



Date: August 22, 2017  
To: Patrick H. West, City Manager *PLW*  
From: John Gross, Director of Financial Management *[Signature]*  
For: Budget Oversight Committee  
Subject: **Proposed Updated Budgetary and Financial Policies**

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On July 25, 2017, the Budget Oversight Committee (BOC) recommended a number of updates to the City Council's Budgetary and Financial Policies (Policies). Attached is a draft of updates intended to reflect the direction of the BOC. Minor, non-substantive grammar and wording improvements were also made throughout the Policies. A complete listing of the abbreviated version and the full version of the proposed updated Policies is attached (Exhibit A). Redline versions of both are also included (Exhibit B). Only the Policies that have been substantively changed are summarized below:

**Policy No. 3 - Budget Process is an Annual Cycle**

Modified to require programmatic and fiscal review prior to adoption; specifies a lower priority for mid-year programs and projects compared to preexisting ones; and, requires that any non-routine mid-year changes be annually reported to the BOC.

**Policy No. 4 - User Fees to be Set at the Cost of Service**

Modified to require the City Manager to establish a process for in-depth review of all fees over time and emphasizes those with significant subvention.

**Policy No. 5 - One-Time Resources are for One-Time Uses**

Clarified to specify the 5 percent of new General Fund funds available is set aside for unfunded liabilities.

**Policy No. 6 - Capital Projects Budgeted for Both One-Times and Ongoing Costs**

Modified to include projects proposed by any elected official and adds replacement costs and potential funding of replacement costs. Exempts items that do not significantly impact the City. Requires similar considerations when setting fees.

**Policy No. 7 - Fund Balance Policy**

This is a preexisting financial policy that was adopted by the City Council separately and is now incorporated into the Policies (no change to the policy).

**Policy No. 8 - Adequate Emergency and Operating Reserves will be Maintained**

Modified to include the Measure B reserve as an operating reserve; delete the CalPERS fluctuation reserve as it is no longer functions in the manner intended as a result of CalPERS contribution rate policy changes; and, reorganize the policy to not duplicate the Fund Balance Policy.

**Policy 11 - Stable Revenue Sources will be Used to Fund Operations**

Modified to delete an out-of-date reference to a \$70 budgeted price of oil, but does not change the policy.

**Policy 12 - Fiscal Impact Statements Required**

Modified to clarify that fiscal impact statements will include analysis of use of significant resources, including staff time.

**Policy 13 - Current Year Costs will be Funded or an Explanation Provided**

Modified to clarify that the budget document will require unfunded liabilities, unfunded lifecycle replacement costs and deferred maintenance costs to be explicitly identified and discussed.

**Policy 14 - Financial Reporting will use Generally Accepted Standards**

Modified to add a requirement to include the definition of the basis of accounting and budgeting in both the Comprehensive Annual Financial Report (CAFR) and the budget document.

**Policy 21 - Financial Policies will be Reviewed**

Modified to add a requirement that the City Manager will report to City Council when a proposed City Council action may violate City Council's financial policies, and provide an annual report of general compliance or non-compliance with all the Policies.

If you have any questions regarding this matter, please call me at (562) 570-6427.

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**ATTACHMENTS**

CC: MAYOR AND MEMBERS OF THE CITY COUNCIL  
CHARLES PARKIN, CITY ATTORNEY  
LAURA L. DOUD, CITY AUDITOR  
TOM MODICA, ASSISTANT CITY MANAGER  
KEVIN JACKSON, DEPUTY CITY MANAGER  
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**SUMMARY  
BUDGETARY AND FINANCIAL POLICIES  
CITY OF LONG BEACH, CALIFORNIA**

This is a condensed version of the budgetary and financial policies of the City of Long Beach, California.

**1. Structural Balance**

The budget for the General Fund will be structurally balanced.

**2. Multi-Year Financial Projections**

The proposed annual budget should include a three-year General Fund projection.

**3. Budget Process is an Annual Cycle**

The annual budget process is used to develop annual service priorities and the level and type of resources to fund those services. Proposed changes to the budget and to service levels during the fiscal year will be minimized. Proposed mid-year changes will be evaluated programmatically and fiscally prior to adoption, and, if adopted, will have a lower priority compared to preexisting programs and projects unless otherwise specified. A list of any adopted non-routine mid-year budget changes will be provided to the Budget Oversight Committee annually for review.

**4. User Fees to be Set at the Cost of Service**

Fees will be set to fully recover costs, except where there is a greater public benefit through use of a lower fee. There will be a process for in-depth review of all fees over time.

**5. One-Time Resources are for One-Time Uses**

One-time resources will not be used to fund ongoing operations and are to be used for one-time purposes. Five percent of new General Fund funds available will be set aside for unfunded liabilities.

**6. Capital Projects Budgeted for Both One-Times and Ongoing Costs**

Before approving any capital expenditure, the City Council will consider the capital (one-time) costs, the operating (ongoing) components of costs and the replacement costs and the expected approach to funding replacement.

## **7. Fund Balance Policy**

Establishes categories of fund balances - non-spendable, restricted, committed, assigned and unassigned, and creates specific reserves - an emergency reserve, operating reserves, a reserve for subsequent year appropriates, an infrastructure reserve, and provides for the creation of other reserves.

## **8. Adequate Emergency and Operating Reserves will be Maintained**

Emergency reserves will be maintained at 8 percent minimum (of General Fund ongoing expenditures, including transfers) and 10 percent target, operating reserves will be maintained at 2 percent minimum and 7 percent maximum, and the City will seek to maintain overall reserves at no less than 16.7 percent (two months)

## **9. Adequate Reserves for all Funds**

Financial Management will develop and recommend reserve policies for each City fund which will be adopted, as modified, by the City Council.

## **10. Revenue Projections will be Conservative**

Revenue projections are to be objectively prepared using a reasonably conservative approach.

## **11. Stable Revenue Sources will be Used to Fund Operations**

Any revenue that has highly variable component may have only a portion of it, or none of it, budgeted for operations.

Oil revenue will be budgeted at a per barrel price likely to be lower than the average price, based on historical variability.

## **12. Fiscal Impact Statements Required**

For any proposed City Council action, an analysis is to be provided (fiscal impact statement) of the projected or potential fiscal impact on current and future revenues, expenditures, or resources, including staff resources, and on how the action may impact the City's financial or economic position.

## **13. Current Year Costs will be Funded or an Explanation Provided**

The budget will include funding for all costs of operation for the current year or will identify, provide general information on, and discuss any costs not fully funded, including unfunded liabilities, unfunded lifecycle replacement costs, and deferred maintenance.

#### **14. Financial Reporting will use Generally Accepted Standards**

The City will prepare annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP), will use a consistent approach to budgetary reporting. Both the basis of accounting and the basis of budgeting will be described in the appropriate documents.

The annual financial report will include a reconciliation of budgetary funds available to the GAAP fund balance or net position.

#### **15. Financial Status will be Reported**

The City's Comprehensive Annual Financial Report (CAFR) will be made available after completion of the annual audit.

There will be periodic reporting on the budgetary status of the City, particularly the General Fund and other funds that have unusual or problematic status.

#### **16. Financial Status of Major Funds will be Reviewed**

The City Manager will annually present a brief report discussing the high-level financial status of each major fund of the City. The report may be incorporated into the proposed budget as a component of each fund's *Fund Summary*.

#### **17. Appropriate Grants will be Sought**

The City will seek grants that address City priorities and are believed to provide a substantial net benefit after considering the City's cost to secure and administer the grant and the risk associated with unintentional non-compliance.

The City shall maintain support to ensure compliance with grant terms and requirements.

#### **18. Debt Maintained at Appropriate Levels**

Debt limits will be adopted by the City Council.

The term of debt will generally not exceed the life of the asset being acquired, capital leases for vehicles will be part of a comprehensive strategy, and debt will not be used to fund operations.

A separate policy on debt and debt management will be adopted.

#### **19. Investments will be Conservatively Managed**

Investments shall be managed with the priorities of: safety of principal, liquidity (availability of cash), and yield (investment income).

A separate policy on investments and investment management will be adopted.

## **20. A Long-Term General Financial Plan will be Maintained**

A plan will be adopted that outlines general approaches to maintaining and increasing revenues, growing the City's economy for the purpose of revenue generation, and controlling and managing the cost of services and the method of delivery of services.

## **21. Financial Policies will be Reviewed**

Financial policies will be reviewed every three years. The City Manager will report potential non-compliance on any proposed Council action and will report annually on overall compliance and non-compliance with all the financial policies.

## **22. Administrative Procedures to be Consistent with Policy**

Administrative procedures shall be consistent with the adopted City Council budgetary and financial policies.

## **BUDGETARY AND FINANCIAL POLICIES CITY OF LONG BEACH, CALIFORNIA**

### **1. The Budget will be Structurally Balanced**

Background – A budget is structurally balanced if it does not spend more on ongoing services than it receives in ongoing revenues. A structurally balanced budget is a necessary component of good financial management and financial discipline and will help sustain the consistent delivery of services to residents. An unbalanced budget (spending more than is received) undermines the City's ability to deal with financial problems. It may lead to reduced services in the future and inhibit the City's ability to take advantage of opportunities that will periodically occur.

Policy - The budget for the General Fund will be structurally balanced for the fiscal year. A structurally unbalanced budget will include an explanation and describe the expected approach and time frame for achieving structural balance within the context of official revenue and expenditure projections. It is not a violation of this policy to have a planned use of funds available to fund one-time items, including capital, equipment, land or transitional costs for operations (starting up or termination of a service element). It is also not a violation of this policy to use funds previously set aside to mitigate temporarily higher costs or lower revenues.

### **2. Multi-Year Financial Projections will be Incorporated into the Budget Process**

Background – The City's financial situation and projected future status are important factors in the financial and economic decisions the City Council may make. To support the City's budgetary planning and financial decision-making process, the City needs to analyze its financial situation and the key factors impacting its economic and financial status.

Policy - At a minimum, the proposed annual budget should include a three-year General Fund projection (the fiscal year plus two additional years). Major assumptions should be identified. It is desirable that the budget should include similar projections of key funds and potentially all funds.

### **3. The Budget Process Is Based on an Annual Cycle with Minimal Mid-Cycle Adjustments**

Background - The service plan for the City is based on an annual budget as required by Charter and by good financial and operational practice. Budgeting on an annual basis provides time to review all revenue sources, develop solutions to previously identified problems, and to discuss and decide on policies and priorities. An annual budget process also provides time for management to plan and implement changes incorporated into the budget more efficiently and effectively. Shortening or interrupting the process with significant mid-cycle changes can lead to poor decision-making due to incomplete information and to inefficient and ineffective operations or expenditures.

### Policy

- a. The annual budget process will be the general method used by the City to develop its annual service priorities and the level and type of resources to fund those services.
- b. Changes to the budget and to service levels during the fiscal year will be minimized. "Routine" changes during the fiscal year will generally be limited to technical adjustments, time sensitive opportunities or issues, or new grants or awards that are intended to be spent during the year.
- c. The creation of non-routine mid-year new programs or projects, higher service levels, or other expenditures during mid-budget cycle is discouraged and, if proposed, before adoption is considered, should be evaluated for programmatic feasibility and impact and for fiscal impact, preferably by the responsible operational department and by Financial Management. If an adopted mid-year program or project is in conflict in terms of resource use or other aspects, the mid-year program or project will have a lower priority (compared to preexisting budgeted programs and projects) unless otherwise specified by City Council.
- d. Unexpected revenue shortfalls or other significant issues that may create a budget shortfall during the fiscal year are to be reported to the City Council with recommendations by the City Manager as to whether a mid-year budget adjustment should be made.
- e. A list of City Council adopted new programs or expenditures not included in the original budget or that do not qualify as routine mid-year items (as defined above) shall be provided to the Budget Oversight Committee annually for review.

## **4. User Fees and Charges will be Set at the Cost of the Service**

Background - Fees and associated charges are associated with recovering the cost of providing a service. The City can charge up to the full cost of providing a service.

### Policy

- a. Fees will be set to fully recover costs, except where there is a greater public benefit through use of a lower fee, such as where full recovery may adversely impact overall revenue or may discourage participation in programs where the participation benefits the overall community.
- b. The City Manager will establish a process to for in-depth review of all fees over time. The review, while eventually covering all fees, should emphasize those that have or may have significant subvention (may not be at full cost).

## **5. One-Time Resources will be Used Only for One-Time Purposes**

Background – One-time resources are revenues that only occur once, for a very limited time, or are too unpredictable or unstable to fund operations. One-time revenues may include the variable portion of some revenue sources that have highly variable components. One-time revenues are not suited to fund ongoing operations because they are not available in the future or cannot be relied on from year-to-year to pay the ongoing costs of operations.



### Policy

- a. One-time resources will not be used to fund ongoing operations. They will be used for one-time uses, including capital and other one-time expenditures, transitional funding of operations (for a limited time-period with a planned ending date), increasing reserves, or paying down unfunded liabilities.
- b. Five percent of new General Fund funds available in a year will be automatically set-aside to fund unfunded liabilities and these funds may be used to reduce unfunded liabilities.

## **6. Capital Projects will be Budgeted and Funded for Both Capital and Operating Costs**

Background – Expenditures for capital and infrastructure often have an impact on operating costs. Capital investments and infrastructure eventually have to be replaced. New capital projects typically increase costs while repairs may lower costs. For capital expenditure decisions, both the one-time capital costs, the ongoing net operating costs, and replacement costs (lifecycle) should be considered. When capital and infrastructure funding decisions are made, it is important to provide information to the City Council about future operating costs and potential replacement costs and funding of replacement.

### Policy

- a. Before approving any capital expenditure, including those proposed by any elected official, the City Council shall consider both the capital (one-time) and operating (ongoing) components of costs, including the full capital cost of the project, regardless of funding sources, and all City incurred site, design, overhead costs and start-up costs. Replacement costs and potential method of funding shall also be considered. Site costs for land already owned by the City do not need to be reported. Projected operating costs through any stabilization period, as well as projected future operating and maintenance costs, are to be identified. If the project has a limited economic life, the fiscal impact information should discuss proposed end of life actions and costs. The method for funding the projected operating costs is to be included in any funding description. Projects and costs that do not significantly impact the City do not need to be analyzed.

When fees are initially proposed for items charged to external parties but installed and maintained by the City, the City Council shall have information to allow the Council to consider incorporation of capital costs, maintenance costs and replacement cycle costs in the fees or upfront costs. Costs that are not significant do not need to be analyzed.

## **7. Fund Balance Policy**

Background – Generally Accepted Accounting Principles (GAAP) require a policy with regard to the establishment and maintenance of fund balances. GAAP does not make any requirements as to the level of those balances; just that there is a policy so that they can be clearly and consistently accounted for.

**Policy** - This policy provides for the establishment and maintenance of fund balances; helps maintain the financial strength, stability, and bond rating of the City; positions the City to be better able to financially respond to emergencies, unexpected needs; provides a method of accumulating funds for one-time needs; and meet the requirements of GAAP. This policy applies to all governmental funds of the City.

a. **Types of Fund Balance**: The City maintains five components of fund balance.

1. *Non-spendable* - Fund balance that is inherently non-spendable.
2. *Restricted* - Fund balance that has externally enforceable (legal) limitations on its use and can only be spent for a specific purpose stipulated by an external provider, a constitutional provision, or through enabling legislation.
3. *Committed* - Fund balance that the City has placed limitations on its use by way of a motion of the City Council.
4. *Assigned* - Fund balance that is comprised of amounts intended to be used by the government for specific purposes. The intent can be informally expressed by the governing body or can be stated by the City Manager.
5. *Unassigned* - This is the residual fund balance that is spendable and not restricted, committed or assigned.

b. **Assigned Fund Balances**

- Emergency Reserve* – This reserve is used only in extremely rare circumstances resulting from major emergencies that are not recurring by nature and, in general, are not predictable. Such an event will have resulted in significant physical damage or disruption within the City and its Tidelands areas. Examples of a major emergency that would require extensive additional City operational or capital costs include an earthquake, severe storms, flooding; a terrorist event, and a protracted major health or military crisis. It is not intended for use to smooth economic cycles or changes in revenue or expenditure patterns. Use of this reserve for intended purpose is consistent with this policy. Any draws on this reserve should be the highest priority for reserve replenishment.
2. *Operating Reserve* – This reserve is used to provide funds for unexpected one-time opportunities or temporary operating needs. It is also intended to provide transition, phase-in or phase-out funding. This reserve is not intended to be used to fund planned infrastructure or capital acquisitions. It can be used in an emergency situation to supplement the emergency reserve. Temporary drawdown of the reserve, or any drawdown below the minimum, should be the second highest priority for reserve replenishment.
  3. *Reserve for Subsequent Years Appropriations* – This reserve is used to identify fund balance amounts that are appropriated or identified through the budget process as a funding source for a future year.
  4. *Infrastructure Reserve* – This reserve is used to accumulate and provide funds to finance capital projects and other capital improvements, to finance the acquisition and implementation of information technology systems that enhance service delivery, create operating efficiencies or improve City operations, or to retire

capital-related debt in advance of scheduled debt service payments. It is not intended to serve the purpose of an operating reserve. It can be used in an emergency to supplement the emergency reserve.

- c. Other Reserves and Designation for Purpose – Additional committed or assigned reserves may be created by the City Council, either explicitly (committed) or through the budget or other process (assigned). Assignments may be designated for a purpose by the City Council or, if delegated, the Council's designee.
- d. Use of Governmental Fund Balances – Use of fund balances, for purposes as defined in this policy, are not a violation of this policy. When an expense is incurred, the normal order of resource use, subject to the reserves specified purposes, when applicable, will first be the use of restricted fund balance resources, followed by committed fund balance resources, assigned fund balance resources, and, finally, unassigned fund balance resources.

## **8. Adequate General Fund Emergency and Operating Reserves will be Maintained**

Background – Maintaining adequate emergency and operating reserves is a basic component of a financially strong City. Adequate reserves help sustain City operations when adverse or unexpected circumstances impact the City.

### Policy

- a. The City will maintain a General Fund Emergency Reserve at a minimum of 8 percent of General Fund ongoing operating expenditures (including transfers) and a target level of 10 percent.
- b. The City will maintain a General Fund Operating Reserve at a minimum of 2 percent of General Fund ongoing operating expenditures with a normal maximum of 7 percent.
- c. The reserve created by Measure B Budget Stabilization Fund (2016) shall be maintained and accounted for as provided for in Measure B and Generally Accepted Accounting Procedures (GAAP) and shall be included in the overall calculation of the Operating Reserve levels.
- d. The City will seek to achieve and maintain overall General Fund reserves (including all committed, assigned and unassigned reserves and excludes restricted and unspendable reserves) at no less than two months (or 16.7 percent) of General Fund ongoing operating expenditures, including transfers.
- e. If emergency or operating reserves are drawn down below the minimums, a plan will be developed and implemented to replenish them, generally from future surpluses. Replenishing reserves will be a priority use of one-time resources.

- f. The City may establish and maintain special purpose operating reserves (in addition to the operating reserve described above). Special purpose operating reserves are intended to be used for specific revenue and expense variations and will generally be formulaic and automatic in nature in terms of when the reserves will be added and when they will be used.
- g. The City may establish and maintain other reserves.

## **9. Adequate Reserves will be Established for all City Funds**

Background – Financial reserves strengthen the City’s financial status and provide valuable flexibility for unexpected events for City funds. Every fund of the City represents a stand-alone financial operation and has its own operating characteristics, financial capabilities, and constraints. The level of reserves needed, if any, should be based on the financial and operating characteristics of each fund.

Policy – The Financial Management Department, in concert with any relevant operating departments, shall develop and present to City Council recommended reserve policies for each City fund, which will be adopted, as modified, by the City Council.

## **10. Revenues will be Projected Using a Methodology that is Reasonably Conservative**

Background - Revenue projections are critical to budget decisions, particularly a budget that is intended to be structurally balanced. Unfortunately, many of the City’s key revenues are subject to material variation depending on the economy. No revenue projection is likely to be “accurate” when the economy is changing direction or moving quickly. As a result, it is important to have a consistent approach to projecting revenues and for decision-makers to understand the basis used to project the resources available for the budget. Revenue should be projected in a way not likely to lead to a revenue shortfall and not be so conservative that the projection is always substantially under revenues.

Policy - Revenue projections are to be objectively prepared using a conservative approach. That approach should result in overall budgeted revenues for a fund being set at a level such that it is reasonably unlikely that actual revenues will be lower than budgeted.

## **11. Stable Revenue Sources will be Used to Fund Operations, to the Extent Practical**

Background - Operations require stable revenue sources from year-to-year to minimize the necessity to cut services when key revenues vary in the wrong direction. Revenue sources that have significant variability from year to year, or an unpredictable basis, are not completely suitable to fund operations and often cannot be projected with reasonable accuracy. Two approaches to addressing such a situation are to 1) designate the entire revenue sources as one-time or 2) divide it into stable (operations) and unstable (one-time) components.

Policy - The City will take steps to utilize only the stable portion of revenue sources for ongoing operations.

- a. Any revenue that has a highly variable component and is used to fund ongoing operations may have only a portion of it, or none of it, budgeted for operations. The remainder (unstable portion) may be budgeted in the year of expected receipt or in the following year for capital or other one-time purposes, including increasing reserves. If budgeted in the year of receipt, it should not normally be budgeted for expenditures that require commitments in advance of receipt. This policy helps stabilize operating revenues and can provide a fairly regular source of funds for one-time purposes. Consideration of such a practice for individual revenue sources will be based on a recommendation from the City Manager and subsequent approval by City Council.
- b. Oil revenue has a tendency to vary unpredictably within a year or from year-to-year. As a result, oil revenue will be budgeted at a per barrel price that reflects a price that is highly likely to be lower than the average price of oil during the year, based on historical variability. Oil revenue actually received as a result of the actual price of oil being above that budgeted price may be budgeted the following year.

**12. Fiscal Impact Statements will be Included with all City Council Letters Which Involve Decisions for Spending, Revenues, Debt, Investments, or Other Potential Economic Impact**

Background – The City Council should receive information on the actual or potential fiscal or resource impact of its potential actions to aid in making decisions.

Policy – For any proposed City Council action, an analysis is to be provided (a fiscal impact statement) of the projected or potential fiscal impact on current and future revenues, expenditures and resources, including staff resources (hours, opportunity costs, and diversion of resources impact, as appropriate), and the projected or potential impact on the City's financial or economic position. A discussion on any overall economic impacts to the City, if relevant, will also be included. For non-significant impacts, a detailed analysis is not required. For any Council action having a proposed disbursement of funds, the funding source must be identified, as well as whether the expenditure has been budgeted.

**13. The Budget Will Fund Costs Incurred in the Current Year or will Identify the Costs that Have Not Been Fully Funded**

Background – Governments sometimes have financial issues because they do not budget for or fund costs that are incurred in a budget year, but not paid out until a future year. This practice can lead to higher costs to taxpayers in the future if they have to pay for services provided in the past. Typically, these costs are for employee benefits, but may also be associated with other costs. Funding current year costs is not the same as funding unfunded liabilities. Paying current costs does not have any impact on existing unfunded liabilities, but it does have an impact on keeping

unfunded liabilities from occurring or growing in dollar amount. Current costs, whether paid in the current year or not, are a component of structural balance.

Policy

- a. The budget will include funding for the costs for services for the current year. If funding a particular service or type of cost is determined to not be appropriate for a given year, the budget will disclose that and include a discussion of those costs that were not fully funded.
- b. Unfunded liabilities, unfunded lifecycle replacement costs, and deferred maintenance costs shall be explicitly identified in the budget and the budget shall include a discussion of them, including general information on the funding of those costs.

**14. Accounting and Financial Reporting will Meet Generally Accepted Standards**

Background - To be able to borrow money for City infrastructure and capital needs, the City must maintain financial statements in conformance with Generally Accepted Accounting Principles (GAAP). This is also necessary to have a financial presentation that a knowledgeable reader can understand. Governmental budget decisions, however, are not necessarily best made based on GAAP financial reporting. As an example, GAAP accounting for enterprises and internal service operations focuses on the longer term and not the short-term situation in which many governmental budgeting decisions are made. For this and other reasons, governmental budgetary reporting usually uses a non-GAAP basis. However, it is very important to know how budget reporting differs from GAAP and to know that the budgetary reporting of financial status is traceable to audited GAAP financial statements.

Policy

- a. The City will prepare an annual financial report, Comprehensive Annual Financial Report (CAFR), in accordance with GAAP and will include a written description of the basis of accounting in the CAFR.
- b. The City will prepare the annual budget using as consistent an approach as appropriate and will include a written description of the basis of budgeting in the budget, as well as the CAFR.
- c. For every budgeted fund, the CAFR will include a reconciliation of the budgetary funds available (a fund's bottom line from a budget perspective) to the GAAP fund balance or net position.

**15. Financial Status and Financial Issues will be Reported**

Background - Routine financial reporting is an essential component of financial control and management.

Policy - The City's Comprehensive Annual Financial Report (CAFR) will be made available to the City Council, the public, bond holders, and rating agencies after completion of the annual audit. In addition, there will be periodic reporting on the budgetary status of the City, particularly the General Fund and other funds that have

unusual or problematic status. Any major or critical issue will be reported as soon as it is practical.

#### **16. Financial Status of Major City Funds will be Periodically Reviewed**

Background – A periodic high-level financial review of all major City funds is important to the understanding of the City’s financial status and to any decision-making that impacts the City’s short or long-term financial status.

Policy – The City Manager will annually present to the City Council a brief report discussing the high-level financial status of each major fund of the City and its future outlook, risks and opportunities. The report may be provided by including it in the proposed budget as a component of each funds’ *Fund Summary*.

#### **17. Grants will be Actively Sought, but Only as Appropriate and with Suitable Oversight to Ensure Compliance**

Background - Grants are an essential component of City resources. All grants have rules and regulations that must be followed, including the purpose for which the grant funds may be used. Failure to follow the rules and regulations may require a return of the funds, even after they have been spent. Grants often require a match. A grant may be inappropriate for the City due to a large match requirement, disallowed or limited ability to recover administrative costs, excessive restrictions on expenditures, compliance risk (return of funds if in non-compliance), and/or incompatibility with other City priorities.

Policy - The City will seek grants that address City priorities and are believed to provide a benefit to the City that provide a substantial net benefit after considering the cost to secure and administer the grant, and the risk associated with unintentional non-compliance. The City will not seek grants if the purpose does not provide a significant net benefit to the City for existing priorities. Before applying for any grant, staff shall ensure the above conditions have been met. The City shall maintain the necessary administrative support and training to ensure compliance with grant terms and requirements.

#### **18. Debt and Capital Leases will be Maintained at Appropriate Levels**

Background - Debt (borrowing) is a valuable and necessary tool for financing major infrastructure and other capital assets. However, misuse of debt or poor debt management, including excessive debt and poor choices for the structure of debt, can contribute to financial weakness and compromise the City’s ability to deliver services over the long-term.

Policy – Limits on the amount of debt shall be recommended by the Financial Management Department and adopted, as modified, by the City Council. The term of debt will generally not exceed the life of the asset being acquired. Capital leases for vehicle replacement or other recurring costs should be part of a comprehensive strategy that provides for ongoing replacement of the equipment and should not be

done to provide a short-term budget solution to replace cash purchases with debt. Debt will not be used to fund operations. Incurring short-term debt (less than one year) to provide for cash flow in anticipation of revenues is not a violation of this policy. A separate policy on debt and debt policy will be adopted by the City Council.

## **19. Investments will be Conservatively Managed**

Background – Investments can provide a significant source of revenue to the City. However, investments have risk. An investment policy needs to describe the balance between investment income and risk that is desired.

Policy – Investments shall be managed with the following priorities, in order: safety of principal, liquidity (availability of cash) and yield (investment income). A separate policy on investments and investment management will be adopted by the City Council.

## **20. A Long-Term General Financial Plan will be Maintained**

Background - The long-term financial health of the City and the ability to provide services and a quality of life for the City's residents depends on the actions City officials take. To help guide the decisions of City officials where the decisions impact the long-term finances of the City, a plan that identifies adopted general strategies for the long-term financial strength of the City is helpful, if not essential, to the long-term financial success of the City. The general financial plan would be specific enough to determine whether or not a particular proposal is consistent with the plan.

Policy - The City Manager will prepare and periodically update a proposed high-level financial plan for the City. The plan will outline general approaches the City should follow over the long-term to maintain and increase the ability of the City to provide services through maintaining and increasing revenues, growing the City's economy for the purpose of revenue generation, and controlling and managing the cost of services and the method of delivery of services. This plan will identify and discuss unfunded liabilities and other deferred costs such as maintenance. A plan or options will be identified to address them. This plan is not intended as a general statement of overall City strategies and goals, but rather a focused approach to long-term finances and to enhancing the economic strength of the City to generate more revenues and resources for services. The plan may be integrated into an overall set of goals and strategies for the City. The City Council will modify the plan as it desires and adopt it as a general guideline for future financial and economic direction. The plan is to be reviewed and updated no less frequently than every five years.

## **21. Financial Policies will be Periodically Reviewed**

Background - Financial policies need to be periodically reviewed to ensure that they do not become out-of-date and also to help reinforce compliance with the policies.



Policy

- a. Financial policies will be reviewed by the City Council every three years or more frequently, if appropriate.
- b. The City Manager will report to City Council when any proposed City Council action may not comply with City Council financial policies (preferably through the Fiscal Impact Statement) and will also report annually on general compliance or non-compliance with each of the policies, recognizing that some policies may take time to fully implement. This annual report will list the financial policies in their entirety.

**22. Procedures and Practices are to be Consistent with Financial Policy**

Background – Financial policies are high level expressions of direction. Implementation of policies requires detailed procedures and practices.

Policy – Policy implementation procedures and practices designed and implemented by the City Manager and any associated administrative procedures and practices shall be consistent with the adopted City Council policies.

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**SUMMARY**  
**of BUDGETARY AND FINANCIAL POLICIES**  
**CITY OF LONG BEACH, CALIFORNIA**

This e following is a condensed version summary of the budgetary and financial policies of the City of Long Beach, California.

**1. Structural Balance**

The budget for the General Fund will be structurally balanced.

**2. Multi-Year Financial Projections**

The proposed annual budget should include a three-year General Fund projection.

**3. Budget Process is an Annual Cycle**

The annual budget process is used to develop annual service priorities and the level and type of resources to fund those services.

Proposed cChanges to the budget and to service levels during the fiscal year will be minimized. Proposed mid-year changes will be evaluated programmatically and fiscally prior to adoption, and, if adopted, will have a lower priority compared to preexisting programs and projects unless otherwise specified. A list of any adopted non-normal routine mid-year budget changes will be provided to the Budget Oversight Committee annually for review.

**4. User Fees tTo bBe Set aAt tThe Cost oOf Service**

Fees will be set at a level to fully recover costs, except where there is a greater public benefit through use of a lower fee. There will be a process for in-depth review of all fees over time.

**5. One-Time Resources aAre fFor One-Time Uses**

One-time resources will not be used to fund ongoing operations and are to be used for one-time purposes. Five percent of new General Fund funds available one-time revenues will be set aside for unfunded liabilities.

**6. Capital Projects Budgeted fFor Both One-Times aAnd Ongoing Costs**

Before approving any capital expenditure, the City Council will consider both the capital (one-time) costs, the ~~and~~ operating (ongoing) components of costs and the replacement costs and the expected approach to funding replacement.

## 7. Fund Balance Policy

Establishes categories of fund balances - non-spendable, restricted, committed, assigned and unassigned, and creates specific reserves - an emergency reserve, operating reserves, a reserve for subsequent year appropriates, an infrastructure reserve, and provides for the creation of other reserves.

### 7.8. Adequate Emergency and Operating Reserves Will Be Maintained

- Emergency reserves will be maintained at of 8 percent% minimum (of General Fund ongoing expenditures, including transfers) and 10 percent% target.
- Operating reserves will be maintained at of 2 percent% minimum and 7 percent% maximum, and the City will seek to maintain overall reserves at no less than - Overall reserves of 16.7 percent% (two months)
  - 
  - CalPERS fluctuation reserve
  - Other reserves may be established

**8.9. Adequate Reserves ~~f~~For ~~a~~All Funds**

Financial Management will develop and recommend reserve policies for each City fund which will be adopted, as modified, by the City Council.

**9.10. Revenue Projections wWill bBe Conservative**

Revenue projections are to be objectively prepared using a reasonably conservative approach.

**10.11. Stable Revenue Sources wWill bBe Used tTo Fund Operations**

Any revenue that has highly variable component may have only a portion of it, or none of it, budgeted for operations.

Oil revenue will be budgeted at a per barrel price likely to be lower than the average price, based on historical variability. ~~Currently \$70.~~

**11.12. Fiscal Impact Statements Required**

~~For any proposed City Council actions, an analysis is to be provided (fiscal impact statement) of the projected or potential fiscal impact on current and future revenues, and expenditures, or resources, including staff resources, and on how the action may and impact on the City's financial or economic position shall be analyzed along with a discussion of overall economic impacts.~~

**12.13. Current Year Costs wWill bBe Funded oOr aAn Explanation Provided**

The budget will include funding for all costs of operation for the current year or will identify, provide general information on, and discuss any costs not fully funded, including unfunded liabilities, unfunded lifecycle replacement costs, and deferred maintenance ~~discuss these costs where full funding is not provided.~~

**13.14. Financial Reporting will use Generally Accepted Standards**

The City will prepare annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP), will use a consistent approach to budgetary reporting. Both the basis of accounting and the basis of budgeting will be described in the appropriate documents.

The annual financial report will include a reconciliation of budgetary funds available to the GAAP fund balance or net position.

**14.15. Financial Status will be Reported**

The City's Comprehensive Annual Financial Report (CAFR) will be made available after completion of the annual audit.

There will be periodic reporting on the budgetary status of the City, particularly the General Fund and other funds that have unusual or problematic status.

**15.16. Financial Status ~~o~~Of Major Funds ~~w~~Will ~~b~~Be Reviewed**

The City Manager will annually present a brief report discussing the high-level financial status of each major fund of the City. ~~The report for each fund may be incorporated into the proposed budget as a component of each fund's Fund Summary in the Budget document.~~

**16.17. Appropriate Grants ~~w~~Will ~~b~~Be Sought**

The City will seek grants that address City priorities and are believed ~~felt~~ to provide a substantial net benefit ~~after considering in excess of the City's cost to secure and administer the grant and the risk associated with unintentional~~ ~~of non-compliance~~.

The City shall maintain support to ensure compliance with grant terms and requirements.

**17.18. Debt Maintained ~~a~~At Appropriate Levels**

Debt limits will be adopted by the City Council.

The term of debt will generally not exceed the life of the asset being acquired, capital leases for vehicles will be part of a comprehensive strategy, and debt will not be used to fund operations.

A separate policy on debt and debt management will be adopted.

**18.19. Investments ~~w~~Will ~~b~~Be Conservatively Managed**

Investments shall be managed with the priorities of: safety of principal, liquidity (availability of cash), and yield (investment income).

A separate policy on investments and investment management will be adopted.

**19.20. A Long-Term General Financial Plan ~~w~~Will ~~b~~Be Maintained**

A plan will be adopted that outlines general approaches to maintaining and increasing revenues, growing the City's economy for the purpose of revenue generation, and controlling and managing the cost of services and the method of delivery of services.

**20.21. Financial Policies ~~w~~Will ~~b~~Be Reviewed**

Financial policies will be reviewed every three years.

The City Manager will report potential non-compliance on any proposed Council action and will report annually on overall compliance and any non-compliance with all the financial policies.

**21.22. Administrative Procedures ~~t~~To ~~b~~Be Consistent ~~w~~With Policy**

Administrative procedures shall be consistent with the adopted City Council budgetary and financial policies.



## **BUDGETARY AND FINANCIAL POLICIES CITY OF LONG BEACH, CALIFORNIA**

### **1. The Budget will be Structurally Balanced**

Background – A budget is structurally balanced if it does not spend more on ongoing services than it receives in ongoing revenues. A structurally balanced budget is a necessary component of good financial management and financial discipline and will help sustain the consistent delivery of services to residents. An unbalanced budget (spending more than is received) undermines the City's ability to deal with financial problems. It may lead to reduced services in the future and inhibit the City's ability to take advantage of opportunities that will periodically occur.

Policy - The budget for the General Fund will be structurally balanced for the fiscal year. A structurally unbalanced budget will include an explanation and describe the expected approach and time frame for achieving structural balance within the context of official revenue and expenditure projections. It is not a violation of this policy to have a planned use of funds available to fund one-time items, including capital, equipment, land or transitional costs for operations (starting up or termination of a service element). It is also not a violation of this policy to use funds previously set aside to mitigate temporarily higher costs or lower revenues.

### **2. Multi-Year Financial Projections will be Incorporated into the Budget Process**

Background – The City's financial situation and projected future status are important factors in the financial and economic decisions the City Council may make. To support the City's budgetary planning and financial decision-making process, the City needs to analyze its financial situation and the key factors impacting its economic and financial status.

Policy - At a minimum, the proposed annual budget should include a three-year General Fund projection (the fiscal year plus two additional years). Major assumptions should be identified. It is desirable that the budget should include similar projections of key funds and potentially all funds.

### **3. The Budget Process Is Based on an Annual Cycle with Minimal Mid-Cycle Adjustments**

Background - The service plan for the City is based on an annual budget as required by Charter and by good financial and operational practice. Budgeting on an annual basis provides time to review all revenue sources, develop solutions to previously identified problems, and to discuss and decide on policies and priorities. An annual budget process also provides time for management to plan and more efficiently and effectively implement changes incorporated into the budget more efficiently and effectively. Shortening or interrupting the process with significant mid-cycle changes

can lead to poor decision-making due to incomplete information and to inefficient and ineffective operations or expenditures.

**Policy**

- a. The annual budget process will be the general method used by the City to develop its annual service priorities and the level and type of resources to fund those services.
- b. Changes to the budget and to service levels during the fiscal year will be minimized. ~~“Normal Routine”~~ cChanges during the fiscal year will generally be limited to technical adjustments, emergency funding, time sensitive opportunities or issues, or new grants or awards that are intended to be spent during the year.
- b-c. ~~The creation of non-normal routine mid-year~~ a new programs or projects, a higher service levels, or other expenditures during mid-budget cycle is discouraged and, if proposed, before adoption is considered, should be evaluated for programmatic feasibility and impact and for fiscal impact, preferably by the responsible operational department and by Financial Management. If an adopted mid-year program or project is in conflict in terms of resource use or other aspects, the mid-year program or project will have a lower priority (compared to preexisting budgeted programs and projects) unless otherwise specified by City Council.
- d. Unexpected revenue shortfalls or other significant issues that may create a budget shortfall during the fiscal year are to be reported to the City Council with recommendations by the City Manager as to whether a mid-year budget adjustment should be made.
- e-e. A list of City Council adopted new programs or expenditures not included in the original budget or that do not qualify as ~~normal routine~~ mid-year items (as defined above) shall be provided to the Budget Oversight Committee annually for review.

**4. User Fees aAnd Charges wWill bBe Set aAt tThe Cost oOf tThe Service**

**Background** - Fees and associated charges are associated with recovering the cost of providing a service. The City can charge up to the full cost of providing a service.

**Policy**—

- a. Fees will be set at a level to fully recover costs, except where there is a greater public benefit through use of a lower fee, such as where full recovery may adversely impact overall revenue or may discourage participation in programs where the participation benefits the overall community.
- b. The City Manager will establish a process to for in-depth review of all fees over time. The review, while eventually covering all fees, should emphasize those that have or may have significant subvention (may not be at full cost).

**5. One-Time Resources wWill bBe Used Only fFor One-Time Purposes**

**Background** – One-time resources are revenues that only occur once, for a very limited time, or are too unpredictable or unstable to fund operations. One-time revenues may include the variable portion of some revenue sources that have highly variable components. One-time revenues are not suited to fund ongoing operations because they are not available in the future or cannot be relied on from year-to-year to pay the ongoing costs of operations.

**Policy**

- a. **One-time resources will not be used to fund ongoing operations. They will be used for one-time uses, including capital and other one-time expenditures, transitional funding of operations (for a limited time-period with a planned ending date), increasing reserves, or paying down unfunded liabilities.**
- b. **Five percent of new one-time General Fund funds available in a year revenues will be automatically set-aside to fund for unfunded liabilities and these funds may be used to reduce unfunded liabilities.**

**6. Capital Projects will be Budgeted and Funded for Both Capital and Operating Costs**

**Background** – Expenditures for capital and infrastructure often have an impact on operating costs. Capital investments and infrastructure eventually have to be replaced. New capital projects typically increase costs while repairs may lower costs. For capital expenditure decisions, both the one-time capital costs, the ongoing net operating costs, and replacement costs (lifecycle) should be considered. When capital and infrastructure funding decisions are made, it is important to provide information to the City Council about future operating costs and potential replacement costs and funding of replacements as a result of the expenditures. For capital expenditure decisions, both the one-time capital costs and the ongoing net operating costs should be considered.

**Policy**—

- a. **Before approving any capital expenditure, including those proposed by any elected official, the City Council shall consider both the capital (one-time) and operating (ongoing) components of costs, including the full capital cost of the project, regardless of funding sources, and all City incurred site, design, overhead costs and start-up costs. Replacement costs and potential method of funding shall also be considered. Site costs for land already owned by the City do not need to be reported. Projected operating costs through any stabilization period, as well as projected future operating and maintenance costs, are to be identified. If the project has a limited economic life, the fiscal impact information should discuss proposed end of life actions and costs. The method for funding the projected operating costs is to be included in any funding description. Projects and costs that do not significantly impact the City do not need to be analyzed.**

When fees are initially proposed for items charged to external parties but installed and maintained by the City, the City Council shall have information to allow the Council to consider incorporation of capital costs, maintenance costs and replacement cycle costs in the fees or upfront costs. Costs that are not significant do not need to be analyzed.

## 7. Fund Balance Policy

Background – Generally Accepted Accounting Principles (GAAP) require a policy with regard to the establishment and maintenance of fund balances. GAAP does not make any requirements as to the level of those balances; just that there is a policy so that they can be clearly and consistently accounted for.

Policy - This policy provides for the establishment and maintenance of fund balances; helps maintain the financial strength, stability, and bond rating of the City; positions the City to be better able to financially respond to emergencies, unexpected needs; provides a method of accumulating funds for one-time needs; and meet the requirements of ~~Generally Accepted Accounting Principles (GAAP)~~. This policy applies to all governmental funds of the City.

a. Types of Fund Balance: The City maintains five components of fund balance.

1. *Non-spendable* - Fund balance that is inherently non-spendable.
2. *Restricted* - Fund balance that has externally enforceable (legal) limitations on its use and can only be spent for a specific purpose stipulated by an external provider, a constitutional provision, or through enabling legislation.
3. *Committed* - Fund balance that the City has placed limitations on its use by way of a motion of the City Council.
4. *Assigned* - Fund balance that is comprised of amounts intended to be used by the government for specific purposes. The intent can be informally expressed by the governing body or can be stated by the City Manager.
5. *Unassigned* - This is the residual fund balance that is spendable and not restricted, committed or assigned.

b. Assigned Fund Balances

### Assigned Fund Balances

1. Emergency Reserve – This reserve is used only in extremely rare circumstances resulting from major emergencies that are not recurring by nature and, in general, are not predictable. Such an event will have resulted in significant physical damage or disruption within the City and its Tidelands areas. Examples of a major emergency that would require extensive additional City operational or capital costs include an earthquake, severe storms, flooding; a terrorist event, and a protracted major health or military crisis. It is not intended for use to smooth economic cycles or changes in revenue or expenditure patterns. Use of this reserve for intended purpose is consistent with this policy. Any draws on this reserve should be the highest priority for reserve replenishment.
  2. Operating Reserve – This reserve is used to provide funds for unexpected one-time opportunities or temporary operating needs. It is also intended to provide transition, phase-in or phase-out funding. This reserve is not intended to be used to fund planned infrastructure or capital acquisitions. It can be used in an emergency situation to supplement the emergency reserve. Temporary drawdown of the reserve, or any drawdown below the minimum, should be the second highest priority for reserve replenishment.
  3. Reserve for Subsequent Years Appropriations – This reserve is used to identify fund balance amounts that are appropriated or identified through the budget process as a funding source for a future year.
  4. Infrastructure Reserve – This reserve is used to accumulate and provide funds to finance capital projects and other capital improvements, to finance the acquisition and implementation of information technology systems that enhance service delivery, create operating efficiencies or improve City operations, or to retire capital-related debt in advance of scheduled debt service payments. It is not intended to serve the purpose of an operating reserve. It can be used in an emergency to supplement the emergency reserve.
- c. Other Reserves and Designation for Purpose – Additional committed or assigned reserves may be created by the City Council, either explicitly (committed) or through the budget or other process (assigned). Assignments may be designated for a purpose by the City Council or, if delegated, the Council's designee.
- d. Use of Governmental Fund Balances – Use of fund balances, for purposes as defined in this policy, are not a violation of this policy. When an expense is incurred, the normal order of resource use, subject to the reserves specified purposes, when applicable, will first be the use of restricted fund balance resources, followed by committed fund balance resources, assigned fund balance resources, and, finally, unassigned fund balance resources.

### **7.8. Adequate General Fund Emergency and Operating Reserves Will Be Maintained**

**Background** – Maintaining adequate emergency and operating reserves is a basic component of a financially strong City. Adequate reserves help sustain City operations when adverse or unexpected circumstances impact the City. There are two basic types of reserves for emergencies and operations. The first type, an emergency reserve, is to be used only for rare catastrophic events and is not to be used to address economic problems such as revenue shortfalls. The second type, an operating reserve, is intended to handle general short-term issues or opportunities, inclusive of expected short-term operating revenue shortfalls or higher than anticipated expenses.

**Policy**

- a. The City will maintain a General Fund Emergency Reserve at a minimum of 8 percent of General Fund ongoing operating expenditures (including transfers) and a target level of 10 percent.
- b. The City will maintain a General Fund Operating Reserve at a minimum of 2 percent of General Fund ongoing operating expenditures with a normal maximum of 7 percent.
- b.c. The reserve created by Measure B Budget Stabilization Fund (2016) shall be maintained and accounted for as provided for in Measure B and Generally Accepted Accounting Procedures (GAAP) and shall be included in the overall calculation of the Operating Reserve levels.
- e.d. The City will seek to achieve and maintain overall General Fund reserves (including all committed, assigned and unassigned reserves and excludes restricted and unspendable reserves) at no less than two months (or 16.7 percent) of General Fund ongoing operating expenditures, including transfers.
- d.e. If emergency or operating reserves are drawn down below the minimums, a plan will be developed and implemented to replenish them, generally from future surpluses. Replenishing reserves will be a priority use of one-time resources.



~~e.f.~~ The City may establish and maintain special purpose operating reserves (in addition to the operating reserve described above). Special purpose operating reserves are intended to be used for specific revenue and expense variations and will generally be formulaic and automatic in nature in terms of when the reserves will be added and when they will be used.

~~f.~~ A CalPERS fluctuation reserve is established and maintained to reduce or eliminate year-to-year variances in costs due solely to short-term deviations in CalPERS investment returns. Increases or decreases to this reserve will be included in the proposed budget, based on a formula developed and implemented by the Financial Management Department.

~~g.~~ The City may establish and maintain other reserves.

~~g.~~

### **8.9. Adequate Reserves ~~w~~Will ~~b~~Be Established ~~f~~For ~~a~~All City Funds**

**Background** – Financial reserves strengthen the City's financial status and provide valuable flexibility for unexpected events for City funds. Every fund of the City represents a stand-alone financial operation and has its own operating characteristics, financial capabilities, and constraints. The level of reserves needed, if any, should be based on the financial and operating characteristics of each fund.

**Policy** – The Financial Management Department, in concert with any relevant operating departments, shall develop and present to City Council recommended reserve policies for each City fund, which will be adopted, as modified, by the City Council.

**9.10. Revenues will be Projected Using a Methodology that is Reasonably Conservative**

Background - Revenue projections are critical to budget decisions, particularly a budget that is intended to be structurally balanced. Unfortunately, many of the City's key revenues are subject to material variation depending on the economy. No revenue projection is likely to be "accurate" when the economy is changing direction or moving quickly. As a result, it is important to have a consistent approach to projecting revenues and for decision-makers to understand the basis used to project the resources available for the budget. Revenue should be projected in a way not likely to lead to a revenue shortfall and not be so conservative that the projection is always substantially under revenues.

Policy - Revenue projections are to be objectively prepared using a conservative approach. That approach should result in overall budgeted revenues for a fund being set at a level such that it is reasonably unlikely that actual revenues will be lower than budgeted.

**10.11. Stable Revenue Sources will be Used to Fund Operations, to the Extent Practical**

Background - Operations require stable revenue sources from year-to-year to minimize the necessity to cut services when key revenues vary in the wrong direction. Revenue sources that have significant variability from year to year, or an unpredictable basis, are not completely suitable to fund operations and often cannot be projected with reasonable accuracy. Two approaches to addressing such a situation are to 1) designate the entire revenue sources as one-time or 2) divide it into stable (operations) and unstable (one-time) components.

Policy - The City will take steps to utilize only the stable portion of revenue sources for ongoing operations.

- a. Any revenue that has a highly variable component and is used to fund ongoing operations may have only a portion of it, or none of it, budgeted for operations. The remainder (unstable portion) may be budgeted in the year of expected receipt or in the following year for capital or other one-time purposes, including increasing reserves. If budgeted in the year of receipt, it should not normally be budgeted for expenditures that require commitments in advance of receipt. This policy helps stabilize operating revenues and can provide a fairly regular source of funds for one-time purposes. Consideration of such a practice for individual revenue

sources will be based on a recommendation from the City Manager and subsequent approval by City Council.

- b. Oil revenue has a tendency to vary unpredictably within a year or from year-to-year. As a result, oil revenue will be budgeted at a per barrel price that reflects a price that is highly likely to be lower than the average price of oil during the year, based on historical variability. Currently, the budgeted price is \$70 per barrel, but may be changed by the City Council during the annual budget process based on updated information and recommendations from staff. Oil revenue that is actually received as a result of the actual price of oil being above that budgeted price may be budgeted the following year.

**11.12. Fiscal Impact Statements wWill bBe Included wWith aAll City Council Letters Which Involve Decisions foFor Spending, Revenues, Debt, Investments, oOr Other Potential Economic Impact**

**Background** – The City Council should receive information on the actual or potential fiscal or resource impact of its potential actions to aid in making decisions.

**Policy** – For any expenditure, the funding source must be identified as well as whether the expenditure has been budgeted. In addition, for aor any proposed City Council action, impacting City finances or its economic situation, an analysis is to be provided (a fiscal impact statement) of the the projected or potential fiscal impact on current and future revenues and, expenditures and resources, including staff resources (hours, \$opportunity costs, and diversion of resources impact, as appropriate), and the projected or potential impact on the City's financial or economic position shall be analyzed. A discussion on any overall economic impacts to the City, if relevant, will also be included. For non-significant impacts, a detailed analysis is not required. For any Council action having a proposed disbursement of funds, the funding source must be identified, as well as whether the expenditure has been budgeted.

**12.13. The Budget Will Fund Costs Incurred in the Current Year oOr wWill Identify the Costs that Have Not Been Fully Funded**

**Background** – Governments sometimes have financial issues because they do not budget for or fund costs that are incurred in a budget year, but not paid out until a future year. This practice can lead to higher costs to taxpayers in the future if they have to pay for the services provided in the past. Typically, these costs are for employee benefits, but may also be associated with other costs. Funding current year costs is not the same as funding unfunded liabilities. Paying current costs does not have any impact on existing unfunded liabilities, but it does have an impact on keeping unfunded liabilities from occurring or growing in dollar amount. Current costs, whether paid in the current year or not, are a component of structural balance.

**Policy** –

- a. The budget will include funding for the costs for services for the current year. If funding a particular service or type of cost that is determined to not to be appropriate for a given year, the budget will disclose that and include a discussion of those costs that were not fully funded.
- b. Unfunded liabilities, unfunded lifecycle replacement costs, and deferred maintenance costs shall be explicitly identified in the budget and the budget shall include a discussion of them, including general information on the funding of those costs.  
Lifecycle?

#### **13.14. Accounting and Financial Reporting Will Meet Generally Accepted Standards**

Background - ~~In order to~~ To be able to borrow money for City infrastructure and capital needs, the City must maintain financial statements in conformance with Generally Accepted Accounting Principles (GAAP). This is also necessary in order to to have a financial presentation that a knowledgeable reader can understand. Governmental budget decisions, however, are not necessarily best made based on GAAP financial reporting. As an example, GAAP accounting for enterprises and internal service operations focuses on the longer term and not the short-term situation in which many governmental budgeting decisions are made. For this and other reasons, governmental budgetary reporting usually uses a non-GAAP basis. However, it is very important to know how budget reporting differs from GAAP and to know that the budgetary reporting of financial status is traceable to audited GAAP financial statements.

Policy -

- a. The City will prepare an annual financial report, Comprehensive Annual Financial Report (CAFR), in accordance with GAAP and will include a written description of the basis of accounting in the CAFR.
- b. In addition, the City will prepare the annual budget using use a as consistent an approach as appropriate and will include a written description of the basis of to budgetingary in the budget, as well as the CAFR.
- c. For every budgeted fund, the reporting and will include, in the CAFR will include, a reconciliation of the budgetary funds available (a fund's bottom line from a budget perspective) to the GAAP fund balance or net position.

#### **14.15. Financial Status and Financial Issues Will Be Reported**

Background - Routine financial reporting is an essential component of financial control and management.

Policy - ~~The City's comprehensive~~ Comprehensive annual Annual financial Financial report Report (CAFR) will be made available to the City Council, the general public, bond holders, and rating agencies after completion of the annual audit. In addition,

there will be periodic reporting on the budgetary status of the City, particularly the General Fund and other funds that have unusual or problematic status. Any major or critical issue will be reported as soon as it is practical.

#### **15.16. Financial Status ~~o~~Of Major City Funds ~~w~~Will ~~b~~Be Periodically Reviewed**

**Background** – A periodic high-level financial review of all major City funds is important to the understanding of the City's financial status and to any decision-making that impacts the City's short or long-term financial status.

**Policy** – The City Manager will annually present to the City Council a brief report discussing the high-level financial status of each major fund of the City and its future outlook, risks and opportunities. The report may be provided by including it in the proposed budget as a component of each funds' *Fund Summary* ~~that is a component of the budget document.~~

#### **16.17. Grants ~~w~~Will ~~b~~Be Actively Sought, ~~b~~But Only ~~a~~As Appropriate ~~a~~And ~~w~~With Suitable Oversight ~~t~~To Ensure Compliance**

**Background** - Grants are an essential component of City resources. All grants have rules and regulations that must be followed, including the purpose for which ~~what the~~ the granted funds may be used ~~for~~. Failure to follow the rules and regulations may require a return of the funds, even after they have been spent. Grants often require a match. A grant may be inappropriate for the City due to a large match requirement, disallowed or limited ability to recover administrative costs, excessive restrictions on expenditures, compliance risk (return of funds if in non-compliance), and/or incompatibility with other City priorities.

**Policy** - The City will seek grants that address City priorities and are believed ~~felt~~ to provide a benefit to the City that provide a substantial net benefit after considering ~~ly in excess of the cost to secure and administer the~~ ~~of applying for and administering the grant, and the risk associated with~~ ~~of unintentional non-compliance~~. The City will not seek grants if the purpose does not provide a significant net benefit to the City for existing priorities. Before applying for any grant, staff shall ensure ~~that the~~ above conditions have been met. The City shall maintain the necessary administrative support and training to ensure compliance with grant terms and requirements.

#### **17.18. Debt ~~a~~And Capital Leases ~~w~~Will ~~b~~Be Maintained ~~a~~At Appropriate Levels**

**Background** - Debt (borrowing) is a valuable and necessary tool for financing major infrastructure and other capital assets. However, misuse of debt or poor debt management, including excessive debt and poor choices for the structure of debt, can contribute to financial weakness and compromise the City's ability to deliver services over the long-term.

**Policy** – Limits on the amount of debt shall be recommended by the Financial Management Department and adopted, as modified, by the City Council. The term of debt will generally not exceed the life of the asset being acquired. Capital leases for vehicle replacement or other recurring costs should be part of a comprehensive strategy that provides for ongoing replacement of the equipment and should not be done to provide a short-term budget solution to replace cash purchases with debt. Debt will not be used to fund operations. Incurring short-term debt (less than one year) to provide for cash flow in anticipation of revenues is not a violation of this policy. A separate policy on debt and debt policy will be adopted by the City Council.

#### **48.19. Investments wWill bBe Conservatively Managed**

**Background** – Investments can provide a significant source of revenue to the City. However, investments have risk. An investment policy needs to describe the balance between investment income and risk that is desired.

**Policy** – Investments shall be managed with the following priorities, in order: safety of principal, liquidity (availability of cash) and yield (investment income). A separate policy on investments and investment management will be adopted by the City Council.

#### **49.20. A Long-Term General Financial Plan wWill bBe Maintained**

**Background** - The long-term financial health of the City and the ability to provide services and a quality of life for the City's residents depends on the actions that City officials take. To help guide the decisions of City officials where the decisions impact the long-term finances of the City, a plan that identifies adopted general strategies for the long-term financial strength of the City is helpful, if not essential, to the long-term financial success of the City. The general financial plan would be specific enough to determine whether or not a particular proposal is consistent with the plan.

**Policy** - The City Manager will prepare and periodically update a proposed high-level financial plan for the City. The plan will outline general approaches the City should follow over the long-term to maintain and increase the ability of the City to provide services through maintaining and increasing revenues, growing the City's economy for the purpose of revenue generation, and controlling and managing the cost of services and the method of delivery of services. This plan will identify and discuss unfunded liabilities and other deferred costs such as maintenance. A plan or options will be identified to address them. This plan is not intended as a general statement of overall City strategies and goals, but rather a focused approach to long-term finances and to enhancing the economic strength of the City to generate more revenues and resources for services. The plan may be integrated into an overall set of goals and strategies for the City. The City Council will modify the plan as it desires and adopt it as a general guideline for future financial and economic direction. The plan is to be reviewed and updated no less frequently than every five years.

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| **20-21. Financial Policies Will Be Periodically Reviewed**

**Background** - Financial policies need to be periodically reviewed to ensure that they do not become out-of-date and also to help reinforce compliance with the policies.

**Policy**

**a.** – Financial policies will be reviewed by the City Council every three years or more frequently, if appropriate.

**b.** The City Manager will report to City Council when any proposed City Council action may not comply with City Council financial policies (preferably through the Fiscal Impact Statement) and will also report annually on general compliance or any non-compliance with each of the policies, recognizing that some policies may take time to fully implement. This annual report will list the financial policies in their entirety.

**21.22. Procedures and Practices aAre tTo bBe Consistent wWith Financial Policy**

**Background** – Financial policies are high level expressions of direction. Implementation of policies requires detailed procedures and practices.

**Policy** – Policy implementation procedures and practices designed and implemented by the City Manager and any associated administrative procedures and practices shall be consistent with the adopted City Council policies.

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