

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.

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 are monies that will end at a certain date or that the city cannot reasonably expect to receive over the next 10 to 15 years. 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. 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.
- 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.

