

# CITY OF BEVERLY HILLS, CALIFORNIA

## Management's Discussion and Analysis

June 30, 2018

As management of the City of Beverly Hills, California (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 - 8 of this report.

### (A) FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$812.7 million (*net position*), which is \$52.9 million lower than the previous year's restated net position. This change in net position is due primarily to the restatement of July 1, 2017 total position to record the total other post employment benefit (OPEB) liabilities. The unrestricted portion of net position as of June 30, 2018 is \$256.5 million and may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds (e.g. General Fund, Capital Projects Funds, Special Revenue Funds, etc.) reported combined fund balances of \$304.5 million, an increase of \$21.6 million from the prior year. Of this amount, \$251.1 million, or approximately 82.5%, of total fund balances are reported as either "Committed" (\$54.1 million), "Assigned" (\$5.0 million), or "Unassigned" (\$192.0 million) fund balances, making them available for spending at the City's discretion. This increase in the City's governmental funds reported combined fund balances was the result of continued strong tax revenue growth, charges for services and fines, and a reduction in transfers out from the General Fund and Other Governmental Funds.
- At the end of the current fiscal year, the Committed, Assigned and Unassigned fund balance for the General Fund alone was \$201.4 million, or 94.7% of total General Fund balance. The largest portions of this total represents the amount set aside by Council policy for emergencies and contingencies equal to 40.0% of General Fund revenues, or \$105.2 million, a budget stabilization reserve of \$5.0 million, and the set-asides for pension and retiree medical unfunded liabilities in the amount of \$20 million and \$59.6 million.
- The City's net capital assets (land, buildings, equipment, infrastructure, less accumulated depreciation) were relatively stable at \$726.0 as of June 30, 2018, increasing by \$41.3 million over the previous year due to expenditures during the year for land acquisitions and building improvements.
- The City's net long-term liabilities increased by \$125.0 million to \$616.1 million, primarily as the result of recording the City's long-term liability for other post

employment benefits per GASB 75, which totaled \$110 million at June 30, 2018.

### (B) OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: government-wide financial statements, fund financial statements and notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public services, culture and recreation and debt service. The business-type activities of the City include operations of its Water, Waste Water and Solid Waste utilities, Parking Facilities operations and Storm Water activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also activities of three legally separate component units: the Parking Authority of the City of Beverly Hills, the Beverly Hills Public Financing Authority, The City of Beverly Hills Charitable Community Foundation. Because the City Council acts as (or appoints) the governing board for each of these component units and because they function as part of the City government, their activities are blended with those of the primary government. The government-wide financial statements can be found on pages 28 - 29 of this report.