

**CITY OF MONTEREY PARK
MANAGEMENT AND BUDGET POLICIES
FISCAL YEAR 2024-2025**

Management and Budget Policies are developed and maintained to set forth the framework for not only the development of the budget for the upcoming year, but the ongoing operations and future needs of the citizens of Monterey Park. The following policies are the foundation that supports the services that our citizens expect and deserve.

- 1. Legal Requirements Regarding Annual Budget*
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1. LEGAL REQUIREMENTS REGARDING ANNUAL BUDGET

Monterey Park Municipal Code Section 2.08.070, Subsection 8, establishes the City Manager's responsibility to prepare and submit to the City Council the annual budget for the operations of the City of Monterey Park during each fiscal year.

The annual budget adopted by the City Council serves as a guideline for operations of the City. From the effective date of the budget, the date of formal adoption by the City Council, expenditure amounts as proposed are appropriated to departments and offices for the respective expenditure objects and purposes named or described.

Budgeted expenditures are controlled at the fund and department level. The City Manager is authorized to transfer appropriations between the accounts of any department within individual funds. Council approval is required only for transfers between funds, or for an increase in total appropriations.

2. BUDGETARY/ACCOUNTING BASIS

The annual budget adopted by the City Council serves as a guideline for operations of the City. It includes proposed expenditures and estimated revenues and is legally adopted for all General, Special Revenue, and Proprietary Fund Types.

Budgets for the General, and Special Revenue Fund Types are adopted on a basis consistent with generally accepted accounting principles (GAAP). The modified-accrual basis of accounting is employed in the preparation of the budget for these fund types.

Budgets for proprietary funds are adopted on the "funds available" basis. Major differences for the GAAP basis of accounting include: Capital outlay is budgeted as expenditure in the year purchased; Accrued compensated absences are not considered expenditures until paid; Purchases of inventories are considered expenditures when purchased; Depreciation is not budgeted.

The budget is formally integrated into the accounting system and employed as a management control device during the year for all funds. At fiscal year-end, unexpended and unencumbered budget appropriations lapse. Encumbrances outstanding at year-end are carried into the following year for continuing appropriation.

3. DESCRIPTION OF REPORTING ENTITIES

Monterey Park's Municipal Services Program includes presentation of the annual budgets and operational activities of four distinct reporting entities: The City of Monterey Park, the Monterey Park Public Financing Authority, and the Monterey Park Housing Authority.

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The City of Monterey Park

The City of Monterey Park was incorporated on May 29, 1916, under the general laws of the State of California and enjoys all rights and privileges pertaining to general law cities.

The Monterey Park Financing Authority

The Monterey Park Public Financing Authority was established in June of 2021 under a joint exercise of power agreement to provide for the financing of public capital improvements for the City and Agency through the acquisition of obligations pursuant to debt purchase agreements.

The Monterey Park Housing Authority

The Monterey Park Housing Authority was established in September 1992 to provide affordable housing within the City. The members of the City Council act as the governing board of the Monterey Park Housing Authority.

The Successor Agency

The Successor Agency was established in February 2012 to replace the Former Monterey Park Redevelopment Agency. The members of the City Council act as the governing board of the Successor Agency.

4. BUDGETARY FUND STRUCTURE

□ **Governmental Fund Types**

- General Fund – the general operating fund of the City.
- Special Revenue Funds – are utilized to account for revenues derived from specific sources, which are usually required, by law or administrative regulations to be accounted for in a separate fund. Special Revenue Funds include Retirement, Gas Taxes, Park Facilities, Proposition A, Proposition C, Measure R, Measure M, Measure W, RMRA (SB1), SB2, Asset Forfeiture, Business Improvement District #1, Air Quality, Maintenance District 1972 Act, Developer Impact Fees, Public Safety Augmentation, CERCLA Liability, Housing, and Grant Funds.
- Major Funds include General Fund, Grants Fund, Retirement Fund, and Housing Fund.

□ **Proprietary Fund Types**

- Water Operation Fund – is used to account for water operations that are financed and operated in a manner similar to private business enterprises.

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- Water Treatment Fund – is used to account for water treatment activities that are financed and operated in a manner similar to private business enterprises.
- Refuse Fund – is used to account for receipts and expenditures relating to waste management activities including refuse collection, disposal, and recycling.
- Sewer Fund – is used to account for construction and improvement to deficient sanitary sewer mains identified in the Sewer Master Plan, as established pursuant to Monterey Park Municipal Code Section 14.06.060.
- Internal Service Funds – are used to account for the financing of services provided by one department to the other departments of the City on a cost-reimbursement basis. Internal Service Funds include Auto Shop, Separation Benefits, Workers’ Compensation, Technology/Communications, Building Maintenance, General Liability, and Other Post-Employment Benefits (OPEB) Funds.

All funds indicated in the above are included in the audited financial statements.

5. GENERAL MANAGEMENT AND BUDGET POLICIES

- The City’s long-term financial plan takes into account of its capital improvement plan (CIPs) and financial forecast as part of its expenditure projections, revenue estimates as well as future debt position.
- The City will avoid budgetary procedures that finance current expenditures at the expense of meeting future year's obligations, such as postponing expenditures, accruing future year revenues, or rolling over short-term debt.
- Budgetary and accounting procedures will conform to Generally Accepted Accounting Principles (GAAP) for government agencies.
- The City Council shall be presented a midyear fiscal (budget) review, which provides written analysis of the City's financial health. The Midyear Review document is an update for significant events and charges occurring since the last update in the previous year. All of the key assumptions are reviewed and revised as necessary.
- The City Manager will provide a financial impact analysis of all policy initiatives, service changes and new projects.
- The City's General Fund will be self-supporting, as will the various enterprise or special purpose funds. The objective is to maintain budgets, which do not borrow from one fund to support another. Where fund transfers are made, they are to be based on sound financial policy and will not be carried out for the sake of expedience.

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- The City is required to adopt a balanced budget for its General Fund prior to the beginning of the fiscal year. A balanced budget means current revenues equal current expenditures. The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.

6. REVENUE POLICY

- The City will endeavor to maintain a diversified and stable revenue base to minimize the effects of economic fluctuations on revenue accumulation.
- The City will estimate revenue using objective, analytical processes; in cases of assumption uncertainty, conservative projections will be utilized. The estimated growth rates used to project revenues are based on analysis, as adjusted for Monterey Park's experience and outlook, as well as state economic conditions.
- The City will fund all current expenditures from current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.
- The City will identify basic tax-provided services and will establish user fees and charges for services provided in excess of basic services and/or to non-taxpaying users.

7. PURCHASING POLICY

- MPMC Chapter 3.90, entitled "Execution of Contracts," establishes the means by which the City can generally become legally obligated under a contract. Persons authorized to sign contracts on the City's behalf include the mayor, the City Manager for contracts up to \$60,000, and department directors for contracts up to \$25,000.
- MPMC Chapter 3.20 and 3.90 generally establishes the procedures for obtaining supplies and services. The purchasing officer must approve purchases of supplies that either are not identified in the City's current budget or constitute special supplies.
- Departments will be responsible to inform to the Finance Department for the use of the City's credit card in accordance with the City's Credit Card Usage Policy.
- Purchase Orders must be complete and have supporting documentation attached i.e., agreement cover page, quotes/bids/justification memo, etc.
- MPMC Section 3.20.040 requires formal bidding for matters over \$60,000. MPMC Section 3.20.060 allows informal bidding for matters up to \$60,000.

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- Please refer to MPMC §3.90.050 Signature authority for approved signature authority thresholds.
- Please refer to Administrative Policy #50-09 for the disposal of surplus property.
- MPMC Chapter 3.90.010 requires that the City Attorney approve all contracts.
- Whenever Federal Award funds are used the following criteria must be followed in addition to the City's Purchasing Policy guidelines. The Office of Management and Budget (OMB) issued the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Final Rule (aka Uniform Guidance) which applies to all non-federal entities receiving Federal awards, and to all new federal awards and existing awards that receive additional funding (or funding increments) after December 12, 2014.

8. FUND BALANCE POLICY

- The City's fund balance classification includes five components: Nonspendable, Restricted, Committed, Assigned, and Unassigned.
- Unrestricted General Fund balance, including Committed, Assigned, and Unassigned, will be maintained at a minimum level of two months, as recommended by the Government Finance Officers' Association (GFOA), of the General Fund regular revenues or operating expenditures. The City's maximum unrestricted fund balance shall not exceed 50% of General Fund operating expenditures.
- General Fund committed fund balance will include amounts for Potential Catastrophic Events and Economic Stabilization. The funding of this committed fund balance account will be reviewed each year during the midyear fiscal review.
- An Assigned Fund Balance for future Capital Projects account will be established to capture accumulated, nonrecurring or unanticipated revenues or expenditures savings, and will be carried forward from year to year to provide resources for the City Council to fund future infrastructure and other onetime expenditure needs of the City.
- The City will maintain adequate reserve to fund annual paid and committed claims in the General Liability Fund and Workers' Compensation Fund, scheduled vehicle maintenance and replacement in the Auto Shop Fund, accrued leave liability in the Separation Benefit Fund, technology and telephone replacement in the Technology/Data Processing Fund.
- Working Capital (current assets minus current liabilities) in the City's Enterprise Funds, including Water, Refuse, and Sewer, must be maintained at a minimum of two months' annual operating expenses. In addition, of one quarter (25%) of accumulated depreciation of the Capital Assets of the enterprise funds is necessary to ensure adequate resources for reconstructing or rehabilitating capital assets as they

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reach the end of their useful lives.

- It is the City’s goal to reduce its total future pension and retiree medical liabilities. The City participates in the California Employers’ Retiree Benefit Trust Program (“CERBT”) to prefund its Other Post Employment Benefits (OPEB) and funding is set aside through the annual budget process.
- The City issued Pension Obligation Bonds 2021 Series A on February 16, 2021, reducing the Unfunded Actuarial Liability (UAL) to zero during fiscal year 2020-2021. Mitigation strategies to pay or reduce any new UAL are included with the UAL policy included in the Budget Book under tab Resolutions & Policies and are presented to the Council each year and updated according to Council’s directions.

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) SUSTAINABILITY

- The City’s post-employment medical benefits represent a significant employee-related compensation cost.
- The City adopted Resolution No. 11663 to prefund retiree health care benefits through the California Employers’ Retiree Benefit Trust Program (CERBT).
- The CERBT program is an irrevocable trust and funds set aside in the Program cannot be used to meet any other City needs.
- The total annual contributions to the CERBT will be determined each year through the budget process and payments are shared by the City’s various funds.
- The City will continue to search and implement healthcare cost containment measures to meet the OPEB funding challenge, including besting rules which are commensurate with years of service and a tiered system of benefits based on hiring dates.

10. CAPITAL IMPROVEMENT PROGRAM POLICY

- The City will utilize a Five-Year Capital Improvement Program to systematically plan, schedule, and finance capital projects as determined by the City Council. The Five-Year Program will include major ongoing maintenance and rehabilitation costs to existing infrastructure and facilities, as well as the cost of new facilities or capital improvements.
- The City’s Capital Improvement Plan (CIP) identifies each proposed project, the year the project will start, and the proposed method of financing.
- The City will actively pursue grant and other outside funding sources for all capital

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improvements projects.

- The City will maintain all of its assets at a level adequate to protect the City's capital infrastructure and to minimize future maintenance and replacement costs.
- Whenever the City finances capital projects by issuing bonds, it will repay the bonds within a period not to exceed the expected useful life of the project.
- The City will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues.

11. INVESTMENT POLICY

- This Statement is intended to provide guidelines for the prudent investment of the City's temporary idle cash and outline the policies for maximizing the efficiency of the City's cash management system. The ultimate goal is to enhance the economic status of the City while protecting its pooled cash.
- The policy shall direct the investment of the City's temporarily idle monies for all funds, including the general fund, special revenue funds, debt service funds, trust and agency funds, and proprietary funds. Employee deferred compensation, pension, and bond reserves are not managed by the City and are not subject to the City's Investment Policy.
- Criteria for selecting investments and the order of priority are: Safety, Liquidity, and Yield.
- The Policy provides for the creation of a Treasury Committee ("The Committee"). The Committee is comprised of the City Treasurer, the City Manager, the Assistant City Manager, and the Director of Finance.
- It should be noted that any newly developed derivative of an allowable investment that is not specifically mentioned in the policy must be recommended by the City Treasurer for inclusion in the policy and any amendments to the policy must be submitted to the City Council for approval.
- The Treasury Committee shall maintain an approved list of primary security dealers and brokers and government sponsored investment pools. The Committee will review and amend the approved list periodically to ensure that the institutions continue to meet the selection criteria.

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- Purchases of investments shall, whenever practical, be made directly from the issuer, from a member of a Federal regulated securities exchange, from a national or state chartered bank, or from a brokerage firm.
- Only commercial banks and savings and loan associations that demonstrate financial strength and are insured by the federal government may be selected to provide investment services.
- Only primary dealers registered with the Federal Reserve Bank of New York shall be used for Broker/Dealer instrument transactions.
- Other financial institutions shall be selected using the following selection criteria: financial strength, reputation, area of expertise and ability to conform to the City and state mandated investment parameters.
- All transactions described above shall be executed on a delivery versus payment basis. The custodian shall hold assets until the investments mature or the bank receives a request from the City to dispose of the securities.
- Maturities of investment instruments in the portfolio shall be staggered as much as practical and shall be consistent with projected cash requirements.
- All forecasted operating requirements shall be satisfied by maintaining an adequate level of liquidity in the portfolio.
- Within the parameters established by Section III., Investment Selection Criteria, and Section VI., Allowable Investments, investments should be diversified by security type and institution.
- The Annual Investment Report shall provide a summary of the year's investment activities and shall include a proposed statement of Investment Policy to be approved by the City Council during the first sixty days of the fiscal year.
- The City of Monterey Park will follow the prudent investor standards of Government Code Section 53600.3. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely and accurate fashion and appropriate action is taken to control adverse developments.
- As part of the City's annual audit, the City's external auditor shall review the City's investment activities to ensure compliance with the Investment Policy.

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- At the direction of the City Treasurer, the City's Investment Policy shall be reviewed and updated annually by the Committee to reflect changes in the California State Codes, general market conditions or to provide further clarification of the City's policies. The Investment Policy shall be adopted by the City Council annually.

12. DEBT ADMINISTRATION AND POLICIES

(A) COMPUTATION OF LEGAL DEBT MARGIN

(Fiscal Year 2022-2023) (In thousands)

Total Assessed Value of all Real and Personal Property	\$	9,260,168
Debt Limit Percentage		15%
 Total Debt Limit		 1,389,025
Amount of Debt Applicable to Debt Limit		110,270
 Legal Debt Margin	 \$	 1,278,755

- (1) In accordance with California Government Code Section 43605, total general obligation bonds outstanding cannot exceed 15 percent of total assessed valuation. **As of June 30, 2023, the City had no general obligation bonds outstanding.**

(B) DEBT POLICY

The City’s key debt management goal is to protect and enhance the viability of the General Fund and other associated operating funds to enable the City to continue to deliver top services to Monterey Park residents.

- The City uses debt financing only for capital improvements or projects that cannot be financed from current revenues.
- The project’s useful life, or the estimated service life of the equipment (lease-purchase), will be equal to or exceed the term of the financing.
- Debt financing is not considered appropriate for any recurring purpose such as current operating and normal maintenance expenditures.

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- The City will comply with a policy of full disclosure on every financial report and bond prospectus. The City will maintain good communications with bond rating agencies regarding the City’s financial condition and other relevant data related to the debt.
- The City’s complete Debt Policy and Disclosure Policy is included in the Budget Book under tab Resolutions & Policies.

(C) ANNUAL DEBT SERVICES BY PROJECT

Fund	Type of Debt	Description	Fiscal Year 2023-2024	Fiscal Year 2024-2025
621	Bonds	Sales Tax Revenue Bonds Series 2021 (Final date: 06/2051)	1,051,200	1,050,200
101	Lease Purchase	SIEMENS Energy Efficiency Project	142,033	150,167
401		(Final date: 06/2030)	804,850	850,950
		Sub-Total	<u>946,883</u>	<u>1,001,117</u>
308	Lease Purchase	Police Mobile Radios & System (Final date: 09/2032)	307,745	307,745
202	Bonds	Pension Obligation Bonds 2004	1,072,761	1,433,588
		Pension Obligation Bonds 2021 Series A	6,265,609	5,906,132
		Merge with 2004 POBs (Final date: 06/2043)		
		Sub-Total	<u>7,338,370</u>	<u>7,339,720</u>
401	Bonds	Water Revenue Bonds (Final date: 02/2054)	0	1,211,803
401	Loan	SGVMWD (Final date: 12/2033)	0	400,000
501	Lease Purchase	Fire Ladder & Engine Trucks	1,017,806	0
		Total	<u>\$10,662,004</u>	<u>\$11,310,585</u>

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13. GRANT ADMINISTRATION POLICY

To aggressively seek and apply for federal, state and other agencies grant funding to support a variety of social, recreation, public safety, and public works programs. And, to effectively administer grants to ensure the grants can be best integrated into the City's service goals and financial planning.

Grant Application:

- Programs and projects proposed for grant funding should be those that are consistent with the City's service goals, objectives and priorities.
- When contemplating a grant application, the applying department shall consider the cost and benefit of the grant activity including the cost of administering the proposed grant, the matching requirement, and the potential impact on the operating budget.
- Regardless of grant dollar amount or application medium, the department shall, prior to application, submit a report to the City Manager.
- Applications for grants that require the City to provide matching funds of \$15,000 or more must first be submitted to the City Manager, and then, seek formal Council approval.

Expending the Grant Funds:

- Grant expenditures are appropriated and expended following the City's budget and accounting procedures. The department shall not expend or commit any grant funds until the grant is incorporated into the accounting system.
- If the grant expenditures are funded by multiple sources, the most restricted funding source should be used first. Grant funds should be planned so they will be fully expended at the grant expiration.

Grant Compliance:

- The department in charge is to administer the grant, to ensure compliance with grant requirements, to submit to the grantor any compliance or progress reports of a programmatic nature and to monitor grant expenditures. Finance is responsible for preparing all financial reports to the granting agency as well as coordinating all financial audits relating to grant activities.

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14. COST ACCOUNTING APPLICATION

The City applies cost accounting in the two following areas: cost recovery from Federal, State and other agencies, and internal service operations.

Indirect Cost Allocation Plan

Indirect costs are costs that cannot be practically assigned to any particular department and/or division, but are necessary for the functioning of the City as a whole. Most of the City's indirect costs are either for general administrative support or facilities maintenance. Each year, the City updates its Indirect Cost Allocation Plan according to OMB Circular A-87 to establish the indirect costs.

Internal Services Charges

Internal Service Funds account for goods and services provided by one department to other departments on a cost reimbursement basis. Currently, the City maintains six Internal Services Funds; they are: Shop Fund, Technology/Data Processing Fund, Building Maintenance Fund, General Liability Fund, Workers' Compensation Fund, and Separation Benefits Fund. Internal service charges are developed as follows: Shop Fund based on mileage and annual depreciation, Technology/Data Processing Fund based on the number of computer equipment and telephones, Building Maintenance is based on square footage, General Liability Fund and Workers' Compensation Fund based on claims history, Separation Benefits Fund based on the number of employees, and other Post-Employment Benefits Fund based on Council Budget directions.

The City routinely updates internal service charges to ensure adequate charges for the City's current costs and future liabilities.

15. ARTICLE XIII B APPROPRIATIONS LIMIT (GANN APPROPRIATIONS LIMIT)

Background and Calculations

Article XIII B of the California State Constitution, more commonly known as the Gann or "Prop 4" Appropriations Limit, was adopted by the California voters in 1980. The Gann Limit places limits on the amount of tax proceeds that government agencies can receive and appropriate each year.

The appropriations limit is based on actual appropriations during the 1978-79 Fiscal Year, and is adjusted each year using the growth in population and inflation. The City's limit is adopted each year via resolution of the City Council.

In 1990, Proposition 111 made changes to the manner in which the Appropriations Limit is calculated by allowing government agencies choice of annual growth factors. Proposition 111 also provides for the exclusion from the limit capital expenditures for fixed assets of \$100,000 or more in value that have an expected life of ten years or more.

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Derivation of the 2024-2025 Gann Appropriations Limit follows:

FISCAL YEAR 2024-2025 ARTICLE XIII B APPROPRIATIONS LIMIT

A. Appropriations Limit:

2023-2024 Adopted Limit		\$109,465,117
Annual Adjustment Factors:		
Change in CA Personal Income	1.0362	
Change in Population	1.0005	<u>1.036718</u>
2024-2025 Appropriation Limit		\$113,484,468

B. Appropriations Subject to Limit and Amount Under Legal Limit:

2024-2025 Preliminary Budget Total		\$150,472,928
Less Exclusions:		
Non-Proceeds of Taxes		(\$3,194,744)
Budget Appropriations Subject to Limit		<u>\$68,880,182</u>
Amount Under Legal Limit		<u>\$44,604,286</u>

Implications and Future Trends of GANN Limit

The margin between the City’s appropriations limit and its appropriations subject to limit remains high. As it has been the case in many years, the City’s budget appropriations subject to limit are on average 40% below the legal limit.

Based on the past trend and projected future growth, the City believes its appropriations will continue remaining within the legal limit.