



**Date:** October 8, 2013  
**To:** Honorable Mayor and City Council  
**From:** Councilmember Gary DeLong, Chair, Budget Oversight Committee  
**Subject:** **UPDATED FINANCIAL POLICIES**

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The Budget Oversight Committee, at its meeting held Monday, September 16, 2013, considered communications relative to the above subject.

It is the recommendation of the Budget Oversight Committee to the City Council to approve the Financial Policies with an additional policy that 5% of one-time revenues be set aside for unfunded liabilities.

Respectfully submitted,

BUDGET OVERSIGHT COMMITTEE

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Councilmember Gary DeLong, Chair

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**Summary of Budgetary and Financial Policies  
City of Long Beach, California**

The following is a 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 for the fiscal year.

**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.

Changes to the budget and to service levels during the fiscal year will be minimized.

**4. User Fees To Be Set At The Cost Of Service**

Fees will set at a level to fully recover costs, except where there is a greater public benefit through use of a lower fee.

**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 will be used for unfunded liabilities.

**6. Capital Projects Budgeted For Both One-Times And Ongoing Costs**

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

**7. Emergency And Operating Reserves Will Be Maintained**

- Emergency reserves of 8% minimum and 10% target.
- Operating reserves of 2% minimum and 7% maximum.
- Overall reserves of 16.7% (two months)
- CalPERS fluctuation reserve
- Other reserves may be established

**8. 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.

**9. Revenue Projections Will Be Conservative**

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

**10. 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. Currently \$70.

**11. Fiscal Impact Statements Required**

For proposed City Council actions, projected or potential fiscal impact on current and future revenues and expenditures and impact on the City financial position shall be analyzed along with a discussion of overall economic impacts.

**12. 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 discuss those costs where full funding is not provided.

**13. 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.

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

**14. Financial Status Will Be Reported**

The City's 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. 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. The report for each fund may be incorporated as a component of each fund's *Fund Summary* in the Budget document.

#### **16. Appropriate Grants Will Be Sought**

The City will seek grants that address City priorities and are felt to provide a substantial net benefit in excess of cost and risk of non-compliance.

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

#### **17. 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.

#### **18. 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.

#### **19. 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.

#### **20. Financial Policies Will Be Reviewed**

Financial policies will be reviewed every three years.

The City Manager will report annually on any non-compliance.

#### **21. 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**

**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 timeframe 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.

## Proposed Financial Policies and Summary - BOC Recommendations 9/16/13

An annual budget process also provides time for management to plan and more efficiently and effectively implement changes incorporated into the budget. 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. Changes 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. The creation of a new program, a higher service level, or other expenditures during mid-budget cycle is discouraged.
- c. 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.

## **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 – 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.

## **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 one-time revenues will be automatically set-aside 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. New capital projects typically increase costs while repairs may lower costs. When capital and infrastructure funding decisions are made, it is important to provide information to the City Council about future operating costs 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 – Before approving any capital expenditure, 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. 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.

**7. 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 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 operating expenditures with a normal maximum of 7 percent.
- c. 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 expenditures, including transfers.
- d. 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. 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.

**8. 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.



**9. 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. 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. 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 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 any proposed City Council action impacting City finances or its economic situation, the projected or potential fiscal impact on current and future revenues and expenditures, and the projected or potential impact on the City’s financial position shall be analyzed. A discussion on any overall economic impacts to the City, if relevant, will also be included.

**12. 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 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 – The budget will include funding for the costs for services for the current year. If that is determined 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.

### **13. Accounting And Financial Reporting Will Meet Generally Accepted Standards**

Background - In order 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 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 - The City will prepare an annual financial report (CAFR) in accordance with GAAP. In addition, the City will use a consistent approach to budgetary reporting and will include, in the CAFR, 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. 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 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. 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 as a

component of each funds' *Fund Summary* that is a component of the budget document.

#### **16.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 what 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 felt to provide a benefit to the City substantially in excess of the cost of applying for and administering the grant, and the risk 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.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.

### **18. 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.

### **19. 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 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.

### **20. 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.

## Proposed Financial Policies and Summary - BOC Recommendations 9/16/13

Policy – Financial policies will be reviewed by the City Council every three years or more frequently, if appropriate. The City Manager will report annually on any non-compliance with the policies.

### **21. 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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