

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802

February 8, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Fiscal Year 2005 First Quarter Budget Performance Report (Citywide)

DISCUSSION

This report provides an update on the City's Fiscal Year 2005 (FY 05) budget performance through December 31, 2004. The report covers a broad spectrum of financial information for all funds and departments with multi-year comparisons, charts and graphs to provide a clearer picture of the City's financial situation. While the focus of this report is the General Fund, exceptional performance (both positive and negative) in other funds is highlighted where appropriate.

Summary

FY 05 is the second year of the Three-Year Financial Strategic Plan (Plan). As such, over \$73 million in structural budget solutions have been included in the General Fund Budget and related funds over the past two fiscal years. These solutions, which have included the reduction of programs, services and vacant positions, as well as increased revenue and cost recovery, have placed a significant strain on the organization as it downsizes and becomes more efficient. While resources required to provide public safety, maintenance, library, recreation and other general government services have been reduced significantly, demand for services continues to grow. As a result, departments' ability to remain within appropriation limits while providing high quality service will be a continued challenge as the City implements the Plan and restores equilibrium between the services it provides and the resources available to support them.

FY 05 Revenue Performance – All Funds

With only three months of the fiscal year complete, information is still insufficient to predict trends in revenue performance with any degree of confidence. At this point in the fiscal year, approximately 23.3 percent of revenue has been received with no material exceptions to report. A summary of citywide revenue by fund is included as **Attachment A**.

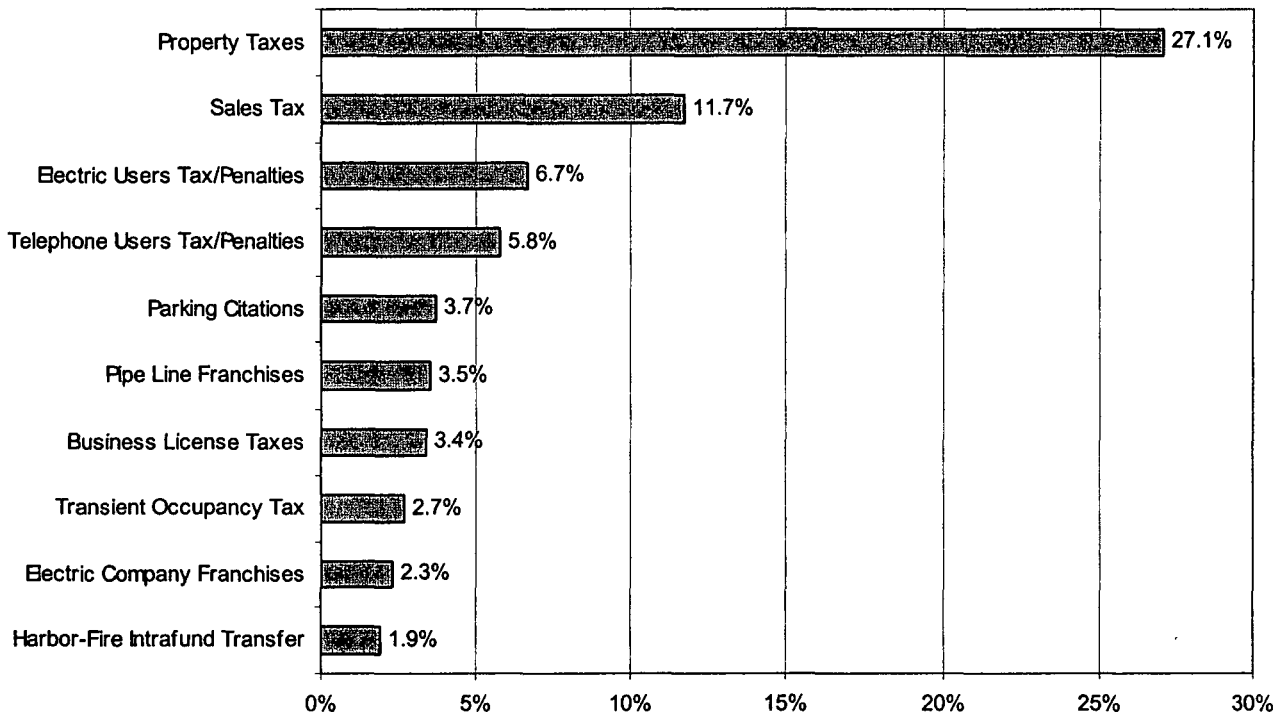
FY 05 General Fund Revenue

Overall, year-to-date revenue is \$87.6 million, or approximately 24.1 percent of total projected revenue, which is in line with the expected performance for the first quarter. General Fund revenue trends are as expected, excluding those due to the State takeaways. The first in-lieu repayments were not due to cities until January 2005. Performance from key General Fund revenue sources includes:

- The first of three secured property tax payments from the county was \$21.6 million, or approximately 38.2 percent of the anticipated total for the year, which is in-line with the 9 percent estimated growth.
- Utility Users Tax (UUT) rate has been reduced to 5 percent, the final scheduled rate reduction for this key revenue source. Year-to-date receipts are trending according to projections at \$10.7 million, or approximately 26.5 percent of the anticipated total for the year.
- Sales and Use Tax revenue through December is \$8.2 million, or approximately 25.5 percent of the anticipated total for the year.
- Transient Occupancy Tax receipts are \$1.9 million, or approximately 26.7 percent of the anticipated total for the year.
- Harbor-Fire Intrafund Transfer revenue is lower due to the timing of reimbursements from the Harbor for services.
- Emergency Ambulance Fee revenue has been temporarily delayed due to Fire Department staffing transition. The department has rectified the issue, and Financial Management staff continues to maximize collections to ensure that the City recovers all revenues associated with this service.

These and other General Fund revenues are performing according to projections, with no material exceptions to report. A summary of the top 40 General Fund revenues is included in **Attachment B**, and a year-to-year (FY 05 to FY 04) comparison of the top 15 General Fund revenues is included in **Attachment C**. **Exhibit 1** below shows the City's top 10 General Fund revenue sources in FY 05 as a percentage of total General Fund revenue. The Department of Financial Management will continue to work with departments to realize budgeted revenue targets.

Exhibit 1 – Top 10 FY 05 General Fund Revenue Sources as a Percentage of Total General Fund Revenue



FY 05 General Fund Revenue by Department

There are no material performance exceptions to report for the first quarter of the fiscal year. The following are the notable variances at the department level:

- Community Development revenues are \$560,699 or 8.9 percent of budget due to an anticipated delay in processing revenues from the Airport Boeing Lot D Parking Profit Sharing Agreement, as well as the Towne Center Ground Lease Agreement. In addition, there are no appreciable FY 05 revenues from the Signs of Support Program and the Affinity Card Program due to a delay in hiring an outside expert for the continued marketing of these programs.
- Health and Human Services revenues come from two primary sources: Police reimbursement for medical services at the jail and Animal Control licenses and charges. Revenues are \$328,048 or 15.9 percent of budget which is consistent with past revenue receipts. Both revenues are expected to meet their budget targets, based on historical trends.
- Fire Department revenue is \$4,061,439 or 19% of budget due to the timing of reimbursements from the Harbor for services.
- Police revenues are \$3,006,373 or 15.7 percent of budget due to a one-month delay in receiving vehicle fine revenue and parking citation revenue. However, based on a two-month trend, these revenues should equal budget by year-end. In addition, the Red Light Camera System did not become operational until January 2005.
- Public Works revenues are \$2,189,312 or 14.6 percent of budget as the Department's anticipated revenue includes income that will be received later in the fiscal year, such as pipeline safety fees.
- Parks, Recreation and Marine revenues are \$1,516,706 or 18.3 percent of budget as revenue from American Golf is below projections due to the delayed opening of the Skylinks golf course in November 2004. In addition, much of Parks, Recreation and Marine's fee-based activities occur in the summer.
- Technology Services revenues are \$155,983 or 15.6 percent of budget, reflecting continued lower-than-anticipated revenue from the CityPlace parking garage.

Overall, none of these departmental revenue performance exceptions in the General Fund are cause for concern and will be monitored. **Attachment D** provides General Fund revenue by department.

FY 05 Expenditure Performance – All Funds

As of December 31, 2004, the City is continuing to focus on its goal of General Fund cost reduction and streamlined service delivery established in FY 04. The City's Adopted FY 05 Budget for all funds was \$1.850 billion, with an adopted estimated carryover (multi-year grants and CIP funds) of \$266.4 million. With the addition of \$29.2, mainly due to encumbrances carried forward from FY 04 (expenses incurred but not yet paid), the total Adjusted City Budget as of December 31, 2004 was \$2.145 billion. Please see **Attachment E** for a breakdown of Citywide expenditures by fund.

While it is not expected that department or fund expenditures would occur equally throughout the fiscal year, monitoring the rate of expenditure is a helpful indicator of resource management. With 25 percent of the year complete, most funds have expended close to or below that amount. However, it is important to recognize that only 23.37 percent of pay periods have been recorded due to the timing of the last pay period of the quarter. The funds listed below have exceeded the 25 percent expenditure rate due to a variety of circumstances:

- The SERRF JPA Fund (49.5 percent) due to the timing of the annual bond payment as well as one of the two annual interest payments paid in December.
- Tideland Oil Revenue Fund (47.5 percent) due to a payment of \$37.2 million to the State as a result of higher-than-expected oil prices. A budget adjustment will likely be requested later in the fiscal year.
- The Airport Fund (29.2 percent) due to expenditures related to the Runway 12/30 CIP project. The project is entering the final completion stage and the fund's expenditures should return to a relatively level pace.
- The Special Advertising and Promotion Fund (27.8 percent) due to timing of the annual support payment to the Public Corporation for the Arts.

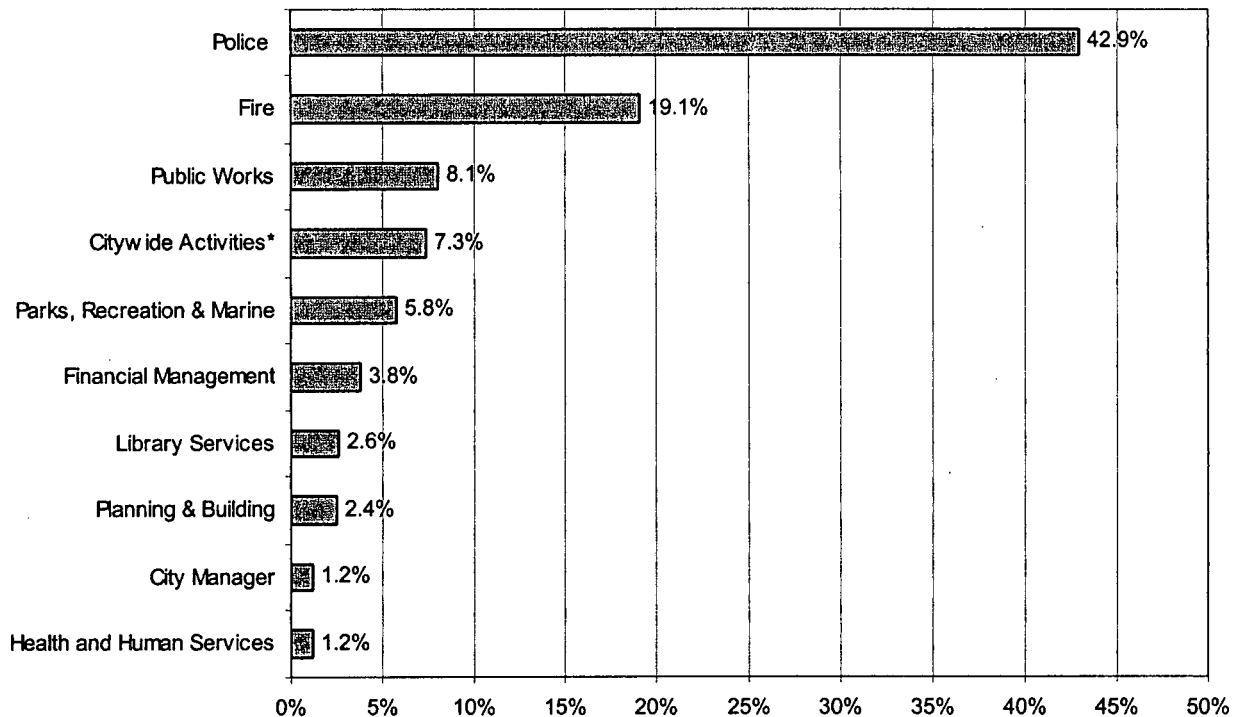
FY 05 General Fund Expenditures By Department

The Adopted General Fund budget for FY 05 was \$375 million. Amendments totaling approximately \$3 million have been added primarily for FY 04 encumbrances. As of December 31, 2004, the total adjusted General Fund budget was \$378 million.

Attachment F provides a listing of all departments' year-to-date General Fund expenditures performance. The overall year-to-date General Fund spending is 24.8 percent of budget. Variances include Citywide activities, which has spent 82.1 percent year-to-date, primarily due to budgeted one-time transfers that occur in the beginning of the year, such as the transfer from the General Fund to the Capital Projects Fund for the sidewalk repair program and other projects.

The majority of General Fund expenditures are directed toward public safety. Of the \$93.9 million expended to date, the Police Department (42.9 percent) and Fire Department (19.1 percent) comprised 62 percent of the total General Fund year-to-date expenditures. Including City Prosecutor expenditures and old police/fire pension plan outlays (included in Citywide activities) brings the total year-to-date public safety expenditures to 70.4 percent of the total year-to-date expenditures. **Exhibit 2** below shows the largest departments by General Fund year-to-date expenditures. Police Department expenditures are higher than expected due to high overtime usage for the initiation of approximately 17 task forces citywide. These task forces are used to combat violent crime throughout the City and for more focused enforcement toward specific illegal activity at the neighborhood level. Overtime estimates-to-close (ETCs) for the remainder of the year could rise to approximately \$11 million which will be offset by department vacancy savings or absorbed in current appropriation. This higher-than-expected usage of overtime will be monitored closely, to ensure the department does not exceed its total appropriations for FY 05.

Exhibit 2 – Largest FY 05 General Fund Expenditures Year-to-Date by Department, as a Percentage of Total Expenditures.



* Citywide Activities include debt payments, pass through transactions, old Police and Fire pension plan, General Fund project funding, etc.

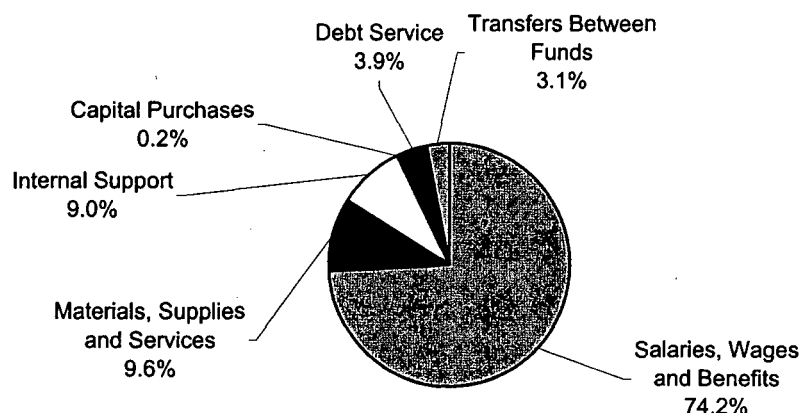
Attachment G displays General Fund spending at the department level as compared to the departments' adjusted budget, including an FY 05 to FY 04 comparison. FY 05 General Fund spending is up 3.6 percent as compared to FY 04 due to:

- PERS contribution and increased costs for health benefits in all departments.
- Public Works is experiencing higher expenditures in the following areas, but the Department does not expect this trend to continue as the fiscal year progresses:
 - Increased power costs;
 - Higher non-personal expenses in Construction Management for professional consultants to perform survey and inspection services;
 - Higher non-personal expenses in Traffic for replenishing inventory of signs, sign parts, signal parts, batteries for parking meters and traffic striping pump maintenance.
- The Police and Fire Departments incurred one-time expenditures for public safety equipment during November.

FY 05 General Fund Expenditure Performance by Category of Expense

Salaries, Wages and Benefits continue to be the largest portion of actual expense in the General Fund at 74.2 percent. Materials, Supplies and Services was the second largest category, totaling 9.6 percent of expenditures. Typical expenditures in this area include utilities, contracts, office supplies, etc. All remaining expense categories, including Internal Support (9 percent), Transfers Between Funds (3.1 percent), Debt Service (3.9 percent), and Capital Purchases (0.2 percent) totaled 16.2 percent of the General Fund expenses. **Exhibit 3** provides a graphic representation of General Fund expenditures by category of expense.

Exhibit 3 – General Fund Expenditure Performance FY 05 year-to-date by category, as a percentage of total expenditures.



As of the first quarter, expenditure performance in the General Fund is in line with budgeted levels. The Department of Financial Management will continue to work with departments to ensure that the City Manager's expenditure policies are implemented and a maximum amount of savings is generated to help the City achieve its Plan targets.

Other Related Issues

State Issues

The Governor presented his proposed FY 06 Budget to the Legislature on January 10, 2005. Consistent with the Proposition 1A agreement, local governments will contribute \$1.3 billion in property tax shifts, which include contributions by the City of \$5.1 million and the Redevelopment Agency of \$2.9 million. In addition, Public Library Foundation funding, as proposed, will be reduced by \$29,024. Unfortunately, details regarding the impact of these and other proposals, if adopted, on Long Beach are unavailable. Staff will continue to closely monitor the budget situation through the Governor's May Revised Budget and the State's budget adoption process. As information becomes available it will be shared with the City Council and the community.

Storm Effects

The heavy storm activity has required extensive overtime usage and its effects will be felt in the General Fund for the remainder of the fiscal year. Public Works spent 25 percent of its annual overtime budget for storm-related emergencies and clean-up response. Year-to-date, the department has spent approximately 40 percent of its annual overtime budget. In addition, the 32 stormwater pumps' energy costs could cause expenses to exceed the \$1 million budgeted for citywide storm drain maintenance. Due to the fact that the Governor has declared a State of Emergency for the County of Los Angeles, the possibility exists for reimbursement for storm-related expenditures. Staff is exploring all opportunities to recover expenses related to this exceptional event.

Business License Amnesty Program

On December 7, 2004, the City Council approved an amnesty program for Long Beach businesses. The Business License Amnesty Program waives all previous business license tax and penalties owed by any business that voluntarily applies for a business license by February 28, 2005 or within 30 days of receiving a notice from the City that they might require a business license any time during the next year. The purpose of the amnesty program is to facilitate voluntary compliance with the City business license requirement, by giving the newly discovered businesses 30 days to apply for a business license and not be subject to three-years back taxes and penalties. Over the next year Business License Staff will be sending letters to several thousand businesses that identified themselves as business entities with a Long Beach zip code when filing their income tax return with the Franchise Tax Board. Through January 28, 2005, 48 businesses have been granted amnesty under the program. Conservative estimates show a \$50,000 increase in revenues from this program per the December 7, 2004 council letter.

TIMING CONSIDERATIONS

City Council action on this matter is not time critical.

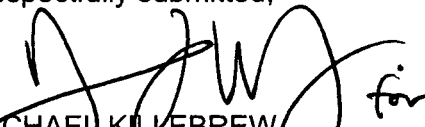
FISCAL IMPACT

There is no fiscal impact associated with the recommended action.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Refer this report to the Budget Oversight Committee.

Respectfully submitted,


MICHAEL KILLEBREW
ACTING DIRECTOR OF FINANCIAL MANAGEMENT

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Attachments

APPROVED:


for GERALD R. MILLER
CITY MANAGER