The City shall depreciate capital assets such as machinery, equipment, buildings and improvements, and infrastructure (roads, sidewalks, parks, etc.). Depreciation shall be performed on a straight-line basis over the expected useful life of the asset and in accordance with Generally Accepted Accounting Principles (GAAP).

8 - CASH MANAGEMENT & INVESTMENT POLICIES

The Finance Subcommittee & City Council shall annually review and update, or modify as appropriate, the City's Investment Policy. The Policy shall be adopted by action of the City Council based upon the Finance Subcommittee's recommendations.

Reports on the City's investment portfolio and cash position shall be provided to the City Council monthly. Invested funds will be managed in a prudent and diligent manner with emphasis on safety, liquidity, and yield, in that order.

9 - OPERATING BUDGET POLICIES

BALANCED OPERATING BUDGET

A Budget Policy was adopted by the City Council on October 15, 2019, to provide guiding budget principles encompassing the development, implementation, and evaluation of a spending plan for the provision of services and capital assets. It is the City's policy to adopt a balanced budget where operating revenues are equal to, or exceed, operating expenditures. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget or make one-time purchases is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases or expenditure decreases.

Any year-end operating surpluses will revert to unassigned fund balances for use in maintaining reserve levels set by policy and will be available for capital projects and/or "one-time only" General Fund expenditures.

BUDGET DOCUMENT

The operating budget shall serve as the financial plan for the City. It will serve as the policy document of the City Council for implementing its goals and objectives. The budget shall also provide the resources necessary to accomplish City Council determined service levels.

The City Manager shall annually prepare and present a proposed operating budget to the City Council no later than the second regular City Council meeting in May of each year; and City Council will adopt the budget no later than June 30 of each year. Funds may not be expended or encumbered in the following fiscal year until the budget has been adopted by the City Council.

The City's budget document will be presented by department, with a logical breakdown of programs and proposed expenditures. The purpose of this format is to clearly outline the major service areas and associated expenditures. The budget document will also summarize expenditures at the personnel, operating and maintenance, and capital levels.

The City's budget document will include budgetary goals and performance measures to describe the workload of each department as well as track departments' efficiency and effectiveness in providing desired service levels.

BUDGET CONTROL AND ACCOUNTABILITY

Budget control is maintained at the departmental level. The City Manager has the authority to approve appropriation transfers between programs or departments. In no case may total expenditures of a particular fund exceed that which is appropriated by the City Council without a budget amendment. Amendments to the budget are approved by the City Council with the exception of unexpended appropriations from the prior fiscal year may be carried forward to the next fiscal year provided the funds have been previously encumbered for a specific purpose, or apply to authorized, but uncompleted, projects in the adopted Capital Improvement Plan. Such amendments may be approved by the City Manager.

Budget accountability rests primarily with the operating departments of the City.

BUDGET REPORTING

Monthly reports showing budgeted and actual revenues and expenditures will be prepared and provided to the City Council. Additionally, department staff have access to the City's financial system and receive monthly year-to-date budget and actual expenditure reports.