City of Long Beach
Working Together to Serve

Memorandum

Date: July 20, 2017

To: Patrick H. West, City Manager

From: John Gross, Director of Financial Management

For: Mayor and Members of the City Council

Subject: **Status Report on Long Beach Financial Policies**

On March 14, 2017, the City Council requested the Department of Financial Management to report on how the City of Long Beach puts its Financial Policies into practice, to review any such policies that may require updates or revisions, and advise on how the Fiscal Year 2018 Budget outlook may impact the City's long-term general financial plan.

The attached report is a review of the status of conformance to financial policies of the City of Long Beach along with recommended changes the City Council may wish to consider (Attachment A). The policies were last modified by the City Council on October 8, 2013. When adopted in FY 14, it was noted that full compliance with policies would take time to implement. The complete (non-condensed) financial policies are also included as Attachment B.

City staff is ready to make a presentation on the Financial Policies at an upcoming Budget Oversight Committee meeting. The City Manager's Proposed Budget, which will be released by the Mayor on or before August 2nd, will contain a three-year outlook along with the factors impacting the City's long-term general financial plan. Staff plans to submit any revised policies to the full City Council for consideration as part of the FY 18 Budget adoption.

If you have any questions, please contact Assistant Finance Director Lea Eriksen at (562) 570-6533.

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ATTACHMENTS

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Status Report on Financial Policies
City of Long Beach, California

The following is a review of the status of conformance to financial policies of the City of Long Beach along with recommended changes the City Council may wish to consider. The policies were last modified by City Council on 10/8/13. When adopted at the end of 2013, it was noted that full compliance with policies would take time to implement.

POLICY (condensed Version)	**STATUS**	**RECOMMENDED CHANGES**
1. **Structural Balance** The budget for the General Fund will be structurally balanced.	The City has consistently adopted a structurally balanced budget that did not use one-time revenues for on-going costs.	
2. **Multi-Year Financial Projections** The proposed annual budget should include a three-year General Fund projection.	The proposed budget includes a three year projection for the General Fund.	
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.	The City strives to make few major changes to the budget after adoption other than technical changes and to recognize expenditures for new grant and similar funds that are received. Other changes have occurred in the past few years, but they should be minimized.	Unless otherwise specified by City Council, include that new projects/programs introduced during the year inherently have lower priority than current programs/projects since mid-cycle additions can impact the priority and ability to address other regularly budgeted items and work assignments. Potential projects/programs should be evaluated to determine feasibility and costs, so they can be considered as part of budget development.

POLICY (condensed Version)	STATUS	RECOMMENDED CHANGES
4. User Fees To Be Set At The Cost Of 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.	Fees are reviewed annually during the budget process, with a semi-annual adjustment and are generally set at estimated cost of service, except where City Council has approved exceptions. Full cost of service studies have not been done recently except on limited items, but to do so would be a major effort and may not yield much more revenue, even if Council wanted to increase fees. However, the actual amount of increase or decrease is not known.	Include formal fee review process to evaluate fees periodically, including reviewing subvention rates.
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 one-time revenues will be set aside for unfunded liabilities.	One-time resources are used for one-time purposes per the policy. Five percent of General Fund funds available is set aside for unfunded liabilities.	Clarify policy to apply five percent to General Fund year-end funds available.
6. Capital Projects Budgeted For Both One-Time And Ongoing Costs Before approving any capital expenditure, the City Council will consider both the capital (one-time) and operating (ongoing) components of costs.	Where known, the fiscal impact of capital items includes estimates of normal operating costs.	Include City Council proposed projects in the policy and also include a review of replacement costs and any prefunding for city assets such as streets, facilities, lights, cameras, technology, etc.
7. Emergency And Operating Reserves Will Be Maintained • Emergency reserves of 8% (of operating expenditures (including transfers) 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	Reserves have been maintained at the minimum levels or higher. As of end of FY 16: • Emergency reserves at 10.6% and $44 million • Operating reserves at 2.5% and $10.5 million • Overall reserves at 23.3% and $97 million	Incorporate Measure B "Rainy Day" reserve, which was approved by voters and may be used to pay for future City operations and services that might otherwise be reduced in scope, suspended or eliminated due to unanticipated shortfalls in general fund revenues, whether caused by economic recession or other financial hardship of the City.

POLICY (condensed Version)	STATUS	RECOMMENDED CHANGES
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.	This is in process.	
9. Revenue Projections Will Be Conservative Revenue projections are to be objectively prepared using a reasonably conservative approach.	Has been consistently followed, except for a proposed change incorporated into the FY 18 proposed budget	Amend policy to be consistent with approach used in the FY 18 budget: Revenue projections are to be prepared using a "reasonably optimistic" approach. This change makes more funding structurally available for operations, but there is less certainty of avoiding budget issues during the year and at the end of the year. There would also likely be less one-time surplus available at the end of any year.
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.	An example of this practice was when oil was $100, but budgeted at $70 to account for the variability and instability in oil prices. This policy protected the City from far more serious budget impacts from the oil price drops. Has been implemented for other revenue sources primarily through policy #9.	
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.	This policy is being followed and fiscal impact statements are provided.	Clarify that fiscal impact also includes any significant use of resources, including staff time, not just hard costs.

POLICY (condensed Version)	STATUS	RECOMMENDED CHANGES
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.	The City funds most annual costs in the proposed budget. The only exceptions are deferred maintenance (which almost no government fully funds and the cost of which is uncertain) and retiree health costs. As required, the budgets since the policy has been adopted have noted that the budget does not fully fund the current cost of retiree health care.	Include a specific review of unfunded liabilities and other unfunded costs such as deferred maintenance as part of budget process.
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.	The City's financial reports are in accordance with GAAP and use a relatively consistent approach to GAAP and are generally reconciled to budgetary position. This aspect is still in development and has not yet been finalized.	Include that the (accounting) basis on which the budget is prepared should be disclosed and discussed in the budget document,
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.	Reports are prepared in accordance with policy.	
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.	The financial status is contained in the budget document, in periodic performance reports, and in the year-end report for funds that have significant issues or are of interest.	

POLICY (condensed Version)	STATUS	RECOMMENDED CHANGES
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.	This policy is being followed.	
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.	This policy is being followed.	
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.	This policy is being followed.	
19. 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.	The City does not have a formal long-term financial plan, but staff does prepare a formal three-year outlook and discusses the issues and ramifications as part of the annual budget process. This serves some of the purposes of a long-range financial plan.	

POLICY (condensed Version)	STATUS	RECOMMENDED CHANGES
20. Financial Policies Will Be Reviewed Financial policies will be reviewed every three years. The City Manager will report annually on any non-compliance.	This is the first formal review.	
21. Administrative Procedures To Be Consistent With Policy Administrative procedures shall be consistent with the adopted City Council budgetary and financial policies.	Administrative procedures are consistent with City Council financial policy	
Fund Balance Policy (adopted 9/20/11) This policy was adopted to meet GAAP requirements. It describes how the City defines and assigns fund balances.	Accounting practices are consistent with this policy.	Incorporate into financial policies format so there is only a single financial policy document.

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. 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 stabilization fund 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. 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.

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.

Fund Balance Policy

I. **Purpose:** This policy provides for the establishment and maintenance of fund balances. The intent of this policy is to:

   a. Help maintain the financial strength, stability, and bond rating of the City;

   b. Position the City to be better able to financially respond to emergencies, unexpected needs and to provide a method of accumulating funds for one-time needs; and

   c. Meet the requirements of Generally Accepted Accounting Principles[1].

II. **Scope:** This policy applies to all governmental funds of the City[2].

III. **Types of Fund Balance**: Generally Accepted Accounting Principles provide for five distinct components of fund balance.

   1. **Non-spendable:** Fund balance that is inherently non-spendable either because the resources that it represents are not in a spendable form (e.g., inventory) or they are required to be maintained intact (e.g., the principal of an endowment fund).

   2. **Restricted:** Fund balance that has externally enforceable (legal) limitations on its use and can only be spent for the specific purpose stipulated by an external resource provider (e.g., grant providers), a constitutional provision, or through enabling legislation (i.e., legislation that creates a new revenue source and also restricts its use).

   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. In governmental funds other than the General Fund, any fund balance not restricted or committed is inherently "assigned" to the stated purpose of the fund. Assignment can occur as part of the budget process.

   5. **Unassigned:** This is the residual fund balance that is spendable and not restricted, committed or assigned. Other than policies concerning levels of unrestricted fund balance, there are no restrictions on use.

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[1]GASB 54, effective for reporting periods beginning after June 15, 2010.

[2]Governmental funds include the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, and Permanent Funds.

Approved by City Council on September 20, 2011 – Agenda item R-23

IV. 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 include an earthquake, tsunami, an extended period of severe storms and flooding; a terrorist event within proximity to the City, and a protracted major health or military crisis, each of which would require extensive additional City operational or capital costs. It is not intended for use to smooth economic cycles or changes in revenue or expenditure patterns. The emergency reserve has a target minimum level of no less than 8 percent of General Fund expenditures. The target normal level is 10 percent. 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. These reserves are also intended to provide transition funding, e.g., to transition from one funding mechanism or source to another or phase-in or phase-out. This reserve is not intended to be used to fund planned infrastructure or capital. It can be used in an emergency situation to supplement the emergency reserve. This reserve has a target minimum level of 2 percent and a normal maximum of 7 percent of General Fund expenditures. The maximum may be changed by the City Council through the budget process to meet anticipated future needs and issues. Temporary draw down of the reserve, for any draw down 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, such as building construction, road and alleyway replacement, and capital improvements related to ensuring the safety and security of the public, or to retire capital-related debt in advance of scheduled debt service payments. It can be used in an emergency situation to supplement the emergency reserve.
5. **Systems Replacement and Technology Reserve** – This reserve is used to accumulate and provide funds to finance the acquisition and implementation of information technology systems that enhance service delivery to the public, create operating efficiencies within City operations, or otherwise improve City operations. It is not intended to fund services, maintenance, general infrastructure, or serve the purpose of an operating reserve. It can be used in an emergency situation to supplement the emergency reserve.

V. **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.

VI. **Total Unrestricted Fund Balance –** It is a policy goal to work towards achieving and then maintaining an overall unrestricted fund balance of no less than two months of General Fund expenditures (16.7 percent). This percentage includes committed, assigned and unassigned balances.

VII. **Use of Governmental Fund Balances –** Use of fund balances, for purposes as defined in this policy, are not a violation of this policy. Restoration of the Emergency Reserve shall be the highest priority for any reserve replenishment. Restoration of the Operating Reserve shall be the second highest priority. 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.

R-7

City of Long Beach
Working Together to Serve

Memorandum

Date: March 14, 2017

To: Honorable Mayor Garcia and Members of the City Council

From: Stacy Mungo, Councilwoman, Fifth District SM
Suzie Price, Councilwoman, Third District
Daryl Supernaw, Councilmember, Fourth District DS
Al Austin, Councilmember, Eighth District

Subject: **AGENDA ITEM: BUDGET OUTLOOK IN ACCORDANCE WITH CITY OF LONG BEACH FINANCIAL POLICIES**

RECOMMENDATION:

Recommendation to request City Manager to direct the Department of Financial Management to report on how the City of Long Beach puts its financial policies into practice, review any such policies that may require updates or revisions, and advise on how the Fiscal Year 2018 Budget outlook may impact the City's long-term general financial plan.

BACKGROUND:

On March 14, 2017, the Department of Financial Management is scheduled to provide a budget outlook for Fiscal Year 2018 and Fiscal Year 2019. Although Long Beach residents voted for Measure A in June 2016, infrastructure deficits and rising pension costs, particularly in light of the California Public Employees' Retirement System lowering its expected rate of return, continue to be of concern.

More specifically, Financial Policy No. 5 - One-Time Resources Will Be Used Only for One-Time Purposes, Financial Policy No. 6 - Capital Projects Will Be Budgeted and Funded for Both Capital and Operating Costs, and Financial Policy No. 19 - Long-Term General Financial Plan Will Be Maintained pertain to considerations for no new spending without identified revenue sources and/or offsets that protect the long-term financial health of the City.

The ability of the City to provide services and a quality of life for our residents depends on prudent financial decisions where both the capital (one-time) and operating (ongoing) components of costs, including the full capital cost of any project, are weighed alongside the amount, longevity and sustainability of funding sources.

FISCAL IMPACT:

There is no significant fiscal impact to this requested report.