

City of Long Beach
Evaluation of Financial
Condition

Prepared by:
Len Wood & Associates
4228 Palms Herdes Drive East
Rancho Palms Herdes, CA 90275
310-892-5652

City of Long Beach Evaluation of Financial Condition Study

Introduction

Len Wood & Associates was retained by the City of Long Beach to provide financial and budget advice and training services in conjunction with the development and implementation of the Three-Year Financial Strategic Plan. Specific tasks decided upon to assist the City included:

1. Advising individual Councilmembers and staff as requested.
2. Presenting budget workshops to City Councilmembers, staff aides and members of the City staff.
3. Making public presentations as required.
4. Preparing a report addressing the financial condition of the City of Long Beach General Fund

Financial Condition Evaluation Report

This report addresses the City's financial condition. It includes three sections. Section I presents financial trend factors to evaluate the City of Long Beach General Fund financial condition and the factors contributing to the fiscal crisis. Section II provides suggestions for dealing with the fiscal crisis and Section III provides recommendations to help identify and avoid fiscal problems in the future.

Section I: Evaluation of the General Fund

The City of Long Beach General Fund has a major structural imbalance. Simply stated, ongoing revenues are insufficient to provide the dollars needed to support ongoing programs. For several years, this problem has been masked by the use of one-time revenues to close the gap. This has created a false impression of solvency.

Favorable financial condition requires solvency--the ability of the City to meet its financial obligations. Solvency, however, has at least three facets.

1. Cash Solvency. The City has enough cash on hand to meet its current obligations without having to borrow.
2. Budgetary Solvency. The City generates sufficient resources to pay obligations without incurring a deficit during the fiscal year.
3. Long-Term Solvency. The City has a favorable relationship between ongoing revenues and ongoing expenditures and can meet existing and future

obligations without relying upon one-time sources.

During the recent years, Long Beach has maintained cash and to some degree, budgetary solvency. Cash solvency has been maintained due to the City's healthy cash flow. This has enabled it to meet current obligations without borrowing. Unfortunately, while budgetary solvency has been achieved, it has been done through the use of one-time financial sources. Long-term solvency, however, has not been attained for several years.

Findings

There are a number of findings that highlight the City of Long Beach General Fund financial problem. They include:

- During 10 of the 11 years between 1993 and 2003, the City adopted a structurally unbalanced budget.
- Between the period from 1993 to 2003 the City appropriated \$86,589,000 more in expenditures than it appropriated in current revenues.
- In 2003, the City appropriated and approved, \$368,163,055 in expenditures. On the revenue side, the City budgeted \$361,336,443. The budget was out of balance by \$6,826,612.
- Over these years, the City has balanced the budget by using carryovers (unspent monies and unanticipated revenues), reserve funds and other one-time financing sources.
- New and increased revenues were used to enhance existing programs as well as funding new programs rather than applying these monies to reduce the structural deficit.
- From 1996-97 through 2002, General Fund expenditures were increased between the proposed budget and final budget. This trend was halted in 2003, when the adopted budget was \$368,964 lower than the proposed budget.
- While the cost of programs have increased, General Fund expenditures and revenues have decreased when adjusted for population and inflation.

Financial Condition Evaluation Factors

One of the most effective systems available for evaluating a local government's fiscal situation is the Financial Trend Monitoring System. This management tool, published by the International City/County Management Association utilizes thirty-

six financial indicators that can be used to monitor changes in financial condition and alert the government to existing and future problems. This report utilizes several of these indicators to assess the City of Long Beach's financial situation. The financial data used to develop the tables, charts and graphs has been gleaned from City of Long Beach Comprehensive Annual Financial Reports (CAFRs), proposed budgets and adopted budgets for the period 1994 through 2003. On some occasions, interviews were conducted to help explain major variations in the numbers.

Expenditure Growth

Expenditures provide a rough measure of a city's service output. Monitoring a city's expenditures can help identify whether expenditures are growing excessively; whether ineffective budgetary controls exist or whether there is growth in programs that create future expenditure liabilities. The following chart shows dollar and percentage changes in General Fund expenditures from 1997-2003.

**City of Long Beach General Fund Expenditures
Dollar and Expenditure Differences (in thousands)
Adopted Budgets 1997-2003**

Year	Expenditures	Dollar Difference	Percentage Changes
1997	301,512	-	-
1998	306,642	5,130	1.7%
1999	317,561	10,919	3.6%
2000	321,737	4,176	1.3%
2001	321,780	43	0.1%
2002	357,562	35,782	11.1%
2003	368,163	10,988	3.1%

Comment: General Fund expenditures increased every year between 1997 and 2003. However, in most years the rate of growth was moderate, except in 2002 when \$36 million was added to the budget. This represented a 11.1% expenditure increase.

Revenue Growth

Revenues set the limits on a local government's capacity to provide services.

Important issues to consider in revenue analysis are growth, elasticity, flexibility, dependability, diversity and administration. Monitoring revenues helps a city determine whether the revenue base is increasing or deteriorating; whether revenues are estimated properly; and whether revenues are sufficient to cover the costs of service. The chart that follows shows the dollar and percentage differences in the adopted budgets from 1997-2003.

**City of Long Beach General Fund Revenues
Dollar and Percentage Differences (in thousands)
Adopted Budgets 1997-2003**

Year	Revenues	Dollar Change from Previous Year	Percentage Increase over Previous Year
1997	292,260		
1998	299,214	6,954	2.3%
1999	310,412	11,198	3.7%
2000	308,367	2,045	-0.6%
2001	315,407	7,040	2.3%
2002	333,246	17,782	5.4%
2003	361,336	28,090	8.4%

Comment: General fund revenues increased every year from 1997-2003 except for 2000. In that year, revenues decreased approximately \$2 million or just under one percent. Significant revenue increases were budgeted during the years 2002 and 2003. However, the revenue increase in 2002 was not sufficient to cover the additional budgeted expenses in 2002.

Balanced Budget

A city can have a balanced budget yet be headed for fiscal problems. Budgets can be balanced by using inadvisable one-time sources such as carryovers, reserves, grants and even debt. An important follow-up question is "Is it a structurally balanced budget in which ongoing revenues equal or exceed ongoing expenditures?" This next chart compares General Fund revenues to expenditures from 1997-2003.

**City of Long Beach General Fund Budget
Revenues Compared to Expenditures (in thousands)
Adopted Budgets 1997-2003**

	1997	1998	1999	2000	2001	2002	2003
T o t a l Revenues	292,260	299,214	310,412	308,367	315,407	333,246	361,336
T o t a l Expendi- tures	301,512	306,642	317,561	321,737	321,780	357,562	368,163
	(9,252)	(7,428)	(7,149)	(13,370)	(6,373)	(24,316)	(6,827)

Comment: From 1997 to 2003 the City adopted a structurally unbalanced budget. In 2002 the gap between revenues and expenditures was over \$24 million. Looked at another way, current revenues only funded 93% of the adopted budget. Adopting a structurally unbalanced budget was a practice established several years before 1997.

Additions to the Proposed Budget

The City Manager is charged with preparing the proposed budget. The City Manager compiles what is termed a unified budget, in that he reviews all departmental requests, approves or denies them and publishes them in the Proposed Budget (In Long Beach the Proposed Resource Allocation Plan). This budget is transmitted to the City Council for consideration and adoption. Once adopted it is printed and referred to as the Adopted Budget (In Long Beach's case the Adopted Resource Allocation Plan). This chart shows the changes between the proposed and adopted budgets from the period 1997-2003.

**City of Long Beach General Fund Budget
Changes Between General Fund Proposed and Adopted Expenditure Budgets
1997-2003 (in thousands)**

	1997	1998	1999	2000	2001	2002	2003
Proposed Budget	298,921	306,518	317,239	320,489	320,274	352,087	368,550
Adopted Budget	301,512	306,642	317,561	321,737	321,780	357,562	368,163
Dollar Difference	2,591	124	322	1,248	1,506	5,475	(387)

Comment: For every year except 2003, the adopted budget was higher than the

proposed budget. The biggest increase occurred in 2002 when an additional \$5.5 million was added by the City Council. This is somewhat unusual in that proposed budgets are usually kept at the same level or reduced by the City Council. Modifications and additions costing more money are usually offset by reductions in other areas (especially when a structural deficit exists).

Revenues per Capita

Examining per capita revenues shows changes in revenues relative to changes in population. This chart shows changes in revenues relative to changes in population and adjusted for inflation. As population increases, it is expected that revenues and the need for services would increase proportionately. If per capita revenues are decreasing, the City may be unable to maintain existing services at the same level unless it finds new revenue sources or ways to economize.

**City of Long Beach General Fund Revenues Per Capita
1997-2002 (in constant dollars)**

	1997	1998	1999	2000	2001	2002
Per Capita	\$661.64	\$661.28	\$660.29	\$626.27	\$622.41	\$618.39
Dollar Change		- 0.36	- 0.99	- 34.02	- 3.86	- 4.02

Comment: This indicates that revenues per capita dropped from \$661.64 to \$618.39 or by \$43.25 between 1997 and 2002. This represents a 6.5% decrease over this period.

Expenditures per Capita

This chart shows changes in expenditures relative to changes in population size adjusted for inflation. As population increases, it is expected that expenditures and the need for services would increase proportionately. If per capita expenditures are decreasing, the City may not be providing services at the same level as in the past.

**City of Long Beach General Fund Expenditures Per Capita
1997-2002 (in constant dollars)**

	1997	1998	1999	2000	2001	2002
Per Capita	\$682.59	\$677.70	\$675.49	\$653.42	\$634.98	\$663.51
Dollar Change		- 4.89	- 2.21	-22.07	- 18.44	+ 28.53

Comment: Per capita expenditures followed the same general trend as per capita revenues decreasing from \$682.59 to \$663.51 or \$19.08 during the period 1997 to 2002. However, per capita expenditures increased \$28.53 in 2002.

Population Change

Population changes impact both the revenue and expenditure sides of the budget. An increase in population results in increased taxes and other monies that are distributed on the per capita basis. Many intergovernmental revenues and grants are also distributed according to population. On the other hand, increased population can result in pressure for new capital outlay and more services. Decrease in population can have the opposite impact.

City of Long Beach Population Change 1997-2002

Item	1997	1998	1999	2000	2001	2002
Population	441,718	446,227	452,905	457,608	461,522	473,131
Increase		4,509	6,678	4,703	3,914	11,609
Percentage		1.0%	1.5%	1.0%	0.9%	2.5%

Comment: Population is increasing in the City, however, the amount appears to be manageable. The highest increase occurred in 2002 when 11,609 residents were added. While not covered here, another, and perhaps more important factor is the relative mix of tax providing and tax dependent residents added.

Number of Employees

Employees are necessary to provide the basic services to the community. Once a program is added, it is difficult to eliminate or reduce it. A clientele is created that lobbies for the program to continue. Most important, local government programs are heavily laden with salary costs.

City of Long Beach Change in General Fund Employees (1997-2003)

Item	1997	1998	1999	2000	2001	2002	2003
FTE Employees	3,182	3,211	3,111	3,173	3,274	3,367	3,435
Change		29	-100	62	101	93	68
Percentage Change		0.9	-3.1	1.9	3.2	2.8	2.0

Comment: The number of General Fund employees have increased by 253 during the period from 1997 to 2003. This represents a 7.9% increase. Considering the Long Beach population increases and the demands for increased services, the number of employees does not appear to be excessive.

Employees per Capita

Employees per Capita is sometimes used as a benchmark to compare with other cities. Before attempting such a comparison, it is important to make sure that the comparison cities are truly comparable. Do they provide the same services?

**City of Long Beach General Fund Employees
Employees per Capita (1997-2002)**

Item	1997	1998	1999	2000	2001	2002
FTE Employees	3,182	3,211	3,111	3,173	3,274	3,367
Population	441,718	446,227	452,905	457,608	461,522	473,131
Per Capita Employees	140	139	146	140	141	141

Comment: The number of employees per capita has remained about the same for the last six years.

Comparison of Adopted Expenditures to Actual Expenditures

A budget is a plan of action for the organization. Once the budget is adopted, however, it establishes limits on spending which must be adhered to by staff when implementing the budget. Unanticipated issues and problems will come up during the year that change the original assumptions and allocations. Some of these unanticipated items require additional funding. In these cases, the budget should be amended to reflect these new costs. A good budget practice is to retain the original budget amount as the benchmark to see how much the original adopted budget has changed from the actual expenditures.

The table that follows shows the changes between the adopted budgets and the estimated actual expenditures.

City of Long Beach Budget Analysis
Adopted Expenditures Compared to Actual Expenditures
1997-2002 (in thousands)

	96-97	97-98	98-99	2000	2001	2002
Adopted Expenditures	301,512	306,642	317,561	321,737	321,780	357,562
Estimated Actual Expenditures	302,277	320,701	313,441	329,741	321,936	372,634
Over/Under Budget	765	14,059	(4,120)	8,004	156	15,072
Percentage Difference	0.3	4.6%	1.3%	2.5%	0.05%	4.2%

Comment: In five of the six years displayed here, the estimated actual expenditures exceeded the adopted budget. In 1998 and 2002 actual expenditures exceeded the adopted budget by over 4%. This chart will be important when monitoring compliance to the Three-Year Strategic Financial Plan targets. For every dollar that is added to the adopted budget, an equal amount must be found to offset these additional charges.

Debt Service Compared to Revenues

Debt service, as used here, is the amount of principal and interest that Long Beach pays on long-term General Fund debt. Debt is paid with General Fund revenues and thus debt payments reduce the amount of money available to fund other programs.

City of Long Beach Budget Analysis
Debt Service as a Percentage of Operating Expenditures (in thousands)
1997-2003

Description	1997	1998	1999	2000	2001	2002	2003
Debt Service	2,230	2,566	2,316	2,866	3,434	2,996	8,897
Expenditures	301,512	306,642	317,561	321,737	321,780	357,562	368,163
Percentage of Expenditures	0.7%	0.8%	0.7%	0.9%	1.1%	0.8%	2.4%

Comment: The City has kept General Fund debt relatively low. Debt service as a percentage of expenditures is within tolerable levels. However, debt increased substantially in 2003, raising General Fund debt service approximately \$6 million. The City is not in jeopardy in terms of its debt ceiling or too much debt, but coupled with the other problems, debt service payments consume General Fund revenues.

Components of Fund Balance

Not all of the fund balance is available for spending. The Long Beach City Auditor (in the Comprehensive Annual Financial Report) breaks the General Fund Balance into the following components:

1. Reserved Fund Balance: These funds are restricted for such items as noncurrent receivables, asset seizure money, encumbrances and advances to other funds.
2. Designated for Subsequent Years' Appropriations: This is surplus money that is used to help fund the next year's budget.
3. Designated for Emergency: This is the reserve that was set up for emergencies.
4. Undesignated: This is the reserve account established by charter at \$2.5 million.

This next table shows the relative breakdown of these different components.

**City of Long Beach
General Fund Balance Analysis (in thousands)
1997-2001**

Year End- ing	Reserved	Designated for Subsequent Years' Appropriations	Designated for Emergency	Undesignated	Total Fund Balance
1996	7,284	9,758	8,875	2,500	28,417
1997	11,074	9,172	8,875	2,500	31,621
1998	11,783	7,906	8,875	2,500	31,064
1999	10,240	13,111	28,374	2,500	54,225
2000	10,684	12,076	28,374	2,500	53,634
2001	14,537	31,549	28,374	2,500	76,960

Fund Balance as a Percentage of Expenditures

A useful benchmark is to compare the size of the General Fund undesignated, unreserved balance to operating expenditures. For Long Beach, this would involve a comparison of the emergency and undesignated reserves to operating expenditures. The result is expressed as a percentage of expenditures.

City of Long Beach Unreserved/Emergency General Fund Balance Compared to Budgeted Expenditures 1997-2002 (in thousands)

	96-97	97-98	98-99	2000	2001	2002
Undesignated / Emergency Fund Balance	11,375	11,375	11,375	30,874	30,874	30,874
Expenditure Level	301,512	306,642	317,561	321,737	321,780	357,512
Percentage of Expenditures	3.8%	3.7%	3.6%	9.6%	9.6%	8.6%

Comment: In budget year 2000, the City wisely allocated surplus funds to increase the emergency reserve. This balance now represents 8.6% of the adopted 2002 budget. The City has established a target level by pegging the available fund balance (unreserved, undesignated) at 10% of operating expenditures. The City should maintain this level and when one-time funds are available+, increase it. With the uncertainties facing local government today, a fund balance equivalent to two or three months operating expenditures is preferable for a city the size of Long Beach.

Section II. Resolving the Fiscal Problem

The first step in righting an adverse financial situation is to recognize that a problem actually exists. Some local governments deny the existence of their fiscal crisis and attempt to handle it by using one-time financial fixes. They place their hopes on an improved economy or other improbable fixes to bail them out. Their failure to deal with the problem early on inevitably leads to a greater gap that requires more drastic measures to fix.

Long Beach has recognized its unfavorable fiscal situation and has developed a Three-Year Financial Strategic Plan to address it. The process for developing the Plan has several commendable aspects:

- Extensive community survey conducted
- Several community workshops held
- Town Hall meeting conducted
- Employee and employee group input solicited and received
- Survey suggestions and responses linked to Financial Strategic Plan

The main goal of the Three-Year Financial Strategic Plan is to Balance the General Fund so that recurring revenues exceed or at least equal recurring expenditures.

Recurring revenues are those that you can normally expect to receive each year. Sales tax, property tax and business licenses fees are examples. These revenues may increase or decrease, depending on the economy but they don't go away. Non-recurring revenues are those that the City can only expect for a defined period. Grants are a good example.

Recurring expenditures are ongoing expenditures that are made part of the base budget. Most services and programs fall into this category. Non-recurring expenditures are one-time such as studies or projects that don't become part of the base budget.

City Council Adoption

The Long Beach City Council has adopted the Three-Year Financial Strategic Plan and the implementation phase is in progress. There are several issues which should be considered in the implementation phase of the Plan.

Credibility

The biggest challenge the City faces is to establish and maintain credibility. The City must convince employees, residents, businesses and community organizations that the problem is truly a crisis. For the past several years, money has been found and the spending level has been maintained and even increased. To get everyone to share in the burden, they must be convinced that money isn't hidden or obscured in some account. "Why should we make the sacrifice? They will find a way to get us out of it."

The Interim City Manager has used the word "transparency" to describe his policy of shedding light on the budget process. This is an admirable approach. Credibility will be increased by allowing all parties to observe the inner workings of the budget process.

Pressure

Experiences in other cities indicate the Long Beach City Council and staff will

endure three very trying years of budget workshops and hearings. In order to bring the budget back into structural balance, it will be necessary to make hundreds of painful decisions. There are no easy remedies and each decision will infuriate one or more interest groups. At each decision point, the council chambers will be filled by individuals and groups that will bring intense pressure to preserve their interests. Pleas, tears, requests and threats will be used and the pressure will be unrelenting. The Council can also expect letter writing campaigns, e-mail flurries, phone calls, petitions and protest marches. Notwithstanding the pressure, the City Council must remain steadfast in order to bring the City's finances back into structural balance.

Let's Get Through One More Year

There will be continuous pressure to use one-time monies to "get through one more year." Experience shows that the more the problem is deferred, the more drastic the eventual remedy must be. The gap is cumulative. It includes last year's gap plus any additional gap that is created.

Make An Exception For Us

The City Council will be asked to make specific exceptions to the Three-Year Strategic Financial Plan. "Our group is different; you can't jeopardize the safety of the community; don't make seniors solve your problems in their golden years; don't balance the budget on the backs of employees or you can't devastate the arts," are just some of the pleas the Council will be confronted with.

Unfortunately, it's a zero sum problem. If City Councilmembers decide to exempt a particular program, group or cause, it must find offsetting costs in other areas.

The Three-Year Financial Strategic Plan presents a balanced approach to the problem. Exceptions throw the Plan out of balance. The City Council should consider developing criteria allowing exceptions only when:

1. They disagree with the Plan's targeted reductions.
2. They come up with offsetting cuts or new revenues (The revenues should be new and not already planned revenue increases).
3. The City cannot achieve the planned cuts in a particular category.

Substitutions

Whenever a substitution is made for a targeted reduction item, it must be made up with a cut of equal value. Substituting a non-recurring expenditure for a targeted recurring expenditure does not solve the problem. Here are examples of recurring and non-recurring items.

Non-Recurring Items	Recurring Items
use of reserves	elimination of positions
carry-over funds	reduction of benefits
freezes	elimination of programs
furloughs	outsourcing of programs without ongoing costs
one-time transfers	dependable ongoing transfers from other funds
new grants	new taxes
revenue spikes	increased fees

In the implementation of the Three-Year Financial Strategic Plan, the difference between recurring and non-recurring items must be continually stressed. If a substitution is allowed, recurring cuts should only be substituted for recurring cuts (as opposed to noncurring cuts).

Variations During Implementation

Variations to the Plan will arise during its implementation. Some variations will have a positive impact and others will have a negative impact on closing the structural deficit gap. Here are examples of the variations the City can expect:

Positive Impact on Structural Gap	Negative Impact on Structural Gap
higher than expected results from targeted cuts	lower than expected results from targeted cuts
Exceptions to Plan resulting in higher than expected cuts or revenues	exceptions to plan without offsetting cuts or revenues
greater than expected results from freezes	substitutions to plan resulting in lower cuts than targeted
new revenue sources	loss of revenue sources
higher than expected revenues	lower than expected revenues
actual expenditures lower than budgeted	actual expenditures higher than budgeted

Whenever positive events occur, pressure will be generated to use the money for a special group or problem. The temptation to spend the proceeds from a positive gain should be resisted until the structural gap is eliminated. At the very least, adjustments to the Plan should be made only when all positive and negative impacts are considered and when the entire plan is reviewed.

When reporting on the progress in implementing the Strategic Financial Plan, a summary of positive and negative variances to the Plan should be included.

Section III. Other Recommendations

Here are some longer-range recommendations that will help the City in its attempt to improve the openness and effectiveness of its budgeting process.

1. Adopt Meaningful Goals.

The Long Beach City Council does not have a published set of goals. Broad City Council goals establish the priorities and direction for the entire City organization. Goals express the City Council's visions for the community. The management staff needs to know what the consensus goals of the governing board are in order to allocate resources and implement programs. Without that direction, the appointed City staff fills the vacuum.

Goals should be expressed in written form and should reflect stakeholder concerns, needs and priorities as well as factors affecting the community and the City organization. Once City Council goals are established, more detailed action plans can be developed by staff and integrated with management and budget processes.

Goals should also be disseminated to the community. This can be accomplished by conducting public forums and by publishing goals in key public documents, such as strategic plans and budgets. Opportunities should be provided to periodically review and update goals.

Goals are best developed in a retreat setting with the City Council and City Manager. To be most effective, the session should be conducted by an independent facilitator.

2. Develop and Enforce Effective Fiscal Policies

The National Advisory Council on State and Local Budgeting recommends that governments develop financial policies:

“A government should develop a comprehensive set of financial policies. Financial policies should be consistent with broad government goals and should be the

outcome of sound analysis. Policies should be consistent with each other and relationships between policies should be identified. Financial policies should be an integral part of the development of service, capital and financial plans and the budget. All other adopted budgetary practices of a government should be consistent with these policies.”

Financial policies establish standards which are used by the City Council to oversee the budget and financial activities. Here are some important financial policy topics.

Use of One-time Revenues

This policy deals with targeting and limiting the use of one-time revenues. By definition, one-time revenues cannot be relied on to be available in future budget periods. Allowable uses for one-time revenues should be explicitly defined. Examples of one-time revenues include: sale of government assets, bond refunding savings, revenue spikes and grants. These revenues may be available for more than one year (e.g. a three-year grant), but have a terminal date. Examples of expenditure for which the City should use one-time revenues include reserves, early debt retirement and capital purchases.

Use of Surpluses

Surpluses are created by underspending an appropriation and/or receiving more revenues than budgeted. Surpluses are one-time revenues and should be treated as such. Using these monies for ongoing programs contributed to the City’s current financial problems. A surplus policy delineates the allowable uses of these funds.

Structurally Balanced Budget

This policy defines what a structurally balanced budget is and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs. A balanced budget is a basic budgetary constraint intended to ensure that a government does not spend beyond its means. A government should maintain a balance between operating expenditures and operating revenues over the long term, not just during the current year. The policy should provide a clear definition as to how budgetary balance is to be achieved. Definitions of items to be counted as operating revenues (recurring revenues) and operating resource uses (recurring expenditures) should be explicitly identified.

Stabilization Funds

A prudent fund balance protects against reducing service levels or raising

taxes or fees because of temporary revenue shortfalls or unpredicted one-time expenditures. A recommended long-term goal for the City of Long Beach is to maintain an unreserved, undesignated fund balance equivalent to three months of operating expenditures

Fees and Charges

Fee and charges policies identify the manner in which they are set and the extent to which they cover the cost of the services provided. Policies should address the level of cost recovery for services, the reason for any subsidy and the frequency with which cost of services studies will be undertaken. Costs of services includes direct and indirect costs such as operating and maintenance expenses, overhead, and charges for use of capital (depreciation and debt-service). The City may choose to not recover all costs, but it should still identify the costs of subsidized programs. Reasons for not recovering full costs should be identified and explained.

Debt Issuance and Management

These policies guide the issuance and management of debt. Issuing debt commits the City's revenues several years into the future, and may limit flexibility to respond to changing service priorities. Adherence to a debt policy helps ensure that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit standing. Policies include purposes for which debt may be issued; matching the useful life of an asset with the maturity of the debt; limitations on the amount of outstanding debt, types of permissible debt; refunding of debt and investment of bond proceeds. Legal and statutory limitations on debt should be incorporated into debt policies.

Debt Level and Capacity

Debt level policies deal with the maximum amount of debt and debt service that should be outstanding at any one time. These policies will help ensure that outstanding and planned debt levels do not exceed the amount that can be supported by the existing and projected tax and revenue base. Specific policies should be developed for general obligation debt, debt supported by revenues from enterprises, special assessment debt, tax increment financing, short-term debt and leases. Limitations on outstanding debt and maximum debt may be expressed in dollar amounts or as ratios, such as debt per capita.

3. Report on Financial Policy Status

Some financial polices are essential to City Council budget oversight and decision making. As a result they should be published in the annual budget. Staff should also provide a status report on each of the polices. During budget review time, the City Council should be briefed on the polices and the status of each. Here are two suggested examples of financial policies (along with formatting) that should be published in the budget.

Structurally Balanced Budget

Policy: The Resources Allocation Plan provides that ongoing revenues are sufficient to support ongoing expenditures.

Status: This Resource Allocation Plan is structurally balanced. Ongoing revenues exceed ongoing expenditures by 1.2%.

Undesignated, Unreserved General Fund Balances

Policy: The Undesignated, Unreserved General Fund Balance should be equivalent to three months of operating expenditures (36%)

Status: The undesignated, Unreserved General Fund Balance is 8.6% of operating expenditures. Under the five year Long-Term Financial Plan, the 36% level will be achieved.

Financial polices should be concise and simply stated. If possible a quantifiable measure should be included. Whenever the policy is not achieved an explanation should be tendered.

4. Describe How the Budget is Balanced

The budget message in both the Proposed and Adopted Resource Allocation Plans should describe how that budget is balanced. A narrative explanation should be provided that compares recurring revenues to recurring expenditures as well as the amount of carryover, reserves and one-time revenues used to balance the budget.

5. Incorporate the Fund Balance Analysis Chart

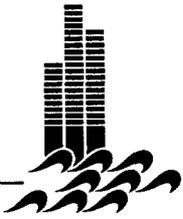
The "Fund Balance Analysis Chart" should be incorporated in the Resource Allocation Plan. This type of chart identifies the components of the:

- beginning fund balance
- resources expected
- requirement
- ending fund balances

This chart allows people to compare the adopted budget (which is the benchmark) to the revised budget (which includes all amendments) to actual expenditures. This chart helps budget analysts understand what has happened during the year. While this chart can be modified to fit the City's needs, the most important column is the adopted budget column. Some governments eliminate this column and just show the revised budget. When this is done, the actual experience is obscured, and does not reveal how much the budget has really changed.

City of Long Beach Fund Balance Analysis

	Adopted Budget	Amendments	Revised Budget	Actual Expenditures	Dollar Change	% Change
Beginning Fund Balance						
- Reserved						
- Unreserved						
- Carry-Over Funds						
Resources						
- Revenues						
- Transfers In						
Total Resources						
Requirements						
- Operating Expenditures						
- Transfers Out						
- Capital Outlay						
- Debt Service						
Total Requirements						
Ending Fund Balance						
- Reserved						
- Unreserved						



July 1, 2003

FOR THE REMAINDER OF THE PAGES
FOR THIS AGENDA ITEM,
PLEASE CONTACT
THE LONG BEACH CITY CLERK DEPARTMENT AT
(562) 570-6101
(562) 570-6789 (FAX)
cityclerk@ci.long-beach.ca.us