City of Long Beach
Financial Policy Statements

I. Structurally Balanced Budget

A. Policy:

The annual budgets for all City funds will be structurally balanced throughout the budget process. Recurring revenues will equal or exceed recurring expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan will be developed and implemented to bring the budget back into structural balance.

B. Purpose

To avoid using one-time resources to balance the annual budgets.

C. Definitions and Details

1. This policy applies to all General Government Budgets.

2. A structural imbalance occurs when recurring expenditures exceed recurring revenues.

3. Under this policy, the structural imbalance will be calculated at the time the Proposed and Adopted Budgets are submitted.

4. If it is necessary to use one-time resources to balance the budget, a plan for achieving a structural balance will be developed simultaneously that identifies revenue enhancements or expenditure decreases to bring the budget back into balance.

5. A plan to bring the Budget into balance will be developed no later than 30 days after the imbalance is identified.

6. Under no circumstances will a budget be recommended for adoption that is out of balance (requirements exceed resources).

7. Internal service funds are intended to operate on a break-even basis. While there may be imbalances from year-to-year, they should neither make an excess net profit nor a loss over the long run, and in no case should they create a negative fund balance. Spending plans should be available that take into account for the use of, or build up of, fund balance.

As amended by the City Council on October 9, 2007
8. The identification of recurring and non-recurring revenues is a two-step process. The first step involves dividing general fund revenue into recurring and non-recurring categories. The second step involves examining the recurring revenue category to identify unusual revenue increases or decreases that are, in fact, unlikely to recur.

a. Step one involves the categorization of revenues. Recurring revenues are funds that the City can reasonably expect to continue over the next 10 to 15 years without a sunset provision or outside intervention. Recurring revenues include but may not be limited to property taxes, sales and use taxes, oil production taxes, utility user taxes, franchises, business licenses, transient occupancy taxes, other taxes, fines and forfeitures, interest on investments, use of money and property, state property tax exempt, motor vehicle in-lieu, city utilities in-lieu, interfund transfers, licenses and permits, from other governmental agencies, charges to other city funds, and other reimbursements and charges for services. Non-recurring revenues include but may not be limited to surpluses, grant funds, financing proceeds, sale of property and equipment and other reimbursements.

b. The second step in the process involves an identification of unusual revenue increases, commonly referred to as revenue spikes. Recurring revenues will show mild fluctuations depending on the economy and other factors. Typical revenue may fluctuate within a range such as one to five percent. This type of fluctuation is distinguished from a revenue spike that shows unusually large increases for one or two years (over five percent). The dotcom boom and the energy crisis created such revenue spikes. The increased revenues (above the normal fluctuation) will be considered one-time revenues.

9. The identification of recurring and non-recurring expenditures is also a two-step process. As a first step, expenditures are divided into the recurring and non-recurring categories. The second step involves identifying non-recurring expenditures that occur in recurring expenditure categories.

a. Step one involves the categorization of expenditures. A recurring expenditure is an ongoing cost that becomes part of the base budget. It is usually associated with a service or product that, if eliminated, may inhibit the City’s ability to continue providing the service. Examples of recurring expenditures are salaries, benefits, utilities, debt service, maintenance, normal capital outlays and other mandated costs. Non-recurring
expenditures are costs that are incurred for one-time activities, or services that are scheduled to “sunset”. Typical non-recurring expenditures include grant programs, one-time capital expenditures and large equipment purchases in accordance with the City's fixed asset capitalization policy.

b. A second step in computing non-recurring expenditures is to identify all one-time expenditures that are budgeted in what are normally considered recurring expenditure categories. For example, a major consulting contract to update the general plan may be carried in the Materials, Supplies and Services category. Other examples include housing studies, recreational needs assessments, general plan studies, capital outlays in excess of normal requirements and professional contracts.
II. Report on How the Budget is Balanced

A. Policy

The City Manager will include in the narrative transmitting the Proposed Budget a concise discussion on how the proposed budget is balanced. If the structural balance changes between the Proposed and Adopted Budgets, the City Manager will clearly delineate the changes and the resulting structural balance in the Adopted Budget.

B. Purpose

To keep the City Council, community and staff apprised of the current fiscal condition of the City.

C. Definitions and Details

1. How the Budget is balanced will become a significant and continuous part of the annual budget message.

2. It will clearly state whether the budget is structurally balanced for the current fiscal year.
III. General Fund Reserves

A. Policy

The City shall maintain an Emergency Reserve equivalent to 10 percent of General Fund recurring expenditures and an Operating Reserve equivalent to 10 percent of General Fund recurring expenditures. Once the General Fund budget is brought into structural balance, a minimum of 5 percent of all new (ongoing) discretionary revenue will be devoted to the operating fund reserve. If these reserves are used, a plan will be developed and implemented to replenish the funds used.

B. Purpose

Once the General Fund Budget is brought into structural balance, reserves are monies that are set-aside in separate accounts to deal with emergencies and extraordinary events.

C. Definitions and Details

1. The Emergency Reserve is for unexpected, large-scale events where substantial damage is incurred and immediate, remedial action must be taken to protect the health and safety of residents, (e.g., major floods, mudslides, fires and earthquakes).

   a. The Emergency Reserve is computed each year by taking ten percent of the Proposed General Fund recurring operating expenditures. Once this figure is determined, it will establish the level of the Emergency Reserve for the coming fiscal year.

   b. Any funds used from the Emergency Reserve shall be replenished by the end of the fiscal year. If this is not possible, replenishment of the Emergency Reserve will take priority over any other new non-cost offset expenditure for the next and subsequent fiscal years.

   c. Any usage of Emergency Reserves must be appropriated by the City Council.

   d. However, the City Manger may utilize these funds when immediate action must be taken to protect the health and safety of residents. When this occurs, the City Manager shall provide a summary report as soon as practical, and a detailed report to the City Council on the usage of funds within 60 days after the emergency is declared over.
2. The Operating Reserve has been established to provide funding to deal with unexpected events and fluctuations in fiscal cycles, which provides time to avoid structural impacts and ensure continuance of critical City activities.

   a. The Operating Reserve is not a contingency fund. It is a reserve for events such as:

      i. Unexpected unfunded mandates or State take-aways.
      ii. Continuing a program until the end of the fiscal year when grant funding is unexpectedly eliminated during the fiscal year.
      iii. Extraordinary public safety requirements that were unanticipated and immediate.
      iv. Continuing critical city services due to unanticipated events.
      v. To offset the loss of a funding source or spike in expense for the remainder of the year.

   b. The Operating Reserve is computed each year by taking ten percent of the Proposed General Fund recurring operating expenditures. Once this figure is determined, it will establish the level of the Operating Reserve for the fiscal year.

      i. In an effort to gradually build up the Operating Reserve to desired levels, 5 percent of new discretionary revenue will be dedicated each year to the reserve, unless a structural imbalance would otherwise exist.
      ii. This allocation will continue until the Operating Reserve equals 10 percent of General Fund expenses.
      iii. Once the Operating Reserve funding target has been met, compulsory allocations will only be required in an amount needed to maintain the 10 percent funding level.

   c. Any usage of the Operating Reserve must have prior approval of the City Manager and include a repayment plan. All usages will be reported in the regular financial report.
IV. Use of One-Time Resources

A. Policy

Once the General Fund Budget is brought into structural balance, one-time resources such as proceeds from asset sales, debt refinancing, one-time grants, revenue spikes, budget savings and similar non-recurring revenue shall not be used for current or new ongoing operating expenses. Appropriate uses of one-time resources include establishing and rebuilding the Emergency Reserve and the Operating Reserve, early retirement of debt, capital expenditures and other non-recurring expenditures.

B. Purpose

To insure that the City maintains a structurally balanced budget and does not use one-time resources to increase the base budget that cannot be sustained by ongoing resources.

C. Definitions and Details

1. One-time resources are resources that the City cannot reasonably expect to receive on an ongoing basis. The source is most likely one-time if any of the following apply:

   a. Will not be available the next fiscal year.
   b. Has a set ending date such as 12-18 months from today.
   c. Results from a one-time spike.
   d. Results from a revenue spike as defined in Policy Number II.
   e. Results from temporary expenditure savings.

2. One-time resources include bond or debt proceeds, bond-refinancing proceeds, money from the sale of assets, one-time grant funds, budget surpluses, and fund balance
V. Use of New Discretionary Revenues

A. Policy

Once the General Fund budget is brought into structural balance, a minimum of 10 percent of all new (ongoing) discretionary revenue will be devoted to capital projects including deferred maintenance and infrastructure needs.

B. Purpose

To insure the designation of a proportionate and ongoing share of the annual budget for the needed care and construction of physical plant and infrastructure.

C. Definitions and Details

1. This policy applies to the net increase of all discretionary General Fund recurring revenues (e.g., tax revenue, non fee-based revenue [necessary for providing services]).

2. The designation of these funds in no way displaces or substitutes for the funds already being budgeted for capital projects.

3. Examples of projects qualifying for funding under this provision include such projects as facility repairs, roof repairs, street repairs, air conditioning repair or replacement, replacement of flooring, elimination of mold,
VI. Accounting and Financial Reporting

A. Policy

The City will conform to Generally Accepted Accounting Principles as promulgated by the Governmental Account Standards Board (GASB). Reporting will include the following:

1. Interim Financial Reports: Staff will prepare monthly reports for the City Council that analyze and evaluate financial performance.

2. Red Flag Exceptions: The City Manager shall advise the City Council of troubling and/or positive financial information including an assessment of the impact of the City Budget and financial condition. Thresholds for this reporting include:
   a. Whenever a major expenditure exception occurs that will impact a fund’s expenditure budget by one percent or totals over $500,000; and
   b. Whenever a major revenue exception occurs that will impact a fund’s revenue budget by one percent or totals over $500,000.

B. Purpose

To keep the City Council apprised of the financial condition of the various City funds. This includes an early alert on major exceptions that can have a positive or negative impact on the City Budget.

C. Definitions and Details

1. Monthly financial reports (interim financial reports) will be prepared and submitted to the City Manager, and transmitted to the City Council off agenda.

2. At a minimum, a formal presentation on the City’s financial condition will be made quarterly to the City Council. During times of high or unusual activity, the City Manager may elect to increase the frequency of formal presentations.

3. Anomalies that occur will be called out in the body of the report or will be explained in footnotes in the financial report.

4. In general, a red flag exception occurs whenever a major expenditure or revenue exception impacts a fund’s total expenditure budget by one percent or totals over $500,000. However, it is not the intent to report every fluctuation that occurs in the annual budget. The following criteria should be used by staff as guidance for identifying red flag exceptions.
a. The exception is significant and not part of a normal pattern.

b. The exception will most likely negatively or positively impact the ending balance in the department or fund at the end of the fiscal year.

5. Red flag exceptions can be communicated to the City Council in two manners. Most red flag exceptions will be communicated in the next monthly financial report. However, if the issue is critical and time sensitive, it will be communicated by a separate communication.
VII. User Fees and Charges

A. Policy

The City of Long Beach is empowered to recapture, through fees, up to the full cost of providing specific services. Regular and consistent review of all fees is necessary to ensure that the costs associated with delivery of individual services have been appropriately identified, and that the City is fully recovering those costs. It is the City’s policy to set user fees at full cost recovery levels, except where a greater public benefit is demonstrated to the satisfaction of the City Council, or when it is not cost effective to do so.

B. Purpose

To determine the full costs of providing specific services so that the City Council can make informed decisions as to the appropriate levels of fees for services that may be imposed to avoid providing unwanted subsidies. The City Council may decide against full cost recovery in cases where greater public benefit is demonstrated.

C. Definitions and Details

1. Every service supported by user fees or charges will be analyzed on a regular basis to determine the net cost of providing the service.

2. Net cost will be determined by identifying all revenues generated or attributed to the service and subtracting all cost elements (direct and indirect expenses, capital outlays and other one-time expenses). The resulting figure will be level of subsidy, which the City Council will use as a basis for determining user fee increases or decreases.

3. If it is determined that there is a net cost to providing the service, the City Council will raise user fees to achieve full cost recovery, unless it is decided that the subsidy should be maintained.

4. Additional information may be necessary to aid in the decision as to whether or not a service should be subsidized (public benefit, cost-effectiveness, etc.)
VIII. Grants

A. Policy

City staff will seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant above $50,000 is pursued, staff shall provide a detailed pro-forma to the City Manager that addresses the immediate and long-term costs and benefits to the City. A proforma must be submitted to the City Manager for all grants prior to accepting the grant award.

B. Purpose

To provide guidance to staff to seek out federal, state and other grants that address the City's priorities and policy objectives while ensuring positive benefit to the City.

C. Definitions and Details

1. Any grant request must be consistent with the City's Strategic Plan 2010 and the department's mission.
2. City departments are encouraged to submit applications for cost effective grants that help the City achieve its mission and goals.
3. Staff shall develop a proforma for the City Manager that includes the following elements:
   a. How the grant relates to the City's Strategic Plan 2010 goals, City Council goals and Three-Year Financial Strategic Plan goals.
   b. Anticipated benefits
   c. A cost estimate (by character of expense) showing anticipated start-up costs and projected ongoing costs. Costs must include both direct costs (personnel, benefits, current expenses, capital, training) and overhead costs (insurance, legal, administrative)
   d. Detailed revenue budget showing estimated revenues and sources, matching funds (cash or in-kind) required and their source
   e. Other departments impacted by grant requirements and results
   f. Project status after grant funding expires
   g. Other requirements
   h. If grant is reimbursable or advance funds

4. The proforma to the City Manager must also include a risk analysis including assumptions and a contingency plan if, for example:
   a. Funds are not received or are received later than planned
   b. Actual funding falls short of the budget commitment
c. Expenses are ruled ineligible or overdrafts are incurred

5. If funding has not been identified for continuing an ongoing program after grant funds have been exhausted, an automatic sunset provision will be included in the City Council authorization for the program.
   
a. The program will automatically terminate at the end of the fiscal year when grant funds cease if additional funding has not been secured
   b. The program will continue if ongoing funding is identified or the City Council determines that the program should be funded

6. Proforma must be routed for review with any City Council letter requesting grant approval.
IX. Long-Term Financial Plan

A. Policy:

Each year, staff shall develop a Long-Term Financial Plan that forecasts operating expenditures and revenue for the next three to five years and capital expenditures and revenue for the next seven years. The Long-Term Financial Plan will be updated prior to the start of the annual budget process. As part of the budget message, the City Manager will advise the City Council of potential long-term positive and adverse trends along with his or her analysis of the trends. The Long-Term Financial Plan will include, but not be limited to, an analysis that may include such factors as:

A) Economic growth rates
B) Retail sales activity
C) State of California revenue and expenditure impacts
D) Census data
E) Residential development activity
F) Industrial activity
G) Demographic changes
H) Legal and regulatory changes
I) The costs that are deferred or postponed until the future
J) The full ongoing impacts of grants
K) The future costs of PERS
L) The accumulation of benefit liabilities
M) The costs of new programs that are not fully funded
N) The difference between ongoing and one-time expenses and revenue
O) The operating costs associated with capital improvement projects
P) The impact of demographic and economic changes on services, revenue and program costs
Q) Analyze financial trends
R) Assess problems and opportunities facing Long Beach
S) Identify alternative strategies needed to address the issues
T) Develop long-term forecasts and revenue and expenditures using alternative economic, planning and policy assumptions

B. Purpose

To maintain long-term fiscal solvency by identifying significant future expenses, liabilities, problems and resources that are not included or recognized in the annual budget.

C. Definitions and Details

As amended by the City Council on October 9, 2007
1. The Long-Term Financial Plan should be a separate document from the annual budget.

2. A summary of the Long-Term Financial Plan will be included in the City Manager’s message in the annual budget.

3. The summary shall include a concise overview of the long-range fiscal solvency of the General Fund and other City funds.
X. Debt Issuance

A. Policy

General Fund long-term debt payments shall not exceed 10 percent of operating expenditures. In addition, the City shall not issue long-term (over 1-year) General Fund debt to support operating costs. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

B. Purpose

To maintain fiscal viability by not encumbering the General Fund with excessive debt payments or using debt to support operating expenses.

C. Definitions and Details

1. For purposes of computing the percentage of debt payments the proposed budget expenditures will be used.

2. The ratio of debt payments to operating expenditures will be presented in the annual budget.
XI. Budget Requests During the Fiscal Year

A. Policy

All elected officials and departments requesting new programs, services or staff requests during the fiscal year that are unbudgeted must propose a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net zero effect on the budget. Individual and/or collective requests from elected officials and departments made during a City Council meeting or separately must be approved by a majority of the City Council if there is a potential fiscal or service impact.

B. Purpose

The purpose is to ensure the City makes informed fiscal decisions that take into account the full costs, in terms of dollars and service impacts, of implementing spending increases during the fiscal year. To maintain a structurally balanced budget, any spending increases must be accompanied by compensatory revenue increases or spending decreases that clearly identify the associated opportunity costs.

C. Definitions and Details

1. Spending requests during the fiscal year are requests for increased or new spending that were not appropriated in the Adopted Budget.

2. Spending offsets are current spending items that may be reduced to free up resources for new or increased spending in other areas.

3. Compensatory revenue increases must be ongoing if expenditure requirements are ongoing; one-time revenue may only be used to support one-time costs.