



MEMORANDUM

Agenda Item #: 8

Meeting Date: September 4, 2018

TO: HONORABLE MAYOR AND CITY COUNCIL

THRU: SHARON DEL ROSARIO, FINANCE DIRECTOR /s/

FROM: ANTON DAHLERBRUCH, CITY MANAGER /s/

SUBJECT: 2018 FISCAL HEALTH REPORT TO “RECEIVE AND FILE.”

DATE: SEPTEMBER 4, 2018

ISSUE/PURPOSE

The purpose of this staff report is to provide the City’s 2018 fiscal health report.

BACKGROUND

Since 2012, utilizing a template originally promulgated by the International City / County Management Association (ICMA), the Finance Department has completed a self-assessment of the City’s fiscal health for monitoring and evaluating of the City’s fiscal condition. Reports for fiscal years 2010/2011 through 2014/2015 are on the City’s website [here](#). As such, it has been a few years since a fiscal health report has been prepared due in part to:

- The transition of staff and staff vacancies,
- Tasks and work confronting the Finance Department, and
- Transitioning to a new fiscal diagnostic developed by the League of California Cities.

Now, a 2018 fiscal health report has been completed and published on the City’s website [here](#). With voter’s approval of Measure E, and consistent with prior years fiscal health reports, the report indicates that the City is in a solid, healthy fiscal position for the current biannual budgeting period while attention to capital assets (infrastructure upgrades, replacement and maintenance) is necessary. For forecasting beyond two-years, the Finance Advisory Committee has been tasked with preparing a fiscal forecast to identify fiscal needs that will encompass maintaining the quality, character, and services of Palos Verdes Estates that residents expect, compliance with State and Federal mandates, sustaining and improving an aging infrastructure, and addressing known risks and liabilities.

DISCUSSION

The City of Palos Verdes Estates is in a healthy fiscal position for maintaining the current level of services that residents expect and appreciate from the City. The voters' approval of Measure E restored approximately \$5 million (25%) to the City's budget, so total operating income (revenue) exceeds expenses (expenditures). The General Fund budget provides, with no further enhancements:

- That the existing level of City services are being maintained;
- The emergency 50% operating reserve is being sustained;
- Some of the unobligated General Fund "Fund Balance" (excess revenue not included in the operating reserve) is being set aside for infrastructure improvements (transferred to the Capital Improvement Fund); and
- The Fund Balance for the General Fund (which provides day-to-day public services) has increased.

As such, twelve of the fourteen indicators in the fiscal health report are green indicating the City has a positive status; the Finance Department is prepared to address these indicators if there are questions. The following addresses the anomalies.

Net True Operating Deficit/Surplus, Indicator 1C in the fiscal health report (page 6),

In fiscal years 2016-17 and 2017-18, the City's General Fund was in a negative position. This was due to a Fund transfer of approximately \$1 million for infrastructure improvements and the temporary loss of the historical income from parcel tax revenue, respectively. As illustrated in the report, the City now, consistent with historical actuals, has a positive operating surplus projected in fiscal years 2018-19 and 2019-20 while maintaining a 50% operating reserve for an emergency and inclusive of transferring \$552,000 to the Capital Improvement Fund in fiscal year 2018-19. Of note, however, the operating budget does not include transfers out for equipment replacement, as an analysis will be completed to ascertain the appropriate balance and allocations for the Equipment Replacement Fund. Also of note, no transfer is to the Capital Improvement Fund is budgeted in fiscal year 2019-20, while the undesignated Fund Balance (excess revenue after paying operating costs and setting money aside as a reserve) is over \$1 million and \$2 million in fiscal years 2018-19 and 2019-20, respectively.

Capital Asset Condition, Indicator 3 (page 8)

In reference to Indicator 3, the City is currently not budgeting money equal-to or more-than the amount of depreciation (for spending on maintenance, replacement and upgrading) on the City's infrastructure such as roads, curbs and gutters, sidewalks, storm drains, sewers, etc. The Finance Advisory Committee is taking this into account in its preparation of a financial forecast to sustain the City into the future.

The accounting of deprecation is directly related to the City's "Net Position," so it is relevant to briefly address "Net Position."

Net Position

The City has multiple Funds wherein each Fund is individually managed and controlled. Each Fund is a discrete entity comprised of revenue and expenditures for a specific purpose; the City budgets, operates and accounts for revenues and expenditures by Fund. The General Fund is for all of the City's day-to-day operations and services. The General Fund receives tax revenue, permit fees, charges for services, etc., to provide public safety, planning, maintenance, etc. The accounting of Funds is called "Fund Accounting" and the results of "Fund Accounting" is presented on "Fund Financial Statements." Fund Financial Statements of each individual Fund is presented on a "*modified* accrual accounting basis."

The City's Comprehensive Annual Financial Report (CAFR) represents the independent, external auditor's review of the City's financial accounting practices and figures. The CAFR includes a presentation on a "Government Wide Financial Statements" basis that are comprised of the "Statement of Net Position" and the "Statement of Activities." In contrast to "Fund Financial Statements," the "Government Wide Financial Statements" presentations are based on a "*full* accrual accounting basis." The Statement of Activities presents citywide revenue and expenses in one statement, and includes our annual depreciation expense and the annual accrued pension expense, which are the most significant figures. Multiple years of "Net Position" are provided in the CAFR to illustrate the "Change in Net Position."

The aforementioned "Statement of Net Position" includes current and long-term assets and liabilities. In contrast, the "Fund Financial Statements" only includes current assets and liabilities.

For most cities, the comparison of Net Position over multiple years will illustrate a decreasing Change in Net Position. This is commonplace because few cities receive income every year that is equal-to or greater-than the following three significant expenses:

1. Annual depreciation expense;
2. Annual change in pension liability; and
3. Budgeted capital expenditures.

For example, Palos Verdes Estates banked approximately \$1.5 million each year from 2003-04 to 2012-13 from monies collected from a Sewer User Fee (tax) approved by voters. Funds remaining in the Sewer Fund continue to be spent even though there is no incoming revenue to offset the cost. Thus, the Fund Balance in the Sewer Fund is decreasing and the negative Change in Net Position illustrates the decrease. The Change in Net Position is also not a complete presentation of the City's fiscal health because it includes depreciation expense and the change in pension liability (annual accrued pension expense).

(1) Depreciation expense is a discretionary value; a depreciation schedule and the value of assets are arbitrary. Consider, as an example, a road or sewer depreciates over 40 years or over 60 years. Please also consider the factors involved in valuing a public asset like a road or sewer, as there is intrinsic public value in addition to the original construction cost.

(2)The changes in pension liability are a result of CalPERS investment strategy and the performance of its investments; the City has no control over the amount of the liability and

due to the annual performance of the CalPERS investments, this may increase or decrease year-to-year.

An apartment complex purchased/owned by a group of investors represents a simplistic but illustrative example of the mixed meaning of Net Position. Imagine a 7-unit apartment building purchased for \$10 million dollars with a 30-year mortgage. Rent from each of the units at \$2,500 per month is \$210,000 per year. Repairs to the building are budgeted at \$50,000 per year. The owners will depreciate their investment in the building inclusive of repairs over 30-years. First, the depreciation and repairs will exceed the annual rental income. Second, at the end of the 30-years, the complex will remain and have value even though it has been completely depreciated. Over the 30-years, the Net Position will be declining although the investors and their investment sustain their value. In other words, the City's decreasing Net Position, alone, is not singularly reflective of the City's fiscal health because it is in large part based on depreciation. Without factoring depreciation, the City's Net Position in fiscal year 2016-17 in comparison to fiscal years 2015-16 and 2015-14 improved (to see this, please see page 165 [here](#)). In the City's case, Net Position also includes a constantly changing CalPERS liability.

However, the Change in Net Position has general value because it illustrates that the City's assets (e.g., roads and sewers) are aging, as well as identifying long-term liabilities; the Change in Net Position illustrates that there is not enough income to offset the cost of improvements of aged infrastructure and long-term liabilities. On a "Fund Financial Statements basis," this is more accurately and completely portrayed by specifically viewing the Fund Balance of the Capital Improvement Project (CIP) Fund and Sewer Fund as these Funds are decreasing over time.

As a visual of the information described here, please see:

1. ["Net Position – other cities 07-31-18"](#) that illustrates:
 - a. An increase in Palos Verdes Estates' Net Position without the inclusion of depreciation;
 - b. The Change in Net Position of comparable cities.
2. ["All Funds Revenue – Expenditures 07-31-18"](#) that provides a comparison of revenue and expenditures of all Funds on a "Government-Wide Fund" basis.
3. ["Reserve Analysis 07-31-18"](#) showing the City's current and historical level of operating reserves.

Is there an adopted policy on the use of temporary funds?, Indicator 8a (page 11)

It is the City's practice, as noted in the 2018-20 budget proceedings that a) one-time money is not applied to operations or on-going costs, but rather is used for specific projects and b) that such temporary funding is applied to projects first, before General Fund money is utilized. Consideration of a policy may be a topic for discussion by the Finance Advisory Committee.

Is there an adopted policy on short-term borrowing?, Indicator 9a (page 11)

The City has no debt and thus, the City has not had a reason to establish a short-term borrowing policy. At this time, there has been no discussion of borrowing; however if borrowing is considered in the future, the City should contemplate a policy for paying the debt.

Is there an adopted policy on interfund transfers?, Indicator 9b (page 11)

Interfund transfers are distinct and separate from Internal Service Fund charges for equipment replacement. Interfund transfers involve the movement of funds from one Fund to another Fund in support of the latter Fund’s governmental purpose. As such, routinely and historically, the City has an interfund transfer of unobligated General Fund balance to the Capital Improvement Fund for the purpose of completing infrastructure projects and large maintenance projects. The exception was fiscal year 2017-18 with the loss of the parcel tax for Fire and Paramedic Services (failure of Measure D). Concurrent with making budget reductions, the City transferred Capital Improvement Funds and Equipment Replacement Funds to the General Fund for the purpose of sustain public services. This was a one-time occurrence.

In the future, along with an interfund transfer from the General Fund to the Capital Improvement Fund, the City will also have an interfund transfer from the Police Fund to the General Fund for the costs associated with Police Department operations.

At this time, there is no policy in reference to interfund transfers. However, as established through the fiscal year 2018-20 budget proceedings, the Law Enforcement Services Special Tax Oversight Committee will meet regularly to review and provide advisory recommendations to the City Council for transfers from the Police Fund to the General Fund. In addition, consideration of a policy pertaining specifically to interfund transfers from the General Fund to the Capital Improvement Fund may be a topic for discussion by the Finance Advisory Committee.

Is there an adopted policy on the payment of employee compensation costs?, Indicator 10a (page 11)

The compensation of City employees is established by agreements (Memorandum of Understanding – MOU) or Resolution that are formally approved by the City Council in a public meeting. The payment of employee compensation is not based-on or subject-to a policy. MOUs are the result of labor negotiations with employee unions under State prescribed rules including the Meyers-Millias-Brown Act among other laws. Labor negotiations in prior years have resulted in establishing City and employees sharing the responsibility for the payment of health care costs and pension costs.

Is there an adopted policy favoring pay-as-you-go financing?, Indicator 11a page 12)

Because the City has no debt, the City pays all costs consistent with “pay-as-you-go” financing. In other words, projects and operations are established, committed-to, and funded knowing and based-on existing and projected revenue and the availability of funds. This ensures that the City does not financially over-commit itself and is focused on projects and services that are within its financial means. Establishing a policy affirming the City’s existing practice may be a topic for discussion by the Finance Advisory Committee.

Is there an adopted debt management / affordability policy?, Indicator 11b (page 12)

Because the City has no debt, the City has not had the need to establish a debt management / affordability policy. However if debt is considered in the future, the City should contemplate a policy for assuring obligations can be met.

Pension obligations is not a debt but rather an actuarial estimate of liability for cities. Establishing a policy for paying the projected liability or recommending a revised schedule for paying the projected liability may be a topic for discussion by the Finance Advisory Committee.

Is there an adopted long-range financial plan and policy?, Indicator 12a (page 12)

The primary focus of the Finance Advisory Committee is to develop a long-range financial plan for sustaining the services, character and qualities of Palos Verdes Estates. Resulting from the plan may be policies. Currently, the City has a policy to maintain an operating reserve (for an emergency) of 50%. The Finance Advisory Committee, as a part of its long-range forecasting, will evaluate if the current 50% reserve is reasonable.

FISCAL IMPACT

There is no fiscal impact associated with this report. This report is informational to “receive and file.”

NOTIFICATION

This report has been included on the agenda and posted consistent with City requirements and practices. The Finance Advisory Committee has also been advised of this item on the agenda.

ALTERNATIVES

The alternatives available to the City Council include:

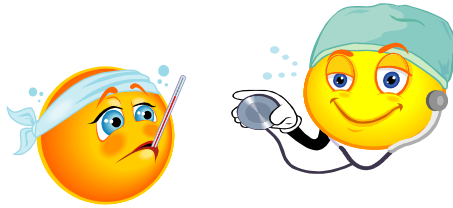
1. Receive and file this report.
2. Request additional information.
3. Provide alternative direction.
4. Take no action.

CONCLUSION/RECOMMENDATION

It is recommended that the City Council receive and file the 2018 fiscal health report.

The California Municipal Financial Health Diagnostic

Prepared August 2018



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The **California Municipal Financial Health Diagnostic** was developed by Michael Coleman with substantial contributions from Andy Belknap, Robert Leland, Dave Millican, Mary Bradley, Ron Bates, Bob Biery, Brent Mason, Max Neiman, and Chris McKenzie among many others. Jeremy Goldberg's assistance in testing draft versions of the tool was invaluable.

The county version, **The California County Financial Health Diagnostic**, was developed with invaluable guidance from: Terry Schutten, Leanne Link, Michelle Aguire, Martin Polt, Paul Derse, Meegan Jessee, and Graham Knaus.



How Are We Doing?

Using The California Municipal Financial Health Diagnostic to Evaluate Your Agency's Financial Health

According to economists, California's "great recession" ran from December 2007 and ended in August 2009. These years, and those following have been difficult for local governments all around. In addition to deep reductions in local government revenue, cities, counties and special districts have struggled with state take-aways of local funds, the dissolution of redevelopment agencies, and mounting costs of retiree pensions and benefits. The severity and combination of these financial impacts varies but in a few well-known instances, cities have had to seek the legal protections of Chapter 9 Bankruptcy to restructure their contractual obligations, and at least one county required financial intervention from the state.

Grappling effectively with financial distress before it becomes a crisis first requires a shared understanding of the financial condition of the local government. A critical component of the difficulties of the most financially distressed local governments has been a lack of recognition and agreement among local leaders, staff and key interests (labor, retirees, creditors) regarding the agency's financial condition and what must be done in order to achieve sustainability. Most financial crises can be managed without court or outside agency intervention if leaders, staff and key interests have the courage, competence, and collaborative attitudes to 1) recognize and agree upon the local government's financial condition, and 2) implement the necessary changes to set the local government on a sustainable financial course.

Defining Local Government Financial Health

Government financial health may be viewed in four related financial contexts: 1) cash solvency - the ability to meet immediate financial obligations – generally over the next 30 or 60 days (accounts payable, payroll); 2) budgetary solvency - the ability to meet all financial obligations during a budget year; 3) long-run solvency – the ability to meet all financial obligations into the future; and 4) service-level solvency – the ability to provide the desired level of services for the general health and welfare of a community.^[1] In the context of today's difficult financial climate, we are primarily concerned with the ability of the local government to meet its financial commitments now and into the future (cash, budgetary, and long-run solvency). A more expansive evaluation of financial condition would examine the community's economic environment and ability to meet the service level desires of the community (service-level solvency).

A government is in **financial distress** if it has a continuing imbalance between its level of financial commitments and its available financial resources over time. If revenues and spending are not brought into balance, **financial distress** can progress into financial crisis, when the government is unable to meet its financial obligations.

Determining Local Government Financial Health

There have been many government financial health monitoring systems devised over the last several decades. Each approach consists of a series of financial indicators or measures that address a local government's ability to meet the needs of its constituents. The International City/County Management Association's (ICMA) venerable Financial Trend Monitoring System (FTMS) consists of some 42 financial measures including factors assessing the economic environment of the community, the finances of the jurisdiction, and its managerial practices and legislative policies.^[2] Building on the FTMS and various other systems and policies developed by academics and governments, this tool distills the most essential indicators assessing financial health with a pragmatic focus on an agency's level of financial distress heading into financial crisis.

This **California Municipal Financial Health Diagnostic** is primarily concerned with the ability of the local government to meet its financial commitments now and into the future (cash, budgetary, and long-run solvency). In contrast to many other financial health monitoring systems, this tool looks at recent past and near future financial measures and indicators to provide an assessment of the local government's level of financial distress and tendency toward financial crisis.

The **California Municipal Health Diagnostic** is focused first and foremost on the general fund, but may also be applied to other funds. It focuses on the local government's operating position, going beyond reported finances to focus on recurring revenues and expenditures (by distinguishing temporary non-recurring revenues and expenditures) and taking into account any unbudgeted but real current costs of services. The tool includes an evaluation of unsustainable or risky budget practices that indicate an agency in distress and tending toward crisis. The foundation of the diagnosis is an examination of discretionary revenues and spending, distinguishing and identifying the effects of programmatic revenues and spending on discretionary resources.

Unique Aspects of California Local Government Finance^[3]

California local governments' tax and revenue raising choices are strictly limited. Property tax is the single most important source of general purpose revenue for most cities, counties and many special districts. Yet local governments have no authority over the property tax base, rate or allocation. Other tax increases require voter approval.

Over the last several decades since Proposition 13 (1978), the state has shifted property tax revenues, vehicle license taxes, and eliminated virtually all general purpose state aid to local governments. At the same time, the Legislature has shifted greater program responsibilities and imposed greater mandates but with limited funding. In response, local governments sought and voters approved, several constitutional measures protecting local government finances from further legislative actions.

Most remaining city general purpose revenues are no longer vulnerable to additional state takeaways.[4] Consequently, unlike municipalities in other states or in California in previous times, assessing the financial health of California cities has little to do with the amount or proportion of intergovernmental revenues (which, in any case, is minimal for nearly all cities and special districts).

California counties have much more limited revenue raising authority than cities and remain, by their nature, highly dependent on state budgetary actions. The state Legislature may delegate to counties any of the functions which belong to the state itself. Counties are responsible for frontline municipal services in unincorporated areas; for countywide local services such as jails,

The **California Municipal Financial Health Diagnostic** consists of:

1. **The Financial Distress Checklist.** A fourteen point list of key indicators to assess the near term financial health of your local government's general fund and other operations. The checklist is intended for use by policy makers and community members to ask the important questions and get the necessary answers.
2. **The Financial Health Indicators.** Linked to the fourteen point Financial Distress Checklist, the Financial Health Indicators provide more detailed formulas and methods for determining financial condition and will need to be completed by a team of qualified financial analysts.

WARNING SIGNS Indications of Crisis

- Failure to pay an undisputed claim from a creditor within 90 days past claim date.
- Failure to forward income taxes withheld or Social Security contributions for over 30 days past the due date.
- Failure to make *required* pension fund contributions on time.
- Missing a payroll for 7 days.
- Available unrestricted balance for the general fund at the end of the current fiscal year will be negative.

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[1] Justice, Jonathan and Scorsone, Eric. "Measuring and Predicting Local Government Fiscal Stress" in Levine, Helisse; Justice, Jonathan; Scorsone, Eric. Handbook of Local Government Fiscal Health. Jones and Bartlett Learning, Burlington, MA 2012.

[2] Groves, Sanford M. and Valente, Maureen Godsey. Revised Nollenburg, Karl. Evaluating Financial Condition: A Handbook for Local Government, 4th edition. International City/County Manager Association (ICMA), USA, 2003.

[3] For more information, see Multari, Coleman, Hampian and Statler, *Guide to Local Government Finance in California*, Solano Press Books, 2012.

[4] The continuing impacts of the dissolution of Redevelopment Agencies notwithstanding. These impacts should be taken into account as appropriate in these financial health measures.

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The California Municipal Financial Health Diagnostic
Financial Health Indicators - Summary Checklist

	Indicator	Rating	
Measures	1. Net Operating deficit / surplus. There are no recurring general fund operating deficits. General revenues are sufficient to meet the net general revenue demand of programs.: In FY 2016-17, approximately \$1 million from the undesignated General Fund balance was transferred to the Capital Improvement Fund. In FY 2017-18, the loss of parcel tax revenue reduced the General Fund balance.	Yellow	Caution
	2. Fund balance. Reserves are sufficient over multiple consecutive years and in compliance with adopted policy.	Green	Healthy
	3. Capital Asset Condition. Illustrates that the City is not spending revenue on an on-going basis equal-to or greater-than depreciation expense.	Red	Warning
	4. Liquidity. Cash and short-term investments are sufficient to cover current liabilities (including short-term debt and accounts payable within 60 days).	Green	Healthy
	5. Fixed costs & labor costs. Fixed costs (including debt service and other contractual obligations), salaries and benefits are stable or decreasing over multiple years relative to reasonably expected revenue growth.	Green	Healthy
	6. General fund subsidies of other funds. Any general fund subsidies other enterprises or special funds are sustainable and in compliance with adopted policy.	Green	Healthy
Practices and Conditions	7. Constraints on budgetary discretion. The city council's authority to make budget changes is not excessively constrained by charter, contract, or law.	Green	Healthy
	8. Balancing the budget with temporary funds. The use of reserves, selling assets, deferring asset maintenance to balance the general fund has been limited, prudent and in compliance with adopted policy.	Green	Healthy
	9. Balancing the budget with borrowing. The use of short-term borrowing, internal borrowing or transfers from special funds to balance the general fund has been limited, prudent and in compliance with adopted policy.	Green	Healthy
	10. Balancing the budget by deferring employee compensation costs. Pension liabilities and other non-salary benefits have been determined, disclosed and actuarially funded in compliance with adopted policy.	Green	Healthy
	11. Balancing the budget with backloaded debt service payments. Debt service payments have not been "backloaded" into future years.	Green	Healthy
	12. Funding operating costs with non-recurring revenues. Ongoing operating costs are being funded with ongoing rather than temporary revenues (e.g., from development, etc.)	Green	Healthy
	13. Timeliness and accuracy of financial reports. Financial Reports are being filed on time. (CAFR, Annual Audit, State Controller's Financial Transactions Report)	Green	Healthy
	14. Service level solvency. Public service levels meet the standards and needs in this community.	Green	Healthy

The California Municipal Health Diagnostic: Financial Health Indicators

City of Palos Verdes Estates General Fund

Operating Deficit/Surplus

The simplest measure of annual operating deficit/surplus is the difference between total revenues and total spending. General fund operating deficits may be an indication that the government's financial condition is unsustainably out of balance and that corrections to bring the finances into a sustainable condition are not occurring. Though an operating deficit in any one year may not be a cause for concern (because, for example, reserves or one-time remedies might be available to cover the difference), frequent and increasing deficits may indicate that the governments activities are not sustainable within the revenues available over time.

Taken as a percentage of total revenues, the local government's operating deficit/surplus tells us very plainly if current resources in the fund are sufficient to cover current expenditures. The data to compute this measure should be readily available in the financial statements (comprehensive annual financial reports) of the agency. This is measure 1A below.

But a budget can be balanced and an ongoing structural problem masked if a deficit is covered by temporary solutions, such as non-recurring revenues like limited-term grants, land sale income, or transfers from other funds. This approach cannot be relied upon in the long-run (over multiple years). Measure 1B takes a step further than 1A by taking these temporary revenues out of the equation to see how much worse the revenue shortfall becomes at current spending levels.

Still, this may not show the whole picture. If certain current financial obligations are being delayed and not budgeted, then the financial position shown in measure 1B is still incomplete. Measure 1C takes into account "unbudgeted current liabilities" such as Other Post-Employment Benefits (OPEB); unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure. For the purpose of determining long run solvency, Measure 1C is the best indicator of a local government's true fiscal operating position because it reflects the level of spending actually needed to sustain your current level of service over time. If these deferred costs are significant, then your fiscal imbalance may be much worse than you thought. If you cannot find sufficient information to determine these unbudgeted liabilities, that, in itself, is reason for substantial concern (See indicator # 9)

1A Gross Annual Deficit/Surplus - unadjusted, using all general fund revenues and expenditures

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
11.20%	6.63%	4.10%	10.11%	6.74%	7.04%
percent change =>	-40.76%	-38.17%	146.63%	-33.39%	4.49%

<i>Formula</i>	$\text{gross annual deficit/surplus as a percent of revenues} = \frac{\left(\text{gross total revenues} \right) - \left(\text{gross total expenditures} \right)}{\text{gross total revenues}}$	For comparison purposes
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1B Net Operating Deficit/Surplus – sustainable, omitting non-recurring revenues

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
5.02%	6.63%	-1.36%	-18.82%	4.50%	7.04%

<i>Formula</i>	$\text{net operating deficit/surplus as a percent of revenues} = \frac{\left(\text{net operating revenues} \right) - \left(\text{temporary revenues} \right) - \left(\text{net operating expenditures} \right)}{\text{net operating revenues}}$	Negative Indicator • Recurring and static or increasing negative values	For comparison purposes
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The California Municipal Health Diagnostic: Financial Health Indicators

City of Palos Verdes Estates General Fund

1C Net True Operating Deficit/Surplus - complete, adding unbudgeted general fund liabilities					
<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
5.02%	6.63%	-1.36%	-18.82%	4.50%	7.04%
<p>Formula</p> $\text{net true operating deficit/surplus as a percent of revenues} = \frac{\left(\text{net operating revenues} \right) - \left(\text{temporary revenues} \right) - \left(\text{net operating expenditures} \right) - \left(\text{unbudgeted current liabilities} \right)}{\text{net operating revenues}}$			<p>Score: Warning-Red: Persistent & increasing deficits over consecutive years.</p> <p>Caution-Yellow: Deficits are infrequent or relatively marginal compared to fund balance (see #2 below) and/or there is a reasonable plan for bringing revenues and spending into balance. In FY 2016-17, approximately \$1 million from the undesignated General Fund balance was transferred to the Capital Improvement Fund. In FY 2017-18, the loss of parcel tax revenue reduced the General Fund balance.</p> <p>Good-Green: not an issue of concern.</p>		<input type="radio"/> <input checked="" type="radio"/> <input type="radio"/>
<p>Definitions</p> <p>Gross Total Revenues. See CAFR Statement of Revenues and Expenditures “total revenues.”</p> <p>Gross Total Expenditures. See CAFR Statement of Revenues and Expenditures “total expenditures”</p> <p>Net Operating Revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements minus revenues legally restricted to special purposes. Transfers related to non-operating activities should be excluded.</p> <p>General Purpose Revenues. Discretionary taxes including property taxes (other than voter approved debt service), property transfer tax, general sales and use tax, business license tax, transient occupancy tax, utility users tax, construction tax, and other discretionary taxes; franchises; fines, forfeitures and penalties; investment earnings; rents, concessions, royalties; homeowners property tax relief reimbursement; non-restricted state and federal grants; and non-restricted transfers in.</p> <p>One-time (temporary) Revenues. One-time (temporary) revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. Optionally, you might consider also excluding receipt of construction-related revenues from a given project that are significantly in excess of an “average” year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.</p> <p>Ongoing General Propose Revenues. Ongoing General Propose Revenues equals total general purpose revenues minus one-time (temporary) general purpose revenues.</p> <p>Net Operating Expenditures. Net operating expenditures equals total expenditures (after credits/reimbursements) and transfers out, minus one time expenditures capital improvement expenditures (or transfers out for capital purposes).</p> <p>Unbudgeted Current Liabilities. The amortized costs of long-term general fund liabilities not already included in “net operating expenditures.” This includes amounts not budgeted or expended that “should be” in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure. If there is insufficient information to determine these unbudgeted liabilities, that, in itself, is reason for substantial concern (See indicator #9).</p>					

The California Municipal Health Diagnostic: Financial Health Indicators

City of Palos Verdes Estates General Fund

Fund Balance

A positive fund balance, or reserves, is important for any government to withstand financial risk over time. Unanticipated fluctuations in revenues may occur from economic impacts or state take-ways. "Financial reserves" are important to meet unforeseen revenue shortfalls or expenditure overages. But reserves cannot be relied upon to cover financial shortfalls that are more than temporary. (See Indicator #7) An unplanned decline in unreserved fund balances as a percentage of operating revenues over time suggests the government is less able to withstand financial emergencies.

The right level of fund balance varies depending on many factors including levels of risk and revenue volatility but, generally speaking, dropping below 8% may be cause for concern. The Government Finance Officers Association recommends maintaining a 5-15% reserve.

2 Fund Balance

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
87.68%	91.54%	78.42%	59.00%	57.16%	65.50%

<p>Formula</p> $\text{Fund balance as a percent of expenditures} = \frac{\text{unreserved fund balance}}{\text{net operating expenditures}}$	<p>Score:</p> <p>Warning-Red: Persistently & substantially decreasing or is below</p> <p>Caution-Yellow: Has decreased but remains above 8% and there is a reasonable plan for stabilizing.</p> <p>Green - not concerning</p>	<div style="border: 1px solid black; width: 20px; height: 20px; margin: 5px; background-color: yellow; border-radius: 50%; display: flex; align-items: center; justify-content: center;">○</div> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 5px; background-color: yellow; border-radius: 50%; display: flex; align-items: center; justify-content: center;">○</div> <div style="border: 1px solid black; width: 20px; height: 20px; margin: 5px; background-color: green; border-radius: 50%; display: flex; align-items: center; justify-content: center;">●</div>
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Definitions

Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. However, *you should review resources categorized as "committed"* and include in "unreserved fund balance" any amounts that, even if only in time of emergency, could be accessed with action of the City Council / governing board.

Net operating expenditures. Net operating expenditures equals expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

Fund Balance Components ¹					
	Nonspendable	Restricted	Committed	Assigned	Unassigned
Total Fund Balance	x	x	x	x	x
Unrestricted Fund Balance			x	x	x
Unreserved Fund Balance (AKA "Balance available for assignment")				x	x

1. See Stephen J. Gauthier, "Governmental Accounting, Auditing, and Financial Reporting." (The "Blue Book") 2012 Government Finance Officers Association.

The California Municipal Health Diagnostic: Financial Health Indicators

City of Palos Verdes Estates General Fund

Capital Asset Condition

Capital assets must be maintained and replaced over time. This requires annual resource commitment such that the value of assets and asset improvements does not decline.

3	Capital Asset Condition					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-5.48%	-1.41%	-5.89%	-5.80%	-0.19%	-7.29%

<p><i>Formula</i></p> $\text{Change in Capital Asset Condition} = \frac{\left(\begin{array}{c} \text{ending net value of} \\ \text{capital assets} \end{array} \right) - \left(\begin{array}{c} \text{beginning net value of} \\ \text{capital assets} \end{array} \right)}{\text{beginning net value of capital assets}}$	<p>Score: Warning-Red: persistent and substantially negative trend. Illustrates that the City is not spending revenue on an on-going basis equal-to or greater-than depreciation expense.</p> <p>Caution-Yellow: negative or decreasing but there is a reasonable plan for stabilizing.</p> <p>Good-Green: not an issue of concern.</p>	<input checked="" type="radio"/> <input type="radio"/> <input type="radio"/>
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Liquidity

A decreasing amount of cash and short-term investments as a percentage of current liabilities suggests the government is less able to pay its short-term obligations. Increasing current liabilities at the end of the year as a percentage of net operating revenues indicates liquidity problems and/or deficit spending. Liquidity measures the amount of readily available financial resources relative to immediate financial commitments (current liabilities).

4	Liquidity					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	1613.78%	1223.68%	1344.36%	1333.33%	1333.33%	1333.33%

<p><i>Formula</i></p> $\text{liquidity} = \frac{\text{cash and short term investments}}{\text{current liabilities}}$	<p>Score:</p> <p>Warning-Red: Persistently & substantially decreasing.</p> <p>Caution-Yellow: Has decreased but there is a reasonable plan for stabilizing.</p> <p>Good-Green: not an issue of concern.</p>	<input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>
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Definitions

Current liabilities is the sum of all liabilities due at the end of the fiscal year including short-term debt, current portion of long-term debt, all accounts payable accrued

IMPORTANT: Include

- Advances and amounts due to other funds, including internal funds from pooled cash transactions or borrowing.
- Increases in debt service payments due to financings .

Cash and short-term investments includes cash on hand and in the bank as well as other assets that can easily be converted to cash.

The California Municipal Health Diagnostic: Financial Health Indicators

City of Palos Verdes Estates General Fund

Fixed Costs and Budget Flexibility

Increasing fixed costs as a percentage of net operating expenditures may indicate an unsustainable financial structure where the government has limited ability to make necessary budget changes. Fixed does not mean static. Fixed costs may be changing over time but cannot be easily altered.

A major component of general fund spending is labor costs for salaries and benefits: often these costs are anything but fixed, as costs continue to escalate, but as long as the employees are on the payroll, these costs are unavoidable. This indicator computes the proportion of net annual operating expenses that these fixed and labor costs represent, to show the degree of flexibility the agency has in making budget reductions. As with all these measures, compute this for general fund and other funds separately.

Definitions

Salaries and wages are compensation paid directly to employees.

Benefits include costs for contributions to FICA, pension, life insurance, health insurance, etc. and current contributions to self-insurance funds.

Fixed costs are those costs over which the government has little control in the short run because of contractual agreements, charter restrictions, or state or federal law, other than those costs already included under salaries, wages or benefits. Non-labor fixed costs include debt service, retiree health payments, lease-purchase payments, utilities, contracted goods and services, etc.

Net operating expenditures. Net operating expenditures equals expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

Subsidy Expenditures / Transfers Out. Total of expenditures and transfers out to support enterprises or special funds.

5a Fixed Costs

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
0.13%	0.22%	0.19%	0.16%	0.14%	0.15%

Formula Fixed costs as a percent of expenditures = $\frac{\text{fixed costs}}{\text{net operating expenditures}}$ For comparison purposes

5b Fixed Costs plus Labor Costs

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
61.16%	62.96%	60.35%	48.71%	45.02%	47.10%

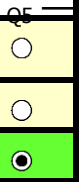
Formula Fixed costs and labor costs as a percent of expenditures = $\frac{\text{salaries} + \text{wages} + \text{benefits} + \text{fixed costs}}{\text{net operating expenditures}}$

Score:

Warning-Red: Increasing or over 80%.

Caution-Yellow: Has increased but is projected to stabilize or decline.

Good-Green: not an issue of concern.



The California Municipal Health Diagnostic: Financial Health Indicators

City of Palos Verdes Estates General Fund

General Fund Subsidy of Other Funds.
 Some cities and counties find themselves using the general fund to subsidize golf course rates; water, sewer, transit, parking or other enterprise operations; or pay debt service or capital improvement costs that should arguably be paid by proprietary or special revenue funds. Often this is because user fees are not sufficiently high enough to be self-supporting. Sometimes it is because debt obligations were incurred that burdened the general fund with a pledge to support bonds if the intended repayment source (development fees, enterprise fund) proved inadequate. These subsidies limit budget flexibility if they are a significant portion of the general fund net operating expenditures and/or if the trend is increasing.

6	General Fund Subsidy of Other Funds				
2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

<p>Formula</p> $\text{Subsidy costs as a percent of expenditures} = \frac{\text{Subsidy Expenditures and Subsidy Transfers Out}}{\text{net operating expenditures}}$	<p>Score:</p> <p>Warning-Red: Increasing or over adopted policy.</p> <p>Caution-Yellow: Has increased but is projected to stabilize or decline.</p> <p>Good-Green: not an issue of concern.</p>	<p>Q6</p> <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>
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Constraints on Budgetary Discretion
 Constraints on the budgetary discretion of the agency include binding arbitration or required formulas or third party agreement to alter compensation, spending or minimum staffing. These legal constraints impair the agency's ability to achieve solutions when in fiscal distress and may also accelerate cost increases over time.

7	Constraints on Budgetary Discretion	
<p>Do charter provisions or other legal commitments (contracts, court decisions/settlements) restrict the City Council's authority?</p> <ul style="list-style-type: none"> • Binding arbitration: required submission of a dispute to a third person whose decision is obligatory. • Formulas require minimum employee compensation, hiring or staffing levels, or spending levels or require the agreement of others. • General fund is pledged as support, or public facilities as security, for non-general fund debt. • Others: restrictions on contracting out, voter-approved tax expiring. 	<p>Score:</p> <p>Warning-Red: Yes - restrictions.</p> <p>Caution-Yellow: Yes but minimal/workable.</p> <p>Green - no restrictions</p>	<p>Q7</p> <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>

The California Municipal Health Diagnostic: Financial Health Indicators

City of Palos Verdes Estates General Fund

Financial Practices					
An agency's financial and budgetary management practices may contribute to financial distress. Practices that should be rarely used include solving budgetary imbalances with temporary revenues or cuts (such as furloughs), internal borrowing from special funds beyond budget years (i.e. for more than cash flow), deferring pension or other employee costs, and backloaded debt service schedules. Financial trouble is also strongly correlated with a local government's failure to file financial reports on time.					
8 Balancing the Budget with Temporary Funds					
Has the general fund (budget or financial year close) been balanced with reserves • selling assets • deferring asset maintenance or operating costs ?	2014-15 0	2015-16 0	2016-17 0	Score: Warning-Red: Yes, multiple years. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.	Q8 <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>
	Q8a	Is there an adopted policy on the use of temporary funds?		<input type="radio"/> Yes <input checked="" type="radio"/> No	
	Q8b	Is there an adopted reserves and fund balance policy?		<input checked="" type="radio"/> Yes <input type="radio"/> No	
9 Balancing the Budget with Borrowing					
Has the general fund (budget or financial year close) been balanced with short-term borrowing, • internal borrowing (including transfers that must be repaid), • amounts owed to other funds from pooled cash ?	2014-15 0	2015-16 0	2016-17 0	Score: Warning-Red: Yes, multiple instances. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.	Q9 <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>
	Q9a	Is there an adopted policy on short-term borrowing?		<input type="radio"/> Yes <input checked="" type="radio"/> No	
	Q9b	Is there an adopted policy on interfund transfers?		<input type="radio"/> Yes <input checked="" type="radio"/> No	
10 Balancing the Budget by Deferring Employee Compensation Costs					
Has the general fund been balanced by deferring payments for or not paying the current actuarially determined costs of ... • pension, other post-employment benefit liabilities (e.g., compensated absences, deferred comp. retiree medical, etc.) • risk programs (e.g., workers comp and liability funds, etc.) • pension obligation bonds which presume overly optimistic payroll growth?	2014-15 0	2015-16 0	2016-17 0	Score: Warning-Red: Yes, multiple years. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.	Q10 <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>
	Q10a	Is there an adopted policy on the payment of employee compensation costs?		<input type="radio"/> Yes <input checked="" type="radio"/> No	

The California Municipal Health Diagnostic: Financial Health Indicators

City of Palos Verdes Estates General Fund

11 Balancing the Budget with Backloaded Debt Service						
Have general fund debt payment schedules been backloaded? (e.g., capital appreciation bonds, pension obligation bonds, or other financings with balloon payments or deferred/increasing payment schedules over time)	2014-15	2015-16	2016-17	Score: Warning-Red: Backloaded payments Caution-Yellow: minimal/workable. Good-Green: Not a concern.	Q11 <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>	
	0	0	0			
Q11a Is there an adopted policy favoring pay-as-you-go financing? <input type="radio"/> Yes <input checked="" type="radio"/> No						
Q11b Is there an adopted debt management / affordability policy? <input type="radio"/> Yes <input checked="" type="radio"/> No						
12 Funding Operating Costs with Non-recurring Revenues (e.g. development, etc.)						
Has the general fund (budget or financial year close) been balanced relying on non-recurring revenues, such as from land-use development, to fund on-going operating costs or debt service other than work associated with those temporary revenues? (e.g., developer fees or taxes, sales taxes from construction, etc. funding other than building/planning staff)	2014-15	2015-16	2016-17	Score: Warning-Red: Yes. Caution-Yellow: Yes but minimal/workable. Good-Green: No. Not a concern.	Q12 <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>	
	0	0	0			
Q12a Is there an adopted long-range financial plan and policy? <input type="radio"/> Yes <input checked="" type="radio"/> No						
13 Timeliness and Accuracy of Financial Reports						
Have annual financial reports <i>not</i> been filed on time ? • Comprehensive Annual Financial Report (CAFR) • State Controller's Financial Transactions Report	2014-15	2015-16	2016-17	Score: Warning-Red: Yes. Not filed on time. Caution-Yellow: Yes but special circumstances. Green- No: filed correctly and on time.	Q13 <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>	
14 Service Level Solvency						
Are public service levels below standards in this community ? e.g., emergency response times, road condition, facility maintenance, etc.	2014-15	2015-16	2016-17	Score: Warning-Red: Far below standards. Caution-Yellow: Below standards but will improve. Green- Service levels meet standards.	Q14 <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/>	



The California Municipal Finance Health Diagnostic
Data Gathering Worksheet

City of Palos Verdes Estates
General Fund

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

Data Component		Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
				2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
a	Gross revenues	CAFR* Statement of Revenues and Expenditures "total revenues"	1A	12512081	13237705	13748783	13637968	19434039	19826416
a1	Transfers in	CAFR* Statement of Revenues and Expenditures "transfers in"		0	0	246462	1623746	122552	0
a2	Revenues restricted to capital improvements (by law or contract)	Staff analysis		0	0	0	0	0	0
a3	Revenues legally restricted to special purposes	Staff analysis		0	0	0	0	0	0
b	Net operating revenues	line "a" plus line "a1" minus line "a2" minus line "a3"	1B,1C	12,512,081	13,237,705	13,995,245	15,261,714	19,556,591	19,826,416
Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements, minus revenues legally restricted to special purposes.									
General purpose revenues. Discretionary taxes including property taxes (other than voter approved debt service), property transfer tax, general sales and use tax, business license tax, transient occupancy tax, utility users tax, construction tax, and other discretionary taxes; franchises; fines, forfeitures and penalties; investment earnings; rents, concessions, royalties; homeowners property tax relief reimbursement; non-restricted state and federal grants; and non-restricted transfers in.									
	On-time(temporary) revenues (other than those included in "c" or "d")	Staff analysis	1B,1C	0	0	0	1529246	0	0



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Data Component		Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
				2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
c	One-time (temporary) revenues. One-time (temporary) revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. Optionally, you might consider also excluding receipt of construction-related revenues from a given project that are significantly in excess of an “average” year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.								
d1	Salaries, wages and benefits			7,252,969	7,753,714	8,534,010	8,061,463	8,381,692	8,653,876
d2	Services and supplies			957,253	1,443,212	1,235,417	-	4,973,000	4,973,000
d3	Other			2,901,006	3,162,734	3,415,471	4,197,031	4,770,025	4,803,793
d	Gross expenditures	CAFR* Statement of Revenues and Expenditures “total expenditures”	1A	11,111,228	12,359,660	13,184,898	12,258,494	18,124,717	18,430,669
e	Transfers out	CAFR* Statement of Revenues and Expenditures “transfers out”		773000	0	1000000	4345858	552000	0
f	Capital project expenditures (other than capital outlay that is not included in current expenditures)	CAFR* Statement of Revenues and Expenditures “capital outlay”		0	0	0			
g	Other one-time or temporary expenditures	Staff analysis		0	0	0			
h	Net operating expenditures	line “d” plus line“e” minus line“f” minus line“g” minus line“a3”	1A, 1C, 2, 4, 5	11,884,228	12,359,660	14,184,898	16,604,352	18,676,717	18,430,669



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Data Component	Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
			2014-15	2015-16	2016-17	2017-18	2018-19	2019-20

Net operating expenditures. Net operating expenditures equals gross expenditures minus capital improvement expenditures minus expenditures of revenues legally restricted to special purposes.

Unbudgeted current liabilities

Staff analysis

1C

Unbudgeted current liabilities. The amortized costs of long term general fund liabilities not already included in “net operating expenditures.” This includes amounts not budgeted or expended that “should be” in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure.

Total Fund Balance

CAFR* Balance Sheet

10,450,339

11,328,384

11,138,731

9,796,093

10,675,967

12,071,714

Nonspendable, restricted and committed fund balance

CAFR* Balance Sheet

30,826

14,577

15,243

Unreserved fund balance including General Reserve

line “j” minus line “k”

2

10,419,513

11,313,807

11,123,488

9,796,093

10,675,967

12,071,714

Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. However: †

➤ You should review resources categorized as “committed” and include in “unreserved fund balance” any amounts that, even if only in time of emergency, could be accessed with action of the City Council.

➤ Uncollectible loans or other receivables should not be included in this measure of unreserved fund balance.

Fund Balance Components¹					
	<u>Nonspendable</u>	Restricted	Committed	Assigned	Unassigned
Total Fund Balance	x	x	x	x	x
Unrestricted Fund Balance			x	x	x
Unreserved Fund Balance (AKA “Balance available for assignment”)				x	x



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City of Palos Verdes Estates
General Fund

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Data Component		Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
				2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
m	Beginning net value of capital assets, <i>government-wide</i>	CAFR Notes to financial statements and staff analysis (for projection)	3	48,675,362	46,005,936	45,357,579	42,687,887	40,212,452	40,137,087
n	Ending net value of capital assets, <i>government-wide</i>		3	46,005,936	45,357,579	42,687,887	40,212,452	40,137,087	37,210,837
Capital Asset Condition. A high ratio suggests the government is keeping pace, on average, with the aging of its capital assets.									
o	Cash and short-term investments (<i>fund level</i>)	CAFR* Balance Sheet	4	10,477,362	11,759,720	11,334,205	12,000,000	12,000,000	12,000,000
Cash and short-term investments includes cash on hand and in the bank as well as other assets that can easily be converted to cash.									
p	Current liabilities (<i>fund level</i>)	CAFR* Balance Sheet*	4	649244	961013	843094	900000	900000	900000
<p>*Current liabilities is the sum of all liabilities due at the end of the fiscal year including short-term debt, current portion of long-term debt, all accounts payable accrued liabilities and other current liabilities due to be paid within 60 days.</p> <p>IMPORTANT: Include</p> <ul style="list-style-type: none"> • <i>Advances and amounts due to other funds, including internal funds from pooled cash transactions or borrowing.</i> • <i>Increases in debt service payments due to financings.</i> 									
q	Salaries + wages + benefits	(from line "d1" above)	5B	7,252,969	7,753,714	8,534,010	8,061,463	8,381,692	8,653,876
Salaries and wages are compensation paid directly to employees. Benefits include costs for contributions to FICA, pension, life insurance, health insurance, etc. and current contributions to self-insurance funds.									
r	Debt service principal (long term debt only)	Staff analysis		-	-				
s	Debt service interest (long term and short term debt)	Staff analysis		-	-				
t	Expenditures for federal, state or court mandated activities	Staff analysis		-	-				



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General Fund

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

<i>Data Component</i>		<i>Source of Data</i>	<i>Use for Indicator</i>	<u>Year-2</u>	<u>PriorYr</u>	<u>CurrentYr (estimated)</u>	<u>Next Year (projected)</u>	<u>Year+2 (projected)</u>	<u>Year+3 (projected)</u>
				2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
u	Pension payments (other than those included in "q" above)	Staff analysis and CAFR		-	-				
v	Lease purchase payments	Staff analysis and CAFR		15,292	27,655	26,700	27,000	27,000	27,000
w	Other long term contracts	Staff analysis		-	-	-			
x	Other fixed costs	Staff analysis		-	-	-			
	Fixed costs	Sum of r through x above	5A, 5B	15,292	27,655	26,700	27,000	27,000	27,000
y	Fixed costs are those costs over which the government has little control in the short run because of contractual agreements, charter restrictions, or state or federal law, other than those costs already included under salaries, wages or benefits. Fixed costs include debt service, retiree health payments, lease-purchase payments, utilities, contracted goods and services, etc. When it is unclear if certain costs are "fixed," consider a rule of thumb such as "can elected officials cut these costs by at least ten percent in one year."								
z	Subsidy expenditures and subsidy transfers out	Staff analysis based on CAFR Statement of Revenues and Expenditures	6	-		-	-	-	-

The California Municipal Financial Health Diagnostic: Financial Health Indicators

Operating Deficit/Surplus - Special Program or Fund - also internal service funds and enterprises.

Most programs receive some degree of functional or program revenue such as user fees, earmarked intergovernmental aid, or special taxes. To the extent that operating revenues do not cover operating expenditures, the government's general purpose revenues bear the burden for the program. In some cases, this support from general revenues is validated by adopted policy that essentially finds those funds necessary and justified for the good of the general community. But in other cases, this general revenue support may be excessive (in the opinion of the governing board), growing in an unsustainable pattern, or placing undue risk on other programs supported by general revenues. In such a case, the financial health of the local government is impaired.

1A Gross Annual Deficit/Surplus - unadjusted, using all general fund revenues and expenditures						
2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	
-4.24%	-10.32%	12.67%	-13.39%	-19.32%	-11.93%	
<i>Formula</i> gross annual deficit/surplus as a percent of revenues = $\frac{(\text{gross total revenues}) - (\text{gross total expenditures})}{\text{gross total revenues}}$						For comparison purposes
1B Net Operating Deficit/Surplus – sustainable, omitting non-recurring revenues						
2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	
26.15%	0.69%	34.12%	-86.02%	-19.32%	-11.93%	
<i>Formula</i> net operating deficit/surplus as a percent of revenues = $\frac{(\text{net operating revenues}) - (\text{temporary revenues}) - (\text{net operating expenditures})}{\text{net operating revenues}}$				Negative Indicator • Recurring AND static or increasing deficit over consecutive years.		For comparison purposes

1C Net True Operating Deficit/Surplus - complete, adding unbudgeted general fund liabilities					
2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
26.15%	0.69%	34.12%	-86.02%	-19.32%	-11.93%
Formula $\frac{\left(\begin{array}{c} \text{net operating} \\ \text{revenues} \end{array} \right) - \left(\begin{array}{c} \text{temporary} \\ \text{revenues} \end{array} \right) - \left(\begin{array}{c} \text{net operating} \\ \text{expenditures} \end{array} \right) - \left(\begin{array}{c} \text{unbudgeted} \\ \text{current} \\ \text{liabilities} \end{array} \right)}{\text{net operating revenues}}$		Score: Warning-Red: Persistent & increasing deficits over consecutive years. Caution-Yellow: Deficits are infrequent or relatively marginal compared to fund balance (see #2 below) and/or there is a reasonable plan for bringing revenues and spending into balance. Good-Green: not an issue of concern.			QSF-1 <input type="radio"/>
Definitions <p>Gross total revenues. See CAFR Statement of Revenues and Expenditures “total revenues.”</p> <p>Gross total expenditures. See CAFR Statement of Revenues and Expenditures “total expenditures”</p> <p>Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements minus revenues legally restricted to special purposes. Transfers related to non-operating activities should be excluded.</p> <p>Temporary revenues. Temporary revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. You might also consider excluding receipt of construction-related revenues from a given project that are significantly in excess of an “average” year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.</p> <p>Net operating expenditures. Net operating expenditures equals total expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.</p> <p>Unbudgeted current liabilities. The amortized costs of long-term general fund liabilities not already included in “net operating expenditures.” This includes amounts not budgeted or expended that “should be” in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure. If there is insufficient information to determine these unbudgeted liabilities, that, in itself, is reason for substantial concern.</p>					

Fund Balance

A positive fund balance, or reserves, is important for any government to withstand financial risk over time. Unanticipated fluctuations in revenues may occur from economic impacts or state take-ways. "Financial reserves" are important to meet unforeseen revenue shortfalls or expenditure overages. But reserves cannot be relied upon to cover financial shortfalls that are more than temporary. (See Indicator #7) An unplanned decline in unreserved fund balances as a percentage of operating revenues over time suggests the government is less able to withstand financial emergencies.

The right level of fund balance varies depending on many factors including levels of risk and revenue volatility but, generally speaking, dropping below 8% may be cause for concern. The Government Finance Officers Association recommends maintaining a 5-15% reserve.

2 Fund Balance

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
628.85%	494.85%	384.11%	165.41%	219.09%	210.82%

<p><i>Formula</i></p> $\text{Fund balance as a percent of expenditures} = \frac{\text{unreserved fund balance}}{\text{net operating expenditures}}$	<p>Score: Warning-Red: Persistently & substantially decreasing or is below 8%. Caution-Yellow: Has decreased but remains above 8% and there is a reasonable plan for stabilizing. Green - not concerning</p>	<input type="radio"/>
		<input type="radio"/>
		<input type="radio"/>

Definitions

Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. However, you should review resources categorized as "committed" and include in "unreserved fund balance" any amounts that, even if only in time of emergency, could be accessed with action of the Board of Supervisors.

Net operating expenditures. Net operating expenditures equals expenditures (after credits/reimbursements) and transfers out, minus capital improvement expenditures (or transfers out for capital purposes), minus expenditures of revenues legally restricted to special purposes.

	<u>Fund Balance Components¹</u>				
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
Total Fund Balance	x	x	x	x	x
Unrestricted Fund Balance			x	x	x
Unreserved Fund Balance (AKA "Balance available for assignment")				x	x

1. See Stephen J. Gauthier, "Governmental Accounting, Auditing, and Financial Reporting." (The "Blue Book") 2012 Government Finance Officers Association.



Data Gathering Worksheet

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

Data Component		Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
	Year (e.g., 2014-15, etc.)			2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
a	Gross program revenues and transfers in	CAFR* Statement of Revenues and Expenditures "total revenues"	SF-1A	890,335	861,371	1,308,267	1,023,106	1,019,267	1,117,426
b	General revenue transfers in if included in "a" above	CAFR* Statement of Revenues and Expenditures "transfers in"		-	-	-	106,747	-	-
c	Revenues restricted to capital improvements (by law or contract)	Staff analysis		-	-	-	-	-	-
e	Net operating revenues	line "a" minus lines "b" , and "c"	SF-1B, SF-1C	890,335	861,371	1,308,267	916,359	1,019,267	1,117,426
Net operating revenues. Net operating revenues equals gross revenues and transfers in, minus revenues restricted to capital improvements.									
f	Temporary revenues (other than those included in "c")	Staff analysis	SF-1B, SF-1C	-	-	-	-	-	-
Temporary revenues. Temporary revenues include any non-recurring revenues that derive from short-term activities and cannot be relied upon in the long-run (over multiple years). This might include revenues from land sales, one-time transfers from other funds, limited-term grants, court settlements or major donations. Optionally, you might consider also excluding receipt of construction-related revenues from a given project that are significantly in excess of an "average" year, if this represents a level of revenue unlikely to be repeated. Back taxes and late payments do not have to be omitted because they just make up for what was not received in a prior year.									



Data Gathering Worksheet

Internal Service Fund

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

Data Component		Source of Data	Use for Indicator	Year-2	PriorYr	CurrentYr (estimated)	Next Year (projected)	Year+2 (projected)	Year+3 (projected)
Year (e.g., 2014-15, etc.)				2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
g	Gross expenditures	CAFR* Statement of Revenues and Expenditures "total expenditures"	SF-1A	928,056	950,255	1,142,447	1,160,087	1,216,227	1,250,776
h	Transfers out	CAFR* Statement of Revenues and Expenditures "transfers out"		-	-	-	544,500	-	-
i	Capital project expenditures (other than capital outlay that is not included in current expenditures)	CAFR* Statement of Revenues and Expenditures "capital outlay"		270,516	94,794	280,500	-	-	-
ia	Other one-time or temporary expenditures	Staff analysis		-	-	-	-	-	-
j	Net operating expenditures	line "g" plus line "h" minus line "i" minus line "ia"	SF-1B, SF-1C, SF- 2, SF-4, SF-5	657,540	855,461	861,947	1,704,587	1,216,227	1,250,776
Net operating expenditures. Net operating expenditures equals gross expenditures minus capital improvement expenditures..									
k	Unbudgeted current liabilities	Staff analysis	SF-1C	-					
Unbudgeted current liabilities. The amortized costs of long term general fund liabilities attributable to this program or fund not already included in "net operating expenditures." This includes amounts not budgeted or expended that "should be" in order to pay the current year portion of liabilities. Examples: unbudgeted actuarially required contributions (ARC) to Other Post-Employment Benefits (OPEB) or pension systems; unbudgeted earned leave cash-out liabilities; maintenance and replacement costs of vehicles, technology, buildings, streets, and other properties and infrastructure.									



Data Gathering Worksheet

Internal Service Fund

This worksheet is a tool to 1) help the analyst find the figures and put them together, 2) more clearly define all of the data elements and terms – and tie them back to standard GASB elements etc. as much as possible.

<i>Data Component</i>	<i>Source of Data</i>	<i>Use for Indicator</i>	<u>Year-2</u>	<u>PriorYr</u>	<u>CurrentYr (estimated)</u>	<u>Next Year (projected)</u>	<u>Year+2 (projected)</u>	<u>Year+3 (projected)</u>
Year (e.g., 2014-15, etc.)			2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
l Total Fund Balance	CAFR* Balance Sheet	-	4,930,953	4,842,069	4,007,889	3,433,155	3,236,195	3,102,845
m Nonspendable, restricted and committed fund balance	CAFR* Balance Sheet	-	795,982	608,840	697,067	613,658	571,618	465,968
n Unreserved fund balance	line "l" minus line "m"	SF-2	4,134,971	4,233,229	3,310,822	2,819,497	2,664,577	2,636,877
<p>Unreserved fund balance is fund balance not reserved in accordance with state law, charter or contractual obligation. This includes total fund balance minus nonspendable, restricted or committed resources. Review "committed" fund balance for any amounts that could be considered available and unhindered by law or contract.</p>								