

City of Palos Verdes Estates Financial Advisory Committee

FY'19 Work Plan

July 24, 2018

Agenda

① Financial Reporting Overview

- Historical (Fund) Financial Statements
- Government Wide Financial Statements

② Current Situation

- Revenues and Expenses
- Fund Balance
- Capital Assets

③ FAC FY'19 Work Plan

- FAC Overall
- Operating Budget Ad Hoc
- Pension Ad Hoc
- Capital Assets Ad Hoc
- Revenue Ad Hoc
- Communications Ad Hoc

Financial Reporting Overview

Historical (Fund) Financial Statements

- Traditionally state and local government financial reports contained information arranged around funds
- **Fund Financial Statements** were widely used, but did not give users an overall view of a government's financials :
 - Funds could not be added together
 - Funds reported different information



Government Wide Financial Statements



Government
Wide Financial
Statements

- GASB introduced a secondary financial statement
- **Government Wide Financial Statements** are designed to report the financial activities of government entities in a manner similar to private sector business

In Comparison

Government Wide Financial Statements

- Full Accrual Basis
- Encompasses all economic activity on a consolidated basis
- Statement of Net Position
- Statement of Activities

Fund Financial Statements

- Modified Cash Basis
- Broken into the following fund groups:
 - Governmental Funds
 - Proprietary Funds
 - Fiduciary Funds
- Balance Sheet
- Statement of revenues, expenditures and changes in fund balances

What are the major differences between these 2 forms of reporting, pertaining to Palos Verdes Estates?

Government Wide Financial Statements

- ✓ Capital assets and related depreciation
- ✓ Pension related items, including current period, deferred outflows/in flows, and unfunded liabilities
- ✗ No fiduciary activities

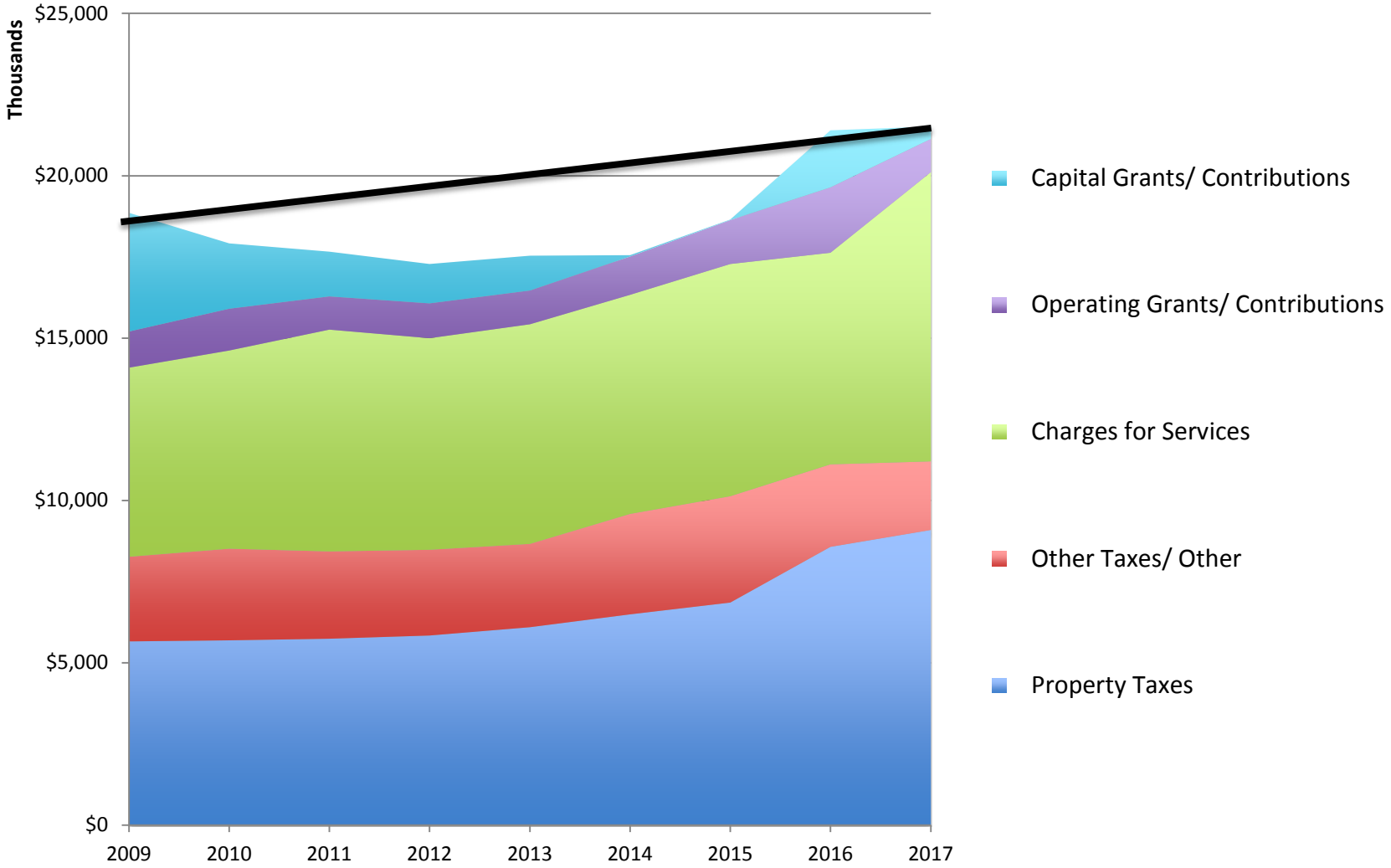
Fund Financial Statements

- ✗ No capital assets or depreciation
- ✗ Current period pension contributions only
- ✓ Includes fiduciary activities

Current Situation

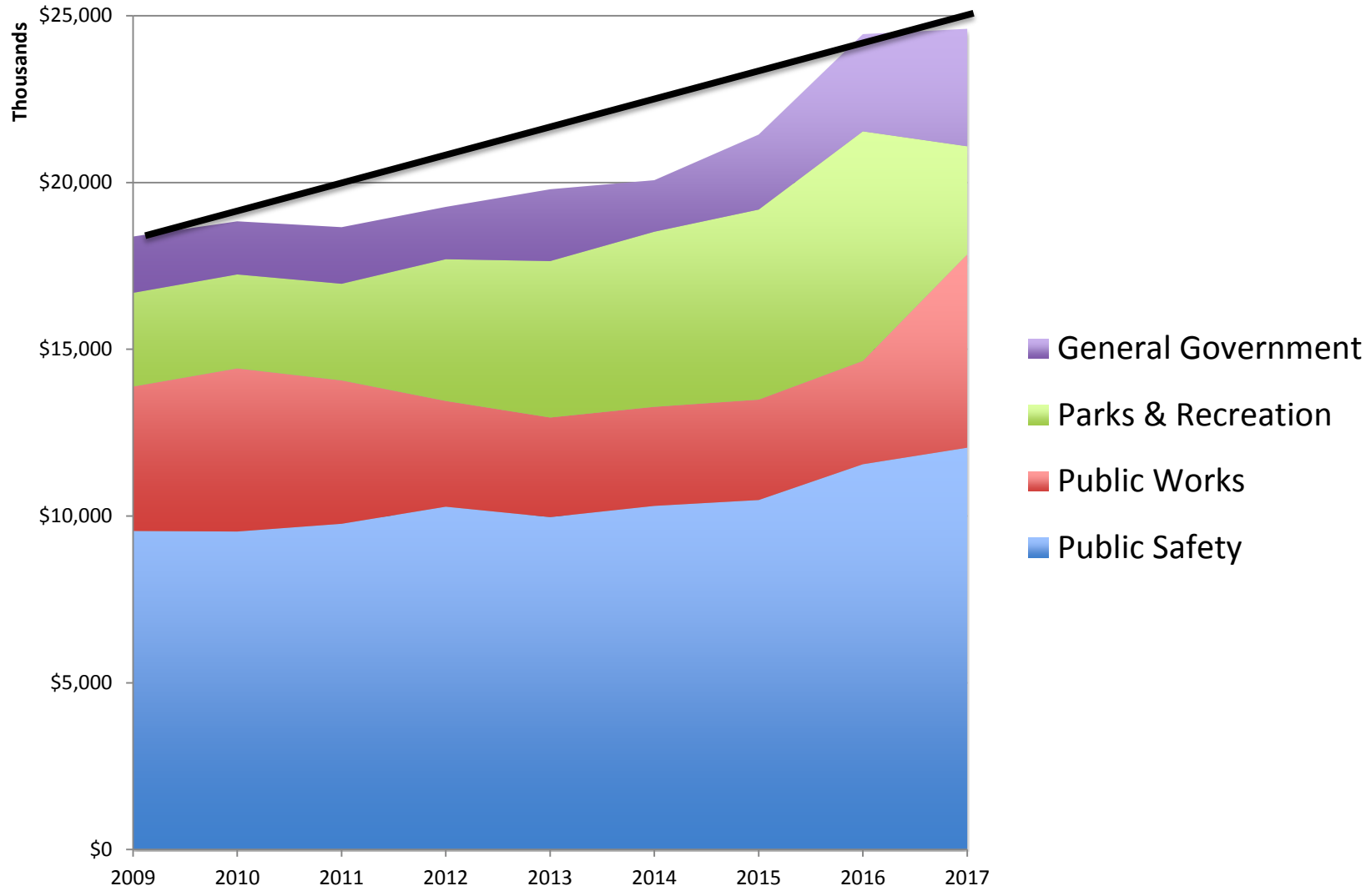
City Wide Revenues

Source: 2009-2017 CAFR



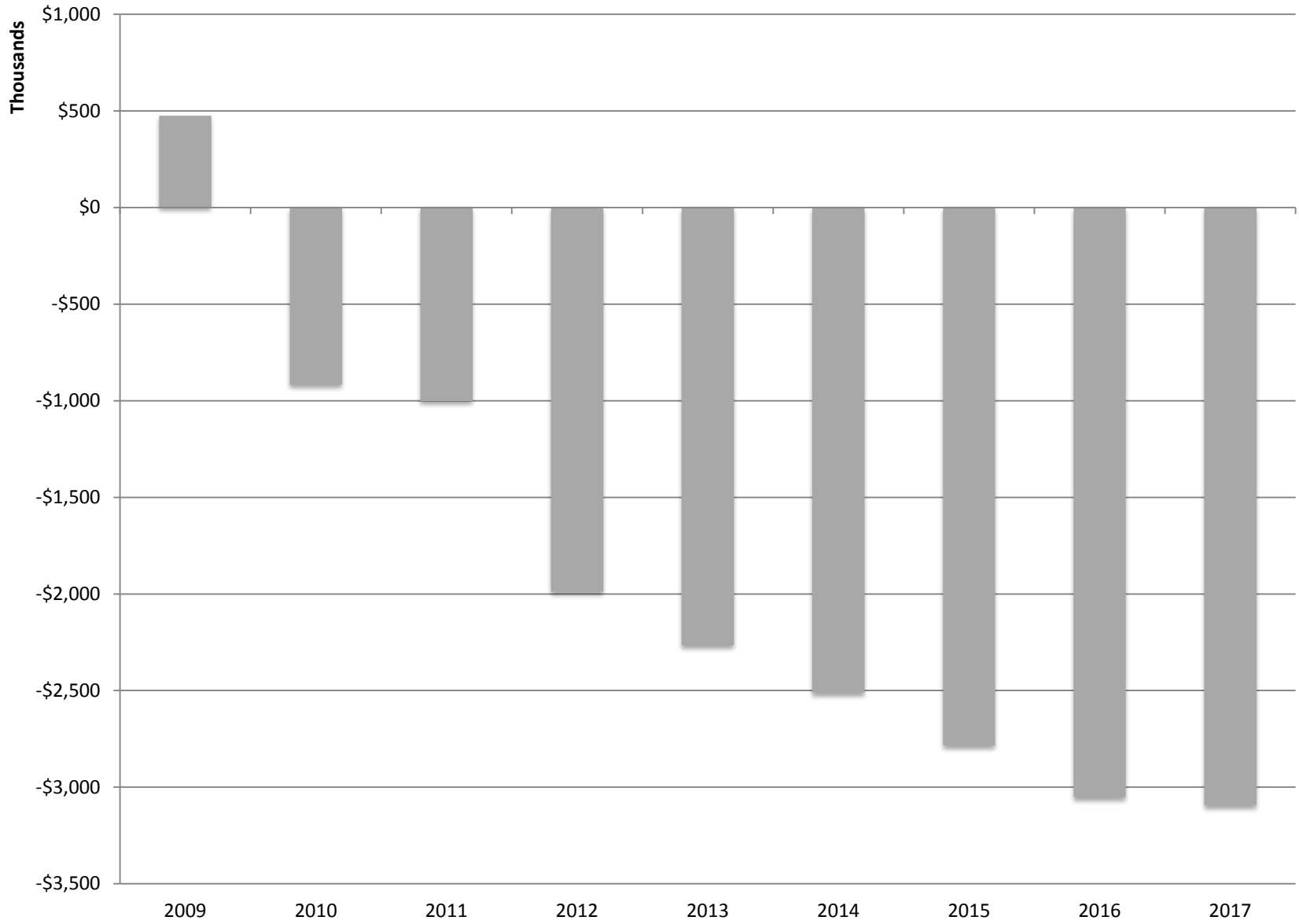
City Wide Expenses

Source: 2009-2017 CAFR



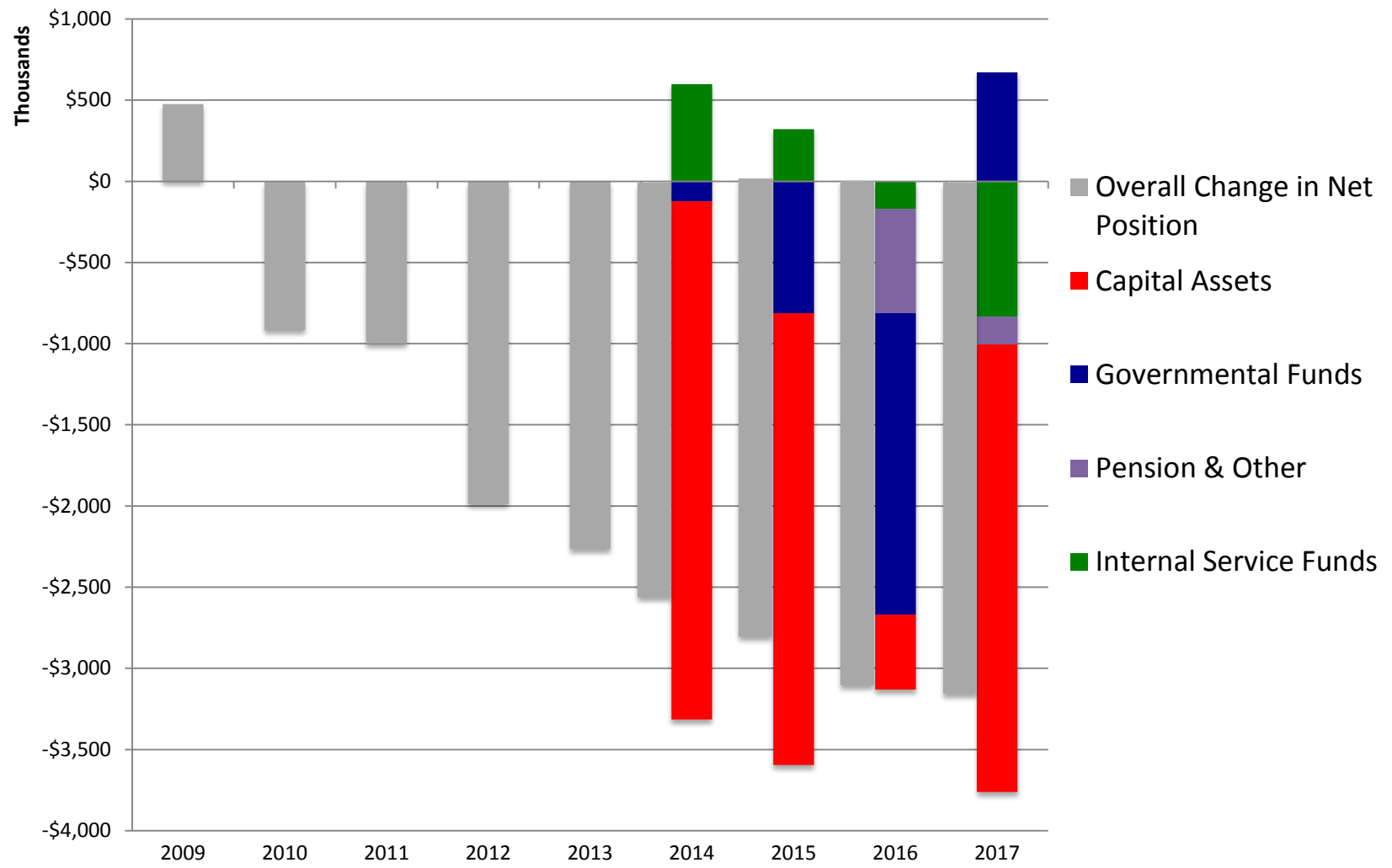
Change in Net Position

Source: 2009-2017 CAFR



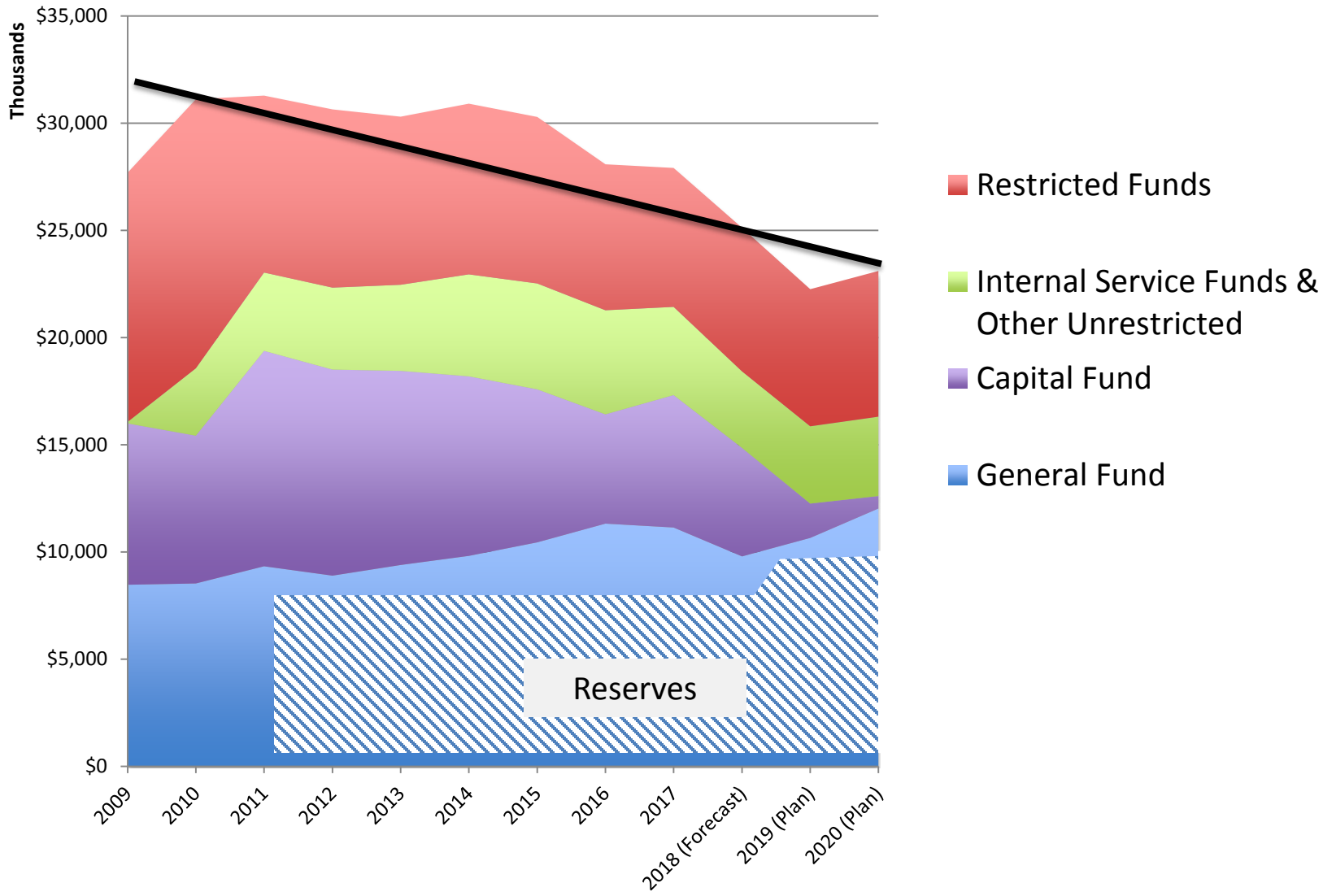
Change in Net Position

Source: 2009-2017 CAFR; 2017 Segmentation: Staff Reconciliation



Available Funds

Sources: 2009-2017 CAFR, FY 2018-2020 Budget



Capital Assets

- Buildings and Improvements
- Land
- Machinery
- Furniture and Fixtures
- Vehicles
- Infrastructure

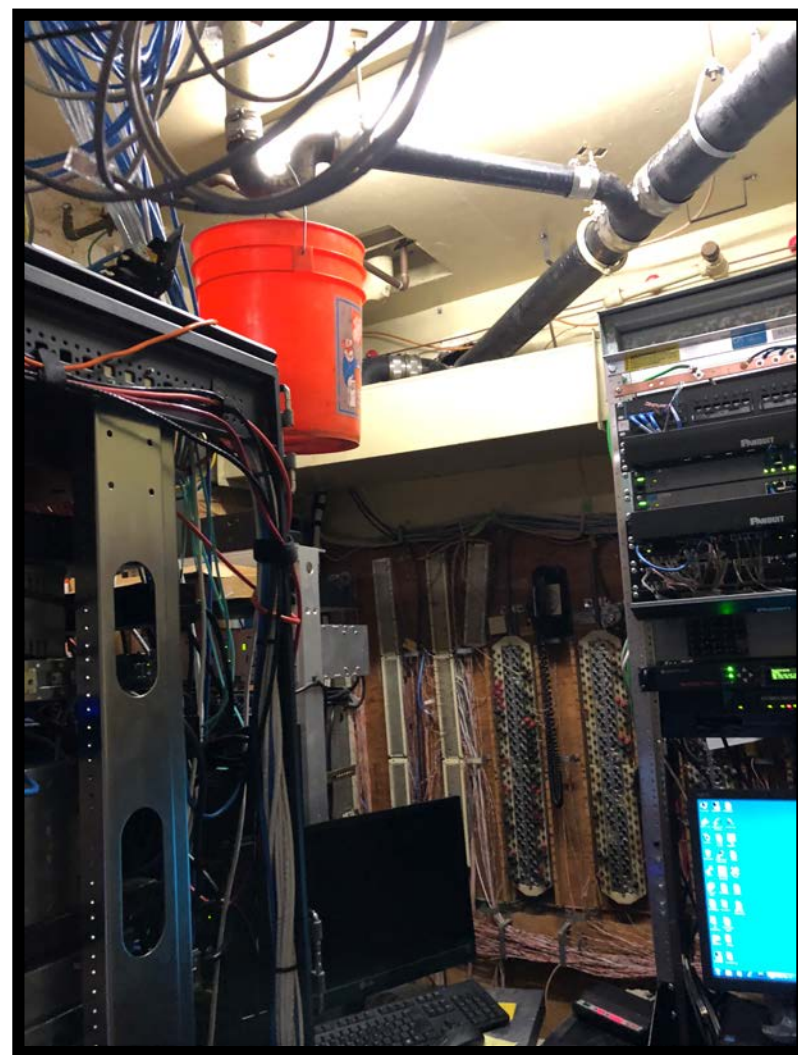
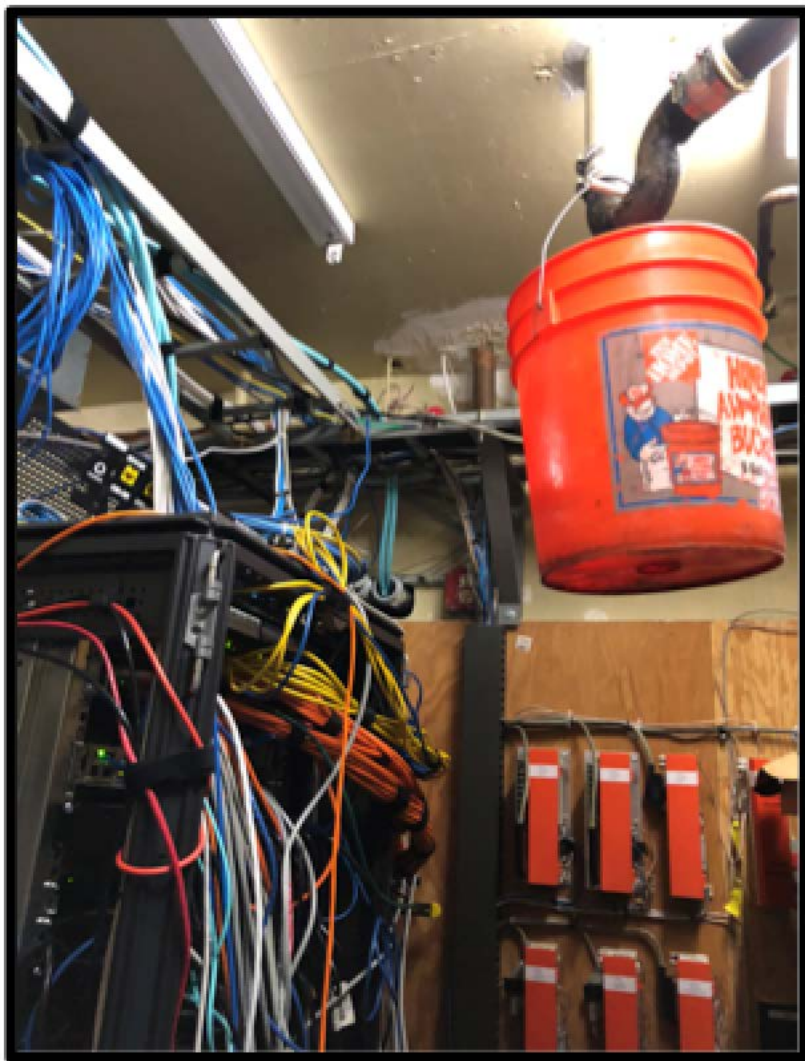


Current Capital Assets

$$\begin{aligned} & \$115\text{M Capital Assets} \\ & - \underline{\$75\text{M Depreciation}} \\ & = \$40\text{M Net 'Book Value'} \end{aligned}$$

- Municipalities are perpetual entities and are responsible for maintaining and replacing assets, if necessary, into the future
- Depreciation is a valid 'book entry' *but is a non-cash entity*
- Absent an increase in cash balance, depreciation will result in reduction of Net Position
- Most likely the replacement value of these assets will be greater than the historical cost

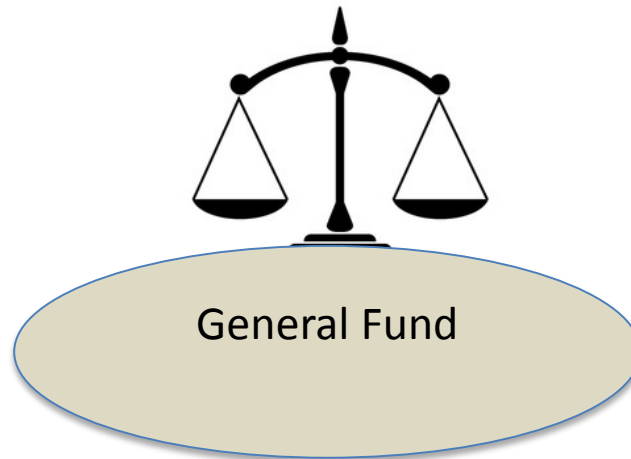
Unidentified Risks



Financial Reporting Overview, con't

Structural Balance

“Structurally Balanced” is a term commonly used to mean the General Fund has adequate sources of cash to cover anticipated expenses while maintaining a target reserve level



It does not address other funds encompassed within the Government
Wide definition of Palos Verdes Estates

Short Term and Long Term Outlook

“Structurally Balanced” is an important measure when focused on the short term

But...

Municipalities are perpetual in nature and need to also manage the long term economic health of the community for future generations



FAC Supports City Council in its Objective for a Long Term Plan

PVE needs to develop a financial strategy that balances short term requirements with long term (10 year) needs of the community without creating generational issues

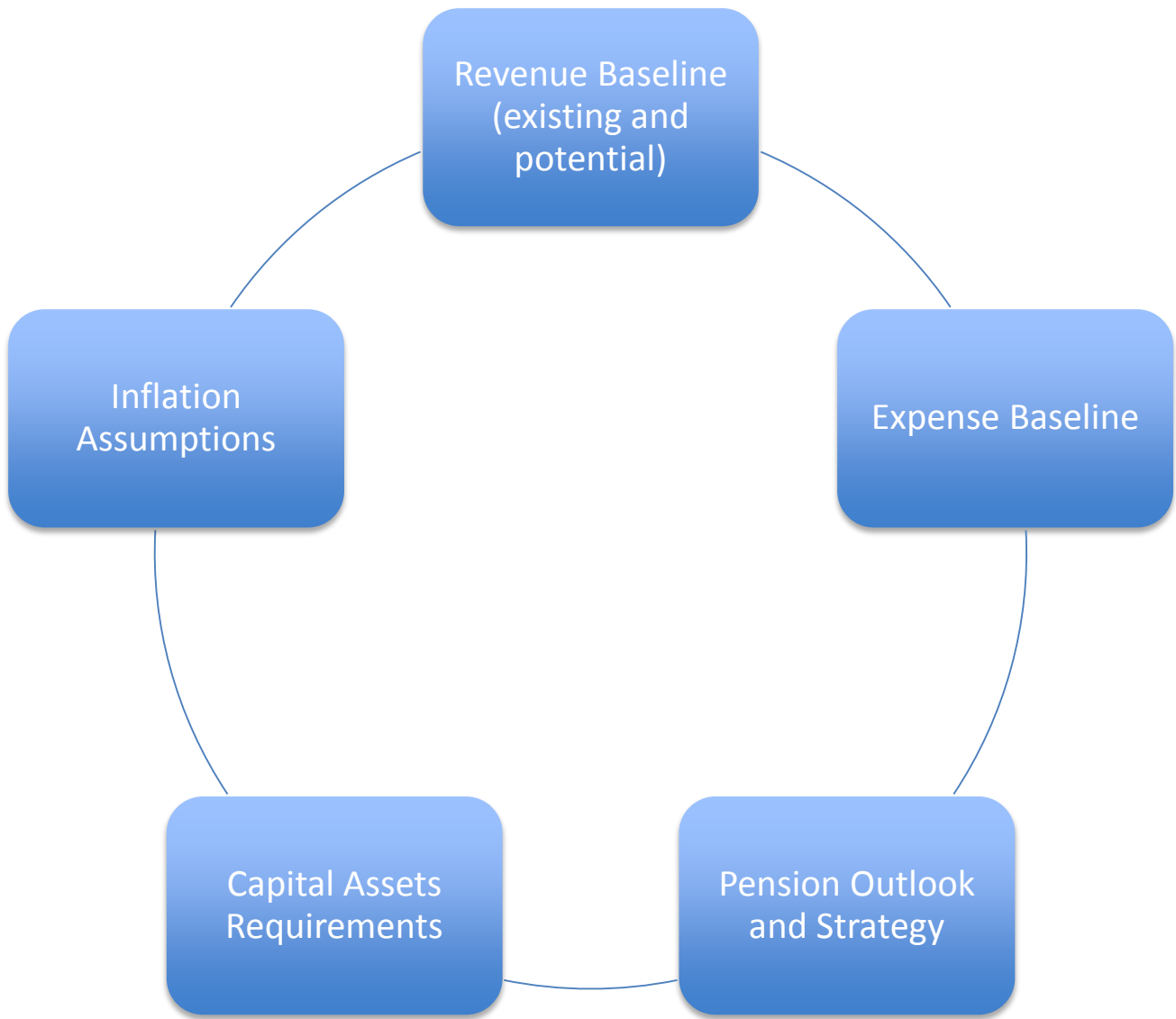
FAC is prepared to assist City Council by working with Staff to develop a 10-year model that can serve as a tool in managing such an objective

Benefits of a 10-Year Plan

- To evaluate and balance short term and long term financial needs of PVE
- Provide a tool to test various sensitivities as they related to decisions before Council



Components of a 10-Year Model



FAC Work Plan (2018-2019)

Committee/Ad Hoc Committee	Members	Objectives	Apr - Jun '18	Jul - Sep '18	Oct-Dec '18	Jan- Mar '19	Apr - June '19
FAC	<ul style="list-style-type: none"> ❖Amy Forte (Chair) ❖Mark Young (Vice Chair) ❖David McGowan ❖Ela Jhaveri ❖Don Culler ❖Victoria Lozzi (Treasurer/Ex Officio) 	<ul style="list-style-type: none"> ➢Budget reconciliation and advisement on fiscal matters facing PVE ➢Support preparation of 5-10 year forecast ➢Development of succinct and informative communications for Council's use to keep residents informed 	Form ad hoc committees and prepare for July start of financial study	<ul style="list-style-type: none"> ➢Begin detailed financial study ➢Provide input for Open Gov requirements 	Review and integrate overall financial study by December 31	<ul style="list-style-type: none"> ➢Develop 5-10 year financial projection ➢Develop recommendations for Council's consideration during mid-year budget review 	Develop plan for ongoing FAC activities (ongoing budget reconciliation, 5-10 year projection refresh, etc)
Ad Hoc Committees	Operating Budget Ad Hoc	<ul style="list-style-type: none"> ❖David McGowan ❖Mark Young 	<ul style="list-style-type: none"> ➢Analyze departmental budgets and consider alternatives as needed ➢Review reserve policy and recommend modifications if needed ➢Share financial best practices 	<ul style="list-style-type: none"> ➢Review existing financial reporting ➢Recommend best practices ➢Observe '18-'19 budget review 	<ul style="list-style-type: none"> ➢Conduct review of reserve levels; develop policy recommendation as needed ➢Utilize '18-'19 budget as baseline operational expenses; partner with departments to understand operational functions and expenses 	<ul style="list-style-type: none"> ➢Review study results with FAC by Oct 31 ➢Integrate overall financial study 	
	Pension Ad Hoc	<ul style="list-style-type: none"> ❖Ela Jhaveri ❖Victoria Lozzi 	<ul style="list-style-type: none"> ➢Understand pension obligation current and long term ➢Develop recommendation for course of action to address obligations, short term and long term 	Observe '18-'19 budget review	<ul style="list-style-type: none"> ➢Analyze pension projections ➢Analyze Calpers report 	<ul style="list-style-type: none"> ➢Review study results with FAC by Oct 31 ➢Integrate overall financial study 	
	Capital Assets Ad Hoc	<ul style="list-style-type: none"> ❖Don Culler ❖Ela Jhaveri 	<ul style="list-style-type: none"> ➢Support development of 5-10 year plan (investments and maintenance) ➢Support inventory of physical assets 	Observe '18-'19 budget review	Analyze capital forecast and incorporate equipment replacement fund	<ul style="list-style-type: none"> ➢Review study results with FAC by Oct 31 ➢Integrate overall financial study 	
	Revenue Ad Hoc	<ul style="list-style-type: none"> ❖Amy Forte ❖Victoria Lozzi 	<ul style="list-style-type: none"> ➢Understand revenue streams, current and long term ➢Explore revenue opportunities ➢Recommend strategies to ensure revenue keeps pace with expenses 	<ul style="list-style-type: none"> ➢Observe '18-'19 budget review ➢Benchmark meetings (RPV, Torrance, other) 	Study areas: <ul style="list-style-type: none"> ➢Concessions ➢Grants ➢Private funding initiatives ➢New opportunities 	<ul style="list-style-type: none"> ➢Review study results with FAC by Oct 31 ➢Integrate overall financial study 	
	Communications Ad Hoc	<ul style="list-style-type: none"> ❖Don Culler ❖Amy Forte 	<ul style="list-style-type: none"> ➢Develop and recommend Finance communication strategy ➢Draft communications for Council's use in informing residents ➢Emphasize consistency in communications 		<ul style="list-style-type: none"> ➢Draft budget summary visuals and share with staff and Council ➢Draft dashboard of key performance indicators and share with staff and Council 	Support FAC in integration activity	Draft communications relating to overall financial study and 5-10 year projection, as needed, for Councils use

Finance Advisory Committee

Objectives:

Budget Reconciliation



- Provide recommendations to Council and Staff to support a budget reconciliation
- Advise Council and Staff on fiscal liability matters

Long Term Stability



- Collaborate with Staff to develop a 5-10 year financial forecast and refresh strategy
- Provide recommendations to Council to ensure long term alignment between revenue and expenses

Resident Engagement and Communication



- Develop succinct and informative communications for the Council's use to keep residents informed

2018-2019 Work Plan:

Jul - Sep '18	Oct-Dec '18	Jan- Mar '19	Apr - June '19
<ul style="list-style-type: none"> ➤ Begin detailed financial study ➤ Provide input for Open Gov requirements 	<p>Review and Integrate overall financial study by December 31</p>	<ul style="list-style-type: none"> ➤ Collaborate with Staff to develop 10 year financial projection ➤ Develop recommendations for Council's consideration during mid-year budget review 	<p>Develop plan for ongoing FAC role and activities</p>

Operating Budget Ad Hoc

Objectives:

Analyze departmental budgets and consider alternatives as needed

Review reserve policy and recommend modifications if needed

Share financial best practices

2018 Work Plan:

Jul - Sep '18

- Conduct review of reserve levels; develop policy recommendation as needed
- Utilize '18-'19 budget as baseline operational expenses; partner with departments to understand operational functions and expenses

Oct-Dec '18

- Review study results with FAC by Oct 31
- Integrate overall financial study

Pension Ad Hoc

Objectives:

Understand pension obligation, current and long term

Develop recommendations for course of action to address obligations

2018 Work Plan:

Jul - Sep '18	Oct-Dec '18
<ul style="list-style-type: none">➤ Analyze pension projections➤ Analyze Calpers report	<ul style="list-style-type: none">➤ Review study results with FAC by Oct 31➤ Integrate overall financial study

Capital Assets Ad Hoc

Objectives:

**Support
development of
5-10 year plan**
-Investment
-Maintenance

**Support
inventory of
physical assets**

2018 Work Plan:

Jul - Sep '18	Oct-Dec '18
Analyze capital forecast and incorporate equipment replacement fund	<ul style="list-style-type: none">➤ Review study results with FAC by Oct 31➤ Integrate overall financial study

Revenue Ad Hoc

Objectives:

Understand revenue streams and explore additional opportunities

Recommend strategies to ensure revenue keeps pace with expenses

2018 Work Plan:

Jul - Sep '18	Oct-Dec '18
<p>Benchmark meetings (RPV, Torrance, other)</p> <p>Study areas:</p> <ul style="list-style-type: none"> ➤ Concessions ➤ Grants ➤ Private funding initiatives ➤ New opportunities 	<ul style="list-style-type: none"> ➤ Review study results with FAC by Oct 31 ➤ Integrate overall financial study

Communications Ad Hoc

Objectives:

Develop and recommend communication strategy for financial information

Draft communications for Council's use in informing residents

2018 – 2019 Work Plan:

Jul - Sep '18	Oct-Dec '18	Jan- Mar '19
<ul style="list-style-type: none"> ➤ Draft budget summary visuals and share with staff and Council ➤ Draft dashboard of key performance indicators and share with staff and Council 	<p>Support FAC in integration activity</p>	<p>Draft communications relating to overall financial study and 10 year projection, as needed, for Council's use</p>

Thank you!