

**MINUTES OF A REGULAR MEETING
OF THE CITY COUNCIL OF THE CITY OF
PALOS VERDES ESTATES, CALIFORNIA**

May 10, 2011

A regular meeting of the City Council of the City of Palos Verdes Estates was called to order this day at 7:30 p.m. in the City Council Chambers of City Hall by Mayor Rea.

PLEDGE OF ALLEGIANCE

ROLL CALL: Councilmembers Perkins, Goodhart, Humphrey, Mayor Pro Tem Bird, Mayor Rea

ABSENT: None

ALSO PRESENT: City Manager Hoefgen, City Attorney Hogin, Assistant City Manager Smith, Police Captain Eberhard, Public Works Director Rigg, City Treasurer Sherwood, Administrative Analyst Davis, Executive Asst./Deputy City Clerk Kroneberger

MAYOR'S REPORT – Matters of Community Interest

Mayor Rea announced that Palos Verdes Estates Police Officers Rick Delmont and Dave Blitz will receive the Distinguished Service Award at the South Bay Area Police & Fire Medal of Valor Ceremony on May 11th. Mayor Rea, on behalf of the Council, congratulated the officers and thanked them for their outstanding service.

Mayor Rea announced the Lunada Bay Homeowners Association will hold its annual meeting on Sunday, May 15th from 3-4:30 PM at the Lunada Bayhouse Restaurant and all residents of Lunada Bay are invited.

Mayor Rea swore-in and administered the Oath of Loyalty to 22 Palos Verdes Estates Residents, including Councilmember Jim Goodhart and Mayor Pro Tem Bird, as Disaster Service Workers. These volunteers were acknowledged for the commitment to our community, each having completed CERT (Community Emergency Response Training) and/or NART (Neighborhood Amateur Radio Training). Disaster Service Workers are included in the State's Workers Compensation coverage program, and also receive protection under Good Samaritan law while working under the authority of the City during an emergency.

CONSENT AGENDA

Mayor Pro Tem Bird abstained from voting on Item #1, Minutes of April 26, 2011, as he was not present at that Council meeting.

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City Manager Hoefgen advised Council that the Lunada Bay Homeowners Association contacted him and they are not asking permission for placement of a promotional sign in the right-of-way for their event “A Day in the Park.”

It was moved by Councilmember Humphrey, seconded by Councilmember Goodhart and unanimously approved that the following Consent Agenda items be approved:

- MINUTES OF THE REGULAR COUNCIL MEETING APRIL 26, 2011
- SPECIAL EVENT APPLICATION FOR LUNADA BAY HOMEOWNERS’ ASSOCIATION “A DAY IN THE PARK” – A COMMUNITY ENVIRONMENTAL FAIR, ON SUNDAY, JUNE 5, 2011 FROM 11:00 A.M. TO 6:00 P.M.

COMMUNICATIONS FROM THE PUBLIC – No one came forward to speak.

OLD BUSINESS

NEW BUSINESS

CONSIDERATION OF A REVISED GENERAL FUND BALANCE POLICY IN CONFORMANCE WITH PROVISIONS OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD – STATEMENT NO. 54

Assistant City Manager Smith explained that the Governmental Accounting Standards Board (GASB) is the official source of generally accepted accounting principles for state and local governments. Periodically, they issue guidelines, known as statements, intended to bring greater clarity to governmental accounting.

In March 2009, GASB 54 was issued regarding fund balances. It eliminates the three previous fund balance classifications: restricted, designated and undesignated, and replaced them with five classifications. They are: Nonspendable (inventory); Restricted (restricted by law; special revenue funds); Committed, by formal action for only specified purposes; Assigned, used for specific purpose. GASB 54 requires that capital fund balances previously shown as undesignated, must be shown as “assigned.” The fifth classification is Unassigned – available and spendable relevant only to the general fund.

In addition to the five classifications, Assistant City Manager Smith stated that GASB 54 requires additional disclosure in the notes to financial statements regarding fund balance policies or targeted balances. The City has 10 Special Revenue funds and 2 Capital Project funds; no Council action is required related to these funds because provisions for the fund balances are dictated by GASB 54. For June 30, 2011, all special revenue funds (e.g. gas, transit, and fire taxes) will be shown on the financial statement as Restricted; capital funds (general, sewer) will be shown as Assigned.

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Council has discretion with respect to how the general fund balance is shown. GASB 54 recognizes that a general fund balance that incorporates provisions for emergencies, such as budget stabilization or rainy day funds, is important information for financial statement readers.

In 2001, Council established a target for our general fund balance equal to 50% of the next year's total operating budget, because we faced potential loss of vehicle license fee revenue threatened by state budget actions. Funds in excess of that target balance are transferred to the capital fund or used in accordance with other Council direction.

Since the general fund balance is intended as a hedge against economic uncertainties, Assistant City Manager Smith said it seems prudent to designate a portion of that balance as "committed" as opposed to showing it all as "undesignated." Last year, the total general fund balance of \$8.4 million was "undesignated." Council could take no action and the general fund balance would continue to be shown as "undesignated." The other option is to commit a portion of the general fund balance for economic uncertainties. Our current policy doesn't provide enough specificity for our auditors to approve that commitment, thus by resolution, a revised general fund policy must be adopted. If Council decides to change the amount or use it for another purpose, the policy would simply be modified by adopting another resolution.

Assistant City Manager Smith summarized a poll of cities, which concluded that some have formally adopted policies to commit a portion of their fund balance, and others have decided to leave those fund balances as unassigned.

Assistant City Manager Smith concluded with the recommendation that Council commit a portion of the general balance for use as an emergency contingency and staff will prepare a revised general fund balance policy; a sample of which was provided for review. She said there is nothing that requires Council's action this evening, only if it is desired for this to be reflected for the June 30, 2011 financial statement. This would not preclude them from taking action at another time to commit a portion of the general fund balance.

Councilmember Humphrey asked when we have to comply. Assistant City Manager Smith responded that the financial statements for this fiscal year will conform to GASB 54. It is only if Council would like the general fund to be reflected differently than it has been, and wishes to commit a portion of those funds indicating that they're usable for an economic uncertainty.

Councilmember Humphrey asked if "unassigned funds" could be targeted by the state. Assistant City Manager Smith responded that these funds would be available and spendable, but didn't think that the state could take them. Some portion of residual balance would have to remain unassigned; the entire general fund balance wouldn't be committed. The sample policy reflected \$7.2 million, which is close to the 50% reserve based on next year's operating budget. There would still be a residual balance in the general fund left that would be reflected as unassigned. She confirmed that "committed" would include a definition of the specific purpose for those funds.

Assistant City Manager Smith explained an example of “assigned” funds would be the sidecar payment to PERS, which was a specific expenditure. If the fund balance policy is not adopted, that would not be reflected in the financial statement because the specific action has not been delegated.

Councilmember Humphrey asked what prompted this change. Assistant City Manager Smith explained it is to bring clarity within classifications, which can be confusing to readers. Some cities have moved monies out of the general fund into other funds, when it was not the intent to use those funds for other purposes. She confirmed with Councilmember Humphrey that accountability, tracking, identification and usage of funds was the general intent of the GASB changes.

Councilmember Perkins confirmed with Assistant City Manager Smith that past experience (lost property tax money from the state) prompted the \$500,000 target threshold for emergency contingency on the draft policy. Councilmember Perkins voiced her thanks for the clarity of the staff report.

Councilmember Goodhart confirmed with Assistant City Manager Smith that Council does not have to do anything regarding the general fund unless they specifically want to indicate to the public that we have a general fund policy, part of which commits a dollar value which specifically addresses a response to emergencies, or other loss of funds, to be shown in the financial statement. If this is not desired, the entire general fund will be unassigned. Disclosure in the notes of the financial statement would still occur regarding the Council policy of having a 50% balance equal to the next year’s operating budget.

Councilmember Humphrey liked the term undesignated better than unassigned; however, that option has been eliminated.

Mayor Pro Tem Bird confirmed with Assistant City Manager Smith that this does not change how we do business, we’re just complying with the change in the law.

Mayor Rea asked what the practical advantages or disadvantages would be if we took the recommended action this evening. Assistant City Manager Smith responded that if it’s Council desire to specifically commit an amount that is intended to be used only to respond to an emergency, disaster, or a loss of a major revenue source then that value should be shown. Leaving it unassigned, as it currently is, would indicate to that general reader that 50% of the next year’s operating budget is money that is available and spendable for whatever action the Council chooses to take.

Councilmember Goodhart stated in this era of transparency that it is significant that we identify for what those monies are intended –economic issues, disaster/emergency issues. Stating that’s what these funds are intended for is consistent with what they’ve done. He asked how it would work if they wanted to make changes, upon adopting these constraints, which was his concern.

Assistant City Manager Smith responded that options for the use of any monies that is in excess of the reserves target are presented to Council when they present the annual audit. Our general practice would be, as it is now, that the total general fund balance (including committed and unassigned funds) would be at least the 50% target number; anything over and above that would be brought back for separate discussion.

Mayor Pro Tem Bird stated his support of adopting the new policy.

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Councilmember Perkins concurred, and agreed with Councilmember Goodhart's statement regarding this era of increased transparency. This policy states that those funds are set aside consciously as a reserve for emergency use or a decline in revenues; to meet that need this is an effective way of communicating to our residents and the public that this is the purpose of those funds. If a situation changed, they are able to make an adjustment relatively easily by bringing back an amendment to the policy. She said she appreciated that it makes our financial statements clearer and she supported approval.

Councilmember Humphrey concurred, and agreed with the other Councilmember's comments. She confirmed with Assistant City Manager Smith that the recommendation is for the \$7.2 million committed balance, the total general fund balance would still be the 50% target, and anything over and above that would be brought to Council after the conclusion of the audit for further determination.

Mayor Rea agreed that the change in definitions per [GASB] Statement 54 is the more accurate way to define what the Council policy has been in its desires and purpose for this money.

Councilmember Goodhart moved, seconded by Mayor Pro Tem Bird, and unanimously carried that staff prepare a revised general fund balance policy for adoption, which commits a portion of the general fund balance for economic uncertainties, in conformance with Governmental Accounting Standard Board's (GASB) Statement No. 54.

STAFF REPORTS

City Manager's Report

City Manager Hoefgen reported the prescription drug collection program held in cooperation with the DEA on April 30th was a great success and the City will look to offer the program again in the future. He added that there will be a drug collection program as part of the October Senior Health Fair. He also reported that the P.V. Marathon will be held this Saturday, May 14th and concluded his comments by welcoming Executive Assistant/Deputy City Clerk Vickie Kroneberger to her first Council meeting in this capacity.

DEMANDS

It was moved by Councilmember Goodhart and seconded by Mayor Pro Tem Bird that the demands, as approved by a majority of the City Council, totaling \$201,131.25 be allowed and it was unanimously approved.

It was moved by Councilmember Goodhart and seconded by Mayor Pro Tem Bird that the demands, as approved by a majority of the City Council, No. 519343V, 519446 to 519513 totaling \$109,870.21 be allowed and it was unanimously approved.

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MAYOR & CITY COUNCILMEMBERS' REPORTS

City Council scheduled interviews for Traffic Safety and Parklands Committees, and Planning Commission applicants for Tuesday, June 14th beginning at 4:00 PM.

Councilmember Perkins reported on the April 28 SBCCOG meeting and invited the public to attend the May 25th COG meeting 6PM at Peninsula Library where there will be an expert speaker on earthquake disaster recovery.

Councilmember Humphrey stated her representation of the City at the Malaga Cove Library Art Gallery and Garden dedication, which was held Sunday, May 1st.

ADJOURNMENT

There being no further business before Council the meeting was adjourned at 8:13 p.m. to Tuesday, May 24, 2011 at 7:30 p.m. in the City Council Chambers of City Hall.

RESPECTFULLY SUBMITTED,

VICKIE KRONEBERGER,
EXECUTIVE ASSISTANT/DEPUTY CITY CLERK

APPROVED:

WILLIAM JOHN REA, MAYOR

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