

CITY COUNCIL POLICY

NUMBER: 45

DATE ADOPTED/AMENDED: 12/17/13

SUBJECT: Balanced Operating Budget

POLICY:

The City Council shall adopt an annual operating budget where recurring expenditures do not exceed recurring revenues, and ongoing program expenditures are not funded with one-time revenue sources. One-time or unpredictable revenue sources shall be used for capital spending and other non-recurring expenditures.

To assist the City Council with enforcing this policy, the annual General Fund budget presentation shall include identification of one-time or unpredictable revenues and one-time expenditures.

Prior to taking action, the City Council shall be advised by City Staff if the proposed action will result in a deviation from this policy. Furthermore, City Staff must publicly disclose to the City Council any deviation from a balanced General Fund budget, whether planned or not. If the General Fund budget becomes structurally unbalanced, Staff will offer alternatives and a recommendation to the City Council.

BACKGROUND:

A structurally balanced operating budget will support financial sustainability for the City's future. The definition of a structurally balanced operating budget is one where recurring revenues are greater than or equal to recurring expenditures. For the City of Rancho Palos Verdes, the operating budget is the General Fund budget.

Recurring revenues are defined as those which can reasonably be expected to continue from year to year, with some degree of predictability. Property tax revenue is an example of recurring revenue. Grants from outside agencies and lawsuit settlements are examples of one-time or unpredictable revenues.

Recurring expenditures are defined as those which can reasonably be expected to be funded every year in order to maintain the current levels of City services. Staff salaries and the costs of park maintenance are examples of recurring expenditures. Capital asset acquisitions (e.g. rehabilitation or improvement of the City's infrastructure) are typically not considered recurring, as the same

assets are not acquired or rehabilitated each year. Although deferred maintenance of City infrastructure is not advisable, the City has a greater degree of flexibility to adjust spending to maintain its capital assets in reaction to budgetary shortfalls.

Reserves are the portion of certain fund balances that are set aside as a hedge against risk as defined in City Council Policy Number 41: Reserve Policies. If Reserves are maintained at their desired levels, it is an indication that the City is maintaining a structurally balanced budget.