



Date: September 11, 2007
To: Honorable Mayor and City Council
From: Councilmember Gary DeLong, Chair, Budget Oversight Committee
Subject: **CITY COUNCIL'S PROPOSED AMENDMENT AND ADDITION TO THE FINANCIAL POLICIES FOR FY 2008**

The Budget Oversight Committee, at its meeting held September 6, 2007, considered communications relative to the above subject.

It is the recommendation of the Budget Oversight Committee to the City Council that Financial Policy #3 be amended and Financial Policy #11 be added.

Respectfully submitted,

BUDGET OVERSIGHT COMMITTEE

Councilmember Gary DeLong, Chair

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**Proposed Amendment to Financial Policy III
Operating Reserve Growth
Proposed Wording**

Proposed additions to Financial Policy III are highlighted. Proposed additions are to sections **A. Policy** and **C. Definitions and Details, part 2b**.

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.

**City of Long Beach
Proposed Financial Policy XI**

XI. City Council Budget Requests During the Fiscal Year

A. Policy

Members of City Council 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 Members of the City Council 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.