

# Budget Introduction



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## Proposed Budget



## BUDGET INTRODUCTION

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### Summary of the Budget and Accounting Structure

The City of Beverly Hills uses the same basis for budgeting as for accounting. Governmental fund financial statements are budgeted and reported using a modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and taxpayer-assessed tax revenues (e.g., franchise taxes, sales taxes, motor vehicle fees, etc.), net of estimated refunds and uncollectible amounts, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

To budget and record financial transactions, the City of Beverly Hills uses several different types of funds: governmental, capital proprietary, internal service, and special revenue funds. This practice is also referred to as "fund accounting".

The City budgets for the following major governmental funds:

- **General Fund (01)** – The General Fund is the City’s primary operating fund. These are unrestricted funds generated from Business, Sales, Property, and Transient Occupancy taxes and other general revenues available for discretionary spending. The General Fund is used to record only current revenues and current expenses; it does not recognize either long-term assets or liabilities. It is the fund that provides traditional governmental services such as public safety, library, and recreational services. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Infrastructure Funds (06, 56, 96)** – Primarily a subset of the General Fund used to recognize and fund long-term public capital improvement projects or property expenditures including, but not limited to, replacement of the City’s roadways and street improvements, street lighting system, and other infrastructure projects for assets which belong to the General Fund. For presentation purposes, the three funds involved, Infrastructure Projects (Fund 06), Debt Service (fund 56), and General Fixed Assets (Fund 96) are presented as a single operation.

## BUDGET INTRODUCTION

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Additionally, the City budgets for special revenue and internal service funds:

- **Special Revenue Funds (09-32)** – These are restricted funds with dedicated funding sources, such as: Park & Recreation Tax Fund, which receives fees from new development that may only be used for park related expenses; Propositions A & C Transportation Funds derived from sales tax entitlements and administered by the Los Angeles County Metropolitan Transportation Authority (MTA) may be used only for transportation or transportation related programs and expenses; and Fine Art Fund, which receives fees from new development that may only used only to provide public art and art exhibitions.

Below is a listing of all special revenue funds in use by the City:

- Fund 09 - Housing Fund
- Fund 10 - HCDA Grant Fund
- Fund 12 - State Gas Tax Fund
- Fund 13 - In-Lieu Parking District Fund
- Fund 16 - Parks and Recreation Facilities Fund
- Fund 17 - Inmate Welfare Fund
- Fund 18 - Fine Arts Fund
- Fund 19 - Law Enforcement Grant Fund
- Fund 23 - Community Development Technology Fund
- Fund 24 - Air Quality Improvement Fund
- Fund 26 - State Mandated Building Fees Fund
- Fund 27 - SB 1186 – Disabled Accessibility
- Fund 30 - Prop A Transit Local Fund
- Fund 31 - Prop C Local Transit Fund
- Fund 32 - Seized/Forfeited Property Fund
- Fund 33 - MTA Grant Fund

## BUDGET INTRODUCTION

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- **Internal Service Funds (08, 40-49)** – Internal Service Funds account for a variety of services provided to other departments or agencies of the City on a cost reimbursement basis. These services include equipment replacement, information technology, capital assets (governmental capital assets excluding infrastructure assets and the City’s fine art collection) and related maintenance and financing, reprographics, cable television, liability insurance, workers’ compensation insurance, unemployment insurance and employee benefits, policy, legal and administrative services, and vehicle maintenance and replacement. Rentals to user departments and divisions for internal service capital assets are based on 1) capital replacement, 2) repairs and maintenance costs and 3) fuel usage. The capital replacement charge, based on the estimated net replacement cost of the asset allocated over the asset’s estimated useful life, is used by the City to reduce budgetary swings in user departments for periodic capital replacement.

Below is a listing of all internal service funds in use by the City:

- Fund 08 - Capital Assets / Facilities Maintenance Fund
- Fund 40 - Equipment Replacement Fund
- Fund 41 - Information Technology Fund
- Fund 42 - Cable Television Fund
- Fund 43 - Reprographics/Graphics Fund
- Fund 44 - Employee Benefits Fund
- Fund 45 - Liability Claims Reserve Fund
- Fund 46 - Workers Compensation Fund
- Fund 47 - Unemployment Insurance Fund
- Fund 48 - Policy, Administration, Legal and IT Operations Fund
- Fund 49 - Vehicle Fund

The City budgets for the following major enterprise funds:

- **Water Enterprise Fund (80)** – This fund accounts for all financial aspects of the City’s water operations. The City obtains its water from the Metropolitan Water District of Southern California and distributes it throughout the City and portions of the City of West Hollywood. The City has completed construction of a water treatment facility through a lease-purchase-operate-finance arrangement to treat local well water that is anticipated to meet approximately 20% of its water needs. The acquisition and construction of water system facilities have primarily been financed through the issuance of general obligation and revenue bonds supported by water service charges established by City Council action.

## BUDGET INTRODUCTION

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- **Parking Enterprise Fund (81)** – This fund accounts for the City’s parking operations. The City provides parking operations as a contractor to the Parking Authority. Most of the City’s parking facilities, including parking meters, were transferred to the Parking Authority in FY 2011/12. The City retains the Civic Center parking facility and the parking facility at 9333 W. Third Street.
- **Solid Waste Enterprise Fund (83)** – This fund accounts for the collection and disposal of solid waste generated by commercial and residential users in the City. Solid waste operations are primarily financed through user charges established by City Council action.
- **Wastewater Enterprise Fund (84)** – This fund accounts for the collection and disposal of wastewater generated within the City. The acquisition and construction of wastewater facilities and capacity rights in the City of Los Angeles Hyperion Treatment Plant have primarily been financed through the issuance of revenue bonds supported by user charges established by City Council action.
- **Clean Water / Storm Water Utility Fund (85)** – This fund accounts for the certain standards for street sweeping, storm drain maintenance and other environmental quality programs mandated under the Federal “Clean Up the Bay” program. Storm water clean-up operations are financed through user charges established by City Council action.

Private-sector standards of accounting, reporting and budgeting issued prior to December 1, 1989, generally are followed by the City to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The City also has the option of following subsequent private-sector guidance for its business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the City's government-wide budgeting practices and financial statements. Exceptions to this general rule are internal service fund charges and charges for billing, legislative assistance and similar services to business-type activities, as well as various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

## BUDGET INTRODUCTION

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### **Description of Revenue Sources**

The four major sources of General Fund revenue, which generate about 74% of General Fund total income, include Property Tax, Sales Tax, Transient Occupancy Tax and Business Tax.

#### **Property Tax**

Property taxes fund schools, cities, counties, and special districts. Real Estate Property Taxes, taxes on land and the buildings on it, are the biggest source of revenue for many local governments. The state's role is to specify the maximum rate on the market value of the property, or a percentage of it, as the legal standard for the local assessor to follow. The local assessor determines the value to be taxed. In 1978 California voters approved Proposition 13, which established a ceiling of 1% of assessed value for local property tax rates and limited the increase in assessed valuation to 2% per year, unless the property is sold. As a result of the limitation of 2% on annual increases in assessed valuation, many properties are assessed at less than market value and the “effective property tax rate” for some properties is well below 1%.

#### **Sales Tax**

The City imposes a tax for the privilege of selling tangible personal property at retail upon every retailer in the city at the rate of one percent (1%) of the gross receipts and a use tax of one percent (1%) of the purchase price upon the storage, use or other consumption of tangible personal property purchased from a retailer for storage, use or consumption in the City. City of Beverly Hills - Municipal Code 3-1-103

The adopted sales and use tax law complies with the requirements and limitations contained in part 1.5 of Division 2 of the State Revenue and Taxation Code, and can be administered and collected by the State Board of Equalization.

#### **Transient Occupancy Tax**

For the privilege of occupancy in any hotel within city limits, each transient is subject to and shall pay a tax in the amount of fourteen percent (14%) of the rent charged by the operator. Such tax shall constitute a debt owed by the transient to the city, which debt shall be extinguished only by payment to the operator or to the city. The transient shall pay the tax to the operator of the hotel at the time the rent is paid. City of Beverly Hills – Municipal Code 3-1-303.

The full amount of tax collected shall be remitted to the city by the operator on or before the last day of the month immediately following the close of the prior month. City of Beverly Hills – Municipal Code 3-1-307.

## BUDGET INTRODUCTION

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### **Business Tax**

Every person who engages in any business within the city must register with the Administrative Services Department and pay a separate business tax for:

- 1) Each establishment or location within the city at which registrant conducts business; and
- 2) Each type of business in which a registrant conducts at every primary and branch establishment within the city.

Where business is engaged in from one or more locations outside the city, only one registration for each classification of business is required for engaging in that business in the city from all such outside locations. City of Beverly Hills – Municipal Code 3-1-208.

### **Computation of Business Tax**

The business tax is computed by multiplying the measures of business activity, such as gross receipts, gross payroll, gross operating expenses, number of vehicles, machines, devices or articles of equipment used, or the number of persons employed, by the tax rate for the classification of the business being registered. City of Beverly Hills – Municipal Code 3-1-210.

### **Other General Fund revenue sources include:**

#### **Other Taxes**

Property Transfer Tax  
Dwelling Unit Tax  
Construction Tax  
Condominium Tax

#### **Subventions and Grants**

Motor Vehicle License Fees  
State Highway Maint. Reimb.  
State Library Reimbursement  
Other Intergovernmental Revenues

#### **Licenses and Permits**

Regulatory Permits  
Conditional Use Permits  
Development Permits  
Plan Check and Permitting  
Building Permits and Inspections  
Other Development Fees

#### **Charges for Current Services**

Special Events Fees  
Jail Cell Fees  
Vehicle Release Fees  
Fingerprinting Fees  
Ambulance Fees  
City Sponsored Events Fees  
Misc. Fire Department Fees

#### **Use of Money and Property**

Farmers' Market Concessions  
Interest Earned  
Franchise Electric  
Oil Royalties  
City Owned Property Lease Income  
City Facilities Rental Income



## BUDGET INTRODUCTION

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### **Fines and Penalties**

Ordinance Violations  
Motor Vehicle Code Violations  
Other Fines and Penalties

### **Miscellaneous Revenues**

Recoverable Expenditures  
State Mandated Costs  
City Property Damage  
Sale of Property

### **Basis of Future Revenue and Expenditure Estimates**

The City of Beverly Hills four major revenue estimates which are Property Tax, Sales Tax, Transient Occupancy Tax (TOT), and Business Tax are developed by the Budget and Revenue Office based on a combined study of the following factors:

- Historical trends
- Current year actual revenues collected
- Forecasts of the state and regional economic activity
- Impact of major and medium size incidents at the local, national and worldwide level that may have consequences in the City's economic trends

Other revenue categories are estimated based on:

- Consumer Price Index (CPI) fluctuations
- Current fees, charges and rates approved by City Council
- Current and projected investments return rates
- Forecasts of the state and regional economic activity
- Impact of major and medium size incidents at the local, national and worldwide level that may have consequences in the City's economic trends

Expenditure estimates are directly dependent on projected revenues the City expects to receive.

Typical expenditure increase drivers are:

- Memoranda of Understanding for Bargaining Units
- Consumer Price Index (CPI) fluctuations
- State and Federal mandates
- New projects and responsibilities departments acquire either through management decisions or City Council directives
- Forecasts of economic growth, personal income growth, and projections of future inflation

## BUDGET INTRODUCTION

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Projections are also based upon information gathered from various professional finance organizations, by the Federal Government Bureau of Labor Statistics, information from economic publications such as the Wall Street Journal and the UCLA Anderson School “Forecast” publication.