



CITY OF LONG BEACH
DEPARTMENT OF FINANCIAL MANAGEMENT

R-27

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

August 24, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Fiscal Year 2004 June Budget Performance Report (Citywide)

DISCUSSION

This report provides an update on the City's Fiscal Year 2004 (FY 04) budget performance through the third quarter of the fiscal year, and covers the monthly performance reporting periods of April, May and June 2004. The report covers a broad spectrum of financial information for all funds and departments with Year-to-Date performance analysis and multi-year comparisons. The focus of this report, however, is the General Fund. As prescribed by the City's Financial Policies, exceptional performance during the reporting period (both positive and negative) in other funds will be highlighted where appropriate.

While it is not expected that department or fund revenue and expense would be collected and spent in equal amounts throughout the fiscal year, monitoring the rate of revenue generation and expense allocation is a helpful indicator of resource management. This report will continue to provide a Year-to-Date perspective for both revenue and expenditures, by department and fund. In addition, to increase the level of financial analysis made available to the City Council and community, this report highlights Year-to-Year (FY 03 to FY 04) comparisons of both revenue and expenditure performance, by department, in the General Fund. Such a comparison provides information that factors in seasonal fluctuations in performance. Highlighting fluctuations, as recommended in the City's Financial Policies, on a Year-to-Year basis gives a good indication of budgetary health.

Summary

Current General Fund revenue and other resource estimates to close (ETCs) equal \$375 million, which is \$8.5 million (2.3 percent) higher than the adjusted budget. Current General Fund expenditure estimates to close equal \$369.6 million, which is \$8.4 million less than the adjusted budget as of May 2004.

The City Manager-imposed hiring freeze and purchasing curtailment continues to generate additional savings to assist with a multi-year approach to implementing the Plan. The same is true for the elected and appointed offices as well. These measures have helped the City realize savings in the General Fund and other funds throughout the eight months of the year and continue to produce needed carry-over savings. With the addition of one-time dividends from exceptional performance in the oil and waste-to-energy (SERRF) enterprise operations, it is estimated that a \$17.8 million carry-over savings target will be achieved by the end of the fiscal year.

FY 04 REVENUE PERFORMANCE

General Fund Revenue

As reported earlier, these ETCs include several one-time revenues, including additional SERRF profit transfer and Uplands oil revenue. There will be shortfalls in some revenues, including an expected \$1.8 million loss of Sales Tax due to the implementation of the State's Proposition 57 "Triple Flip," and \$1.0 million less Electric UUT due to last winter's State Power Rebate. Without these exceptional uncontrollable revenue losses, recurring revenue performance reflects slight growth (0.8 percent) over budgeted projections. Please note, however, that current ETCs do not include the loss of Vehicle License Fee (VLF) revenue that was incorporated into the State's FY 05 Budget. The State will be swapping monthly VLF for bi-annual Property Tax in Lieu revenue and creates a permanent deferral of up to \$7.7 million in FY 04.

A summary of all revenues, including detail on the Top 40 General Fund revenues, is included in **Attachment A**.

General Fund Revenue By Department

With nine months (75 percent) of the fiscal year complete, approximately 77.5 percent of budgeted revenue has been realized. Again, while individual departments are not expected to generate revenue equally throughout the year, the citywide rate of revenue generation to date can be considered encouraging. Please see **Attachment B-1** for an overview of Year-to-Date General Fund revenue by department. While year-end projections indicate that most departments will be realizing their revenue budget or exceeding it, there are a few departments worth highlighting:

- The City Clerk will realize less Microfilm revenue since the Police and Planning and Building Departments are scanning permit records instead of using microfilm.
- Community Development will not realize its full revenue budget due to lower than expected revenues in the City's marketing program. The department budgeted \$1 million, but as of May 2004 expects to realize only \$100,000. Higher revenues in other areas, however, offset this loss, and the approach to implementing this program is being revisited.
- Technology Services will fall short of budgeted revenue projections due to CityPlace parking revenue remaining lower than anticipated. When full build-out occurs, revenue is expected to increase.

On a Year-to-Year basis, revenue levels through June 2004 are down 2.1 percent. Lower revenue is attributable to reduced reliance on one-time transfers used to balance the General Fund. Other departments with significant Year-to-Year revenue fluctuations, either in the positive or negative direction, include:

- The City Attorney's Office has realized less revenue in FY 04 due to a one-time refund/reimbursement settlement received from oil operators in FY 03.

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- The Police Department has realized approximately \$4.6 million (or 26 percent) less in revenue as compared to FY 03 due to \$2.78 million in one-time helicopter lease financing proceeds received in FY 03, and federal grant receipts that, as of this fiscal year, are now accounted for in the General Grants Fund (SR 120).

Please see **Attachment B-2** for a complete overview of General Fund revenue by department on a Year-to-Year basis. With the exception of revenue shortfalls mentioned above, no other departmental revenue performance fluctuations in the General Fund are cause for concern. The Department of Financial Management will continue to work with departments to realize budgeted revenue targets.

FY 04 EXPENDITURE PERFORMANCE

The City's Adopted FY 04 Expenditure Budget for all funds was \$1.66 billion, plus the carry-over budgets for multi-year grants, encumbrances and capital project funds of \$396.2 million. With the addition of approved amendments, the total Adjusted City Budget as of June 30, 2004 was \$2.06 billion. The amendments are due mainly to the Tidelands Oil Revenue Fund, which was adjusted by \$52.8 million to appropriate increased payments to the State due to the inflated price of oil.

Also, similar to revenue performance, while it is not expected that department or fund expenditures would occur in equal allocations throughout the fiscal year, monitoring the rate of expenditure is a helpful indicator of resource management. With 75 percent of the year complete, 57.9 percent of the City's budget in all funds has been expended to date. Please see **Attachment C** for an overview of the FY 04 Budget with a breakdown of citywide Year-to-Date expenditures by fund.

General Fund Expenditures By Department

The Adopted General Fund budget for FY 04 was \$360.6 million. Budget appropriation adjustments totaling approximately \$17.5 million have been made primarily for the carry-over of FY 03 grant funding, including over \$3 million for Fire Department grants and \$12 million in Citywide activities. As of June 30, 2004, the total adjusted General Fund budget was \$378 million.

As requested in the City Council's Financial Policies, please see **Attachment D-1** for an overview of all departments' Year-to-Date General Fund expenditure performance and **Attachment D-2** for a Year-to-Year comparison of expenditure performance by department. The overall Year-to-Date General Fund spending is 71.2 percent of budget. On a Year-to-Year basis, General Fund spending is approximately \$7.9 million (2.8 percent) less than last year. Departments' spending reflects a reduction in resources available per the Three-Year Plan as well as a reduced number of employees due to the hiring freeze. There are no variances of significance that have not been previously reported.

As of June 2004, expenditure performance in the General Fund is in line with expectations. 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 Budget Impacts

When the Governor unveiled the May Revision of his Proposed FY 05 Budget, the strategy to address the State's structural budget deficit became clearer. As expected, there were no tax increases, and budget reductions to State programs were limited. Like his predecessors, the Governor proposed to once again balance the State budget by shifting money away from local governments. There are three primary mechanisms by which the State will tap local governments in their fiscal year which began July 1, 2004: Vehicle License Fee (VLF) In Lieu payment shift, the Sales Tax "Triple Flip" (Proposition 57), and the first of two years of local government contributions to the State's General Fund through a shift of Property Tax funds. In addition, as a part of the State's budget adoption action, and as a result of hard fought negotiations, the State Legislature placed a proposed Constitutional amendment on the November ballot (Proposition 1A), which would provide greater protection against future State raids.

State Take-aways

Now that the State has adopted its FY 05 budget, it is clearer what the impacts on the City's General Fund will be. While there will not be 100 percent clarity on the true impacts until the take-aways are transacted, the State's actions effecting local finances in the City's FY 04, FY 05 and FY 06 include: a VLF In Lieu payment shift, which exchanges a reduction in the VLF rate for an equal amount of property tax backfill revenue; a Proposition 57-mandated "Triple Flip", a sales tax for property tax exchange; and, an Education Revenue Augmentation Fund (ERAF) shift that provides one-time contributions to the State's General Fund in FY 05 and FY 06 only. The net impact to the general fund in FY 04 is estimated at \$7.7 million and \$6.3 million in FY 05. After FY 05, backfill payments for the "Triple Flip" and VLF will be routinely equalized, mitigating most ongoing losses. Finally, the loss in FY 06 will be \$5 million, from the second ERAF shift. In accordance with the proposed Constitutional amendment, any further take-aways, should they occur, will be in the form of loans with interest that must be repaid within three years.

Proposed Solutions

In response to these negative impacts of the State budget crisis, the City has identified three potential sources of revenue to cover the losses:

- **Subsidence Fund**: State legislation allows the City to utilize interest earned on the Subsidence Fund investments to support part of the ERAF losses. This would provide approximately \$4 million per year of relief, but will have to be repaid over 20 years, without interest, beginning in FY 07.
- **Redevelopment Agency Funds**: The City may also explore the use of Redevelopment Agency Funds to support part or all of the ERAF losses.

- Property Sales Proceeds: Sale of surplus City-owned property may provide a one-time solution for a portion of the lost revenue in FY 05.

State Budget – Proposed Constitutional Amendment

To restrict the State's ability to continually raid local government revenues, Mayor O'Neill, City Councilmembers and other local leaders throughout California negotiated a two-year budget compromise with Governor Schwarzenegger, where local governments would help the State one last time in exchange for a proposed Constitutional amendment on the November 2004 ballot. The amendment is designed to protect local governments from future tax revenue shifts. Some of the key measures of the Legislature's proposed Constitutional amendment include: guaranteed repayment of previous VLF losses in FY 03 and FY 04; guaranteed semi-annual payments of "Triple Flip" and VLF backfill; suspension of unfunded State mandates; and, a limit to twice per decade of future backfill suspensions. To ensure that the City's core revenues are protected, it is critical that we demonstrate our full support for this ballot initiative.

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,

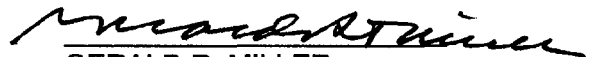


MICHAEL A. KILLEBREW
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Attachments

APPROVED:



GERALD R. MILLER
CITY MANAGER